

Fiscal Procedural Manual

*For Business Officials in
California County Offices of Education*

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Presented by

The Fiscal Crisis & Management Assistance Team

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Acknowledgments

On behalf of the Kern County Superintendent of Schools and the Fiscal Crisis & Management Assistance Team (FCMAT) Board of Directors, and in conjunction with the California County Superintendents Educational Services Association (CCSESA) subcommittee, Business & Administration Steering Committee (BASC), and External Services Subcommittee (ESSCO), I wish to thank the many people who assisted in the development and revision of the Fiscal Procedural Manual for California County Office of Education (COE) Business Officials.

Thank you to the FCMAT Board of Directors for their support and vision in recognizing the need for consistent procedures and standards for COE Business Officials to use in reviewing fiscal operations of school districts throughout California. This manual will assist all school business officials working in county offices in maintaining legal and ethical standards of operation.

The Steering Committee for the development of this manual consisted of leading COE Business Officials throughout the state. They provided valuable work and expertise in the manual's development. The original lead committee member responsible for the primary development was Sandra Peck, Assistant Superintendent for Business Services, Marin COE. Other Steering Committee members who played vital roles were the following:

Lou Highlander, Alameda COE	Jessica Schackne, San Mateo COE
Alice Kattner, Marin COE	Deborah L. Simons, LACOE
Lynette Kerr, Humboldt COE	K.T. Yorba, San Joaquin COE
Mike Lenahan, Alameda COE	

The CCSESA subcommittee, BASC and ESSCO are recognized in the review and finalization of the COE Fiscal Procedural Manual. Special thanks to the following ESSCO members, who updated this year's selected procedures.

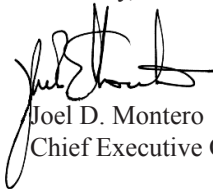
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A special thank you also to the following BASC/ESSCO subcommittee members, who met with and assisted FCMAT in the final development of this product:

Geri Kendall Cox, Madera COE	Mary Hart, Santa Cruz COE
Denise Porterfield, San Mateo COE	Michelle Plumbtree, FCMAT

Thanks also to FCMAT technical writer John Lotze for final editing and design of this document.

Sincerely,



Joel D. Montero
Chief Executive Officer, FCMAT

Introduction

On behalf of the Fiscal Crisis & Management Assistance Team Board of Directors and the Kern County Superintendent of Schools, I am pleased to present the County Office of Education Fiscal Procedural Manual. We anticipate that COE Business Officials will find the manual useful and beneficial in performing their required duties related to evaluating the operation of school district finances.

This manual is designed to be user friendly. It outlines 29 procedures and adopted standards that are required by California Education and Government codes. As requested by the FCMAT Board of Directors, the manual can assist COEs in developing consistency and common practices when reviewing and responding to school district fiscal requirements. This manual is intended as a guide, not a mandate, and can be used by every COE in California as an external document to assist in the monitoring of activities required by AB1200.

The COE Fiscal Procedural Manual was produced by FCMAT and its Administrative Agent, the Kern County Superintendent of Schools. As listed on the acknowledgement page, many people assisted in the creation of this manual. The California County Superintendents Educational Services Association subcommittee Business & Administration Steering Committee, performed the final review of the manual.

The COE Fiscal Procedural Manual is available for download, free of charge, from the FCMAT website at www.fcmat.org. There, you'll also find numerous forms, letters and spreadsheets that are presented in the manual. Some of these can also be accessed directly from within the document via links. Of course, this manual is a living document, and as new procedures are developed and updated annually, FCMAT will ensure that the updated materials are available on our website.

If you have any questions or would like more information, you may contact me directly at the FCMAT office at 661-636-4611.

Sincerely,



Joel Montero
Chief Executive Officer, FCMAT

Timeline for Updating Procedures

COE Fiscal Procedural Manual

FCMAT, in partnership with CCSESA, BASC and ESSCO, has developed the following timeline and process for updating the 29 procedures in the COE Fiscal Procedural Manual. BASC adopted the following annual cycle for updating the procedural manual:

March - November	ESSCO reviews and updates selected procedures.
November	BASC subcommittee meets and reviews ESSCO updated procedures at CASBO CBO Symposium.
December	FCMAT and ESSCO finalize updates.
January	BASC reviews and approves updates.
February	FCMAT edits and formats.
February/March	FCMAT posts updated procedures at http://www.fcmat.org . Release of approved updated procedures is announced at BASC Annual Conference.

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If you are viewing the complete electronic version, click on any procedure listed below to go to that section.

Procedures

Procedure Number	Procedure Name	Date Adopted or Revised
P-000	Index	2/2013
P-001	Calendar	2/2011
P-002	Which Entities Are Included	2/2011
P-003	Facility Maintenance Accounts	2/2010
P-004	AB 1200 Overview	1/2005
P-005	Budget Review	1/2009
P-006	The Unaudited Actuals	1/2009
P-007	Interim Report Review	1/2009
P-008	Audits	2/2014
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Procedures (cont.)

Procedure Number	Procedure Name	Date Adopted or Revised
P-016	Education Revenue Augmentation Fund (ERAF)	1/2008
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P-018	CalPERS and CalSTRS Reporting	1/2005
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P-027	Cash Flow Procedures	2/2011
P-028	Waiver of State Apportionment Deferrals	2/2012
P-029	Current Expense Formula and Reporting—SACS Form CEA	2/2013

I. OVERVIEW

A. Audit Requirements

1. Education Code (EC) Section 41020 requires each local educational agency (LEA) to contract for an audit by April 1 of each year. For this requirement, LEA includes K-12 school districts, most joint powers authorities (JPAs), and regional occupational centers/programs (ROC/Ps); community colleges are not included. According to Education Code Section 41023, JPAs established per EC 17567 (health benefits, workers' comp and insurance losses and payments) are also not included.
2. If the LEA fails to contract for the audit by April 1, it is the responsibility of the county superintendent of schools to contract with an audit firm on behalf of the LEA by May 1 of each year.
3. For school districts that receive an emergency apportionment from the state:
 - a. Education Code Section 41320.1 (d) allows the Office of the State Controller (SCO) or their designee to conduct an audit in lieu of the audit required under E.C. Section 41020.
 - b. At the SCO's discretion, the SCO may conduct the audit or approve the auditor selected by the district.
 - c. These audits are required until the SCO determines, in consultation with the superintendent of public instruction (SPI), that the district is fiscally solvent.

B. Auditor Rotation

1. Education Code Section 41020 (f)(2) states:

Commencing with the 2003-04 fiscal year and except as provided in subdivision (d) of Section 41320.1, it is unlawful for a public accounting firm to provide audit services to a local educational agency if the lead audit partner, or coordinating audit partner, having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local agency in each of the six previous fiscal years.

2. The Education Audit Appeal Panel may waive this requirement if the panel finds that no otherwise eligible auditor is available to perform the audit.

C. Filing Audit Reports (Education Code Section 41020 [h])

1. Annual audit reports must be filed electronically no later than December 15 by the certified public accounting (CPA) firm that performed the audit. The firm must file a copy of the report with the following:

- a. The county superintendent of schools of the county in which the LEA is located.
 - b. The California Department of Education (CDE).
 - c. The Office of the State Controller (SCO).
2. Education Code Section 47605 (m) requires each nonprofit charter school to submit a copy of its annual audit to the chartering entity, the SCO, the county superintendent of schools of the county in which the charter is located, and the CDE, by December 15 of each year.
3. Delays (Education Code Section 41020.2)
- a. The county superintendent of schools may investigate the causes of the delay and take action if the auditors do not file the audit report with the county superintendent by December 15. The CDE and SCO may also contact the county office if the audit reports are not received by December 15.
 - b. The county superintendent is responsible to initiate one of the following actions:
 - i. The county superintendent may grant an extension for the audit, after consultation with the district governing board and the auditors, and with the consent of the SCO and the SPI.
 - ii. The K-12 Audit Guide further explains:

The Department of Education's guidelines state that extensions will be granted only under extraordinary circumstances. The request must be received by both the SCO and the CDE no later than December 1. Prior to December 15, the SCO and CDE will review the request and accompanying justification and provide notification as to whether the extension is granted or denied.
 - iii. The county superintendent may contract with another audit firm to complete the audit, after consultation with the district governing board, the auditors, and the SCO.
 - iv. The county superintendent may request the SCO to investigate the situation and initiate action.
 - c. If the county superintendent contracts with another firm, the county superintendent should assist the district in avoiding payment to the original audit firm (as much as feasible).
 - d. Note: There is no provision in the law for an extension of a charter school audit.

D. Quality of School District Audits

1. Education Code Section 14504.2 authorizes the county superintendent or the county board of education to refer an independent auditor of a local educational agency to the California Board of Accountancy for action if an audit of an LEA was conducted in a manner that may constitute unprofessional conduct as defined by Section 5100 of the Business and Professions Code, including but not limited to gross negligence resulting in a material misstatement in the audit.
2. Education Code Section 41020.5 requires the county superintendent to notify in writing the certified public accountant or public accountant and the California Board of Accountancy if the audits of school districts in the county were not performed in substantial conformity with the audit guide.
 - a. This section provides for an appeal process.
 - b. If the determination by the county superintendent becomes final, the CPA or the public accountant will be ineligible to perform school audits for a period of 3 years.

E. Responsibility for Audit Exceptions (Education Code Section 41020[i])

1. The county superintendent of schools is responsible for reviewing the audit exceptions and for determining whether each audit exception has been corrected or whether the LEA has developed an acceptable plan of correction in the following areas:
 - a. Attendance
 - b. Inventory of equipment
 - c. Internal control
 - d. Miscellaneous
 - e. Instructional material program funds
 - f. Teacher misassignments pursuant to Education Code Section 44258.9
 - g. Information reported on the school accountability report card (SARC) pursuant to Education Code Section 33126
2. The CDE is responsible for reviewing the audit exceptions related to federal and state compliance.
3. The auditor is required to review the correction or plan of correction to determine if the exceptions have been resolved in the subsequent year audit.

- a. If not, the auditor immediately notifies the county office of education and the CDE.
- b. After receiving the notification, the CDE either consults with the LEA to resolve the exception or requires the county superintendent to follow up with the LEA.

F. Education Code Section 41020.8 authorizes the district’s auditor to release information to the county superintendent if the county has determined that the district may not be able to meet its financial obligations for the current or subsequent fiscal year (Education Code Section 42127.6).

II. COUNTY OFFICE RESPONSIBILITIES

1. Auditor Selection

- a. Education Code Section 41020 (b)(3) requires the county superintendent to determine, by April 1 of each year, that each LEA has made arrangements for an annual audit of its financial statements.
 - i. If the governing board of the LEA has not made arrangements for the audit by April 1, the county superintendent must provide for the audit.
 - ii. The county superintendent must provide for the audit by May 1.
- b. Education Code Section 41020 (b)(2) requires the county superintendent of schools (and the LEA’s governing board) to approve the contract for audit services for any LEA in the following situations:
 - i. The LEA has had a disapproved budget or a negative certification on its interim financial reports during the current year or either of the two preceding fiscal years.
 - ii. The county office has determined that a lack of going concern exists.

2. Review of the Audit Exceptions (Education Code Section 41020)

The county superintendent of schools is required to do the following:

- a. Review the audit exceptions related to the following:
 - i. Attendance
 - ii. Inventory of equipment
 - iii. Internal control
 - iv. Miscellaneous

- v. Instructional material program funds
- vi. Teacher misassignments pursuant to Education Code Section 44258.9
- vii. Information reported on the school accountability report card (SARC) pursuant to Education Code Section 33126
- b. Identify any audit exceptions where a description of the correction or plan of correction is not provided in the audit report and notify the LEA of this, requesting that a description of the correction, or plan of correction be provided by March 15.
 - i. Education Code Section 41020 (g)(2) states:

To the extent possible, a description of correction or plan of correction shall be incorporated in the audit report, describing the specific actions that are planned to be taken, or that have been taken, to correct the problem identified by the auditor. The descriptions of specific actions to be taken or that have been taken shall not solely consist of general comments such as “will implement”, “accepted the recommendation”, or “will discuss at a later date”.
- c. Review the description of correction or plan of correction for each audit exception and determine if it is adequate.
 - i. For any description that is found to be inadequate, require the LEA to submit a response to the county office that adequately resolves the audit exception.
- d. Certify to the SPI and the SCO not later than May 15 that:
 - i. All of the annual audits and all of the audit exceptions required to be reviewed by the county office have been reviewed.
 - ii. Except as otherwise noted in the certification, that the LEAs have adequately corrected, or developed an acceptable plan of correction for, the audit exceptions reviewed by the county office.
- e. Direct all LEAs with attendance-related exceptions or other exceptions that involve state funds to submit the appropriate forms to resolve the exception. For example, if the auditors determine that average daily attendance (ADA) was incorrectly reported, the county office staff will request a revised report of attendance (P-2 or Annual).
- f. Adjust the future local property tax requirements (tax rates or tax revenues) if there are audit exceptions that have a fiscal impact on local property taxes.

3. Delays in Filing Audit Reports (Education Code Section 41020.2)
 - a. Investigate causes of the delay and take action if the auditors do not file the audit report with the county superintendent by December 15.
 - b. Initiate one of the following actions:
 - i. Grant an extension for the audit (after consultation with the district governing board, the auditors, and with the consent of the SCO and the SPI).
 - ii. Contract with another audit firm to complete the audit (after consultation with the district governing board, the auditors, and the SCO).
 - iii. Request that the SCO investigate the situation and initiate action.

CALENDAR

<i>Month</i>	<i>Activity</i>
December	<ul style="list-style-type: none"> • The county superintendent must file requests for extensions for filing the annual audit report with the SCO and CDE by December 1. • Annual audit reports are due by December 15 <ul style="list-style-type: none"> • If not received by the deadline, the county superintendent may investigate the cause of the delay and initiate action to obtain the audit in the most effective manner.
January	<ul style="list-style-type: none"> • Update and send the auditor selection letter to LEAs, requesting information on the selection of their auditors by April 1.
January - February	<ul style="list-style-type: none"> • Audit Exceptions <ul style="list-style-type: none"> • Review all audit exceptions required to be reviewed by the county office. • Notify LEAs with deficiencies in their plan of correction and request additional documentation. • If the description of the correction or plan of correction is not in the audit report, notify the LEA and request that the governing board provide this information by March 15. • Direct LEAs to submit revised reports for attendance-related exceptions or other audit exceptions that involve state funds.

<p>April</p>	<ul style="list-style-type: none"> • Assess LEAs’ corrective actions for audit exceptions previously determined to have deficiencies in their plan of correction. • Assess LEAs’ corrective actions for audit exceptions previously lacking a description of the correction. • Begin making arrangements for the annual audit of the next fiscal year for any LEAs that didn’t make arrangements by April 1.
<p>May</p>	<ul style="list-style-type: none"> • By May 1, arrangements must be made for the audit of any LEAs that did not make their own arrangements by April 1. • Notify the SPI and the SCO by May 15 that the county staff have reviewed the audits, reviewed the audit exceptions, and that all exceptions have been corrected or the LEA has submitted an acceptable plan.

III. DETAILED PROCEDURES

Note: The forms in this section are provided for illustration and are not required by law or by the California Department of Education.

A. Selection of the Auditor

1. In January, update the auditor selection letter and send it to the LEAs. See samples at the end of this section.
2. By April 1, determine whether all districts have selected an auditor.
3. For those LEAs that have not selected an auditor by April 1, the county must make arrangements for an audit by May 1.

Education Code Section 41020 (e)(1):

The cost of the audits provided by the county superintendent of schools shall be paid from the county school service fund and the county superintendent of schools shall transfer the pro rata share of the cost chargeable to each district from the district funds.

B. Review of the Audit Exceptions

1. In January, the county staff should begin reviewing the audit exceptions in the audit reports to determine whether each LEA’s responses to the audit exceptions in the audit report represent a sufficient corrective action plan.

If the county staff determine that the response from the LEA in the audit report is not adequate, they should notify the LEA in January/February. Sample forms to request the LEA’s corrective action plan are at the end of this section.

If the county staff determine that the LEA did not provide a response in the audit report, they should notify the LEA in January/February requesting the response be provided by the governing board by March 15.

2. There are no standards for what is an acceptable corrective action plan; each county office determines whether or not the action plan is acceptable and the level of documentation needed to assess whether the action plan is acceptable.
3. Not later than May 15, the county office must notify the SPI and the SCO that the county office staff have reviewed the audits, reviewed the audit exceptions, and that all exceptions have been corrected or the LEA has submitted an acceptable plan of correction.

C. Quality of School District Audits

1. Education Code sections 14504 and 41020.5 authorize the county superintendent to notify the California Board of Accountancy if he or she determines that the audit was conducted in an unprofessional manner or that the audit was not conducted in accordance with the audit guide.
 - a. Once the California Board of Accountancy is notified of potential problems, the board will determine whether an investigation is warranted, and, if so, will conduct the investigation.
 - b. Based on the results of the investigation, the California Board of Accountancy may sanction the CPA or accountant.
2. Several counties have asked the CPA or accountant conducting school district audits to prepare and sign a representation letter stating that the firm conducted the audit in accordance with the audit guide. This is usually done at the completion of the audit and submitted with the audit report.

D. Sample Audit Activity Reporting Calendar

At the end of this section is a sample of an audit activity calendar used by one county office of education to provide information to the LEAs on the various dates for audit activities as required by the county office or the Education Code.

IV. LEGAL CITATIONS

Education Code

Sections 14502-14504, 41020–41020.8

SAMPLE-AUDIT EXCEPTIONS RESOLUTION LETTER

February 15, 2014

_____, Chief Business Official
_____, School District
_____ Avenue
_____, CA _____

Dear Mr. _____:

Re: 2013-14 Audit Exceptions Resolution Process

Pursuant to *EC* Section 41020, the county office is required to review and ensure resolution of audit exceptions related to attendance, inventory of equipment, internal control, miscellaneous items, teacher misassignments pursuant to *EC* Section 44258.9, information reported on the school accountability report card pursuant to *EC* Section 33126, and the use of instructional materials program funds including the reporting requirements for the sufficiency of textbooks and instructional materials. For attendance-related audit exceptions or exceptions involving state funds, our office is to ensure that the districts have submitted appropriate reporting forms to resolve the exceptions.

Pursuant to *EC* Section 41344.4, districts will not be required to repay audit exceptions related to the reporting requirements for the sufficiency of textbooks and instructional materials, if our office has accepted the district’s correction or plan of correction and certifies that the finding was resolved. The plan of correction must be consistent with the requirements of *EC* Section 60119(a)(2)(A).

Upon review of the district’s findings and recommendations reported in the 2013-14 audit report, we have determined that further clarification and/or documentation is needed for resolution by our office. Please let us know of the corrective action(s) you have taken or are planning to take to address Finding(s) _____. Please include a copy of any documentation that evidences the corrective action(s) or plans of action(s).

Please email the response along with the attached 2013-14 Audit Finding(s)/Corrective Action(s) form, and any documents that support the corrective actions taken to _____ at xxxxx@xxx.net.

Your response must be received no later than March 15, 2014, but may be submitted at any time prior to this date.

If an audit finding requires an adjustment to attendance figures, please include a copy of the original and revised Second Principal Apportionment (P-2) and/or Annual Apportionment attendance reports.

We will determine from the information and documentation submitted if the action(s) taken adequately address the audit finding(s) so that they can be cleared by our office.

You may also receive a separate communication from the California Department of Education

(CDE) with regard to certain audit findings. The CDE is responsible for reviewing and resolving certain state compliance audit exceptions. In addition, the CDE is required to resolve audit findings affecting federally funded programs.

Thank you for your attention to this matter. If you need further information, please contact _____, Consultant, Business Advisory Services at (XXX) XXX-XXXX.

Sincerely,

Executive Director
District Financial Services

CC:

2013-14 Audit Findings/Corrective Actions

District _____

Category 1: _____ Category 2: _____

Prior Year 1: _____ Prior Year 2: _____ Prior Year 3: _____

Sub Category: _____

Finding 2014-1:

Amended Report(s) Required? P-2: Annual: Other:

Finding Resolved? _____ Date Resolved? _____

What SPECIFIC action has/will the district take to resolve the finding? If PRIOR YEAR finding, explain why corrective action was not implemented:

WHEN was/will the corrective action be implemented/completed? _____

WHO is responsible for corrective action implementation? _____

Please provide all documentation which supports the specific action taken toward resolving the finding; i.e., copies of amended reports, corrective action plans, written procedures, agendas from staff in-services, etc.

Number of Documents Attached to Confirm Resolution of Finding: _____

Signature of District Official	Title	Date

Please return this form and any supporting documentation to _____ at xxxxxxx@xxx.net, or return via truck mail to:

Attention: _____
 _____ County Office of Education

 _____, CA _____

Sample Independent Auditor Selection Letter

Date: January 30, 2015

To: Chief Business Officials
Business Managers

From: XXX

RE: Independent Auditor Selection for Fiscal Year 2014-15

Education Code Section 41020 requires school districts to contract for an audit of their books and accounts by April 1st of each year. The same code requires the County Superintendent to provide an auditor for districts that fail to contract with a firm by that date.

Please complete the enclosed certification form and return to the County Office by April 1, 2015. If a response is not received by **April 1, 2015**, we will assume the district wants the County Office of Education to provide an auditor, and we will begin the selection process at that time.

Please send a complete copy of the board approved, executed audit contract to _____, Business Advisory Services. If you have a multi-year contract and have previously forwarded a copy to our office, you are not required to submit another copy provided no amendments have since been made. In either instance, the enclosed "Independent Auditor Selection Certification Form" must be completed and forwarded annually. Thank you for your cooperation.

If you have any questions, please contact _____.

CC:

Enclosures

INDEPENDENT AUDITOR SELECTION CERTIFICATION

This serves as notice that pursuant to Education Code Section 41020, the Board of Trustees of the _____ School District awarded a contract for the annual audit of the books and accounts of the district for fiscal year **2014-2015** at its regularly scheduled meeting held on _____.

The contract was awarded to:

Audit Firm: _____

Address: _____

City & Zip Code: _____

Phone: _____ Fax: _____

Account Representative: _____

2014-15 Fiscal Year Audit Fee: \$ _____

If a multiple-year contract, state the fiscal years covered: _____

Authorized District Representative (Print Name) Phone Number

Signature Date

FORWARD THIS INDEPENDENT AUDITOR SELECTION CERTIFICATION BY APRIL 1, 2015 TO:

_____ County Office of Education

_____, Room 608

_____, CA _____

Attention: XXXX

- A copy of the executed contract is attached.
- A copy of the executed contract will be forwarded once it is finalized.
- A copy of our multi-year contract has been previously forwarded and no amendments have been made.

Timeline and Responsibilities

DATE	RESPONSIBILITY	ACTIVITY
December 15	Auditor	Audit reports shall be submitted to the California Department of Education, state controller, county office of education and the district.
January 31	District	On or before this date, at a public meeting, the district board shall review and accept the annual audit. (EC 41020.3)
January 31	County Office	The county office shall provide to the districts the Certification of Corrective Action and specific Audit Finding Corrective Action forms, which must be adopted by the board and returned to the county office by April 1.
March 15	District	On or before this date, school districts shall submit to the county office the specific Audit Finding Corrective Action forms adopted by their governing board.
April 1	District	On or before this date, school districts shall submit to the county office the Independent Auditor Selection Certification Form for the current fiscal year.
April 15	County Office	The county office will respond in writing to the districts regarding the adequacy of the Certification of Corrective Action, identifying the areas that require further explanation, corrective action or a plan for correction.
April 30	District	Any additional information required of the school district must be submitted to the county office by this date.
May 1	County Office	The county office shall provide for an audit contract for any district that has not secured an auditor for the current fiscal year.

DATE	RESPONSIBILITY	ACTIVITY
May 15	County Office	<p>In accordance with EC 41020(k), the county office shall certify to the Superintendent of Public Instruction (SPI) and the Office of the State Controller (SCO) that all district audits were reviewed and corrections were made, except as noted, or an acceptable plan was submitted.</p> <p>In addition, the county superintendent shall identify any attendance-related exceptions or other exceptions that had a fiscal impact on state funds, and require the school district to submit the appropriate forms for processing by the SPI.</p>
	Auditors	<p>In accordance with EC 41020(1), the independent audit firm will certify to the county office regarding the status of the Certification of Corrective Action.</p>
	SPI	<p>In accordance with EC 41020(m), the SPI shall be responsible for ensuring that school districts have either corrected or developed a plan of correction for any or all of the following:</p> <ul style="list-style-type: none"> <li data-bbox="721 1121 1482 1184">❑ All federal and state compliance audit exceptions identified in the audit. <li data-bbox="721 1226 1482 1289">❑ Any exceptions that the county superintendent certifies as of May 15 have not been corrected. <li data-bbox="721 1331 1482 1394">❑ Any repeat audit exceptions that are not assigned to a county superintendent to correct.
	State Controller	<p>In accordance with EC 41020(n), the SCO annually shall select a sampling of county superintendents of schools, perform a follow-up of the audit resolution process of those county superintendents of schools, and report the results of that follow-up to the SPI and the county superintendents of schools that were reviewed.</p>

I. OVERVIEW

- A. The California Revenue and Taxation Code provides laws related to the collection of revenue in California including property taxes.
 - 1. Division 1 of the California Revenue and Taxation Code includes the laws for property taxation.
- B. Local educational agencies (LEAs) and community colleges receive a significant amount of revenue from property taxes.

C. Tax Rates

Revenue and Taxation Code Sections 2151 – 2152.5

- 1. Section 2151 requires the board of supervisors to fix county and district tax rates and to levy the state, county and district taxes as provided by law.
- 2. Section 2152 requires the county auditor to ensure that the rates applicable to any assessment are correct.

D. County Auditor Allocations and Certifications

Revenue and Taxation Code Section 75.70

- 1. Requires the county auditor to allocate supplemental property taxes to each community college district, county superintendent of schools, and all elementary, high school, and unified school districts within the county.
- 2. Allocations of supplemental taxes to elementary, high school, and unified school districts are based on the average daily attendance (ADA) as certified by the Superintendent of Public Instruction (SPI). For purposes of this certification, average daily attendance shall be deemed zero for excess tax school entities and multicounty school districts where portions of school districts are located other than in the county of control.
- 3. The SPI is required to certify the ADA to each county auditor no later than July 15 of each applicable year. This ADA is used for the advance apportionment of state aid.
- 4. On or before November 15 and April 15, the auditor of each county will furnish to the SPI the estimated amount of tax receipts pursuant to this section of each school district situated within his or her county.

Revenue and Taxation Code Section 96.1

1. Section (b) states that any allocation of property tax revenue that was subjected to a prior completed audit by the Office of the State Controller, pursuant to the requirements of Government Code Section 12468, where all findings have been resolved, shall be deemed correct.

E. Excess Tax School Entity Defined

Revenue and Taxation Code Section 95

1. Defines an “excess tax school entity” as an educational agency for which the amount of the state funding entitlement determined under subdivision (e), (f), or (g) of Section 2575, or Section 84750.5 or 84751 of the Education Code, as appropriate, is zero, and as described in subdivision (o) of Section 42238.02 of the Education Code, as implemented by Section 42238.03 of the Education Code.

F. Administrative Costs

Revenue and Taxation Code Sections 95.2-95.3

1. Sections 95.2 and 95.3 provide the law on the computation of property tax administrative costs.
 - a. Excludes school districts, community colleges, the county superintendent, and Educational Revenue Augmentation Fund (ERAF) from paying property tax administrative costs.
 - b. Requires the state to reimburse the county for the school districts, community college, county superintendent, and ERAF share of administrative costs.

G. County Assessor Duties

Revenue and Taxation Code Sections 401 – 407

1. Establishes the requirement for the county assessor to assess all property subject to general property taxation at its full value.
2. Requires the assessor to assess all property subject to general property taxation on the lien date as provided in Articles XIII and XIII A of the Constitution and any legislative authorization.
3. Section 404 requires that all taxable property, except state-assessed property, will be assessed by the assessing agency of the taxing agency where the property is situated.

4. Section 405 requires the assessor to assess all taxable property in their county, except state-assessed property, to the persons owning, claiming, possessing, or controlling it on the lien date.
5. Section 407 requires the county assessor to transmit a statistical statement to the board of supervisors annually, on the second Monday in July.

H. Secured Property Tax Roles / Tax Bills / Tax Collections

Revenue and Taxation Code Sections 2601 – 2636

1. Requires the auditor to deliver the secured roll to the tax collector on or before the fourth Monday in September.
2. The tax collector is responsible to collect all taxes.
3. Annually, on or before November 1, the tax collector must mail or electronically transmit a county tax bill or a copy thereof for every property on the secured roll.
4. The following information is included in each property tax bill:
 - a. The full value of locally assessed property.
 - b. The tax rate required by Article XIII A of the California Constitution.
 - c. The rate or dollar amount of taxes levied in excess of the 1% limitation to pay for voter-approved indebtedness incurred before July 1, 1978, or bonded indebtedness for the acquisition or improvement of real property approved by voters in their local school bond elections.
 - d. The amount of any special taxes and special assessments levied.
 - e. The amount of any tax rate reduction pursuant to Section 96.8.
 - f. The amount of any exemptions.
 - g. The total taxes due and payable on the property covered by the bill.
 - h. Instructions on tendering payment, including the name and mailing address of the tax collector.
 - i. The billing of any special purpose parcel tax.
 - j. Information specifying all of the following:

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- i. That if the taxpayer disagrees with the assessed value as shown on the tax bill, the taxpayer has the right to an informal assessment review by contacting the assessor's office.
 - ii. That if the taxpayer and the assessor are unable to agree on a proper assessed value pursuant to an informal assessment review, the taxpayer has the right to file an application for reduction in assessment for the following year with the county board of equalization or the assessment appeals board, as applicable, and the time period during which the application will be accepted.
 - iii. The address of the clerk of the county board of equalization or assessment appeals board, as applicable, at which forms for an application for reduction in assessment may be obtained.
5. One-half of the secured property taxes are due on November 1 and the second half is due February 1.
 - a. The entire tax on real property may be paid when the first installment is due and payable or anytime thereafter until the properties on the current roll become defaulted.
 - b. The second installment may be paid separately only if the first installment has been paid.
 - c. The tax collector must accept payment of current year taxes even though prior year delinquencies exist.
6. All taxes shall be paid at the tax collector's office unless the board of supervisors, upon recommendation of the tax collector and on or before the day when payments may be made, orders that taxes be collected in any other or additional location, in addition to a location within the county.
7. Not less than once every 12 months and on dates approved by the auditor, the tax collector shall account to the auditor for all moneys collected during the preceding reporting period.

I. Unsecured Property Tax Roles / Tax Bills / Tax Collections

Revenue and Taxation Code Sections 2901 – 2928.1

1. Taxes on unsecured property are due on the lien date.
2. The tax collector shall collect taxes on unsecured property.

3. In collecting taxes on unsecured property, the tax rate to be used is the rate for property of the same kind on the secured roll last fixed before the lien date for the taxes to be collected.
4. The assessor is responsible to deliver to the tax collector a written record of the assessment of the unsecured property.
5. The tax collector is responsible to mail or electronically transmit tax bills.
6. Taxes on the unsecured roll as of July 31, if unpaid, are delinquent on August 31.

J. Tax Distributions

Revenue and Taxation Code Sections 4653.4 - 4653.6

1. Taxes shall be distributed to each fund on the basis of the tax rate established for the current secured roll on which they are charged and in the same proportion that the tax rate for each fund bears to the total tax rate applicable.
2. Amounts paid as delinquent penalties shall be distributed to the county general fund.

Revenue and Taxation Code Sections 4655.2 - 4655.4

1. Taxes shall be distributed to each fund on the basis of the tax rate established for the current unsecured roll on which they are charged and in the same proportion that the tax rate for each fund bears to the total tax rate applicable.
2. Amounts paid as delinquent penalties or accrued legal interest paid on judgments for the recovery of unpaid property taxes rendered by the courts shall be distributed to the county general fund.

II. THE TEETER PLAN

A. Establishment of the “Alternative Method of Property Tax Distribution”

Revenue and Taxation Code Sections 4701 – 4717

1. In 1949, the state Legislature adopted Revenue and Taxation Code Section 4701, which authorized the “alternative method of property tax distribution.”
 - a. This method was proposed by the Contra Costa Auditor Controller, whose last name was Teeter.
 - b. This method was used by Contra Costa County for more than 40 years.
 - c. Due to changes in statutes, and a state budget crisis, many more counties began using the method in the 1993-1994 fiscal year.

Property Taxes

2. Section 4701 provides an alternative procedure for the distribution of property tax levies on the secured roll made by counties on their own behalf or as the tax-levying and tax-collecting agency for other political subdivisions.
3. The object of this alternative procedure is to simplify the tax-levying and tax-apportioning process and to increase flexibility in the use of available cash resources.
4. The alternative procedure allows the auditor-controller to allocate to agencies 100% of the secured property taxes billed but not yet paid.
 - a. Without the plan, delinquent taxes, penalties and interest are allocated when collected, by a separate allocation process.
 - b. The alternative procedure has other benefits:
 - i. It stabilizes property tax revenues.
 - ii. It simplifies the property tax revenue estimation and allocation process for the auditor.
 - iii. It generates higher property tax revenues during years of higher property tax delinquencies.
 - iv. It provides a one-time increase in property tax revenues to all taxing agencies in the year of implementation.
 - c. The alternative procedure could have the following disadvantages:
 - i. If the state Legislature decreased the penalties and interest rates on delinquent taxes, this could affect the amount of funds necessary to replenish the tax loss reserve.
 - ii. If there was a significant drop in property values, the county may be unable to collect delinquent taxes after initiating the sale of tax-defaulted property.
 - iii. If the board of supervisors rescinded the alternative tax distribution in a future fiscal year, there would be an adverse financial effect on agencies that spent the one-time tax distributions.
5. The alternative procedure may be placed in effect in any county by a resolution of the board of supervisors of that county, adopted not later than July 15th of the first fiscal year to which it applies.

- a. The procedure remains in effect unless the board orders its discontinuance or unless, prior to the commencement of any subsequent fiscal year, the board receives a petition for its discontinuance joined in by resolutions duly adopted by the governing boards of not less than two-thirds of the participating revenue districts in the county.
- b. In that event, the board shall order discontinuance of the procedure effective at the commencement of the subsequent fiscal year.

B. Teeter Plan Bond Law of 1994

Government Code Sections 54773 – 54783

1. These sections allow for a method to finance an alternative method of distribution of tax levies and collections of tax sale proceeds authorized pursuant to Sections 4701 to 4717, inclusive, of the Revenue and Taxation Code.
2. The bonds issued, financed, or refinanced under this chapter do not have to comply with the requirements of any other state laws applicable to the issuance of bonds.
3. Section 54776 allows the county to issue its bonds in an amount necessary to provide sufficient funds for purposes of advancing moneys representing uncollected taxes in accordance with Section 4705 of the Revenue and Taxation Code.
4. The county will repay the bonds from tax revenues and any other legally available funds of the county.

III. REDEVELOPMENT

(The source for most of the historical information was the California Legislative Analyst's (LAO's) report entitled "The 2012-13 Budget: Unwinding Redevelopment," dated February 17, 2012.)

A. Establishment and Growth of Redevelopment Agencies (RDAs)

1. In 1945, the Legislature passed the Community Redevelopment Act authorizing local agencies to create RDAs to revitalize blighted urban areas. Laws related to community redevelopment are primarily located in Division 24, Part 1, Sections 33000 and following of the California Health and Safety Code (HSC).
2. In 1952, voters approved Proposition 18, which established tax increment financing for blighted areas in need of urban renewal.

Property Taxes

- a. Under this process, once a city or county established an RDA project area, most of the increase in property tax revenue from that project area was to be distributed to the RDA instead of to other local agencies and could only be used to address the urban blight within that project area.
- b. Because the urban growth within the RDA project area affected other public entities serving those areas (e.g., school districts, water districts, sewer districts, etc.), the increased tax increment revenue was to be shared between public entities and the city/county.
3. During the 1950s and 1960s, RDA project areas were generally small due to competing interests for property tax revenue and local governments' ability to raise taxes without voter approval. During this time, the state did not backfill tax revenue lost to local education agencies (LEAs) due to redevelopment.
4. School district revenue limits were established in 1972, thereby guaranteeing school districts a level of funding from combined state and local sources. If property taxes did not increase, the state backfilled the amount necessary to meet the revenue limit entitlement amount. This led to less motivation by some school districts to compete for the funds.
5. In 1976, AB 3674 was passed; this law required RDAs to spend 20 percent of tax increment revenues for affordable housing. These funds were deposited in the Low and Moderate Income Housing Fund and were to be used to maintain and increase affordable housing for qualified households.
6. In 1978, Proposition 13 passed, which significantly constrained local authority over the property tax and most other local revenue sources - except for redevelopment.
 - a. Redevelopment project areas began to significantly increase in size and were not always limited to blighted areas.
 - b. The increase in property tax revenue going to RDAs was decreasing funds needed for other local programs and increasing state costs to support K-14 education.
7. In the 1980s, the state began taking action to constrain RDA growth and to offset the state's increased costs associated with RDAs.
 - a. AB 322 (1983) prohibited adoption of RDA project areas that included large amounts of vacant land.

- b. Beginning in the 1990s, the state began taking actions in its annual budget to require RDAs to shift some of their revenues to schools to offset the state's increased costs associated with RDAs. The shifted funds typically were deposited into countywide accounts referred to as ERAF (Educational Revenue Augmentation Fund) or SERAF (Supplemental Educational Revenue Augmentation Fund).
 - c. SB 617 (1992) authorized revenue limit offsets for RDA payments, subject to certain exceptions for land acquisition, facility construction, reconstruction, remodeling or deferred maintenance.
 - d. AB 1290 (1993) defined blight, set time limits on project areas, eliminated the statutory authority to negotiate new pass-through agreements on a case-by-case basis, and created a statutory formula for sharing tax increment revenues based on an agency's proportionate share of the 1% property tax rate in the project area.
8. In May 2008, the State Controller's Office (SCO) issued a report titled "Distribution and Reporting of Local Property Tax Revenue," which raised concerns regarding RDAs, school districts and community college districts underreporting RDA revenues and thereby increasing state costs.
 9. In September 2008, AB 1389 was passed; this bill established a new process for RDAs, counties and the state to report and document AB 1290 payments made to all affected taxing entities for 2003-04 through 2015.
 10. Proposition 22, passed in November 2010, limited the state's ability to require RDAs to shift funds to schools or other agencies.

B. Dissolution of RDAs

1. In June 2011, two significant pieces of RDA-related legislation were enacted:
 - a. ABX1 26 imposed an immediate freeze on most RDA activity; dissolved RDAs effective October 1, 2011; and created a process for reducing and ending redevelopment financial affairs and distributing any net funds from assets or property taxes to other local taxing agencies.
 - b. ABX1 27 allowed RDAs to opt into a voluntary alternative program to avoid the dissolution included in ABX1 26. The program included annual payments to K-12 school districts to offset the fiscal effect of redevelopment.
 - c. ABX1 26 and ABX1 27 were challenged in court on constitutional grounds.

2. On December 29, 2011, the California Supreme Court 1) upheld ABX1 26, saying that the Legislature had authority to dissolve entities it had created; 2) found ABX1 27 unconstitutional, in that it violated Proposition 22's prohibition against the state "directly or indirectly" requiring an RDA to transfer funds to schools or to any other agency; and 3) established timelines for dissolution of RDAs.
3. On February 1, 2012, all RDAs in California were dissolved and the process for bringing to a cessation their financial affairs began.
 - a. The cessation process focused on two goals: 1) ensuring that existing financial obligations were met, and 2) minimizing any additional RDA obligations so that more funds are available to transfer for other governmental purposes.
 - b. The unwinding process has four key elements: 1) Local management and oversight by a successor agency, which is usually the city or county that established the RDA; 2) establishment of a seven-member oversight board to supervise the successor agency's work; 3) development of a list of enforceable obligations of the former RDA; and 4) review by the Department of Finance (DOF) and SCO of local dissolution activity and redistribution of funds.
 - i. The oversight board includes representatives from the affected local taxing agencies: K-14 districts, the county, city, and special districts. The county board of education or county superintendent appoints one member to each oversight board.
4. The former RDA's housing functions and most of its housing assets have been transferred to a successor housing agency. The unencumbered balance in the former RDA's Low and Moderate Income Housing Fund is to be distributed to local taxing entities by the county auditor-controller.
5. The county auditor-controller administers each former RDA's Redevelopment Property Tax Trust Fund (RPTTF). This work involves quantifying the property taxes, formerly called tax increment, and then subtracting from that amount the following: pass-through payments, enforceable obligations payable that year, and allowable administrative costs. Any unencumbered agency cash is also added to the amount available to determine the amount of funds available to distribute to taxing entities.
6. Over time, the dissolution of RDAs will increase the amount of general purpose property tax revenues that schools, community colleges, cities, counties and special districts will receive to offset state general fund education expenses.

7. AB1484 became effective on June 27, 2012. Under ABX1 26 and AB 1484, districts and other affected taxing agencies receive three types of revenues from RDA projects from the county auditor-controller: pass-throughs, residual distributions, and asset liquidation revenues. AB 1484 also added subdivision (b) to Health and Safety Code (HSC) Section 34187 that requires pass-throughs to end when “all of the debt of a redevelopment agency has been retired or paid off.”

C. RDA Payments to Schools

1. Prior to the passage of AB 1290, many RDAs made pass-through payments to local agencies to partially offset these agencies’ property tax losses associated with redevelopment and to fund educational facilities. Although some K-14 districts negotiated for pass-through payments, many did not, since the revenue limit funding backfilled the lost RDA tax revenue.
 - a. As an alternative to negotiated agreements, former HSC Section 33676(a) required districts to elect to be allocated 2% payments, which were the inflationary revenues resulting from growth in the base year value of real property within a project area. In 2001, a court decision held that the 2% payments were required regardless of whether a district had adopted a resolution electing to receive them.
 - b. The 2% payments only apply to RDA projects adopted between January 1, 1985 and December 31, 1993.
 - c. The amounts received by LEAs pursuant to pass-through agreements or 2% payments are not considered property taxes as long as they are used for educational facilities.
2. The passage of AB 1290 created new statutory pass-through entitlements in post-1994 projects (HSC 33607.5), pre-1994 projects that are amended under certain conditions (HSC 33607.7), and pre- or post-1994 projects for LEAs that are basic aid or 100% locally funded (HSC 33676(b)). These payments are considered property taxes.

The following table provides the percentages for AB 1290 payments to each type of non-basic aid LEA as well as applicable sections of the Health and Safety Code and Education Code:

LEA	Health and Safety Code	Education Code	% Property Tax	% Non-Property Tax
School District	336075(a)(4)(A)	42238(h)(6)	43.3%	56.7%
Community College District	33607.5(a)(4)(B)	84751(d)	47.5%	52.5%
County Office of Education/ Special Education	33607.5(a)(4)(C)-(D)	2558(c)	19%	81%

Source: FCMAT Alert, May 2007, <http://wwwstatic.kern.org/gems/fcmat/FCMATRDAAAlertFINAL.pdf>

With the passage of ABX1 26, the pass-through payments that may have been made directly to the districts from the RDAs are now made by the county auditor-controller.

IV. COUNTY OFFICE OF EDUCATION (COE) RESPONSIBILITIES

- A. The COE notifies the districts of the release of property taxes when notified by the county auditor. The county auditor may provide the information to the COE on spreadsheets.
- B. The COE should work with the county auditor-controller to verify that RDA revenues received by districts are identified by type and project area.
- C. The COE should help districts identify the types of RDA revenue received to determine whether or not they are subject to revenue limit offset and to assist with appropriate account coding.
- D. At the end of the year, the COE reconciles the taxes distributed to the districts, including RDA funds, to the final tax report provided by the county auditor. Some COEs receive the tax ledgers monthly from the auditor-controller's office. These ledgers are input into a spreadsheet by the COE. The COE then reconciles them quarterly with the district ledgers to ensure correct posting of the taxes.
- E. Based on the information provided by the county auditor, the COE prepares and submits the state online property tax reports on or before November 15 (P-1), April 15 (P-2), and August 15 (Annual). The COE provides each district with a copy of the property tax reports submitted to the state for each reporting period.
- F. The COE may also provide technical support to the successor agency oversight board members assigned by the county superintendent.