

It is the intent of the Legislature to encourage sound fiscal management practices among local educational agencies for the most effective use of public funds for the education of children in California by strengthening fiscal accountability at the district, county, and state levels. [EC §§ 41020] The combination of inadequate funding from the Budget Act and other state and federal sources, declining enrollment, and the need to maintain competitive salary schedules may lead school districts to experience fiscal solvency issues.

### BASIS FOR OPERATION

Key responsibilities of the county superintendent of schools are to maintain responsibility for the fiscal oversight of school districts and to review and monitor the fiduciary functions of school districts. The county superintendent of schools is not responsible for the fiscal oversight of the community colleges; however, he or she may perform financial services on behalf of those community colleges. [EC § 1240]

Since 1984, a variety of statutes have been enacted that focus on improving fiscal accountability of California school districts and county offices of education. Assembly Bill 1200 (Chapter 1213, Statutes of 1991), AB 2756 (Chapter 52, Statutes of 2004), and other statutes redefined and expanded responsibility and oversight authority for county superintendents of schools and county offices of education in the area of school district financial accountability. AB 1200 established the Fiscal Crisis and Management Assistance Team (FCMAT). AB 1200 made significant changes in the school district budget and interim report development, review, and approval processes, requiring multi-year projections and public disclosures. The term "AB 1200" is defined to include all current state requirements for county superintendent of schools and county office of education (COE) fiscal oversight and financial accountability of school districts.

### LEGAL PROVISIONS

#### "Going Concern"

The term "going concern" describes an entity that is fiscally healthy and able to meet its financial obligations when they come due "without substantial disposal of assets, restructuring of debt, externally forced revision of its operation, or similar actions" (*Fiscal Oversight Guide*, FCMAT, 2006, page 19) (see Additional Resources).

The county superintendent of schools has fiscal oversight responsibility over school districts in the county. The county superintendent of schools or his/her designee monitors school district budgets by reviewing and approving, conditionally approving, or disapproving adopted budgets, and confirming or changing the certification of first and

second interim reports during the budget year. The Business Services section of the San Diego County Office of Education (SDCOE) coordinates the budget approval and monitoring and the interim report review and certification processes. [EC § 42120 et seq.]

The county superintendent of schools has authority to advise, assist, or intervene in the affairs of a financially troubled school district with regard to the current year's operation as well as to those activities affecting subsequent years' projections and budgets. At any time during the fiscal year, an event can occur that causes the county office to make a finding of qualified or negative financial status. If there is reason to believe that a school district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or if the school district has a qualified or negative interim certification, the county office of education may take whatever fiscal oversight actions are deemed necessary to ensure that the school district meets its financial obligations. [EC § 42127.6, 42131]

Such actions result in authorized forms of intervention on the part of the county office of education, including assigning external consultants, requiring a district fiscal recovery plan, or disallowing certain district expenditures. Disagreement between the district and county office of education about a district's financial condition and the associated intervention may be referred to the Superintendent of Public Instruction (SPI) for a final determination. If the county superintendent of schools determines that it is necessary to conduct a study of the financial and budgetary conditions of the district, that study must include a review of internal controls. [EC § 42127.6]

FCMAT has developed a Fiscal Health Risk Analysis with 17 considerations to assist school districts with periodic self-evaluations of their fiscal solvency for the current and two subsequent fiscal years (see Additional Resources). The county superintendent appropriately takes into account these particular types of indicators to determine if the district remains a "going concern" or exhibits unacceptable levels of financial distress requiring remedial action in accordance with AB 1200.

#### ANNUAL BUDGET REVIEW AND APPROVAL PROCESS

The county superintendent of schools shall examine and approve, conditionally approve, or disapprove adopted school district budgets to determine whether the budgets (1) comply with the ten criteria, with standards adopted by the State Board of Education and allow the school districts to meet their financial obligations during the fiscal year; and (2) are consistent with financial plans that will enable the school districts to satisfy multiyear financial commitments. The review includes an analysis of budget assumptions for the current and two successive years, supplemental information about

the status of the budget, and any problems identified in studies, reports, evaluations, or audits of the district. Deviations from the standards must be explained satisfactorily, and required technical corrections shall be identified, which may affect the approval of the budget. Additional information is presented in the Budget section. [EC §§ 33127, 33129, 42127(d); 5 CCR § 15440 et seq.]

If a school district budget does not satisfy one of the conditions itemized above, the budget will be disapproved, and the disapproval procedure will be implemented in accordance with mandated timelines. The county superintendent of schools shall prepare and transmit written recommendations for budget revision and the reasons for those recommendations to the school district governing board. A fiscal advisor may be assigned to assist with budget development, or a budget review committee may be appointed to examine and comment upon the budget review and recommendations. [EC §§ 42127(i), 42127.1 et seq.]

The governing board shall review the county superintendent of schools' recommendations at a regular meeting. The school district response to recommendations of the county superintendent of schools shall include any revisions to the adopted budget and other proposed actions to be taken as a result of these recommendations.

#### Notification of Superintendent of Public Instruction

The county superintendent of schools shall submit a list identifying school districts that may have disapproved budgets and a second list of school districts with disapproved budgets to the Superintendent of Public Instruction in accordance with established state deadlines. [EC §§ 42127(h), 42127(i)(2)]

A report regarding the fiscal solvency of any school district with a disapproved budget, qualified interim certification, or a negative interim certification, or that has been determined at any time to be in a position of fiscal uncertainty pursuant to Education Code section 42127.6 shall be submitted annually to the school district governing board and the SPI. [EC § 42127.6]

#### Revised Adopted Budget—Dual Budget Adoption Cycle

The county superintendent of schools shall examine and approve, conditionally approve, or disapprove revised adopted budgets to determine whether the budgets (1) comply with the criteria and standards adopted by the State Board of Education and

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allow the school districts to meet their financial obligations during the fiscal year; and (2) are consistent with financial plans that will enable the school districts to satisfy multiyear financial commitments. [EC § 42127(d)]

If a school district's revised adopted budget does not satisfy one of the conditions itemized above, the budget will be disapproved and the disapproval procedure will be implemented in accordance with mandated timelines. Written recommendations for budget revision and the reasons for those recommendations shall be transmitted to the school district governing board. A fiscal advisor may be assigned to assist with budget development, or a budget revision committee may be appointed to examine and comment upon the budget review and recommendations. [EC §§ 42127(e), 42127.1 et seq.]

The governing board shall review the county superintendent of schools' recommendations at a regular meeting. The school district response to recommendations of the county superintendent of schools shall include any revisions to the revised adopted budget and other proposed actions to be taken as a result of these recommendations.

The county superintendent of schools shall review the response and approve or disapprove the budget. If the school district budget is disapproved, the county superintendent of schools will call a Budget Review Committee, which will be selected and convened by the SPI. [EC § 42127.1 et seq.]

#### Fiscal Plan and Budget

If the SPI disapproves the budget, the county superintendent of schools shall develop and adopt, in consultation with the school district governing board and the SPI, a fiscal plan and budget that will govern the operation of the school district for the current fiscal year.

In the event an agreement is reached with the school district governing board and the school district revises its budget to comply with this agreement, the county superintendent of schools shall approve the budget, and the Budget Review Committee procedure will be canceled. [EC § 42127.3(b)]

#### Neglect or Refusal to Make Financial Report

The county superintendent of schools shall not make any apportionment of state or county money to a school district or approve any warrants issued for the current year if the governing board neglects or refuses to make a budget or interim report. [EC §

42128] Salaries, expenses, and stipends for the district superintendent or board members or county superintendent of schools may be ordered withheld by the SPI for delayed reports. [EC § 42129]

#### Sanctions on County Offices for Inadequate Fiscal Oversight

If the SPI assumes control over an insolvent school district that requires an emergency apportionment from the state, he or she, in consultation with FCMAT, shall review the fiscal oversight by the county superintendent of schools. Within three months of assuming control over a qualifying district, the SPI shall report to the Legislature and to the Department of Finance his or her findings as to fiscal oversight actions that were or were not taken and may include recommendations as to an appropriate legislative response to improve fiscal oversight. [EC §§ 41326(b), 41326(k)]

If the county superintendent of schools fails to carry out his or her mandated responsibilities for fiscal oversight, the SPI may exercise the authority of the county superintendent of schools who has oversight responsibilities for a qualifying school district. If the county superintendent fails to appropriately take into account particular types of indicators of financial distress or fails to take appropriate remedial actions in the qualifying district or other districts with negative or qualified certifications, the SPI shall further investigate these matters and shall provide an additional report on the fiscal oversight practices of the county superintendent to the appropriate policy and fiscal committees of each house of the Legislature and the Department of Finance. [EC §§ 41326(b), 41326(k)]

## AUDITS

### Annual Audit

School districts and charter schools are required to conduct an annual audit of the books and funds of the local educational agency by December 15. This deadline may be extended by approval of a written request to the county office of education and the State Controller's office. *Standards and Procedures for Audits of California K-12 Local Education Agencies 2007-08* constitutes the audit guide to be used in the performance of the audits (see Additional Resources). By January 31, school districts are required to review their audit reports at a public meeting and discuss any audit findings as well as the specific corrective action plans. Additional information is presented in the Accounting section. [EC §§ 14502.1, 41020, 41020.3, 47605(m), 84040; 5 CCR § 19810 et seq.]

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The district shall select a certified public accountant or licensed public accountant from a directory approved by the State Controller (see Additional Resources). A six-year limitation is in effect for the same lead audit partner or coordinating audit partner to contract to perform the audit. [EC § 41020(f)(2)] The county office of education or Board of Governors shall provide for an annual auditor for those school and community college districts that do not secure an auditor by April 1. The cost of the audits provided for by the county office of education shall be paid from the County School Service Fund, and a prorata share of the cost shall be charged to each affected school district. [EC §§ 41020, 84040]

Within 60 days of receipt of a final audit report resulting from an audit or review of all or any part of the operations of the local educational agency (LEA) requiring repayment of an apportionment-significant audit exception or penalty, the LEA may appeal a finding contained in the final report to the Education Audit Appeals Panel or participate in a summary appeals process. [EC §§ 41344-4.1]

The county superintendent of schools is responsible for review of certain audit exceptions and follow-up on prior-year exceptions in annual audits of school districts under his/her jurisdiction. The county office of education will conduct complete finding-by-finding reviews of audits, including unresolved prior-year exceptions. Complete documentation of the audit resolution process shall be maintained by the county office of education. These records will be kept available for inspection by the State Controller. The SDCOE Business Services section coordinates the audit compliance process. [EC § 41020(j)(3)] Specific audit exceptions in annual audits of school districts and charter schools are under the purview of the California Department of Education (CDE) School Fiscal Services Division.

#### Documentation

The county office of education will contact school districts to provide evidence that they have resolved each audit exception or have established a plan to resolve the exceptions. Sufficient documentation to confirm school district actions taken to resolve exceptions includes copies of amended reports and specific corrective action plans, i.e., what corrective steps will be taken, when will they occur, and who is responsible for implementation and follow-up. If the description of the correction or the plan for correction is not adequate or to the satisfaction of the county office of education, the school district will be required to resubmit the portion of the response that is inadequate.

### Written Response to School Districts

The county office of education will respond in writing to school districts regarding the adequacy of audit exception corrections or plans for correction, identifying the areas that require further explanation, corrective action, or a plan for correction.

When an annual audit stipulates a second-year problem, the county office of education will follow up with school districts in order to resolve exceptions in the following areas: attendance, internal control, inventory of equipment, and miscellaneous areas under the purview of the county superintendent of schools.

### Corrections

The county office of education shall monitor filing of corrected attendance reports within a reasonable period of time for simple, apportionment-significant exceptions. If an auditor does not provide quantification for a finding that concerns a condition of apportionment, or if there is no accompanying recommendation to file a corrected attendance report, the county office of education may determine that a corrected report is required. A formal statement from an approved independent auditor may be a requirement to substantiate quantification.

A district is not required to repay an apportionment based on a significant audit exception related to requirements specified as a result of the Williams Settlement if the county superintendent of schools certifies to the SPI and the State Controller that the audit exception was corrected by the district or that an acceptable plan of correction was submitted to the county superintendent of schools. [EC §§ 41020(i)(2), 41344.4]

### Certification to Superintendent of Public Instruction

The county office of education shall certify to the SPI that all school district audits were reviewed and that all applicable exceptions were reviewed and corrections made, noting exceptions, or an acceptable plan of correction was submitted.

The county office of education shall also identify to the SPI the attendance-related exceptions that have a fiscal impact on the state. The certification shall include as separate attachments (1) a list of those school districts or joint powers agencies that have no unresolved audit exceptions; and (2) a list of those school districts or joint powers agencies that have unresolved audit exceptions and an explanation as to the reason they have not been resolved.

County office of education certification will constitute assurance to the CDE that those findings that fall within county office of education purview have been handled.

#### Review of Audit Resolution Process

A county office of education may be chosen by the State Controller's Office to participate in a review of the audit resolution process.

#### Fiscal Information

The auditor conducting the annual audit may be requested to provide the county office of education with fiscal information on a school district if it is determined that the school district may not be able to meet its obligations for the current or subsequent fiscal year. The auditor shall send a copy of any information submitted to the county office of education to the affected school district.

#### Material Misstatements of Auditor

The county superintendent of schools or county board of education may refer an independent auditor to the State Board of Accountancy for action if an audit of a school district was conducted in a manner that may constitute unprofessional conduct resulting in material misstatement(s) in the audit.

### AB 139 FRAUD AUDIT

#### Audit by County Superintendent

The county superintendent of schools is authorized to review or audit at any time and report on the expenditures and internal controls of a school district or charter school when there is reason to believe that fraud or misappropriation of funds or other illegal fiscal practices have occurred that merit examination. The county superintendent of schools is authorized to audit at any time and report on the expenditures and internal controls of a fiscally accountable school district. [EC § 1241.5; AB 139 (Chapter 620, Statutes of 2001)]

If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the State Controller, the SPI, and the local district attorney. [EC § 42638(b)]

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### FCMAT Review

The county superintendent may request FCMAT to review the fiscal or administrative condition of a school district or charter school under his/her jurisdiction. [EC § 42127.8(c)(2)]

### INTERIM REPORTS

AB 1200 requires district superintendents to submit two reports to their governing boards each fiscal year of the financial and budgetary status of the district as of October 31 and January 31. LEAs must collect the financial data for these reporting periods and prepare appropriate interim reports for submission within 45 days of the close of the period being reported. Both interim reports shall be approved by the district's governing board along with a positive, qualified, or negative certification as to whether their school district is able to meet its financial obligations for the remainder of the fiscal year and as forecast for the two subsequent fiscal years. Districts must use SACS2008ALL format and forms for submission of the reports (see Additional Resources). [EC §§ 33127, 42130, 5CCR §§ 15454, 15464] (See also Budgets.)

A district filing a qualified or negative certification for the second interim report, or classified as negative by the county superintendent of schools, shall provide financial statement projections of the district's fund and cash balances through June 30 for the period ending April 30. This "third interim report" shall be filed by June 1 with the county superintendent of schools, State Controller, and SPI. [EC § 42131(e)] County offices of education consider a third interim report to be a reporting event, not an opportunity to make a finding of positive, qualified, or negative fiscal solvency.

### Certification of Ability to Meet Fiscal Year Obligations

The district governing board shall certify whether the school district is able to meet its financial obligations for the remainder of the fiscal year and, based on current forecasts, for the two subsequent fiscal years. The certification shall be based on the governing board's assessment and analysis of ten criteria, with standards, and supplemental information about the status of the budget at interim report time. The certification shall be classified as positive, qualified, or negative based on current projections as defined below: [EC §§ 42131; 5 CCR § 15453]

*Positive*—the school district will meet its financial obligations for the current fiscal year and two subsequent fiscal years.

*Qualified*—the school district may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

*Negative*—the school district will be unable to meet its financial obligations for the remainder of the current fiscal year or the subsequent fiscal year.

### Fund and Cash Balances

Projected General Fund balances will be positive at the end of the current fiscal year and two subsequent fiscal years, and the projected general fund cash balance will be positive at the end of the current fiscal year. [EC §§ 33127-9, 42131; 5 CCR § 15454]

### Reserves

The minimum recommended reserves for economic uncertainties for any of the current fiscal year or two subsequent fiscal years shall be the ADA-based percentage or amount as applied to total expenditures and other financing uses:

- Greater of 5% or \$55,000\* for district with 0 to 300 ADA
- Greater of 4% or \$55,000\* for district with 301 to 1,000 ADA
- 3% - District with 1,001 to 30,000 ADA
- 2% - District with 30,001 to 400,000 ADA
- 1% - District over 400,000 ADA

\* Dollar amounts are adjusted annually by the prior year statutory cost of living adjustment, rounded to the nearest thousand. [EC § 42238; 5 CCR § 15450]

Available reserves are the unrestricted reserves in the Designated for Economic Uncertainties and the Undesignated/Unappropriated accounts in the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects. Available reserves will be reduced by any negative ending balances in restricted resources in the General Fund. [EC §§ 33127-9, 33131, 42238; 5 CCR § 15455]

### Deficit Spending

Deficit spending occurs when the total unrestricted expenditures plus other financing uses is greater than the total unrestricted revenues plus other financing sources. The standard is that unrestricted deficit spending as a percentage of total unrestricted expenditures and other financing uses, has not exceeded one-third of the district's available reserves as a percentage of total expenditures and other financing uses in any of the current fiscal year or two subsequent fiscal years. [EC §§ 33127-9, 33131, 42238; 5 CCR § 15456]

### Changed Certification

If the county superintendent of schools determines that a negative or qualified certification should have been filed by a district rather than a positive certification, the certification may be changed to negative or qualified. A notification and appeal process is specified to determine the validity of the certification. [EC § 42131(a)(2)] If a district is determined to have a negative or qualified certification as of the second interim report, no requirement of law permits that certification to be changed. The next opportunity for a finding of positive fiscal solvency is the approval of the adopted annual school district budget prior to August 15.

## CRITERIA AND STANDARDS

Criteria and standards were established to guide local educational agencies in the development of the annual budget, with projections for subsequent budget years, and in management of the budget throughout the year. Criteria and standards are used by an oversight agency as a fiscal warning system to monitor LEAs by uniform standards for assessing solvency. Revised criteria and standards to develop, review, and assess school district budgets and interim financial reports were approved by the State Board of Education in May 2008 (see Additional Resources). They are incorporated into a module of the state's financial reporting software. [EC §§ 33127-8; 5 CCR § 15440 et seq.]

### Assessment of Fiscal Criteria

The ten criteria are average daily attendance (ADA), enrollment, ADA to enrollment, revenue limit, salaries and benefits, other revenues and expenditures, facilities maintenance, deficit spending, fund balance, and reserves. School district budget data (prior years, current year, and projected) are measured against the standards, or thresholds, for each criterion. In addition to the criteria and standards, the review must identify additional supplemental information regarding contingent liabilities, use of one-time revenues for ongoing expenditures, use of ongoing revenues for one-time expenditures, contingent revenues, contributions, long-term commitments, unfunded liabilities, and the status of labor agreements. Deviations from any standards identified as "unmet" must be explained satisfactorily and may affect the approval of the budget or the interim report certification. [EC §§ 33127, 33129; 5 CCR § 15440 et seq.]

### Unfunded Liabilities

The mission of the Business and Administration Steering Committee (BASC) of the California County Superintendents Educational Services Association (CCSESA) includes improving business support to local school districts and county offices of

education by providing leadership to LEAs in developing and implementing sound business and management practices to strengthen financial accountability. The BASC GASB 45 Working Group prepared a paper for CCSESA entitled, *Unfunded Liabilities: A Summary Report to the CCSESA Board of Directors by BASC* (See Additional Resources.)

As part of its continuing discussions about integrating the impact of retiree benefits into AB 1200 reviews, BASC concludes, “It is incumbent for county offices of education to have an understanding of how retiree health and welfare benefits interact with the current fiscal health of the LEA. Post-employment benefits must be evaluated by COEs in their AB 1200 responsibilities; however, COEs must be careful in their evaluations as the liability reported is more a theoretical value rather than a strict liability, such as a general obligation bond or certificate of participation” (Unfunded Liabilities, 2005, pages 21-22).

Districts must estimate unfunded liabilities based on actuarial valuation or other method as supplemental information for the Criteria and Standards Review for the budget and interim reports and provide information as follows: [5 CCR §§ 15451(7), 15464(6)]

1. Postemployment benefits other than pensions (OPEB) — identify or estimate the OPEB annual required contribution and how the obligation is funded (pay-as-you-go, actuarial cost, or alternative measurement method) for current and two successive years. OPEB is discussed in detail in Procedure 785 of the *California School Accounting Manual* (see Additional Resources).
2. Self-insurance programs such as workers’ compensation— identify or estimate the required contribution and how the obligation is funded (level of risk retained, funding approach, and basis for valuation) for each self-insurance program operated by the district.
3. Changes in estimates for unfunded liabilities since budget adoption, and whether changes are the result of a new actuarial valuation—compare first interim reports to adopted budgets and second interim reports to first interim projections.

Districts and charter schools that have OPEB obligations should obtain an actuarial valuation to determine unfunded liability under Governmental Accounting Standards Board Statement No. 45 (GASB 45) requirements in order to assess financing strategies. (See also Accounting.) The SPI developed required elements for the Management Plan for Addressing Other Post Employment Benefits, also referred to as a Fiscal Solvency Plan (see Additional Resources). The management plan must be

approved by the governing board of the school district or charter school. Charter plans must be submitted to the authorizing agencies. Authorizing agencies are encouraged, but not required, to review charter plans.

Districts and charter schools may apply for state funding for completing a management plan, also known as a Fiscal Solvency Plan, for meeting their long-term annual OPEB obligations. At the present time, funding is available to reimburse a school district or charter school for specified actual costs up to \$15,000 if its plan is approved. As a requirement of receipt of funding, districts must submit these plans to the county superintendent of schools as part of the budget review process, and charters must submit their plans to their authorizing authority. County offices of education may apply for funding for consideration of district plans during the course of reviewing the budget of a school district.

The county superintendent of schools shall review the Fiscal Solvency Plans submitted by school districts. County offices of education are eligible to receive funding to review plans even if the district's plan is not approved by the county office. The CDE will allocate funding to the county office of education for each plan reviewed equal to 10 percent of the district's requested reimbursable costs or \$500, whichever is greater. Funds will be allocated to the county office upon submission of a district application to the CDE.

#### DISCLOSURES OF FISCAL OBLIGATIONS

AB 1200 and subsequent revisions established three categories of disclosure of school district fiscal obligations: (1) collective bargaining agreements, (2) non-voter-approved debt and agreement under California School Finance Authority Act, and (3) self-insured workers' compensation claims.

##### Collective Bargaining Agreements

A district shall disclose the major provisions of the proposed written agreement with an exclusive representative, including costs and itemized budget revisions necessary to meet the costs of the agreement in each year of its term, and provide written certification of the superintendent and chief business official that the costs incurred by the school district can be met by the district during the term of the agreement. [GC § 3547.5] A district shall disclose budget revisions required due to final settlement of a collective bargaining agreement to the county superintendent of schools within 45 days of adoption. [EC § 42142]

A district that has a qualified or negative interim report shall provide ten working days' notice of proposed bargaining unit agreement with relevant financial information to the county superintendent of schools to yield an understanding of the financial impact of that agreement. The county superintendent of schools shall notify the school district, the county board of education, school district governing board, district superintendent, and each parent-teacher organization of the district if, in his or her opinion, the reviewed agreement would endanger the fiscal well-being of the district. [GC § 3540.2(a)]

A district shall adopt budget revisions needed in the current fiscal year to meet the costs of a collective bargaining agreement, and should submit a copy of the board-approved budget revisions and board minutes to the county office as soon as these documents are available. If a school district governing board does not adopt all of the revisions to its budget needed in the current fiscal year to meet the costs of the agreement, the county superintendent must issue a qualified or negative certification for the district on the next interim report. [GC § 3547.5(c)]

#### Non-voter-approved Debt and Agreement under California School Finance Authority Act

A district shall disclose issuance of new non-voter-approved public debt such as certificates of participation and revenue bonds including tax and revenue anticipation notes, and of any agreement for financing school construction under the California School Finance Authority Act to the county auditor, county superintendent, school district governing board, and public. This permits public comment by the county superintendent and county auditor about the district's capability to repay debt obligation. [EC § 17150]

County Counsel prepared forms available on the SDCOE Web site may be used to transmit disclosures with debt obligation repayment schedules, projections of revenues and expenditures, and other information demonstrating the district's ability to repay the debt obligation to the county superintendent of schools and the county auditor (See Additional Resources). This information should be provided at a meeting of the governing board for disclosure to the board and the public.

#### Self-insured Workers' Compensation Claims

A district or JPA with self-insured workers' compensation claims shall disclose its financial obligations as a separate agenda item at a public meeting. School district governing boards must annually certify their ability to fund claims to the county superintendent of schools of. [EC § 42141]

The self-insured workers' compensation disclosure must be based upon an actuarial report that is to be completed at least every three years. A copy of the *Annual Certification Regarding Self-Insured Workers' Compensation Claims* (SACS Form CC) must be signed and filed with the July 1 budget whether or not the district provides such benefits (see Additional Resources). A copy of the current actuarial report must be filed with the county office of education after completion by the district governing board.

### FISCAL DISTRESS

The county superintendent of schools shall present an annual report to the school district board and the SPI regarding the fiscal solvency of any school district with a disapproved budget, qualified interim certification, or a negative interim certification, or that has been determined at any time to be in a position of fiscal uncertainty pursuant to Education Code section 42127.6. [EC § 1240(e)]

The county superintendent of schools will use the district criteria and standards in assessing a district's financial health for indicators of fiscal distress. FCMAT has compiled a list of 11 conditions consistently found in districts dealing with fiscal crisis or seeking emergency loans as, "FCMAT Predictors of School Agencies Needing Intervention" (See Additional Resources).

#### Initial Notification of School District and Superintendent of Public Instruction

Before the county office of education takes any actions listed in Education Code section 42127.6, the school district governing board and the SPI shall be notified in writing of the determination that the school district may be unable to meet its financial obligations. The notification shall clearly state the basis for the determination and include the assumptions used. The notification shall be available to the public.

#### Second Notification of School District and Superintendent of Public Instruction

If, after the county office of education takes action to move the school district toward fiscal solvency, the school district will be unable to meet its financial obligations for the current or a subsequent fiscal year, the school district governing board and the SPI shall be notified in writing of the determination that the school district will be unable to meet its financial obligations. The notification shall clearly state the basis for the determination and include the assumptions used. The notification shall be available to the public.

### Budget Revisions

When a school district has a negative certification or it is confirmed that the school district will not be able to meet its financial obligations for the current or subsequent fiscal year, budget revisions to enable the school district to meet its obligations in the current year will be developed and imposed. The county superintendent of schools may stay or rescind any action of the governing board determined to be inconsistent with the school district's ability to meet its financial obligations for the current or subsequent fiscal year, including any actions up to the point that the subsequent year's budget is approved by the county superintendent of schools.

### Notification of Budget Revisions or Stay or Rescission of Actions

The school district governing board shall be notified of action to revise the budget or to stay or rescind inconsistent school district actions. The notification shall include the actions to be taken, the reasons for the actions, and the assumptions used to support the necessity for the actions. The county office of education, in consultation with the governing board, shall assist in developing a school district budget for the subsequent fiscal year. The county office of education shall continue to work with the school governing board until the budget for the subsequent fiscal year is adopted.

### School District Appeals

Within five days of the determination or notice of budget revisions, the school district may appeal the following to the SPI:

1. The basis of the county superintendent of schools' determination that the school district may not be able to meet its financial obligations or proposed actions to examine the school district's financial condition.
2. The county superintendent of schools' determination that the school district will not be able to meet its financial obligations.

Until resolution of the appeal, the county superintendent of schools may stay any action of the governing board determined to be inconsistent with the school district's ability to meet its financial obligations for the current or subsequent fiscal year.

3. The county superintendent of schools' budget revisions pursuant to Education Code section 42127.3(b), 42127.6(e), or 42131(b).

If the appeal is denied, the school district shall implement the change(s) adopted by the county superintendent of schools. If the appeal is upheld, budget changes shall be implemented in accordance with revisions and/or guidelines issued by the SPI.

### Administrative Expenses

Contracts executed by the county superintendent of schools for purposes of determining a school district's fiscal solvency shall be subject to the approval of the SPI. The authorized administrative expenses incurred by the county office of education for necessary actions, or for costs associated with improving the school district's financial management practices, shall be prorated between the county office of education and the school district in accordance with law.

### AB 1200 REIMBURSEMENTS

The Budget Act provides funds for reimbursement to county offices of education for expenses incurred in carrying out specified financial oversight responsibilities. FCMAT administers the review and approval of reimbursements subject to final approval by the Department of Finance and the SPI. COE reimbursement forms are available from the FCMAT Web site and must be submitted by August 15 (see Additional Resources).

### CHARTER SCHOOL FISCAL OVERSIGHT

Charter schools generally are exempt from AB 1200 and other laws governing school districts. However, charter schools are accountable to comply with the conditions, standards, or procedures set forth in their charters, the Charter School Act [EC § 47600 et seq.], and other state and federal laws. Additional information is presented in the Charter Schools section.

Expenditures and internal controls of a charter school may be reviewed or audited at any time during the fiscal year if the county superintendent of schools has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The review or audit shall focus on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner. [EC § 1241.5] The chartering authority may revoke a charter for failing to meet generally accepted accounting principles or engaging in financial mismanagement. [EC § 47607(c)(3)] The State Board of Education may take appropriate action if the SPI finds evidence of gross financial mismanagement that jeopardizes the financial stability of a charter school. [EC § 47604.5]

### Monitoring and Investigation

A charter school shall promptly respond to all reasonable inquiries, including, but not limited to, inquiries regarding financial records, from its chartering authority, the county office of education of their chartering agency, or the SPI and shall consult the requestor regarding any inquiries. [EC § 47604.3]

The chartering authority shall monitor the fiscal condition of each charter school under its authority. The chartering authority may inspect or observe any part of the charter school at any time. [EC §§ 47604.33, 47607(a)(1)]

The county superintendent of schools may monitor or conduct an investigation into the operations of a charter school based upon written complaints by parents or other information that justifies such actions. [EC § 47604.4(a)] The county superintendent may request FCMAT to review the fiscal or administrative condition of a charter school. [EC§ 42127.8(c)(2)]

### Financial Reporting

Each charter school must prepare annual financial reports to be submitted to the chartering authority and the county superintendent of schools of the county in which its sponsoring district is located: [EC § 47604.33]

1. On or before July 1, a preliminary budget.
2. On or before December 15, a first interim financial report that reflects changes through October 31.
3. On or before March 15, a second interim financial report that reflects changes through January 31.
4. On or before September 15, a final unaudited report for the full prior year. [EC § 42100]

By December 15 of each year, a charter school must file copies of its annual audit with the chartering agency, the county superintendent of schools, the State Controller, and the CDE, unless the charter school is encompassed in the financial audit of its chartering agency. [EC §§ 41020, 47605(m); 5 CCR § 19850 et. seq.]

## ADDITIONAL RESOURCES

1. California Department of Education:

*California School Accounting Manual*, 2008. Available:  
<<http://www.cde.ca.gov/fg/ac/sa/>>

Criteria and Standards Revisions, March 13, 2008, State Board of Education  
Agenda Item #25. Available:  
<<http://www.cde.ca.gov/be/ag/ag/yr08/agenda0308.asp>>

Financial Reporting for SACS2008ALL Software, *SACS Software User Guide*, and  
Fiscal Oversight Calendars. Available: <<http://www.cde.ca.gov/fg/sf/fr/>>

Management Plan for Addressing Other Post Employment Benefits (OPEB),  
financial reporting requirements for OPEBs, and funding application. Available:  
<<http://www.cde.ca.gov/fg/fo/r14/fsp07rfa.asp>>

2. California School Finance, School District Budgeting for links to District's  
Responsibility, Fiscal Oversight, and EdSource. Available:  
<<http://www.californiaschoolfinance.org/DistrictBudgeting/FiscalOversight/tabid/110/Default.aspx>>

3. County superintendent of schools' financial oversight responsibilities as presented  
in San Diego County Office of Education Administrative Regulation 3460, Financial  
Accountability of School Districts. Available:  
<<http://www.sdcoe.net/business2/dfs/legal/ar/3460.pdf>>

4. Fiscal Crisis and Management Assistance Team (FCMAT):

*AB 1200 and Related Responsibilities*, February 2000. Available:  
<<http://wwwstatic.kern.org/gems/fcmat/AB1200Guide.pdf>>

COE Reimbursement Forms. Available:  
<[http://www.fcmat.org/stories/storyReader\\$1190](http://www.fcmat.org/stories/storyReader$1190)>

*FCMAT Predictors of School Agencies Needing Intervention*. Available:  
<<http://wwwstatic.kern.org/gems/fcmat/predictors12805.pdf>>

*Financial Accountability & Oversight Provisions, Assembly Bill 2756 (Daucher)*,  
July 2004. Available:  
<<http://wwwstatic.kern.org/gems/fcmat/AB27560booklet.pdf>>

*Fiscal Health Risk Analysis*. Available:

<<http://wwwstatic.kern.org/gems/fcmat/fiscalhealthriskanalysis.pdf>>

*Fiscal Oversight Guide for AB 1200, AB 2756, and Subsequent Related Legislation: A Resource for Educational Agencies*, September 2006 including Appendix E, Unfunded Liabilities: A Summary Report to the CCSESA Board of Directors by BASC, October 16, 2005, pages 126-152. Available:

<<http://wwwstatic.kern.org/gems/fcmat/FiscalOversightGuideFINALsm.pdf>>

*Fiscal Procedural Manual for Business Officials in California County Offices of Education*, 2008. Available: <[http://www.fcmat.org/stories/storyReader\\$1326](http://www.fcmat.org/stories/storyReader$1326)>

5. Fiscal Solvency Plan Checklist for County Offices of Education, Imperial County Office of Education, CCSESA BASC, 2007-2008. Available: <[http://www.icoe.k12.ca.us/ICOE/Departments/Business/External/Fiscal\\_Advisory\\_Services/APRIL+-+SFSS.htm](http://www.icoe.k12.ca.us/ICOE/Departments/Business/External/Fiscal_Advisory_Services/APRIL+-+SFSS.htm)>

6. *Internal Control Management and Evaluation Tool*, U.S. General Accounting Office, August 2001. Available: <<http://www.gao.gov/new.items/d011008g.pdf>>

7. San Diego County Office of Education, Business Advisory Services:

2008-09 fiscal disclosure forms. Available:

<<http://www.sdcoe.net/business2/dfs/?loc=formsdocs>>

Disclosure of Collective Bargaining Agreement form in Microsoft Excel format.

Available: <[www.sdcoe.net/business2/dfs/bas/cbud.xls](http://www.sdcoe.net/business2/dfs/bas/cbud.xls)>

8. State Controller's Office:

Certified Public Accountants Directory Service (CPADS) for local education audits.

Available: <<http://www.sco.ca.gov/cpads/main/CPADSList.aspx>>

Emergency Regulations, May 20, 2008, to amend the audit guide effective as of July 1, 2008, for the annual audits for 2008-09. Available:

<<http://www.eaap.ca.gov/NewWebSite0804/AudGdeEmerg2008-09%20051908.pdf>>

*Standards and Procedures for Audits of California K-12 Local Education Agencies 2008-09*. Available: <<http://www.eaap.ca.gov/NewWebSite0804/AuditGuide.htm>>