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# Indicators of Risk or Potential Insolvency

## FOR CALIFORNIA COMMUNITY COLLEGES

The Fiscal Crisis and Management Assistance Team (FCMAT) has compiled the list of indicators of risk or potential insolvency for California community colleges based on more than 25 years of experience with local educational agencies (LEAs). Although some indicators have been on the list since it was first published, others were removed or added as changes occurred, such as the evolution of funding models and changes in finance and education policy. These indicators will continue to be updated over time to ensure they remain relevant and helpful.

Each item listed indicates a lack of function, commitment, or attention to one or more critical elements of an organization's operations, which may eventually contribute to an LEA's insolvency. The existence of any one of the indicators increases risk of potential insolvency and the need for assistance from outside agencies. Lack of attention to these indicators will eventually lead to financial insolvency and loss of local control.

Identifying issues early is the key to maintaining fiscal health. Diligent multiyear planning will enable a district to better understand its financial objectives and strategies to sustain a high level of fiscal efficiency and overall solvency. A district should consider discussing the indicators regularly and complete a Fiscal Health Risk Analysis (FHRA) annually to assess its own fiscal health risk and progress over time. The FHRA for community colleges can be found at: <http://fcmat.org/community-colleges/>.

### 1. Unreliable Budget Development

- Unreasonable and/or unclear budget assumptions
- Student Centered Funding Formula (SCFF) revenue not calculated correctly
- Reliance on prior-year rollover budget method
- Position control data not used
- Reliance on carryover funds to balance the budget
- One-time sources utilized for ongoing expenditures
- Input not received during the budget development process in accordance with the documented planning model
- Enrollment management and budget development systems are not integrated

### 2. Insufficient Budget Monitoring or Updates

- Failure to regularly update budget assumptions
- Actual revenue and expenditures inconsistent with the most current budget
- Budget revisions not posted in the financial system or communicated to the board regularly
- Lack of control or monitoring of total compensation as a percentage of total expenses
- Noncompliance with the fifty percent law
- Failure to meet the full-time faculty obligation number (FON)
- Balance sheet accounts in the general ledger not regularly reconciled
- Requisitions or purchase orders processed when the budget is insufficient

### 3. Inadequate Cash Management

- Failure to reconcile cash accounts monthly
- 18-month cash flow not forecast
- Lack of short-term plan to address cash flow needs
- Failure to set aside repayment funds when external borrowing occurs
- Lack of communication to the board about the district's cash position (with a clear distinction that cash and fund balance are not the same thing)

The logo for FCMAT (Fiscal Crisis & Management Assistance Team) features the acronym "FCMAT" in a large, bold, blue serif font. Below the text is a horizontal bar with a blue-to-teal gradient.

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

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# Indicators of Risk or Potential Insolvency (continued)

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## 4. Mismanaged Collective Bargaining Agreements

- Failure to consider long-term impact of collective bargaining agreements
- Lack of bargaining agreements with all units for several years with no resources identified to cover potential settlements
- Presettlement analysis not conducted thoroughly or timely
- Settlements above the funded cost-of-living adjustment (COLA)

## 5. Increasing and/or Unplanned Transfers, Intra- and Interfund

- Insufficient control and monitoring of intrafund and interfund transfers
- Lack of a board-approved plan to eliminate, reduce, or control intra- and interfund transfers
- Transfers from the unrestricted general fund not made when needed to cover projected negative fund balances in other funds
- Transfers to restricted programs and/or other funds not budgeted

## 6. Continuing Deficit Spending

- Deficit spending in the current or two subsequent fiscal years
- Not having or implementing a board-approved plan to reduce and/or eliminate deficit spending
- Not decreasing deficit spending over the past two fiscal years

## 7. Mismanaged Employee Benefits

- Actuarial valuation not completed in accordance with Governmental Accounting Standards Board (GASB) requirements to determine the unfunded liability for other post-employment benefits (OPEB)
- Lack of a board-adopted plan to fund retiree health and welfare benefit liabilities
- Nonexistence or noncompliance of a policy or collectively bargained agreement to limit faculty banked hours and other vacation balances
- No verification and determination of eligibility for benefits for all active and retired employees and dependents in the last three years
- Compensated leave balances not tracked, reconciled and reported on the balance sheet

## 8. Inattention to Enrollment and Attendance Reporting

- Enrollment decreasing and/or unstable
- Enrollment, weekly student contact hours (WSCH) and full-time equivalent students (FTES) data not monitored and analyzed at least monthly through P2
- Enrollment projections and assumptions not based on historical data, demographic trend analysis, high school enrollments, community participation rates and other industry-standard methods
- Disagreement between institutional research and business/fiscal staffs on enrollment and FTES projections
- College enrollment plans not addressing the funding elements of the SCFF
- Data not reviewed and verified by applicable sites and departments and corrected as needed before the report submission deadlines to the state
- Board policy on enrollment is nonexistent, or policy is not followed

## 9. Decreasing Fund Balance and Reserve for Economic Uncertainty

- Failure to accurately estimate the ending fund balance
- Failure to maintain the 5% minimum reserve for economic uncertainty in the current or two subsequent years
- If unable to maintain the minimum reserve for economic uncertainty, a board-approved plan to restore the minimum reserve for economic uncertainty does not exist
- Projected unrestricted fund balance not stable or not increasing
- Unrestricted fund balance does not include assigned or committed reserves above the 5% reserve level when unfunded or contingent liabilities, or one-time costs, exist

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# Indicators of Risk or Potential Insolvency (continued)

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## 10. Ineffective Internal Controls and Fraud Prevention

- Lack of controls that limit access to the financial system
- Access and authorization controls to the financial system not reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually
- Lack of segregation and/or supervision or monitoring of duties in accounts payable, accounts receivable, purchasing, contracts, payroll, human resources, associated student body, and warehouse/receiving
- Beginning balances for the new fiscal year not posted and reconciled with the ending balances from the prior fiscal year
- Prior year accruals not reviewed and cleared by October 31
- Suspense accounts not reconciled regularly
- General ledger not reconciled or closed timely
- Inadequate processes and procedures in place to discourage and detect fraud

## 11. Breakdown in Leadership and Communication

- Uninformed decisions made because the system(s) cannot provide key financial and personnel data needed
- Frequent turnover in the chief business official or chancellor/chief executive officer positions (the incumbents have been with the district less than two years)
- Lack of regular communication between the chancellor/chief executive officer and all members of the administrative cabinet
- District, college and department administrators who are responsible for budget management and decision-making do not receive timely training on financial management, budget and governance.
- Board policies and administrative regulations routinely ignored, not adopted, updated, implemented or communicated to staff
- Micromanagement by board members
- Systems fully or partially controlled by highly influential special interest groups

## 12. Lack of Multiyear Planning

- Unreasonable and/or unclear multiyear projections that are not aligned with industry standards
- Failure to explain trend analysis
- SCFF calculation not prepared with multiyear considerations
- Financial decisions made without most current multiyear projection in mind

## 13. Inattention to Non-Voter-Approved Debt and Risk Management

- Sources of non-voter-approved debt repayment unstable, unpredictable and from the unrestricted general fund
- Downgrade of credit rating
- Out-of-date actuarial study (more than two years old) without a plan to pay for any unfunded liabilities when self-insured
- High levels of non-voter-approved debt with total annual debt service payments greater than 2% of the district's unrestricted general fund revenue

## 14. Lack of Position Control

- Financial and human resources systems not integrated
- Accounting for positions and costs is incomplete
- Staffing not analyzed or adjusted based on enrollment
- Budget, payroll and position control not reconciled regularly
- Budget source not identified for each new position before the position is authorized by the governing board
- New positions and extra assignments posted before governing board approval
- Lack of regular meetings between human resources, payroll and budget to discuss issues and improve processes

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## 15. Related Issues of Concern

- Failure to produce timely and accurate financial information
- Annual independent audit report contains material apportionment or internal control findings
- Out-of-date long-range facilities master plan
- Poor data quality
- Failure to file annual audit, financial or enrollment reports accurately and on time