



**OAKLAND UNIFIED  
SCHOOL DISTRICT**

*Community Schools, Thriving Students*

# 2016-17 Budget Crisis Post Mortem Report

Budget & Finance Committee: November 6, 2017

Board of Education Meeting: November 8, 2017



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# Purpose of the 2016-17 Post Mortem Report

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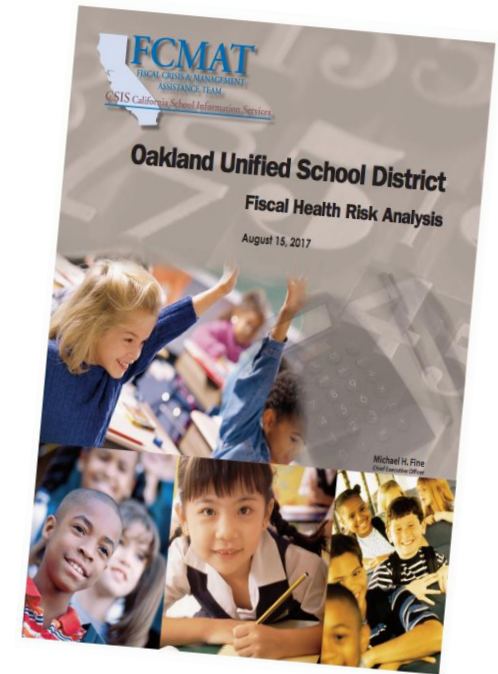
**Purpose:** To describe causes and drivers for the budget crisis in order to stabilize the budget and avoid future situations.

**Findings Organized in the Following Categories:**

- A. Structural Budget Imbalance and Cash Flow
- B. Revenues
- C. Expenditures
- D. Internal Controls and Budget Management

# FCMAT Report: Areas Of Improvement

- Deficit Spending (spending more funds than revenue received)
- Fund Balance (savings account)
- Reserve for Economic Uncertainty ( (portion of savings account)
- Bargaining Agreements (labor contracts)
- Contributions (contribution to special programs that are not self supporting due to lack of federal and state funds)
- Position Control and Human Resources (system for tracking, adding, creating and deleting positions)
- Budget Monitoring and Updates
- Leadership/Stability



FCMAT Implementation Plan to the Board on Dec. 13

# Underlying Budget Problem

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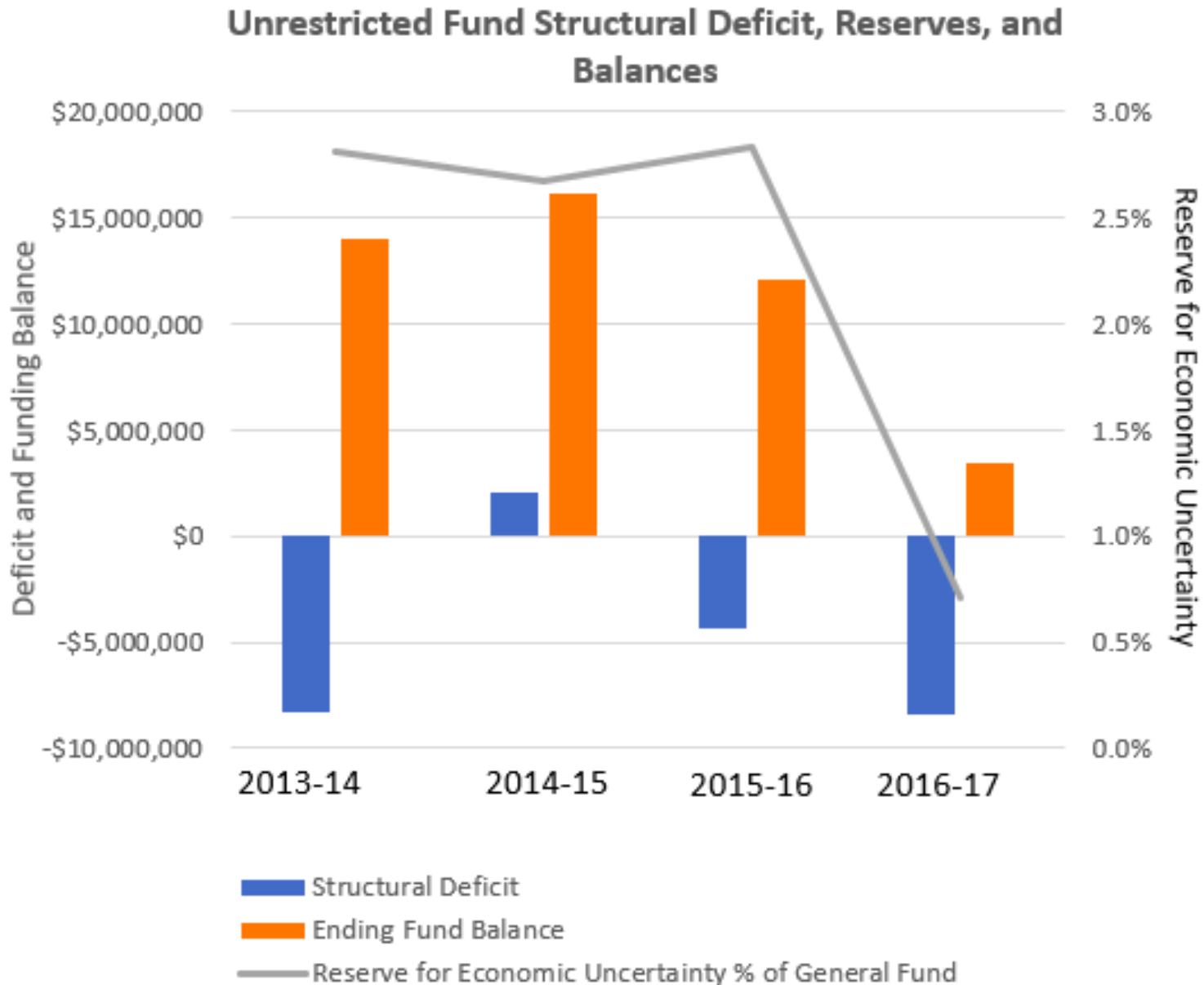
## **Structural Imbalance & Cash Flow:**

- Low Per Pupil Funding from the State
- Pension (PERS/STRS) Rising Contributions
- Declining Enrollment without ensuring that all schools sites are self-sustaining
- Programs with insufficient federal & state resources to support the current delivery model (Special Education, Early Childhood Education, Nutrition Services)

## **Internal Controls & Management:**

- Clearly establishing roles, responsibilities, and relationships to complete critical procedures and tasks
- Maintaining documentation and records that are organized and back-up work and assumptions
- Segregate duties to provide for check and balances
- Business systems with embedded quality and control checks
- Regular independent reviews

# Structural Imbalance



# Structural Imbalance

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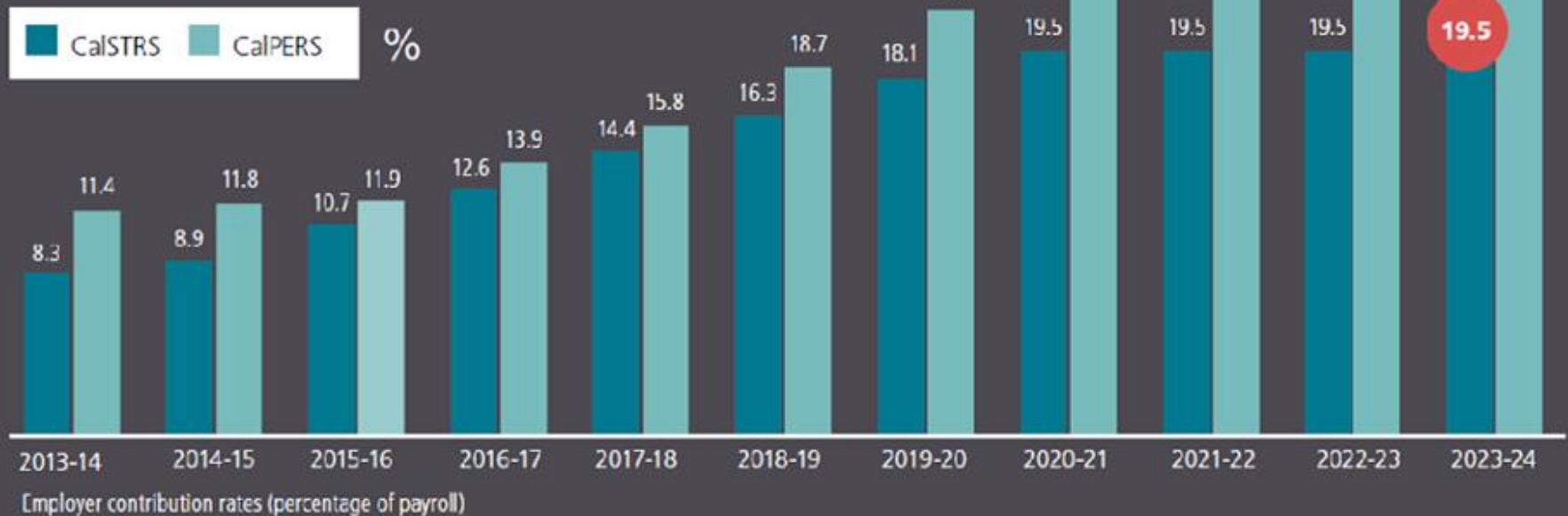


## **Key Drivers**

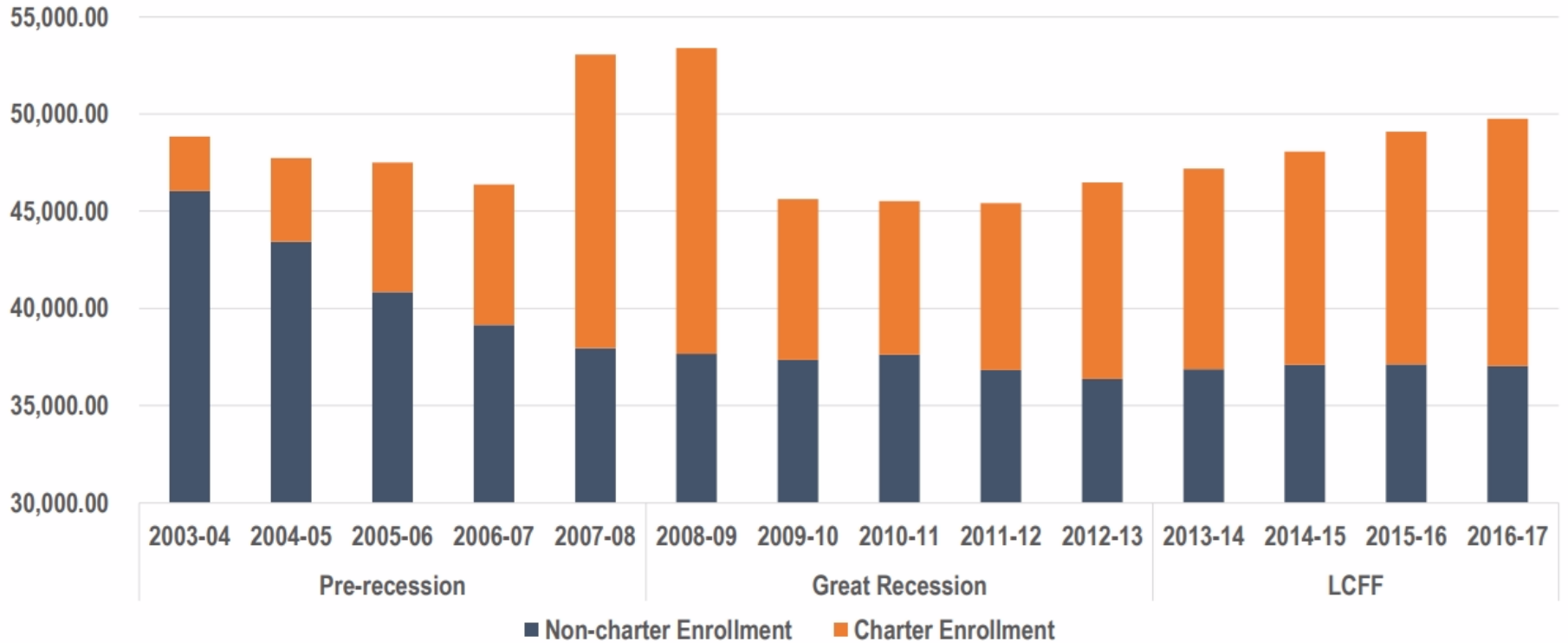
- Expenditures for the size & services of central office and school sites are increasing far faster than revenue.
- Increases in expenditures with increase funding from Local Control Funding Formula without sufficient controls for long-term balance and sustainability.
- Weaknesses in internal controls:
  - enrollment
  - personnel expenses
  - budget adjustments
  - audit findings
- Increasing contributions from the unrestricted general fund to programs.
  - special education,
  - early childhood development
  - transportation
  - nutrition services

# Revenues: Retirement Contributions

Total PERS/STRS costs to schools will nearly **TRIPLE** over a 10-year period.



# Revenues: Enrollment is Declining





# Revenues

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## Key Drivers

- Building the budget based on the prior year with updates (“roll-over” budgeting).
  - Doesn’t allow for careful review the multi-year impact of expenditure decisions and revenue changes
  - Lacks a clear articulation of changing budget assumptions
  - Need to move toward zero-based budgeting
- Accurate Enrollment Projections & Revenue Estimates
  - (External) Expected variance between enrollment projections and actual attendance due to growth of charter schools and lack of affordable housing leading to families are moving out of the area
  - (Internal) Need stronger internal controls to support the accuracy, timeliness, and follow-through

# Expenditures

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<b>Total Salary and Benefits (Certificated and Classified)</b>		
<b>Fiscal Year</b>	<b>Budgeted</b>	<b>Actual</b>
2013-14	\$199,753,116	\$211,414,632
2014-15	\$231,257,374	\$231,350,281
2015-16	\$237,522,834	\$274,587,226
2016-17	\$285,644,605	\$295,501,600

Salary and benefits account for over 86% of unrestricted general funding spending. From 2013-14 to 2016-17 salary and benefit expenditures increased by 40% with a consistent trend of the actuals exceeding the adopted budget.

# Expenditures

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## Key Drivers

- Most significant expenditures are for personnel.
  - Current financial and human resource management systems are inadequate to ensure there is a robust position control process and system.
- Balancing staffing levels with student counts and revenue availability
  - Lack of systems to follow through with adjustments.
  - Lack of follow-through with needed reductions in staffing based on enrollment
  - Overall mistrust of the accuracy of financial and personnel information.
  - Self-Sustaining size & services of central office and schools sites

# Key Driver: Internal Controls

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Nearly every financial challenge referenced in this report and the board resolution has as its source of problem and resolution internal controls.

This includes:

- Creation of positions for which there was not an adequate budget
- Approval of contracts for which there was not an adequate budget
- Site and department spending during the spending freeze
- Lack of resolution of most audit findings
- Lack of consistent enforcement for budget reductions

The FCMAT Implementation Plan will address the steps the district will take to improve Internal Controls and Budget Management

# Next Steps: Commitment to Action

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## **FCMAT Implementation Plan:**

- Presented to the Board of Directors on December, 13, 2017
- Provide detailed information on the steps the district will take to address the issues that are detailed in this report and to ensure we are on the path to fiscal vitality.

## **Superintendent Immediate Actions:**

- **Cross-divisional leadership teams to work collectively to problem solve and create systems for fiscal vitality.**
- **Monthly Monitoring all school and central site budgets.**
- **Professional guidance and support from West Ed ( multi-year budget projections, budget prioritization and development for 18-19)**

# EVERY STUDENT THRIVES!



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