

[← Back](#)

letter sent to the COE about the negative certification

Dr. Daisy Morales • hace 5 días • Thursday, May 9 at 6:09 PM • **Live Oak School District**

Dear Families,

Please see below a letter sent to the COE about the negative certification.

May 8, 2024

Dr. Faris Sabbah
County Superintendent of Schools
Santa Cruz County Office of Education
400 Encinal Street
Santa Cruz, CA 95060

Re: Negative Certification of First Interim Report

Dear Superintendent Sabbah,

On January 17, 2024, at the LOSD Board of Trustees' meeting, the Santa Cruz County Office of Education (COE) downgraded Live Oak School District's 2023-2024 First Interim Report from qualified to negative. During this time, I have been immersed in a lot of learning around this fiscal change. The Fiscal Crisis Management Assistance Team (FCMAT) has many resources about negative certification including five criteria that may cause this certification, namely: 1) lack of cash where the district is unable to meet its obligations in the current and next year, 2) budget shortfall where there are no mitigating measures, 3) operating in a deficit, 4) a negative ending fund balance, and 5) declining enrollment. Districts all across the state struggle with criterion 2-5 on a regular basis. It is the lack of cash, first and foremost, in combination with the other criteria that calls for a negative certification. LOSD, like many other districts, are struggling with deficit spending and decreasing enrollment.

On or about January 10, 2024, the District and the COE learned that the First Interim reflected a lack of cash on paper only and not reflected in Escape per the attached Cash Reports as of 10/31/23 and 12/31/23. These reports show a Cash Balance in Fund 01 of \$4,555,982 and \$2,626,342 respectively. These reports also show a combined cash balance of \$14,862,645 ending 10/31/23 and \$14,612,617 for all funds combined, which allows for inter-fund borrowing. The district was behind in cash reconciliations but the cash was in the bank. Again, the district was and is not lacking cash; the first bullet point in the letter from the county is incorrect. Sara Perez, the District's CBO consultant, was the first to discover that the District was not lacking in cash. Tami Montero and Erin Lillibridge from FCMAT during their in-person investigation of the District, confirmed that typically the reason for a negative certification is due to lack of cash. During our conversation, they both confirmed that LOSD does not have a cash problem, and could not explain why the COE issued a negative budget certification since lack of cash, the main trigger, was not an issue. The FCMAT report that will be given to the District, will indicate that "yes," *the district has sufficient funds to support its current and projected obligations*.

In a recent conversation with Sheldon Chavan, Managing Partner, and Paul Pham from Chavan & Associates, LLP, the District's auditing firm, over concerns of having to do an expanded audit because of what is currently going on in the District, we discussed the downgrade by the COE to a negative certification for the First Interim. They were surprised

to learn of this as they also know that a negative certification is triggered by insufficient funds and they confirmed that the District did not then, and does not now have a cash problem, and expressed concerns that COE pulled the trigger prematurely.

Now validated by two different third parties, the fact that the District does not have a cash flow problem indicates that the COE “jumped” to change the District’s certification without doing a proper and thorough investigation into the District’s finances, especially because the First Interim shows an extreme contrast to the July 1, adopted budget.

FCMAT’s presentation on the Role of the COE’s Superintendent on fiscal oversight states that the COE should provide intervention assistance, “helping the district resolve its financial problem at the lowest level of outside intervention (that is the goal).” The COE controls all the district accounts and it could have easily looked into the actual “cash in county treasury” to know that the district has sufficient cash. As the District’s fiscal oversight, the COE did not offer any intervention, assistance, or made inquiry about the District’s First Interim prior to changing the District’s certification to negative. Prior to the January 17 presentation to the Board, the COE had ample time to dig into the District’s accounts, ask probing questions, and request more information providing intervention prior to the downgrade, yet nothing of the kind occurred, no intervention was provided. The COE knew we had a new CBO who was learning. At that point in time, we completely trusted that the COE fully knew our situation, hence no written response to the negative downgrade. I received one call alerting me of the change in status and then a call after the change with a checklist of what the district needed to comply with due to the downgrade to negative. The lack of due diligence on the part of the COE prior to downgrading the First Interim report has had catastrophic effects for the District and I.

The negative certification was the “linchpin” that has caused all negative community uproar and chaos at the District. It has destroyed the District in many ways, not to mention the damage it has done to my name and reputation. Parents, staff, and the community, unknowing of the true meaning of a negative certification, have equated it to mismanagement or misappropriation of funds, both of which are incorrect.

In my tenure, the District and I have worked tirelessly to update systems and accounts, including creating accounts that align to programs to clearly see the alignment of services to funding. There is still additional work to be completed, and we have made significant progress in bringing the fiscal department up-to-date. I have led the District with honesty in all areas and especially have ensured that fiscal accounts are clean and accurate, as evidenced by two consecutive year audit reports from two different accounting firms, 2021-2022 and 2022-2023, which did not have a single finding, a clear indication of the fiscal integrity and cohesion of the District.

LOSD, like most districts in the state, needed to make annual budget cuts due to declining enrollment, lower COLAS, and decreased ADA. Never have these annual cuts resulted in a negative certification. Also, this year the District needed to make additional budget cuts due to the end of one-time funding sources. Bottom line, there was no need for the negative certification and the COE’s actions have had irreparable damage to the community, the District, and to me.

Sincerely,



Dr. Daisy Morales
Superintendent

Cc: Kristin Pfotenhauer, LOSD Board President
Felicitia Rasul, LOSD Board Clerk
Jeremy Ray, LOSD Board Trustee

Marlize Velasco, Board Trustee
Paul Garcia, Former Board Trustee
LOSD Staff
LOSD Parents and Community