



Santa Cruz County Office of Education
Michael C. Watkins, Superintendent of Schools

An Overview of the State's Process for Providing Fiscal Oversight of School Districts

Presented by: Mary Hart,
Associate Superintendent, Business Services
March 22, 2011

Fiscal Oversight Overview

- Discussion Points:
 - History
 - What is "AB 1200"?
 - Budget/Interim Reports
 - Last Stop
 - Collective Bargaining Disclosures
 - Debt Disclosure Responsibilities
 - Keys to Success

History

Why a system of fiscal oversight?

- Prior to 1985, school district's Budgets were reviewed by the County Superintendent, but if disapproved, there was no authority to take further action, either at the local or state level.
- Additionally, there were only two formal reporting periods :
 - At the beginning of the year (Budget adoption)
 - At the end of the year (Unaudited Financial Statements)

There were no reporting requirements as to the district's financial status during the course of the year.

History

Why a system of fiscal oversight?

- Over the years, a very few number of districts ran into financial difficulty and had to go to the State for a loan (the earliest was in 1979)
- Some small changes in responsibility were put into place by the Legislature, but then in 1990/91, Richmond Unified required three loans (over a one-year period) and Assemblywoman Delaine Eastin championed a new fiscal oversight system for school districts and County Offices of Education (COEs).

History

AB 1200 (Chapter 1213) of the Statutes
of 1991

Laid the Foundation for Fiscal Oversight

- Since then, there have been over twenty-five (25) bills that have added to or modified the original provisions.

What is “AB 1200”?

The state’s fiscal oversight system for school districts and COE’s are often referred to as AB 1200 – the initial legislation that set the system in place.

- AB 1200 is an early warning system relying on multi-year projections (current and subsequent two years).
- Involves a system of reporting timelines throughout the year.
- Increased the responsibility of the CDE
- Includes a State Board of Education-adopted set of criteria for measuring school district/COE fiscal solvency.
- Increased the authority and responsibilities of County Offices of Education (COE)

What is “AB 1200”?

- Includes a series of authorized interventions by the County Superintendent and, if necessary, the CDE to avoid Legislative intervention
- Increased the responsibility of local school districts
- Increased reporting requirements and added required certifications
- Requires public disclosure of a collective bargaining agreement’s major provisions and costs prior to the Board ratification of the Agreement
- Created the Fiscal Crisis and Management Assistance Team (FCMAT) to provide both fiscal crisis intervention and management assistance

What is “AB 1200”?

Actions Are Guided By:

- Specific Standards and Criteria that have been developed by the CDE and State Board as measurements for Budget and Financial Reports. Such Standards and Criteria are to be adjusted periodically.
- If the County Superintendent notes concerns with the district’s financial status, then a clearly defined process for intervention is outlined in the Education Code.

District Responsibilities

- The first line of responsibility for the district's fiscal solvency resides locally with the elected board and administration
- Reporting periods have been designated as the benchmarks for the financial oversight review

General Mileposts

CATEGORIES

DISTRICT RESPONSIBILITIES

COUNTY SUPT. RESPONSIBILITIES

ADOPTED BUDGETS	ADOPT	REVIEW/APPROVE
ANNUAL FINANCIAL REPORTS	APPROVE	REVIEW
INTERIM REPORTS	CERTIFY	REVIEW/CERTIFY
COLLECTIVE BARGAINING AGREEMENTS	CERTIFY	REVIEW
INDEPENDENT AUDITS	REVIEW	REVIEW/REQUEST ACTION PLAN
DISTRICT EXPENDITURES	APPROVE	REVIEW/APPROVE
AB 139 (FRAUD/ MISAPPROPRIATION)	N/A	REVIEW/ INVESTIGATE
CHARTER OVERSIGHT	REVIEW	REVIEW

District Responsibilities

- Adopted Budget responsibilities
 - The governing board of a school agency is required to approve the budget on or before July 1 each year and submitted to the COE within five days or prior to July 1, whichever occurs first (Education Code (EC) Section 42127(a)(2))

 - An LEA must make budget revisions and adopt them within 45 days from the date of the Governor signing the state budget following the public hearing guidelines (EC Section 42127(i)(4))

Basic Budget Timelines (EC 42122-42129)

- July 1 District adopts budget
- Aug 15 County Superintendent approves/conditionally approves/disapproves budget
- Sept. 8 If budget is conditionally approved or not approved, District responds to direction and/or revises budget to reflect any recommendations of County Superintendent if applicable
- Sept. 15 If district has failed to submit Budget, County Superintendent develops district Budget at district expense
- Sept. 22 County Superintendent preliminary notice to CDE of Budgets that may be disapproved.

Assumes single budget adoption cycle. Districts may utilize Dual Budget Cycle (July/Sept) but majority of districts utilize single July 1 budget cycle.

Basic Budget Timelines (EC 42122-42129) continued...

- Oct. 8 County Superintendent final approval/ disapproval. If disapproved, process moves to Budget Review Committee (BRC) formed by the CDE or all parties may waive BRC and then County Superintendent assumes authority and responsibility of the BRC process.
- Oct. 31 BRC validates Budget status and/or recommends changes.
- Nov. 30 Develop, adopt, and impose a Fiscal Plan and Budget.
- Nov. 30 CDE shall ensure a balanced Budget is adopted by the school district.
- Dec. 10 SPI Reports to Department of Finance/ Legislature if any district doesn't have a Budget and what is being done.

Budget Interventions

- By November 30 – Process results with a need to impose a Plan. Then County Superintendent shall: (EC 42127.3)
 1. In consultation with district Board and CDE , develop and adopt a fiscal plan and budget
 2. Cancel purchase orders, prohibit issuance of non-salary warrants, stay and rescind any action inconsistent with adopted budget
 3. Monitor and review district operation
 4. May employ (with CDE approval) staff with expertise to assist
 5. Require district to perform a number of tasks to ensure reliability of financial data – e.g., encumber contracts, cash flow analysis
 6. May employ (with CDE approval) CPA expertise
 7. Withhold board and Supt. pay for failure to provide financial information
 8. District pays 75%, COE pays 25% of costs of above experts
 9. County Superintendent cannot abrogate an existing collective bargaining agreement

District Responsibilities

Unaudited Actuals

- On or before September 15 each year, the governing board must approve the unaudited financial statements of the LEA based on the revenues and expenditures occurring in the previous year ending June 30 and submit that report to the COE. (E.C. 42100)

External Reports Review

- Broadens County Superintendent's responsibility for reviewing budgets and interim reports to include the assessment of any studies, reports, evaluations, or audits that show the district is in fiscal distress or has at least four of the fifteen FCMAT financial difficulty indicators. (See Appendix)
- District must submit to the County Superintendent any report by an outside evaluator that shows district is exhibiting signs of fiscal distress.
- On or before October 15th, the COE is to review the mathematical accuracy of the LEA unaudited financial statements and transmit a copy to CDE.

Review of Interim Financial Reports

- E.C. 42130 requires two Interim Financial Reports for the periods ending Oct. 31 and Jan. 31.
- District Board approval dates are by 45 days after period ends (December 15 and March 15)
- District certifies that it can meet its financial obligations for the current and two subsequent fiscal years.
 - Positive, Qualified or Negative certification.
- County Superintendent response – 30 days later respectively (Jan 15th & April 15th)
- County Superintendent must review each report and must approve or revise the certification if necessary.
- Invoke E.C. 42127.6 (Going Concern) if Qualified or Negative certification.
- If County Superintendent changes certification, district may appeal to CDE (short timelines)

Review of Interim Financial Reports continued...

- 1st and 2nd Interim
 - If an LEA submits a self-certified interim report with a positive certification and the COE determines that it should be a qualified or negative certification, the COE will change the certification to the appropriate certification and notify the governing board and the SPI within 75 days after the end of the reporting period (EC Section 42131(a)(2))

 - If an LEA does not file an interim report, the COE shall hold and not release any state apportionment or county school funds to the LEA or approve any warrants issued by the LEA. (E.C. 42128)

Definition of Terms

Certifications

(E.C. 42131 (a)(1))

A positive certification shall be assigned to any school district that, based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years.

A qualified certification shall be assigned to any school district that, based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

A negative certification shall be assigned to any school district that, based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

At Any Time...

Applicable for Going Concern/Qualified or Negative Interims Ed. Code 42127.6 Interventions

- If at any time during the fiscal year the County Superintendent determines that a school district may not meet its financial obligations for the current or subsequent two years, the County Superintendent shall do at least one of the following and all as necessary:
 - Assign a fiscal expert to advise the district
 - Conduct a study of the financial condition of the district which shall include a review of internal controls
 - Direct the district to submit financial projections
 - Require the district to follow different accounting procedures
 - Direct the district to submit a plan to address the issues
 - Withhold compensation from the governing board and district superintendent if there is failure to provide requested information
 - Assign FCMAT to review teacher hiring practices, teacher retention rate, percentage of HQT's, and extent of teacher misassignments, and provide recommendations. District shall follow recommendations unless they can show good cause why they should not.

Ed. Code 42127.6 Interventions continued...

- If after taking the prior action(s) the county superintendent determines the district cannot meet its obligations, and the district was unsuccessful in, or did not file an appeal, then the County Superintendent shall take at least one of and all necessary actions as follows:
 - In consultation with the SPI and district Board, develop and impose a Budget
 - Stay or rescind any action inconsistent with district ability to meet its financial obligations
 - Assist in developing a financial plan
 - Assist in developing a Budget for the subsequent fiscal year.
 - Appoint a fiscal advisor to perform any/all duties
 - District pays 75%. COE pays 25% of the costs of experts/advisors.

Last Stop

- State Trustee
 - District requests emergency apportionment (E.C. 41320.1)
 - District develops recovery plan and repayment schedule
 - Trustee is appointed by the CDE until loan is repaid
 - State Administrator
 - District becomes insolvent and requires an emergency apportionment (E.C. 41325). Required loan is 200% of the required reserve or greater.
 - SPI assumes control of the District and appoints a State Administrator
 - Board becomes advisory only
 - Board cannot receive any stipends, benefits or compensation
 - District Superintendent is terminated with a maximum of zero to six month severance (determined by State Administrator)
 - Any other district administrator may be terminated by the State Administrator if they failed to call attention to the financial problem
 - County Superintendent oversight continues in either case
- In event of State Administrator, SPI reviews efficiency of County Superintendent oversight and reports out, including to the Legislature.

STATUS OF LOANS

- There are over 990 school districts in the state – 58 COE's
- Annually, there are 30-50 that have qualified or negative certifications – less than 5%
- As of July 1, 2010, there are six districts with outstanding loans:
 - 2 have Administrators
 - 3 have Trustees
 - 1 has both
- Balances range from \$550,000 (West Fresno Elementary) to \$74 million (Oakland Unified)
- Prior to the implementation of AB 1200:
 - 28 districts required loans (from 1979-1991)
 - Since: 7 districts (1991 – 2007)

Review of Collective Bargaining Disclosures

- Before approving a collective bargaining agreement, the costs and provisions of that agreement must be disclosed at a public meeting of the district Governing Board (E.C. 3547)
- The district superintendent and CBO “shall certify in writing that the costs incurred by the district under the agreement can be met by the district during the term of the agreement.” (E.C. 3547.5)
- The disclosure shall itemize any budget revisions necessary to meet the costs of the agreement. (E.C. 3547.5 (B)).
- A school district with a qualified or negative interim financial report shall allow county superintendent at least **ten days** to review and comment on any proposed collective bargaining agreement before that agreement is approved by the district governing board. (E.C. 3540.2)
- County Superintendent must notify County Board of Education, district Superintendent/Board and “each parent and teacher organization of the district if agreement would endanger the fiscal well being of the district.” (E.C. 3540.2)

Review of Collective Bargaining Disclosures

- An LEA is required to revise the current year budget and adopt those changes to meet the costs of a collective bargaining agreement. If this is not done, the COE shall issue a qualified or negative certification on the next interim report for the LEA (EC Section 3547.5(c))
 - Within 45 days of adopting a collective bargaining agreement, the LEA must submit a copy of the budget revisions necessary to meet the agreement to the COE

Debt Disclosure Responsibilities

- An LEA is required to submit information regarding any non-voter approved debt prior to the issuance of that debt, including a repayment schedule and evidence that the LEA will be able to repay the obligation (E.C. Section 17150)
- If in qualified or negative status, cannot issue such debt instruments unless County Superintendent determines that the “districts repayment of that debt is probable”. (E.C. 42133)

COE/District AB 1200

Relationships are Key

- We believe that AB 1200 fiscal oversight is successful when there are strong working relationships, good communication, and information exchange between districts and COE.
- District
 - Good Financial Practices
 - Ongoing Communication with COE
 - Long-term Outlook
- COE
 - Knowledgeable staff with an understanding of district operations
 - Ongoing communication throughout the year
 - Understand the whole picture
 - Good oversight systems with proactive review