FISCAL OVERSIGHT GUIDE

May 2024

FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

FISCAL OVERSIGHT GUIDE

A Resource for Local Educational Agencies

May 2024

A Publication of the
Fiscal Crisis & Management Assistance Team

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TABLE OF CONTENTS

TABLE OF CONTENTS

INTRODUCTION

Assembly Bill (AB) 1200 (Chapter 1213, Statutes of 1991) has been successful in focusing the attention of school district governing boards and county superintendents of schools on their fiscal management and oversight responsibilities. Fewer districts have experienced fiscal crises since the enactment of AB 1200 in 1991. From 1993 through 2012, only nine school districts and one community college district required state emergency appropriations (loans). From 2012 to the time of this writing in 2024, no local educational agencies[1] (LEAs) have required such appropriations.

All school districts face fiscal challenges from time to time. The distinction lies in how these challenges are addressed and managed at the local level. Transparent financial details, multiyear planning, risk assessment, and multiyear cash flow projections are essential to understanding whether a school district is fiscally solvent or in fiscal distress. Candid, robust conversations and appropriate, early assistance and intervention by county superintendents have never been more important. Each school district's governing board, executive leadership and their partners must often make difficult decisions regarding priorities to ensure the organization's long-term fiscal health. When such decisions are not made timely or adequately, county superintendents have both the authority and the responsibility to intervene.

The first level of fiscal oversight rests with each school district's elected governing board and administration. In accordance with California Education Code (EC) 1240, county superintendents are responsible for overseeing the operations of school districts within their counties and serve as a secondary layer of fiscal oversight, occasionally alongside the state superintendent of public instruction (SPI). County superintendents and the SPI also offer management assistance to school districts and implement progressive intervention measures when necessary.

Assembly Bill 1200 significantly expanded the role of county superintendents to include a progressive approach to oversight aimed at ensuring school districts' fiscal solvency. Over the years, AB 1200 has evolved into a multidimensional practice, often referred to as "the art and science of AB 1200." Over the past three decades, the original AB 1200 provisions have been substantially expanded and improved upon through the enactment and revision of various regulations and more than 50 legislative bills, including AB 1840 (Chapter 426, Statutes of 2018). This bill expanded the role county superintendents play in the receivership process and changed the formerly state-centric system of support for fiscally insolvent school districts to a county superintendent-centered approach that is better aligned with the principles of local control.

In addition to increasing the authority and responsibilities of county superintendents, AB 1200 created the Fiscal Crisis and Management Assistance Team (FCMAT) to help California's LEAs meet their financial obligations and sustain their fiscal solvency. FCMAT provides the state's LEAs with fiscal and data management assistance, professional learning, fiscal tools and software, and other related school business and data services. Its fiscal and management assistance services are used not only to help avert fiscal crises, but also to promote sound financial practices, support professional learning for chief business officials, and help create efficient organizational operations. FCMAT continues to adjust the types of support it provides based on the evolving needs of LEAs and the implementation of major educational reforms.

[1] In this guide, the use of "LEA" refers to transitional kindergarten through grade 12 school districts, county offices of education, charter schools and community college districts.

INTRODUCTION

In 1997, AB 107 (Chapter 282, Statutes of 1997) charged FCMAT with the responsibility of overseeing the California School Information Services (CSIS) agency and its statewide data management work. AB 1115 (Chapter 78, Statutes of 1999) codified CSIS' mission in 1999. CSIS is responsible for building LEAs' capacity to implement and maintain student information systems to support program needs, improving student outcomes, and providing information for decision-makers (EC 49080(a)). It also works to enable the exchange of student transcripts among county offices of education, school districts, and community college districts (EC 49080(b)) and to help LEAs with state and federal reporting (EC 49080(c)). In brief, FCMAT's/CSIS' data management services help LEAs meet federal and state reporting responsibilities, improve data quality, and inform instructional program decisions.

Assembly Bill 1200 and subsequent legislation established a comprehensive statewide framework, promoting collaborative efforts between county superintendents and school districts to improve local fiscal procedures and accountability standards. Under AB 1200, the county superintendent is responsible for reviewing interim financial reports and school district budgets in addition to approving the latter. They must determine whether a school district can meet its financial obligations in the current and two subsequent fiscal years. In addition, the county superintendent reviews public disclosures of collective bargaining agreements and non-voter-approved debt. In the 2014-15 fiscal year, the review and approval of local control and accountability plans (LCAPs) was interlinked with AB 1200 in that the county superintendent was required to approve school districts' LCAPs before approving their budgets.

In response to AB 1200 and subsequent fiscal oversight legislation, FCMAT collaborated with other interested parties to develop a guidebook on AB 1200. Initially titled "AB 1200 & Related Responsibilities," it was first released in February 2000 and was later renamed to *Fiscal Oversight Guide*.

In 2004, the state Legislature approved and the governor signed into law AB 2756 (Chapter 52, Statutes of 2004), an urgency measure that became effective on June 21, 2004. AB 2756 made substantive changes to the financial accountability and oversight of a school district's fiscal condition and clarified the process for oversight and monitoring of districts with emergency state loans. It also gave FCMAT specific responsibilities concerning such districts. In September 2006, FCMAT revised the *Fiscal Oversight Guide* to address these changes and provide updated guidance.

In December 2015, FCMAT updated the *Fiscal Oversight Guide* with additional information and documentation to clarify the roles and responsibilities of fiscal oversight agencies. This included responsibilities related to EC 52070 and following, which made county superintendents responsible for the oversight and approval of school districts' LCAPs and reinforced the importance of effective communication and vigilant fiscal oversight.

In 2019, FCMAT revised the *Fiscal Oversight Guide* to address the changes introduced by AB 1840. These revisions included updates pertaining to the administration of fiscally insolvent school districts that have received an emergency appropriation and the new responsibilities assigned to FCMAT as part of this process.

The education omnibus budget trailer bills necessitated additional updates to the *Fiscal Oversight Guide* in 2020 and 2021. Other clarifications were included where necessary.

In May 2024, FCMAT heavily revised the *Fiscal Oversight Guide.* These revisions involved the removal of exceptions associated with the COVID-19 pandemic, updates to language pertaining to LCAP approval, clarification of language regarding going concern and emergency apportionments, incorporation of legal citations throughout, and changes to various flow charts. Additionally, other clarifications were included where helpful or necessary.

The *Fiscal Oversight Guide* does not replace any document or advisory from the California Department of Education (CDE) on this subject. Rather, its purpose is to provide up-to-date information about the roles and responsibilities of county superintendents and other governing entities. FCMAT's goal is for this guide to foster a better understanding of the roles of various agencies concerning the fiscal oversight of LEAs. As new legislation is passed and statutory regulations are enacted, this guide will require ongoing revisions.

Most provisions in this guide do not apply to charter schools or to their authorizers. For resources specific to charter schools, please visit fcmat.org.

This guide paraphrases excerpts of pertinent laws and regulations for easy reference. For exact language and a more comprehensive understanding, readers are encouraged to consult the relevant code in its entirety, its legislative history, and any applicable CDE advisories.

FCMAT welcomes suggestions for improvements or changes to this guide. Please send feedback to contact@fcmat.org.

FCMAT SERVICES

As discussed in the Introduction, Assembly Bill (AB) 1200 (Chapter 1213, Statutes of 1991) created an independent entity known as the Fiscal Crisis and Management Assistance Team (FCMAT). The state Legislature intended for FCMAT provide local educational agencies (LEAs) with management assistance at their request and to help them avoid fiscal insolvency. Since 1992, FCMAT has performed more than 1,400 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges.

Accessing FCMAT Services

FCMAT may be invited into a county superintendent of schools' office, school district, charter school or community college district to provide management assistance on a variety of topics. It can also be assigned by the superintendent of public instruction (SPI), county superintendents, FCMAT Governing Board, California Community Colleges Board of Governors or state Legislature to provide assistance with fiscal crises or management challenges.

In addition, per California's 2018-19 Budget Act, FCMAT can automatically engage and conduct a Fiscal Health Risk Analysis (FHRA) to determine the risk level for fiscal insolvency when a school district has any of the following:

- A disapproved budget.
- A negative interim report certification.
- Three consecutive qualified interim report certifications.
- A downgrade of an interim certification by the county superintendent.
- A lack of going concern designation.

FCMAT will not conduct another Financial Health Risk Assessment (FHRA) on a school district until at least one year has passed since the completion of the prior assessment. The automatic engagement will be coordinated with the local county superintendent and will build upon their existing oversight processes and activities. There is no cost to the school district or the county superintendent for automatic engagements.

Eighty percent of FCMAT's work is the result of an LEA requesting preventive services or professional learning. The remaining 20% comprises assignments by the state Legislature and oversight agencies for conducting fiscal crisis intervention, including FHRAs and extraordinary audits (AB 139 [Chapter 620, Statutes of 2001] reviews).

FCMAT serves as a resource for the state Legislature, state administration, state agencies, regulatory bodies, SPI, county superintendents, school districts, charter schools and community college districts. FCMAT study teams consist of experts from both the public and private sectors who have diverse experience at county offices, school districts, charter schools and community college districts. These professionals hold established records of expertise in supporting LEAs.

Upon receiving a request or an assignment, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct fieldwork, and provide a written report containing findings and recommendations aimed at addressing issues, overcoming challenges and planning for the future. The team works in close collaboration with the client throughout the study.

State Legislature

The state Legislature has assigned FCMAT to several school districts that received state emergency appropriations due to cash insolvency (pursuant to Education Code [EC] 41320 and 41325 and following). For these assignments, FCMAT conducts comprehensive assessments in five operational areas: financial management, facilities management, personnel management, community relations and governance, and pupil achievement. Typically, these assignments require that FCMAT provide periodic reports to the school district, county superintendent and designated state policy makers, outlining the school district's progress in relation to the assessment. These progress reports are submitted at intervals specified by the legislation.

Superintendent of Public Instruction

The SPI may request FCMAT's assistance in the following situations and tasks:

- Disapproved county office budgets (EC 1624(b)).
- Serve as a fiscal expert and conduct budget review studies for county office budgets (EC 1630).
- Disapproved school district budget (EC 42127.3(b)).
- Help with school district budget review and revision (EC 42127.6(c)).
- Appeal procedures (EC 42127.9).
- Closure of military facility (EC 42238.2(a)).
- Review the fiscal and administrative condition of any county office, school district, or charter school (EC 42127.8(c)(1)).

County Superintendents of Schools

A county superintendent may request that FCMAT perform the following:

- Review or audit the expenditures and internal controls of any school district (EC 1241.5(b)) or charter school (EC 1241.5(c)) if the county superintendent has reason to suspect the presence of fraud, misappropriation of funds, or other illegal fiscal practices.
- Review the fiscal or administrative condition of a school district or charter school under their jurisdiction (EC 42127.8(c)(2)).
- Provide fiscal management assistance (EC 42127.8(d)(1)).
- Facilitate training related to fiscal accountability and expanding the fiscal competency of school districts and county offices (EC 42127.8(d)(2)).
- Facilitate fiscal management training to county office staff to ensure that they develop the technical skills needed to perform their fiduciary duties (EC 42127.8(d)(3)).
- Review teacher hiring practices, teacher retention rates, the proportion of highly qualified teachers employed, and the prevalence of teacher misassignment, as well as other provisions (EC 42127.6(a)(1)(G)).

- Perform any or all the duties outlined in EC 42127.6(a)(1)(A)–(C) or conduct a more in-depth examination of the factors that contributed to a finding of moderate or high risk of intervention and recommend corrective actions (EC 42127.6(a)(1)(G)).

School Districts and Charter Schools

School districts and charter schools may request that FCMAT perform the following:

- Provide fiscal management assistance (EC 42127.8(d)(1)).
- Facilitate training sessions that emphasize improving fiscal accountability and increasing the fiscal competency of county offices, school districts, and charter schools (EC 42127.8(d)(2)).

Board of Governors of the California Community Colleges

In accordance with EC 84041, the Board of Governors may request that FCMAT help a community college district establish or maintain sound financial and budgetary conditions, while ensuring adherence to the principles of sound fiscal management. This assistance may include:

- A management review of the community college district and its educational programs (EC 84041(c)(1)).
- An audit of the community college district's financial condition (EC 84041(c)(1)).
- Management assistance or fiscal crisis intervention when a crisis presents an imminent threat to the community college district's fiscal integrity and security (EC 84041(c)(2)).
    - Subject to regulations established by the Board of Governors, FCMAT shall have the authority to stay or rescind any action of the community college district governing board that is contrary to the district's fiscal integrity and security (EC 84041(c)(2)).
- A report of the affected community college district's progress, submitted to the Board of Governors and California Community Colleges Chancellor every six months at a minimum, or more frequently if required by the chancellor (EC 84041(d)).

If the Board of Governors requests FCMAT's assistance, the chancellor shall provide the Board of Governors with a report that includes all the following:

I. An assessment of the events or activities that led to the crisis (EC 84041(f)(1)).

II. An action plan for addressing the community college district's deficiencies (EC 84041(f)(2)).

III. A process for assessing the community college district's progress in correcting those deficiencies (EC 84041(f)(3)).

IV. Criteria that demonstrate the community college district's ability to independently handle its fiscal responsibilities (EC 84041(f)(4)).

Community College Districts

A community college district may request that FCMAT perform the following (EC 84041):

- Provide fiscal management assistance (EC 84041(g)(1)(A)).
- Facilitate training sessions for community college district governing board members and for any employee responsible for addressing fiscal issues. This training shall emphasize improving fiscal accountability and expanding participants' fiscal competency (EC 84041(g)(1)(B)).

FCMAT Governing Board

If the FCMAT Governing Board determines that a school district or county office is experiencing a fiscal emergency, the board may ask the FCMAT team to provide contracts and professional services to that organization (EC 42127.8(e)).

BUDGET ADOPTION PROCESS

I. Before July 1 of each year, each school district governing board shall hold a public hearing on and adopt the budget for the subsequent fiscal year (Education Code [EC] 42127(a)(1)–(2)).

- The budget and supporting data shall be maintained and made available for public review (EC 42127(a)(2)(A)).
  - Beginning in 2024-25, the supporting data should include a cash flow report.
- The hearing must be held no earlier than three working days after the budget has been made available for public inspection (EC 42103(a)).
- The agenda shall be posted at least 72 hours before the public hearing and shall include the location where the budget will be available for public inspection (EC 42127(a)(1)).
- The county superintendent of schools or the school district shall publish a notice regarding the date and location for public inspection of the proposed budget, as well as the date, time and location of the public hearing (EC 42103(d)(1)(A)).
  - The notice shall be published in a newspaper of general circulation within the school district (EC 42103(d)(1)(A)) and may also be posted on the homepage of the district's website. If such a newspaper is unavailable, the notice shall be published in a newspaper of general circulation within the county.
  - The notice shall be published no less than three days[2] before the proposed budget is made available for public inspection (EC 42103(d)(1)(A)).
  - The notice shall be published between 45 and 10 days prior to the public hearing (EC 42103(d)(1)(B)).

  Note: Starting January 1, 2027, county superintendents and school districts will no longer be required to publish public hearing notices in local newspapers. Instead, in accordance with Assembly Bill 721 (Chapter 811, Statutes of 2023), each school district must prominently display the required information on the homepage of its website at least three days before making the proposed budget available for public inspection. Each county superintendent shall verify that every school district under their jurisdiction has met the posting requirement.
- The public meeting during which a school district governing board adopts a local control and accountability plan (LCAP) and a budget must be held after, but not on the same day as, the public meeting at which the governing board conducts the required public hearings on the LCAP and the proposed budget (EC 52062(b)(2)).

II. The proposed budget shall be prepared in accordance with EC 42126 (EC 42127(a)(1)).

- Each budget shall be made in the format prescribed by the superintendent of public instruction (EC 42126).
- School districts are subject to the provisions outlined in EC 42127.01 if, during a fiscal year, the balance in their Public School System Stabilization Accounts (PSSSAs) equals or

[2]The time allotted to complete any action under the Education Code begins from the first day after it is initiated and includes the last day, except when the last day is a holiday, in which case it is excluded (EC 9).

exceeds 3% of the combined total of approved general fund revenues for school districts and the allocated local proceeds of taxes specified for that fiscal year (EC 42127.01(a)). Those school districts with PSSSAs equal to or greater than 3% shall not have budgets for the next fiscal year that contain a combined assigned or unassigned general fund ending balance[3] exceeding 10% of the district's total expenditures, including other financing uses (EC 42127.01(a)).

- The SPI shall notify school districts and county superintendents both when the conditions for the application of this provision are met and when they cease to exist (EC 42127.01(e)).
- Basic Aid school districts and school districts with an average daily attendance (ADA) of less than 2,501 are exempt from EC 42127.01 (EC 42127.01(c) and (d)(3)).
- A county superintendent may grant an exemption for a duration of up to two consecutive fiscal years within a three-year period if a school district provides documentation of extraordinary fiscal circumstances that justify the exemption. In its exemption request, the school district shall (EC 42127.01(b)):
    1. Provide a statement of reasons substantiating the need for an assigned and unassigned ending fund balance exceeding 10% (EC 42127.01(b)(1)).
    2. Identify the specific funding amounts within its adopted budget that are associated with the extraordinary fiscal circumstances cited as the basis for requesting the exemption (EC 42127.01(b)(2)).
    3. Provide documentation showing that other fiscal resources are not available to fund the extraordinary fiscal circumstances (EC 42127.01(b)(3)).

FCMAT has produced a Fiscal Alert that may provide additional useful information, which is available online here.

III. The school district governing board shall file the adopted budget with the county superintendent within five days of adoption or by July 1, whichever occurs first (EC 42127(a)(2)).

- A school district governing board shall not adopt a budget before it adopts an LCAP, if an existing LCAP or annual update to an LCAP is not in effect for that budget year (EC 42127(a)(2)(A)). Moreover, a governing board shall not adopt a budget that lacks the expenditures necessary to implement the school district's LCAP (EC 42127(d)(1)).
- If a school district's adopted budget or audited annual financial statements include a negative unrestricted fund balance or a negative cash balance, its governing board shall include a statement with the adopted budget. This statement must detail the reasons for the negative balance and outline the actions taken to ensure that the negative balance will be resolved by the end of the current fiscal year (EC 42127.5).
- If a school district fails to submit its budget to the county superintendent, the county superintendent shall, at the district's expense, develop a budget for the district by September 15 and transmit it to the school district governing board. This budget is deemed adopted as transmitted unless the county superintendent approves any modifications made by the school district governing board. This approved budget shall guide the school district's

[3]The fund balances included in this calculation are Fund 01 (General Fund) and Fund 17 (Special Reserve Fund for Other Than Capital Outlay Projects) (EC 42127.01(d)(2)).

priorities. The SPI shall review and certify the budget approved by the county superintendent (EC 42127(d)(1)).

- If a school district governing board neglects or refuses to make a budget, the county superintendent shall not make any apportionment (i.e., loan) of state or county school money to the school district for the current year and shall notify the appropriate county official that the county superintendent will not approve any warrants (i.e., checks) issued by the district (EC 42128).

IV. For adopted budgets submitted on or by July 1, the county superintendent shall:

1. Examine the budget for compliance with the State Standards and Criteria for Fiscal Solvency adopted by the State Board of Education (SBE) pursuant to EC 33127, and identify any technical corrections necessary to bring the budget into compliance (EC 42127(c)(1)).
2. Determine if the budget allows the school district to meet its financial obligations during the fiscal year and is consistent with a financial plan that will enable the district to meet its multiyear financial commitments (EC 42127(c)(2)).
3. Ensure the budget reflects the school district's estimated unaudited revenues, cash balances and expenditures for the previous year (EC 42103(c)).
4. Ensure the budget includes a complete plan and itemized statement of all estimated revenues and expenditures for the next fiscal year as well as a comparison of the school district's revenue and expenditures for the current year (EC 42122).
5. Determine if the budget includes expenditures sufficient to implement the specific actions and strategies outlined in the LCAP adopted by the school district governing board or contained its annual update to the LCAP, in alignment with the plan's projected costs (EC 42127(c)(3) and 52070(d)(2)).
6. Ensure the budget is itemized to include necessary revenues and expenditures in each school district fund, using forms prescribed by the SPI (EC 42123).
7. Ensure funds are available for appropriation by a majority vote of the school district governing board if the budget includes either designations of fund balance or an unappropriated fund balance (EC 42125).
8. Determine whether the budget includes a combined assigned and unassigned ending fund balance that exceeds the minimum recommended reserve for economic uncertainties, and if so, verify that the school district complied with the requirements outlined in EC 42127(a)(2)(B)–(C) (EC 42127(c)(4)).
   - Review and consider school district studies, reports, evaluations or audits that contain evidence of fiscal distress based on the SBE's state standards and criteria, or that indicate the school district is at moderate or high risk for fiscal insolvency based on the presence of common indicators of risk[4] (EC 42127(c)(2)).
9. Either conditionally approve or disapprove a budget that lacks assurances that the school district will (EC 42127(c)(2)):
   i. Meet its current and future obligations; and

[4]FCMAT's *Indicators of Risk or Potential Insolvency* list is available at fcmat.org.

ii. Resolve problems identified in school district studies, reports, evaluations or audits that contain evidence of fiscal distress based on the SBE's state standards and criteria, or that indicate the school district is at moderate or high risk for fiscal insolvency based on the presence of common indicators of risk.[4]

V. Within 45 days following the signing of the state budget by the governor, each school district shall make available for public review any revisions necessitated by the Budget Act (EC 42127(h)).

VI. By September 15 of each year, the county superintendent shall approve, conditionally approve or disapprove the adopted budget for each school district within their jurisdiction (EC 42127(d)(1)).

- The county superintendent cannot approve a school district's budget until they have approved the corresponding LCAP or an update to the existing LCAP for the same budget year (EC 42127(d)(2)). To approve a school district's budget, a county superintendent must verify compliance with the four criteria for LCAP approval (EC 52070(d)).
    - Conditional budget approval may be an option (EC 42127(c)(2) and (d)(1)).
    - If the sole reason for disapproval of a budget is the lack of an approved LCAP or annual update, the requirement to form a budget review committee is waived (EC 42127(f)(2)).
- If a budget lacks the expenditures necessary to implement the school district's LCAP, the county superintendent shall disapprove the budget (EC 42127(d)(1)).

VII. By September 15 of each year, if a budget is conditionally approved or disapproved by the county superintendent because it failed to meet the standards outlined in EC 42127(d)(1), the county superintendent shall provide the school district governing board with written recommendations for budget revision (EC 42127(d)(1)). These recommendations shall include but not be limited to the underlying reasons for the budget's conditional approval or disapproval and the adjustments necessary for approval.

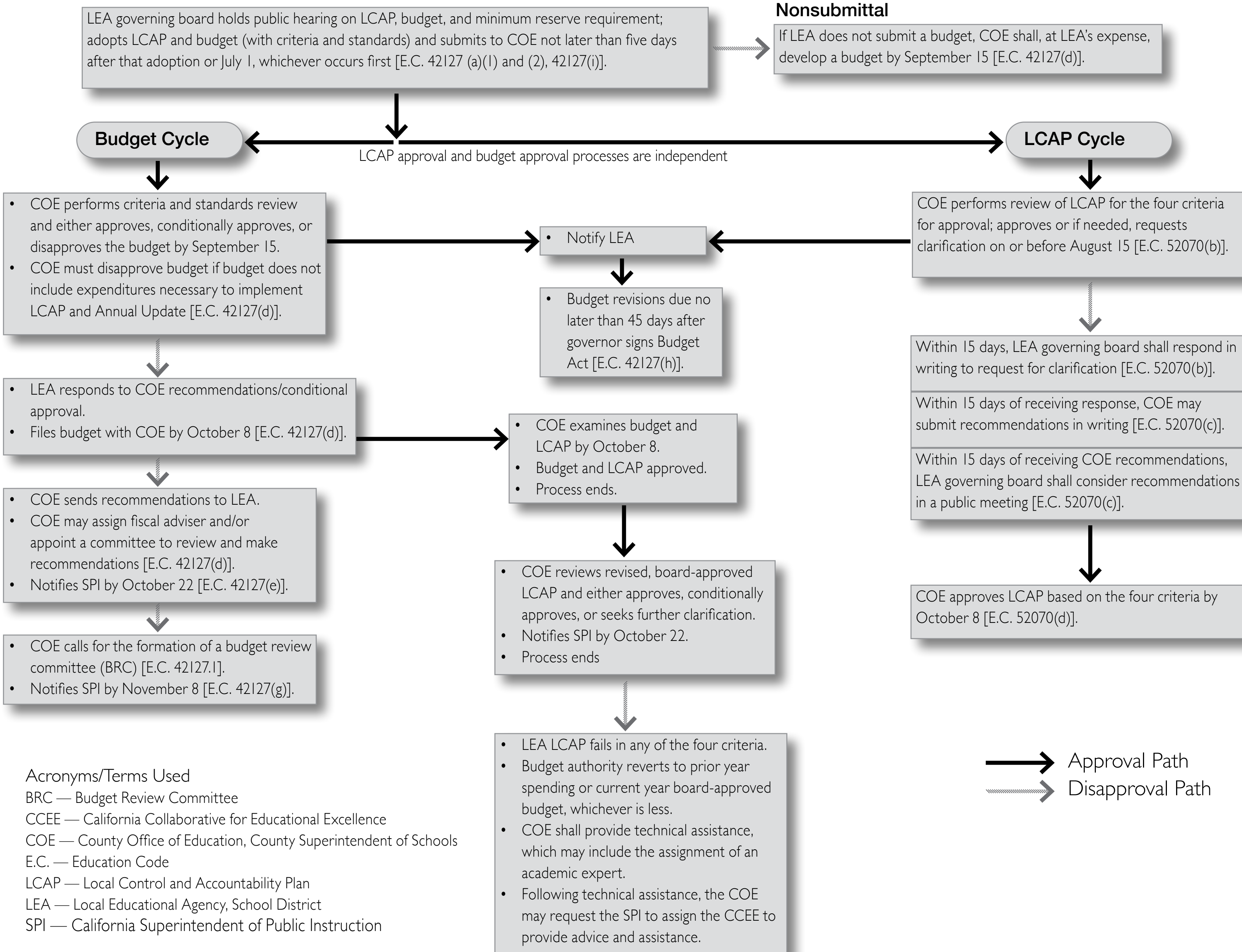
- The county superintendent may assign a fiscal advisor to help the school district with budget development in compliance with such revisions or appoint a committee to examine and comment on the county superintendent's review and recommendations (EC 42127(d)(1)). If appointed, the committee must report its findings by September 20.

VIII. By October 8 of each year, if an adopted budget is conditionally approved or disapproved pursuant to EC 42127(d)(1), the school district governing board, in conjunction with the county superintendent, shall review and respond to the county superintendent's recommendations (EC 42127(d)(3)). This shall be conducted at a regular school district governing board meeting. The response shall include any revisions to the adopted budget and any proposed actions resulting from these recommendations.

IX. By October 22 of each year, the county superintendent shall provide a list to the SPI identifying all school districts for which budgets may be disapproved (EC 42127(e)).

X. By November 8 of each year, the county superintendent shall provide a list to the SPI identifying all school districts for which budgets have been disapproved (EC 42127(g)). This list shall also indicate whether a BRC will be formed or waived.

Budget and Local Accountability Plan Adoption Process



Acronyms/Terms Used

BRC — Budget Review Committee
CCEE — California Collaborative for Educational Excellence
COE — County Office of Education, County Superintendent of Schools
E.C. — Education Code
LCAP — Local Control and Accountability Plan
LEA — Local Educational Agency, School District
SPI — California Superintendent of Public Instruction

Source: Reproduced from California County Superintendents' *Local Control and Accountability Plan (LCAP) Approval Manual*.

LOCAL CONTROL AND ACCOUNTABILITY PLAN APPROVAL

Before adopting a local control and accountability plan (LCAP), a school district must adhere to Education Code (EC) 52062, which requires all districts to present their LCAPs to the respective parent advisory and English learner parent advisory committees, notify the public, and conduct a public hearing before their respective governing board. EC 52070 mandates that all LCAPs be approved by the local county superintendent of schools. The county superintendent may not approve the LCAP if the school district's budget lacks the expenditures necessary to implement the strategies outlined in the LCAP (EC 42127(d)(1)).

In addition, EC 52062(b)(2) requires that the public meeting during which a school district governing board adopts an LCAP and a budget be held after, but not on the same day as, the required public hearings on the LCAP and the proposed budget.

The governing board of each school district shall adopt an LCAP or annual update to the LCAP on or before July 1 of each year (EC 52060(b), 52066(b) and 47606.5(a)).

To approve a school district's LCAP, a county superintendent must ensure compliance with the following (EC 52070(d)):

I. The LCAP or annual update to the LCAP conforms to the template adopted by the State Board of Education (SBE), pursuant to EC 52064 (EC 52070(d)(1)).

II. The LCAP or annual update to the LCAP adheres to any guidelines or instructions for completing the template set forth by the SBE (EC 52070(d)(1)). This includes but is not limited to all the following requirements:

   1. Specific actions for English learners, where required (EC 52070(d)(1)(A), as detailed in EC 52064(e)(4)).
   2. Goals for specific student subgroups, where required (EC 52070(d)(1)(B), as detailed in EC 52064(e)(5)).
   3. Goals for specific schools, where required (EC 52070(d)(1)(C), as detailed in EC 52064(e)(6)(A)–(B)).
   4. Descriptions for each specific action that is provided on a schoolwide or districtwide basis and identified as "contributing," where required (EC 52070(d)(1)(D)).
   5. Descriptions of the specific action(s) aimed at improving services clearly demonstrate how the degree of service improvement is sufficient to increase or improve services for unduplicated student groups,[5] in proportion to the increase in funds apportioned based on the number and concentration of unduplicated students (EC 52070(d)(1)(E)).

III. The budget adopted by the school district governing board for the applicable fiscal year includes expenditures sufficient to implement the specific actions and strategies outlined in the adopted LCAP (EC 52070(d)(2)). It should align with the projections

[5]Students who are foster youth, eligible for free or reduced-priced meals, or identified as English learners. Each eligible student is counted only once, even if they meet more than one of these criteria.

of the plan's proposed expenditures (EC 52070(d)(2)). The county superintendent shall disapprove any budget that they determine lacks the expenditures necessary to implement an LCAP (EC 42127(d)(1)).

IV. The LCAP demonstrates how funding apportioned based on the number and concentration of unduplicated students is used to increase[6] or improve[7] services for these students compared to the services provided to all students. This enhancement should align proportionately with the increase in funds apportioned based on the number and concentration of unduplicated students, following the expenditure requirements set forth by the SBE in accordance with EC 42238.07 and Title 5, California Code of Regulations, 15494–15497 (EC 52070(d)(3)).

V. The LCAP or annual update to the LCAP includes the required calculations to determine whether there is a carryover requirement pursuant to EC 42238.07 and 52064 (EC 52070(d)(4)). If applicable, it also includes a description of the planned uses of the specified funds and a description of how these uses satisfy the requirements for contributing toward meeting the increased or improved services requirement.

- The carryover requirements outlined in EC 42238.07(d) are independent of and in addition to the requirement to increase or improve services for the ensuing fiscal year, as in the regulations adopted by the SBE (EC 42238.07(e)).

By August 15 of each year, the county superintendent may request in writing that the school district governing board provide clarification regarding the contents of the LCAP or annual update to the LCAP (EC 52070(b)). The school district governing board is required to respond in writing to these requests for clarification within 15 days.

Within 15 days of receiving the response from the school district governing board, the county superintendent may submit written recommendations for amendments to the LCAP or annual update to the LCAP (EC 52070(c)). The school district governing board shall consider these recommendations during a public meeting within 15 days of receipt.

If a county superintendent does not approve a school district's LCAP by September 15 (EC 42127(d)(1)), the county superintendent may not approve the district's annual budget (EC 42127(d)(2)).

Moreover, the county superintendent shall disapprove the school district's budget if it lacks the expenditures necessary to implement the district's LCAP (EC 42127(d)(1)).

- If the sole reason for a budget being disapproved is the lack of an approved LCAP or annual update, the requirement to form a budget review committee is waived (EC 42127(f)(2)).

If a county superintendent does not approve a school district's LCAP, technical assistance shall be provided (Title 5, California Code of Regulations, 15497 and EC 52071(b)). This includes but is not limited to (EC 52071(c)(1) and (c)(2)):

I. Using the California School Dashboard to identify the school district's strengths and weaknesses concerning state priorities, which involves assessing effective, evidence-based programs relevant to the district's goals (EC 52071(c)(1)(A)(i) and (c)(2)(A)).

[6]To "increase services" means to grow services in quantity.
[7]To "improve services" means to grow services in quality.

II. Assigning an academic expert or experts. These experts will help identify and implement effective programs designed to improve outcomes for all student subgroups. The county superintendent may also request that another school district act as a partner to the district in need of assistance (EC 52071(c)(1)(B) and (c)(2)(B)).

III. Requesting the assistance of the California Collaborative for Educational Excellence (CCEE) (EC 52071(c)(1)(D) and (c)(2)(D)).

For additional guidance on the LCAP, see the *Business and Administration Services Committee (BASC) LCAP Approval Manual*, available online here.

BUDGET REVIEW COMMITTEE PROCESS

Call for Formation of a Budget Review Committee by the County Superintendent of Schools

I. When a county superintendent of schools disapproves a school district's budget, the county superintendent shall call for the formation of a budget review committee (BRC).

- The school district governing board and the county superintendent may agree to waive the requirement to form a BRC (EC 42127(f)(1)). The California Department of Education's (CDE's) acceptance of this waiver is contingent upon a determination that a BRC is unnecessary. If a waiver is granted, the county superintendent assumes the authority and responsibilities outlined in EC 42127.3 for a BRC.
    - Upon the approval of such a waiver, the CDE shall ensure the adoption of a balanced budget for the school district by December 31 (EC 42127(f)(1)). This budget must include both fiscal and educational aspects related to school district or county office of education management, as specified in EC 42127.1(a) and 42127(f)(1).

The BRC shall consist of three individuals selected by the school district governing board from a list of candidates provided by the superintendent of public instruction (SPI) (EC 42127.1(b)). These candidates shall have expertise in school district or county office management, including both fiscal and educational aspects of local educational agency (LEA) management.

1. After receiving the candidate list from the SPI, the school district governing board has five working days to make their selection for the BRC (EC 42127.2(a)).
2. Following the committee selection by the school district governing board, the SPI shall convene the BRC within five working days (EC 42127.2(a)).
3. If the school district governing board fails to select a committee, the SPI has 10 working days from the date the governing board received the candidate list to convene a BRC (EC 42127.2(a)).

Alternatively, the BRC may function as a regional review committee (RRC), consisting of individuals with expertise in the fiscal and educational aspects of LEA management (EC 42127.1(c)). The initiation of an RRC rests with the county superintendent, subject to the approval of both the school district governing board and the SPI. The establishment of an RRC has been the prevailing practice.

Budget review committee and RRC members shall be reimbursed for their services and related expenses by the CDE, with compensation rates established by the State Board of Education (EC 42127.1(d)).

To assist a BRC or RRC, the county superintendent may request that the State Controller's Office conduct an audit or review of the school district's fiscal condition (EC 42127.2(e)).

II. By November 30, the BRC shall complete its review of the school district's proposed budget and its underlying fiscal policies (EC 42127.2(b)). The committee shall then forward its findings to the county superintendent, SPI, and the school district governing board (EC 42127.2(b)). These findings shall include either the recommendation that the school district's budget be approved

(EC 42127.2(b)(1)) or a report that disapproves the budget while offering recommended budget revisions to ensure that the district can meet its financial obligations (EC 42127.2(b)(2)).

- The SPI may extend the deadline noted above by up to 15 working days (EC 42127.2(c)).

III. If the school district's budget is approved by the BRC, the county superintendent shall accept the BRC's recommendation and approve the budget (EC 42127.3(a)).

IV. If the BRC disapproves the school district's budget, the school district governing board has five working days to respond to the SPI (EC 42127.3(b)). This response should include any revisions to the budget and proposed courses of action aligned with the BRC's recommendations.

The SPI shall either approve or disapprove the school district's revised budget based on the BRC's recommendations and the school district governing board's response (EC 42127.3(b)).

Superintendent of Public Instruction's Approval or Disapproval of School District's Budget

I. The SPI shall either approve or disapprove the school district's budget based on the BRC's recommendations and any response to those recommendations from the school district governing board (EC 42127.3(b)). If the SPI disapproves the budget, they will notify the school district governing board in writing of the reasons for the disapproval. For the remainder of the current fiscal year, the county superintendent shall do the following as necessary:

- Develop and adopt a fiscal plan and budget, in consultation with the SPI and the school district governing board, by December 31 (EC 42127.3(b)(1)). These items should ensure that the school district can meet its financial obligations in the current fiscal year and fulfill any multiyear financial commitments. The SPI may extend this date beyond December 31. The school district governing board is then accountable for governing the school district's operations in accordance with the fiscal plan and budget developed and adopted by the county superintendent.
- Cancel purchase orders, prohibit the issuance of nonsalary warrants (i.e., checks), and otherwise stay or rescind any action that is not consistent with the budget adopted under EC 42127.3(b)(1) (EC 42127.3(b)(2)). The county superintendent shall inform the school district governing board in writing of the justification for exercising this authority.
- Monitor and review the school district's operation (EC 42127.3(b)(3)).
- Determine the need for additional staff or expertise and, if necessary and with SPI approval, employ short-term assistance to validate financial information (EC 42127.3(b)(4)).
- Require the school district to encumber all contracts and other obligations, prepare appropriate cash-flow analyses and monthly or quarterly budget revisions, and appropriately record all receivables and payables (EC 42127.3(b)(5)).
- Identify areas with potential financial issues and, with SPI approval, employ a certified public accounting firm to investigate such areas (EC 42127.3(b)(6)).
- Withhold compensation from the school district superintendent and school district governing board members for failure to provide requested financial information (EC 42127.3(b)(7)).

- Approve the budget if an agreement is reached between the school district governing board and the county superintendent either during the BRC selection process or its budget review, and if the school district revises its budget in alignment with this agreement. Consequently, the BRC selection, or its review of the school district's budget, shall be canceled (EC 42127.3(c)).

II. The school district shall pay 75% and the county office of education shall pay 25% of the actual administrative expenses incurred pursuant to EC 42127.3(b) or the costs associated with improving the district's financial management practices (EC 42127.3(d)). County offices can request reimbursement for their 25% portion through a FCMAT reimbursement, subject to the approval of the CDE and the Department of Finance. FCMAT releases an annual letter providing additional details about this process, available online at fcmat.org.

School District Budget Process with Superintendent of Public Instruction Involvement

Education Code (EC) 42127.3

A budget review committee (BRC) recommends that the superintendent of public instruction (SPI) disapprove the school district's budget.

SPI approves school district's budget?

NO

The SPI notifies the school district governing board in writing of reasons for disapproval.

For the remainder of the current fiscal year,* the county superintendent of schools shall do the following as necessary:

- Assume expanded authority.
- Consult with the SPI and the school district governing board to develop and adopt a fiscal plan and budget that allows the school district to meet its financial obligations.**
- Consider current fiscal year and multiyear financial commitments.
- Cancel purchase orders, prohibit nonsalary warrants (i.e., checks), and stay or rescind any action that is inconsistent with the school district's newly adopted budget.
    - The county superintendent shall inform the school district governing board in writing of the justification for exercising this authority.
- Monitor and review the school district's operations.
- Employ short-term analytical assistance.
- Require the school district to encumber all contracts and other obligations and prepare cash flow analyses and monthly or quarterly budget revisions.

The school district governing board shall govern in accordance with the imposed budget.

YES

The school district governing board shall govern in accordance with the newly adopted budget.

The school district governing board may submit a response to the SPI within five working days. This response should include any revisions to the budget and proposed courses of action aligned with the BRC's recommendations.

*The county superintendent cannot abrogate any prior collective bargaining provisions (EC 42127.3(e)).
**If the county superintendent seeks reimbursement for developing a fiscal plan, the school district shall pay 75% and the county office of education 25% (EC 42127.3(d)).

Note: Pending budget approval, EC 42127.4 requires each school district to operate on the lowest total spending authority of either the:

- Last budget adopted or revised by the school district governing board for prior fiscal year; or
- Current fiscal year's unapproved budget, as adopted and revised by the school district governing board.

GOING CONCERN PROCESS

Applied to an agency, business or organization, the term "going concern" signifies that the entity is fiscally sound and able to meet its financial obligations. An organization is not considered a going concern if its fiscal health is suspect, or if it is deemed to be at risk of insolvency. In the latter case, it would be considered "not a going concern" or "lack of a going concern." Although the Education Code (EC) does not use the term "going concern," EC 42127.6 is often referred to as "the going concern section."

Education Code 42127.6 outlines the process associated with making a lack of going concern determination and the subsequent required interventions. In designing the powers and responsibilities of county superintendents of schools with respect to fiscally distressed school districts, the state Legislature established progressive interventions involving investigation, findings, notification, intervention, opportunities for appeal, and additional opportunities for further findings and appeals. The process outlined in EC 42127.6(a)–(d) must be followed in its entirety before the county superintendent may exercise additional interventions, including the emergency fiscal powers outlined in EC 42127.6(e).

The going concern determination process involves the following:

I. A school district shall provide the county superintendent with copies of any relevant studies, reports, evaluations, or audits indicating that it is demonstrating fiscal distress based on the State Standards and Criteria for Fiscal Solvency required by EC 33127 (EC 42127.6(a)(1)). This also includes any FCMAT reports concerning the school district.

II. The county superintendent shall review and consider these studies, reports, evaluations or audits that indicate the school district is demonstrating fiscal distress based on the state standards and criteria (EC 42127.6(a)(1)). This also includes findings by external reviewers indicating that the school district is at moderate or high risk of intervention based on FCMAT's Indicators of Risk or Potential Insolvency.

III. If the county superintendent finds that the school district is demonstrating fiscal distress based on the state standards and criteria, they shall investigate the district's financial condition and determine whether it may be unable to meet its financial obligations for the current or the two subsequent fiscal years (EC 42127.6(a)(1)). They shall also determine whether the school district should receive a qualified[8] or negative[9] interim financial certification pursuant to EC 42131.

    This progressive intervention process includes the following:

    1. **Initial investigation, findings, notification and intervention:** Should the county superintendent determine at any point during the fiscal year that a school district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or if a school district has a qualified or negative certification, the county superintendent shall make a lack of going concern determination (EC 42127.6(a)(1)). The school district governing board and the superintendent of public instruction (SPI) shall be notified of this determination in writing. This notification shall be made available to the public and include the reasoning for the determination and the assumptions used to make it.

[8]A qualified certification is assigned when a district may not meet its financial obligations for either the current fiscal year or the two subsequent fiscal years.

[9]A negative certification is issued when a district cannot meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

In addition, the county superintendent shall report to the SPI on the school district's financial condition and proposed remedial actions.

In accordance with EC 42127.6(a)(1), the county superintendent shall assist the school district by taking at least one of the following actions and all that are necessary to ensure that the district can meet its financial obligations:

- Assign a fiscal expert, paid for by the county superintendent, to advise the school district on its financial problems (EC 42127.6(a)(1)(A)).
- Conduct a study of the school district's financial and budgetary conditions (EC 42127.6(a)(1)(B)). Subject to the SPI's approval, the county superintendent may hire staff with the expertise needed to conduct the study. The school district shall pay 75% and the county office of education shall pay 25% of those staffing costs. County offices can request reimbursement for their 25% portion through a FCMAT reimbursement, subject to the approval of the CDE and the Department of Finance (DOF).
- Direct the school district to submit a financial projection of all its fund and cash balances for the current and subsequent fiscal years (EC 42127.6(a)(1)(C)).
- Require the school district to encumber all contracts and other obligations, prepare appropriate cash flow analyses and budget revisions, and record all receivables and payables (EC 42127.6(a)(1)(D)).
- Direct the school district to submit a proposal for addressing its fiscal condition (EC 42127.6(a)(1)(E)).
- Withhold compensation from the school district superintendent and school district governing board members for failure to provide requested financial information (EC 42127.6(a)(1)(F)). The school district may appeal this action to the SPI.
- Assign FCMAT to review teacher hiring practices and retention rates, the proportion of highly qualified teachers, and the prevalence of teacher misassignment within the school district (EC 42127.6(a)(1)(G)). If a review team be assigned, the school district shall follow the team's recommendations.

The SPI must approve any contract entered into by the county superintendent for the purposes of carrying out the interventions outlined in EC 42127.6(a) (EC 42127.6(a)(2)).

2. **Appeal opportunity:** Within five days of the county superintendent making a lack of going concern determination, the school district may appeal to the SPI (EC 42127.6(b)). This appeal can be made on the basis of the determination or any of the county superintendent's proposed remedial actions.

3. **Further investigation, findings, and notification:** If, following the implementation of any or all measures specified in EC 42127.6(a), the county superintendent determines that the school district will be unable to meet its financial obligations for the current or subsequent fiscal year, then the county superintendent shall notify the State Board of Education (SBE) president or their designee, the school district governing board, the school district superintendent, and each recognized employee organization and parent organization of the district (EC 42127.6(c)). This notification shall be in writing and shall include the assumptions used for and the basis of the determination.

4. **Appeal opportunity:** Within five days of receiving this notice, the school district may appeal the determination to the SPI (EC 42127.6(d)). Within 10 days of receiving the appeal, the SPI shall sustain or deny any or all parts of it. During the appeal process, the county superintendent may stay any action of the school district governing board that is inconsistent with the district's ability to meet its financial obligations in the current or subsequent fiscal year, pending resolution by the SPI.

5. **Further intervention, including emergency powers:** If the appeal is denied, not filed timely, or the school district receives a negative certification, then the county superintendent, in consultation with the SPI, shall take at least one of the following actions and all that are necessary to ensure the district can meet its financial obligations (EC 42127.6(e)):

   - Develop and impose, in consultation with the SPI and the school district governing board, a budget revision, subject to the limitations outlined in EC 42127.6(g)[10] (EC 42127.6(e)(1)).
   - Stay or rescind any action that is inconsistent with the school district's ability to meet its obligations for the current or subsequent fiscal year (EC 42127.6(e)(2)).
   - Help develop, in consultation with the school district governing board, a multiyear financial recovery plan (EC 42127.6(e)(3)).
   - Help develop a budget for the subsequent fiscal year, in consultation with the school district governing board (EC 42127.6(e)(4)). If necessary, the county superintendent shall continue to work with the school district governing board until the subsequent year's budget is both adopted by the district governing board and approved by the county superintendent.
   - Appoint a fiscal advisor to perform any or all duties required of the county superintendent under EC 42127.6, as necessary (EC 42127.6(e)(5)).

   Any action taken by the county superintendent pursuant to EC 42127.6(e)(1) or (e)(2) shall be accompanied by a notification to the school district governing board (EC 42127.6(f)). This notification shall include the proposed action(s), the reasons for them, and the assumptions used to support their necessity.

6. **Appeal of budget changes:** The school district may appeal to the SPI within five days of receiving notice that, pursuant to EC 42127.6(e), the county superintendent is proposing changes to its budget (EC 42127.9(a)). Grounds for an appeal may include impacts to the school district's programs (EC 42127.9(a)(1)), unnecessary reductions (EC 42127.9(a)(2)), or conflicts with state and federal law (EC 42127.9(a)(3)). Within five days of receiving the appeal, the SPI, with the concurrence of the SBE president or their designee, has five days to sustain or deny it (EC 42127.9(b)).

The school district shall pay 75% and the county office shall pay 25% of the actual administrative expenses or costs associated with improving the district's financial management practices pursuant to EC 42127.6(e) (EC 42127.6(h)). County offices can request reimbursement through FCMAT, subject to the approval of the CDE and the DOF. FCMAT releases an annual letter providing additional details about this process, available online at fcmat.org.

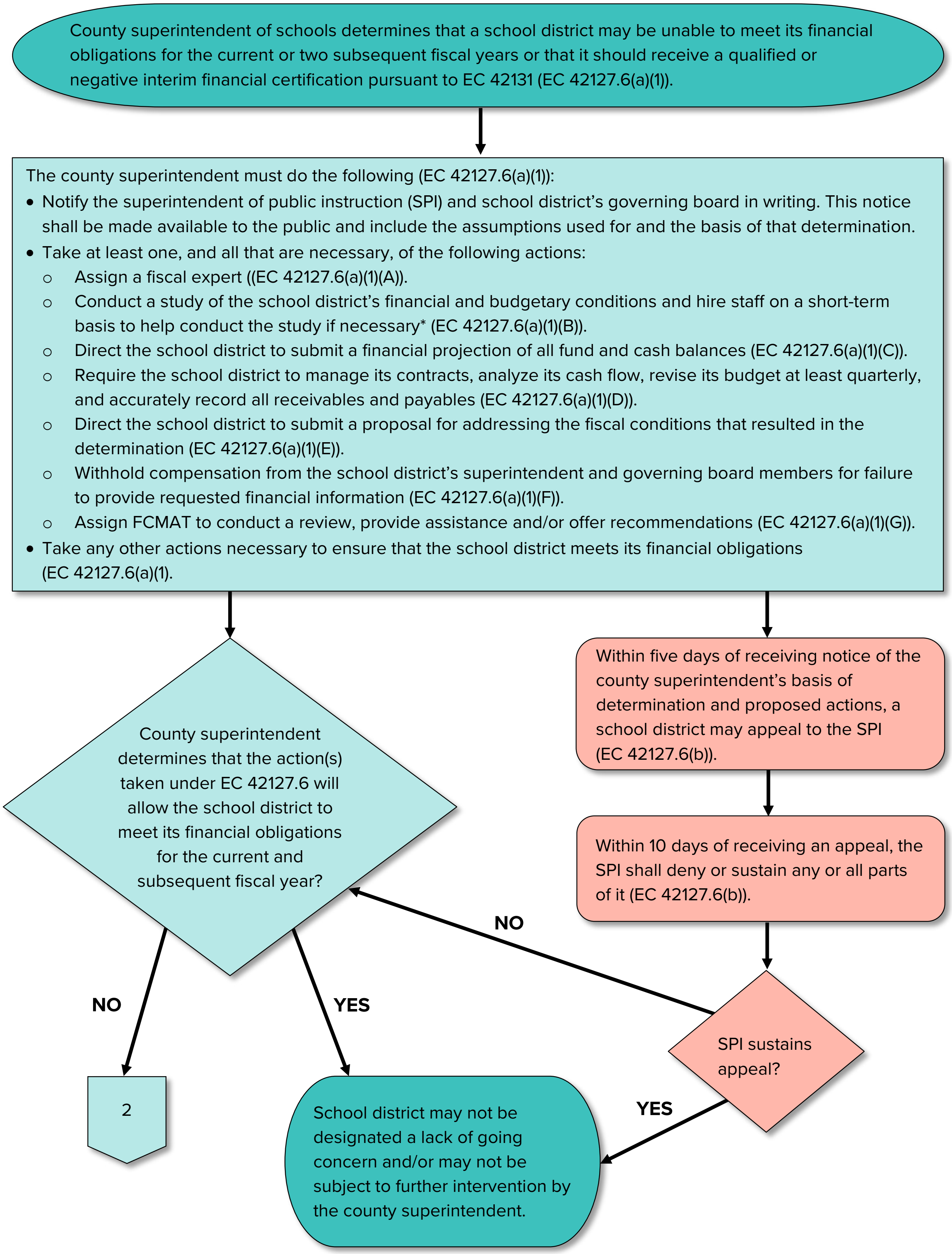
[10]The county superintendent is not permitted to abrogate any provision of a collective bargaining agreement that was entered into by a school district before the date that the county superintendent assumed authority pursuant to EC 42127.6(e) (EC 42127.6(g)).

Education Code 42127.6 does not authorize the county superintendent to abrogate any provisions of a collective bargaining agreement that was entered into by a school district before the date on which the county superintendent assumed authority (EC 42127.6(g)).

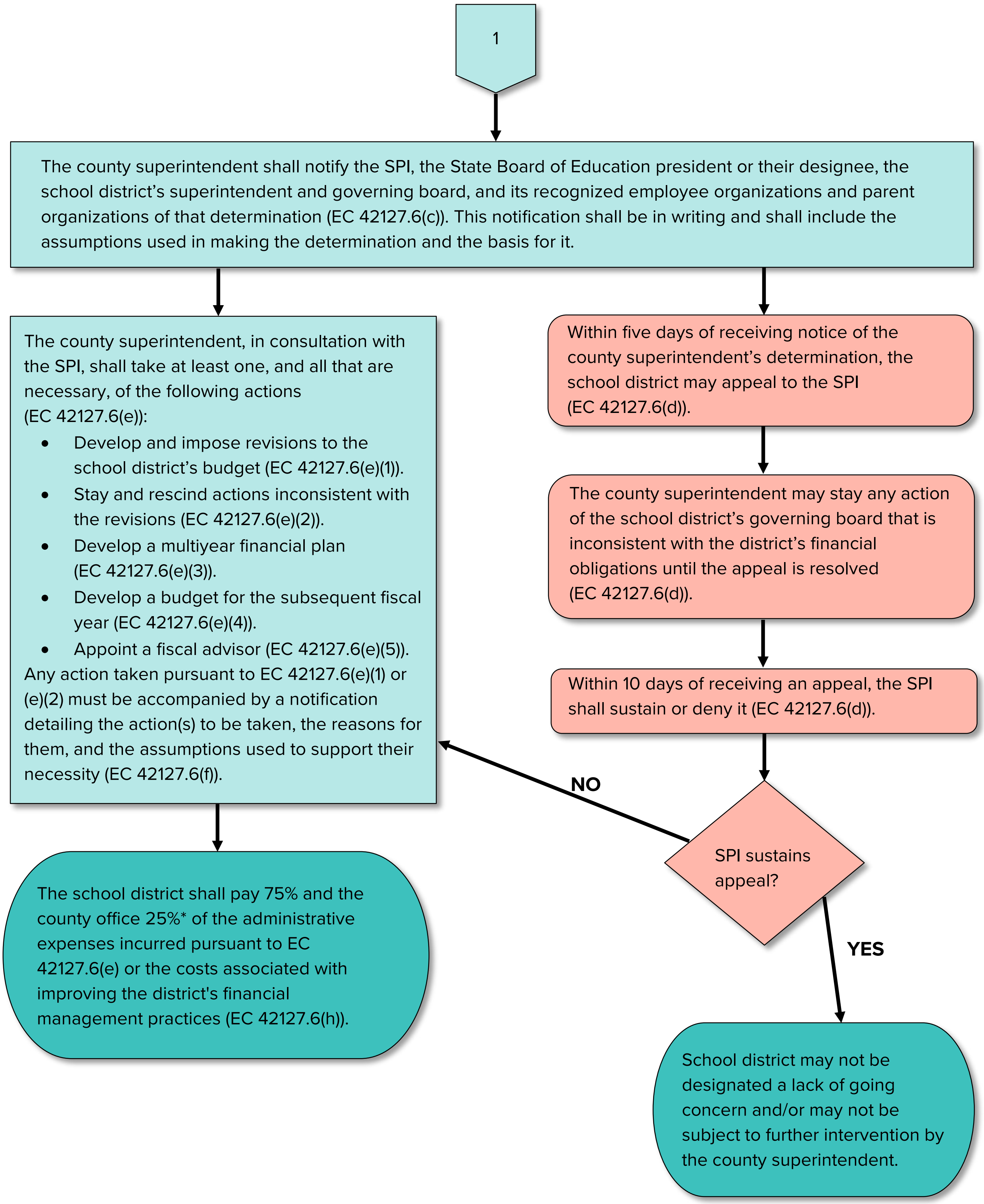
IV. The SPI is required to monitor the efforts of county superintendents and has the authority to assume any of the powers of a county superintendent if the actions of the latter are not effective in resolving a school district's financial problems (EC 42127.6(k)). If the SPI exercises a county superintendent's powers, that county superintendent will be relieved of those powers. The SPI shall take further actions to ensure the school district's long-term fiscal stability. In addition, the county office is required to cover all expenses incurred by the SPI in executing this authority.

Going Concern Process

Education Code (EC) 42127.6



*Subject to the approval of the SPI (EC 42127.6(a)(1)(B)). The school district shall pay 75% and the county office of education 25% of these staff costs.
Note: The SPI must approve any contract entered into by a county superintendent for the purposes of EC 42127.6(a) (EC 42127.6(a)(2)).



*County offices can request reimbursement through FCMAT, subject to the approval of the California Department of Education and the Department of Finance. FCMAT releases an annual letter providing additional details about this process, available online at fcmat.org.

Note: The county superintendent is not authorized to abrogate any provision of a collective bargaining agreement that was entered into by a school district before the date that the county superintendent assumed authority pursuant to EC 42127.6(e) (EC 42127.6(g)).

INTERIM REPORTS AND CERTIFICATIONS

Each school district superintendent shall submit two interim budget reports to the school district governing board during each fiscal year (Education Code [EC] 42130). The first interim budget report shall cover the school district's financial and budgetary status for the period ending on October 31. The second interim budget report shall cover the period ending on January 31. The school district governing board shall approve these reports no later than 45 days following the close of the respective reporting periods, which fall around December 15 and March 15.

These reports shall be in a format or on forms prescribed by the superintendent of public instruction (SPI) and shall be based on the State Standards and Criteria for Fiscal Solvency (EC 42130). If a school district governing board fails to file the district's interim reports, the county superintendent of schools shall withhold any apportionment of state or county school funds for the current year (EC 42128). Further, the county superintendent shall also notify the appropriate county authority that warrants (i.e., checks) issued by the school district will not be approved (EC 42128).

Each school district governing board must also certify whether the district can meet its financial obligations for the remainder of the fiscal year and the two subsequent fiscal years (EC 42131(a)(1)). A positive certification is assigned when a school district is projected to meet its financial obligations for the current fiscal year and the two subsequent fiscal years. A qualified certification applies when a school district may not meet its financial obligations for either the current fiscal year or the two subsequent fiscal years. A negative certification is issued when a school district cannot meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

The following describes the certification process:

I. Within 45 days following the close of the respective reporting period, each school district governing board shall provide written certification indicating whether the school district can meet its financial obligations for the remainder of the fiscal year and the two subsequent fiscal years, based on current forecasts (EC 42131(a)(1)).

II. If a county superintendent receives a certification differing from what they determined should have been filed (e.g., a school district certified as positive when it should have certified as qualified), the county superintendent shall change that certification to negative or qualified, as appropriate (EC 42131(a)(2)(A)). They must notify the school district governing board and the SPI of this change within 75 days of the close of the reporting period.

    A school district may appeal a change to its certification:

    1. Within five days of receiving notice that its certification has been changed to negative or qualified, the school district governing board may submit an appeal to the SPI (EC 42131(a)(2)(A)).
    2. Within 10 days of receiving an appeal, the SPI shall determine the certification to be assigned to the school district and shall notify both the school district governing board and the county superintendent (EC 42131(a)(2)(A)).

III. Each county superintendent shall submit a report to the State Controller's Office (SCO) and the SPI within 75 days of the close of each reporting period (EC 42131(c)). This report shall indicate whether each school district under the county superintendent's jurisdiction has filed a certification and specify the type of certification filed by each district.

IV. Within 75 days following the close of a reporting period, each county superintendent shall transmit all certifications classified as qualified or negative to both the SPI and the SCO (EC 42131(a)(2)(B)).

This transmission shall include the county superintendent's comments and a report detailing actions proposed or already taken.

V. For a school district with a negative or qualified certification, or one classified as such by the county superintendent:

- It shall retain that classification until the filing of the next report required under EC 42130 (EC 42131(e)).
- Its county superintendent may exercise authority granted in EC 42127.6 and 42131(b).
- Its county superintendent must be allowed at least 10 working days to review and comment on any proposed agreement between the school district and its respective exclusive representative[11] before the agreement's ratification (Government Code [GC] 3540.2(a)). Further, the school district shall provide the county superintendent with all pertinent information necessary to assess the financial impact(s) of the agreement. During this 10-day period, if the county superintendent determines that the agreement would endanger the school district's fiscal well-being, they shall notify the county board of education, the school district, school district superintendent and school district governing board, as well as every parent organization and teacher organization of the district (GC 3540.2(c)).
- Its fiscal condition may be audited or reviewed by the SCO (EC 42131(d)).
- It is prohibited from issuing certificates of participation, tax revenue anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the school district's voters (EC 42133(a)). This restriction applies to both the current and the subsequent fiscal year. However, the county superintendent can waive this restriction if they determine that the school district is likely able to repay the debt.
- Its ability to draw warrants (i.e., checks) on the county treasury can be revoked or suspended by the SPI (for fiscally independent school districts) (EC 42652(a)) or the county superintendent (for fiscally accountable school districts) (EC 42652(b)).

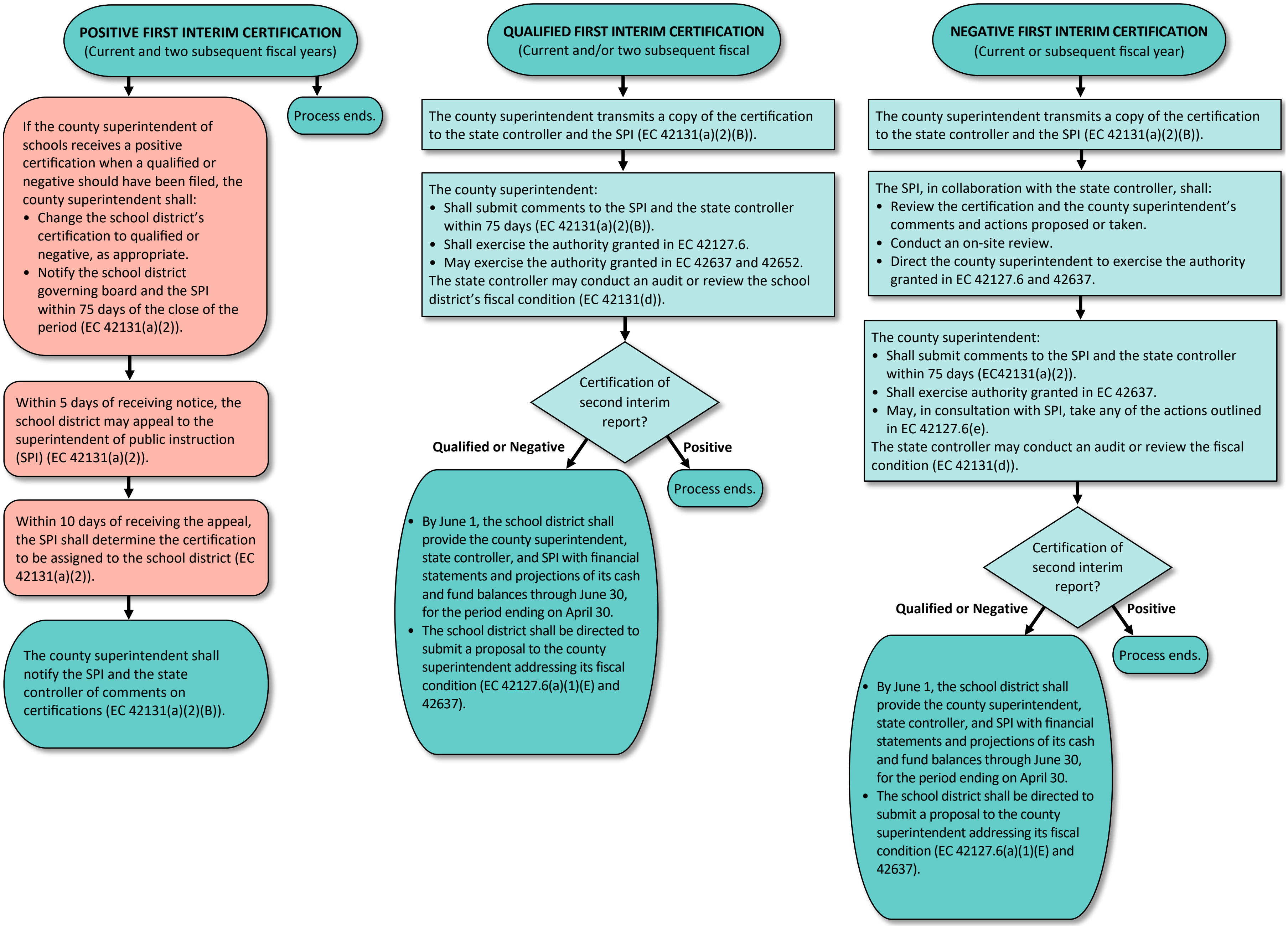
VI. By June 1, if a school district's second interim report has been filed or classified as a qualified or negative certification, the school district governing board shall provide the county superintendent, SPI and SCO with a financial statement (EC 42131(f)). This statement should project the school district's cash and fund balances through June 30 for the period ending on April 30. This statement is referred to as a "third interim report." Education Code does not require school districts to self-certify with a positive, qualified, or negative certification when submitting a third interim report.

School districts and county superintendents must transmit budget reports, prior year expenditure reports, qualified and negative financial status reports, program cost accounting reports, certifications, audit reports, and reports used to calculate the first, second, and annual principal apportionments and special purpose apportionments within 14 days of the submission date prescribed in statute or by the SPI (EC 42129). If a school district or county superintendent fails to meet this requirement, the SPI may direct the county auditor to withhold payment of stipends, expenses, or salaries to the school district superintendent, county superintendent, or members of the governing boards. These payments shall be withheld until the delinquent reports have been submitted to the SPI. If the county superintendent performs the functions of the county auditor, the SPI may direct the county superintendent to withhold the payments.

[11]The term "exclusive representative" refers to the employee organization that is recognized or certified as the sole negotiating representative of public school employees within a designated unit of a public school employer (GC 3540.1).

Interim Report Certification Process

Education Code (EC) 42131



RESPONSE AND APPEAL PROCEDURES

This section is intended to provide a summary of the response and appeal procedures concerning various aspects of budget approval and interim reporting. For more information, including timelines for each area, please consult the "Budget Review Committee Process" and "School District Going Concern and Lack of Going Concern Designations and Processes" sections of this guide.

Response After Budget Disapproval by Budget Review Committee or Regional Review Committee

I. Within five working days of receiving the budget review committee's (BRC's) report disapproving the school district's budget and recommending revisions to it, the school district governing board may submit a response to the superintendent of public instruction (SPI) (Education Code [EC] 42127.3(b)). The SPI shall either approve or disapprove the budget based on the school district's response and the BRC's recommendations.

Note: The school district governing board and the county superintendent of schools may choose to waive the requirement to form a BRC (EC 42127.1(a)). If the SPI approves the waiver, the county superintendent has the authority and responsibility provided to a BRC in EC 42127.3 (EC 42127.1(a)). Subject to the approval of the SPI and the school district governing board, the county superintendent may then select and convene a regional review committee (RRC) in place of the BRC (EC 42127.1(c)).

Appeal After Notification of Changes to a School District's Budget by County Superintendent of Schools

I. Within five days of receiving notice of any change(s) made by the county superintendent to a school district's budget pursuant to EC 42127.3(b), 42127.6(e), or 42131(b), the school district governing board may appeal to the SPI (EC 42127.9(a)).

II. This appeal may be based on the contention that the change(s) would do one or more of the following (EC 42127.9(a)):

- Exceed the financial or program changes necessary for the school district to meet its financial obligations in the current fiscal year and with regard to its multiyear financial commitments (EC 42127.9(a)(1)). Any budget change(s) adopted by the county superintendent should minimize to the extent possible any impact on the school district's educational program.
- Require unnecessary reductions (EC 42127.9(a)(2)).
- Make changes to the school district's operations that are contrary to any state or federal law (EC 42127.9(a)(3)).

III. Within five days of receiving an appeal, the SPI, with the concurrence of the State Board of Education (SBE) president or their designee, shall deny or sustain it (EC 42127.9(b)).

- If the appeal is upheld, the SPI may revise the changes adopted by the county superintendent or issue guidelines to the school district and county superintendent on changing the district's budget (EC 42127.9(b)).

- If the appeal is denied, the school district shall implement the changes adopted by the county superintendent (EC 42127.9(b)).

Lack of Going Concern

I. Within five days of receiving notification about a lack of going concern designation, the school district governing board may appeal the county superintendent's decision and any of their proposed actions (EC 42127.6(b)).

II. If, following the implementation of the progressive interventions outlined in EC 42127.6(a), the county superintendent determines that a school district will be unable to meet its financial obligations for the current or subsequent fiscal year, they must notify the school district governing board, school district superintendent, each recognized employee organization and parent organization of the district, the SPI, and the SBE president or their designee (EC 42127.6(c)). This notification must be in writing and include the basis for the determination and the assumptions used to make it.

III. Within five days of a county superintendent making a determination that a school district will be unable to meet its financial obligations for the current or subsequent fiscal year, the school district may appeal to the SPI (EC 42127.6(d)). The SPI shall sustain or deny the appeal within 10 days.

Note: During the appeal process and until resolution of the appeal by the SPI, the county superintendent may stay any action of the school district governing board that is inconsistent with the school district's ability to meet its financial obligations in the current or subsequent fiscal year (EC 42127.6(d)).

IV. If an appeal is denied or not filed, or if a school district receives a negative certification,[12] the county superintendent, in consultation with the SPI, shall take at least one of the following actions and all that are necessary to ensure the school district meets its financial obligations (EC 42127.6(e)):

- Develop and impose, in consultation with the SPI and the school district governing board, a revised budget that will enable the district to meet its financial obligations in the current fiscal year (EC 42127.6(e)(1)).
- Stay or rescind any action that is inconsistent with the school district's ability to meet its obligations for the current or subsequent fiscal year (EC 42127.6(e)(2)).
- Help develop, in consultation with the school district governing board, a multiyear financial recovery plan that will enable the district to meet its future obligations (EC 42127.6(e)(3)).
- Help develop, in consultation with the school district governing board, a budget for the subsequent fiscal year (EC 42127.6(e)(4)).
- Appoint a fiscal adviser to perform any or all duties required of the county superintendent under EC 42127.6, as necessary (EC 42127.6(e)(5)).

In addition, the county superintendent shall submit to the SPI and the SBE president or their designee a report detailing the school district's financial condition and proposed remedial actions (EC 42127.6(e)).

[12] A negative certification is issued when a district cannot meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

Disappraved Budget Appeal Process

For School Districts with
Budget Review Committees (BRCs) or Regional Review Committees (RRCs)
Education Code (EC) 42127.9

Within five days following notice of changes to its proposed budget pursuant to EC 42127.3(b), 42127.6(e) and 42131(b), the school district's governing board submits an appeal to the superintendent of public instruction (SPI), based on the premise that the changes would (EC 42127.9(a)):

- Exceed necessary financial or program changes (EC 42127.9(a)(1)).
- Require unnecessary reductions (EC 42127.9(a)(2)).
- Be inconsistent with state and federal law (EC 42127.9(a)(c)).

Within five working days of receiving an appeal, the SPI, with the concurrence of the State Board of Education president, shall deny or uphold it (EC 42127.9(b)).

SPI sustains appeal?

NO

The school district shall implement the changes to its budget that were adopted by the county superintendent of schools (EC 42127.9(b)).

YES

The SPI may revise the changes adopted by the county superintendent or issue guidelines governing how the school district or county superintendent are required to change the budget (EC 42127.9(b)).

Note: School districts cannot appeal the county superintendent's initial determination of budget disapproval (i.e., the determination that was rendered by September 15); this flow chart refers only to disapproved budgets with SPI and BRC or RRC involvement.

EMERGENCY APPORTIONMENTS

Statute sets forth provisions for emergency apportionments, also known as emergency loans, for school districts. There are two types of emergency apportionments: type 1 loans and type 2 loans. The Fiscal Crisis and Management Assistance Team (FCMAT) designates type 1 loans as those with loan amounts up to and equal to 200% of a school district's recommended reserve for economic uncertainties (Education Code [EC] 41320.1). Additional conditions apply to type 2 loans, classified by FCMAT as those with loan amounts greater than 200% of a school district's recommended reserve for economic uncertainties (EC 41325 and following).

Administrators for School Districts with Type 2 Loans (see also Appendix G)

The respective county superintendent, with the concurrence of the superintendent of public instruction (SPI) and the State Board of Education (SBE) president or their designee, shall appoint an administrator for any school district that receives a type 2 loan (EC 41326(b)). This administrator shall serve under the direction and supervision of the county superintendent, with concurrence from both the SPI and the SBE president (EC 41326(b)(1)). They will serve until terminated by the county superintendent, with concurrence from both the SPI and the SBE president or their designee (EC 41326(b)(1)). During this time, the school district governing board will serve in an advisory role with no legal rights, powers or duties (EC 41326(d)(1)).

An administrator shall have recognized expertise in management and finance and shall be selected from a pool of candidates identified and vetted by FCMAT (EC 41326(b)). When selecting a candidate pool for the administrator position, FCMAT shall consider candidates' expertise in management and finance, experience in mitigating fiscal distress in districts, and ability to engage meaningfully with the district's local community (EC 41326(c)). Moreover, FCMAT shall provide the opportunity for public input on the selection of the candidate pool (EC 41326(c)).

The administrator has the following responsibilities (EC 41326(b)(2)):

I. Within 30 days of their appointment by the county superintendent, the administrator shall discuss with all the following groups the options for resolving the school district's fiscal problems (EC 41326.1). Additionally, each month the administrator shall consider information provided by one or more of the following groups:
    - The school district governing board (EC 41326.1(a)).
    - Any advisory council of the school district (EC 41326.1(b)).
    - Any parent-teacher organization of the school district (EC 41326.1(c)).
    - Community members (EC 41326.1(d)).
    - The school district's administrative team (EC 41326.1(e)).
    - FCMAT (EC 41326.1(f)).
    - Representatives of the school district's employee bargaining units (EC 41326.1(g)).
    - The county superintendent (EC 41326.1(h)).

II. The administrator shall prepare or obtain the following reports and plans (EC 41327(a)). These items must be submitted to the county superintendent for approval, with concurrence from the SPI (EC 41327(b)):

1. A management review and recovery plan (EC 41327(a)(1)).
2. A multiyear financial recovery plan (EC 41327(a)(2)). This shall include a plan to repay all outstanding state loans.
   - The repayment plan must be submitted annually by July 1 (EC 41327(a)(2)).
3. An annual report on the school district's financial condition (EC 41327(a)(3)). This report shall include, but not be limited to, all the following information:
   i. Specific actions taken to reduce expenditures or increase income and the resulting cost savings and increased revenue (EC 41327(a)(3)(A)).
   ii. A copy of the school district's current year adopted budget (EC 41327(a)(3)(B)).
   iii. Amount of the school district's budgeted reserves (EC 41327(a)(3)(C)).
   iv. Status of employee contracts (EC 41327(a)(3)(D)).
   v. Obstacles to implementing the school district's approved recovery plan (EC 41327(a)(3)(E)).

III. With the county superintendent's approval, the administrator may enter into agreements on behalf of the school district and, subject to any contractual obligation of the district, change any existing district rules, regulations, policies or practices as necessary to effectively implement the district's recovery plan (EC 41327(c)).

IV. The county superintendent, with concurrence from both the SPI and the SBE president, shall establish the administrator's salary and benefits (EC 41326(b)(8)). The school district shall pay for the administrator's salary and benefits.

V. The administrator shall suspend the actions of the school district's personnel commission, if applicable (EC 41322(b)).

Trustees for Districts with Type 1 Loans and for Districts with Type 2 Loans Following the Restoration of their Local Governing Boards' Rights, Powers and Duties (see also Appendix H)

Following the restoration of legal rights, powers and duties to a school district's local governing board in a type 2 loan or for the duration of an outstanding type 1 loan, a trustee appointed by majority vote of the county superintendent, SPI and SBE president or their designee will provide additional oversight of the district (EC 41320.1(a)). This trustee shall have recognized expertise in management and finance and shall be selected from a pool of candidates identified and vetted by FCMAT (EC 41320.1(a)). When selecting a candidate pool for the trustee position, FCMAT shall consider candidates' expertise in management and finance, experience in mitigating fiscal distress in districts, and ability to engage meaningfully with the school district's local community (EC 41320.1(b)).

Moreover, FCMAT shall offer the opportunity for public input on the selection of the candidate pool (EC 41320.1(b)).

I. The trustee will remain in place until the following occur (EC 41320.1(a)(3)):

   1. The school district establishes adequate fiscal systems and controls.
   2. The SPI determines that the school district's future compliance with its approved fiscal plan is likely.
   3. The county superintendent, SPI and SBE president decide to terminate the trustee's appointment (no earlier than three years after it commences).

II. The trustee shall monitor and review the school district's operations (EC 41320.1(c)(1)). The trustee may stay or rescind any action of the school district governing board that may affect the district's financial condition.

III. The trustee shall stay or rescind the actions of the school district personnel commission, if applicable (EC 41322(b)).

IV. Following the trustee's term of service and until the loan is repaid, the county superintendent may stay or rescind any action of the school district governing board that may affect the school district's financial condition (EC 41320.1(c)(2)).

V. The county superintendent, with concurrence from the SPI, may establish timelines and prescribe formats for reports and other materials to be used by the trustee to monitor and review the school district's operations (EC 41320.1(c)(4)).

VI. The trustee shall approve or disapprove all reports and other materials required from the school district as a condition of the apportionment (EC 41320.1(c)(4)).

VII. Upon the trustee's recommendation, the SPI may reduce the school district's apportionment by up to $200 per day for each late or disapproved report or other material required under EC 41320.1 (EC 41320.1(c)(4)). Should the school district fail to comply with the requirements outlined in EC 41320.1, the SPI shall report to the state Legislature.

Education Code 42127.6 Applies to Both Types of Loans

I. A school district shall provide the county superintendent with copies of any studies, reports, evaluations, or audits containing evidence of fiscal distress according to the State Standards and Criteria for Fiscal Solvency required by EC 33127 and that were commissioned by (EC 42127.6(a)(1)):

   - The school district.
   - The county superintendent of schools.
   - SPI.
   - State control agencies.
   - FCMAT.

Education Code 41320 and 41320.1 Apply to Both Types of Loans

I. When a school district becomes insolvent and requests an emergency apportionment, the district shall submit to the county superintendent (EC 41320(a)):

- A report by an independent auditor on the school district's financial conditions and budgetary controls.
- A management review written by a qualified management consultant who is approved by the county superintendent.
- A fiscal plan adopted by the school district governing board to resolve the school district's financial problems.

II. The county superintendent shall review and provide written comments on the audit report, the management review and the school district's plan (EC 41320(b)). These comments shall include the county superintendent's approval or disapproval of the school district's plan.

- If the county superintendent disapproves the school district's plan, the school district governing board shall revise it to address the county superintendent's concerns (EC 41320(b)).

III. Upon approving the school district's plan, the county superintendent shall submit copies of the report, review, plan, and written comments to the SPI, Joint Legislative Audit Committee, Joint Legislative Budget Committee, Department of Finance (DOF), SBE president or their designee, and State Controller's Office (SCO) (EC 41320(c)).

IV. The school district receiving the apportionment shall be eligible for assistance from the California Collaborative for Educational Excellence pursuant to EC 52074 (EC 41320(d)).

V. With the concurrence of the SPI, the county superintendent shall certify to the DOF that the corrective measures taken to address the school district's financial problems are realistic and will move the district to a sound financial condition (EC 41320(e)).

VI. The school district shall develop a schedule to repay the emergency loan, including any lease financing, and submit it to the county superintendent (EC 41320(f)).

VII. The county superintendent shall review and comment on the school district's repayment schedule and submit it to the SPI for approval or disapproval (EC 41320(f)).

VIII. Upon approving the school district's repayment schedule and other reports, reviews, plans, and the trustee appointment required by Article 2.7 of the Education Code, the SPI shall request the SCO to disburse the emergency loan funds to the school district (EC 41320(f)).

IX. The school district requesting the apportionment shall reimburse the county superintendent for the costs incurred by the county superintendent pursuant to EC 41320 (EC 41320(g)).

X. The appointed trustee shall serve until the school district establishes adequate fiscal systems and controls and the SPI determines that the school district's future compliance with its approved fiscal plan is likely (EC 41320.1(a)(3)). The trustee's appointment can only be terminated with the concurrence of the county superintendent, SPI and SBE president, and under no circumstances can this occur in less than three years.

XI. Before repaying the loan, including interest, the school district shall choose an auditor to audit its fiscal systems (EC 41320.1(a)(4)). The school district shall pay the cost of this audit. The auditor must be designated by the SPI and the SCO as both active and able to perform audits for transitional kindergarten through grade 12 local educational agencies.

If the school district's fiscal systems are deemed inadequate by the county superintendent, the county superintendent, with concurrence from both the SPI and the SBE president, may retain the trustee until the deficiencies are corrected (EC 41320.1(a)(4)). The school district shall pay any additional costs of the trustee.

XII. After the trustee's period of service, and until the loan is repaid, the county superintendent may stay or rescind any action of the school district governing board that may affect the school district's financial condition (EC 41320.1(c)(2)).

The county superintendent shall notify the SPI and the SBE president within five business days if the county superintendent stays or rescinds an action of the school district governing board (EC 41320.1(c)(2)). This notice shall include, but not be limited to, both of the following:

1. A description of the intended action of the school district governing board and the financial implications of such action (EC 41320.1(c)(2)(a)).
2. The rationale and findings that support the county superintendent's decision to stay or rescind the intended action of the school district governing board (EC 41320.1(c)(2)(b)).

Education Code 41329 Applies to Both Types of Loans

I. The governing board or administrator appointed pursuant to Article 2 (commencing with EC 41320) of a school district with an emergency apportionment shall provide its recommendations regarding school closures and consolidations to the public at a regularly scheduled meeting (EC 41329(a)(2)(A)). It shall provide an explanation of how the list was prepared and include, at a minimum, the following information:

1. Factors used to identify school closures or consolidations (EC 41329(a)(2)(A)(i)).
2. Equity impact analysis findings for each school closure or consolidation (EC 41329(a)(2)(A)(ii)).
3. Plan for the use of school facilities following school closures or consolidations (EC 41329(a)(2)(A)(iii)).
4. Criteria used to assign displaced students to other schools or a description of the reassignment process the school district will use (EC 41329(a)(2)(A)(iv)).
5. Options and timelines for transitioning students to their new schools, including improving safe routes to schools and addressing home-to-school transportation needs (EC 41329(a)(2)(A)(v)).

II. The school district governing board or the administrator shall review and consider the feedback presented at the public meeting (EC 41329(a)(2)(B)).

III. At a subsequent regularly scheduled meeting, the school district governing board or the administrator shall present their final recommendation for school closures or consolidations

(EC 41329(a)(2)(C)). This presentation shall include a review of how public input was incorporated into the final recommendation. The school district governing board or the administrator shall adopt a resolution concluding that the community engagement process required pursuant to EC 41329 has been completed before taking any affirmative action to implement a school closure or consolidation.

IV. Upon an affirmative action by the school district governing board or the administrator to implement a school closure or consolidation, the school district shall provide notification to parents and students in multiple formats, including but not limited to email and paper notifications (EC 41329(a)(2)(D)(i)).

V. Notifications to parents shall be translated into their primary language pursuant to EC 48985 (EC 41329(a)(2)(D)(ii)).

VI. The notifications shall include all the following (EC 41329(a)(2)(D)(iii)):

1. The date of the approved school closure or consolidation (EC 41329(a)(2)(D)(iii)(I)).
2. The student's new school assignment, as applicable (EC 41329(a)(2)(D)(iii)(II)).
3. School district resources for students and parents to support the student's transition (EC 41329(a)(2)(D)(iii)(III)).
4. School district contacts for additional information (EC 41329(a)(2)(D)(iii)(IV)).

Type 1 Loan: Less Than or Equal to 200% of a School District's Recommended Reserve

I. By October 31 of the year following the receipt of an emergency apportionment less than or equal to 200% of the school district's recommended reserve, and for each subsequent year until it is repaid, including interest, the school district governing board shall prepare a report on the district's financial condition (EC 41321(a)). This report shall include, but not be limited, to all the following information:

1. Specific actions taken to reduce expenditures or increase income and the resulting cost savings and increased revenue (EC 41321(a)(1)).
2. A copy of the adopted budget for the current fiscal year (EC 41321(a)(2)).
3. Reserves for economic uncertainties (EC 41321(a)(3)).
4. Status of employee contracts (EC 41321(a)(4)).
5. Obstacles to the implementation of the adopted recovery plan (EC 41321(a)(5)).

The school district shall submit this report to the trustee for review and approval (EC 41321(b)). Once approved, the school district shall transmit copies of the report to the county superintendent, SPI, SBE president or their designee, and SCO.

Type 2 Loan: Exceeds 200% of a School District's Recommended Reserve

I. When a school district becomes insolvent and requests an emergency apportionment exceeding 200% of its recommended reserve, the county superintendent, under the SPI's supervision, will assume control of the district to ensure its return to fiscal solvency (EC 41325(a)).

II. Before applying for an emergency apportionment that exceeds 200% of the school district's recommended reserve (as determined by the state standards and criteria required by EC 33127), the school district governing board shall discuss the need for such an apportionment during a regular or special board meeting (EC 41326(a)). During this meeting, the school district governing board shall receive testimony regarding the emergency appropriation from parents, exclusive representatives[13] of district employees, and other community members.

III. A school district with an emergency appropriation that exceeds 200% of its recommended reserve shall:

1. Include the administrator as a covered district employee under its liability insurance policies for all purposes of errors and omissions (EC 41326(b)(7)). In addition, the administrator's salary and benefits shall be established by the county superintendent, with concurrence from both the SPI and the SBE president, and be paid for by the school district (EC 41326(b)(8)).
2. Bear 100% of all costs associated with implementing the provisions of an emergency apportionment, including the activities of FCMAT (EC 41328). The SPI will withhold these costs from the school district's apportionment.

IV. The governing board of a school district that receives an emergency appropriation exceeding 200% of its recommended reserve shall serve as an advisory body reporting to the administrator, without possessing any rights, duties, or powers, and is not entitled to any stipends, benefits or other compensation (EC 41326(d)(1)).

V. After one full fiscal year has passed following the school district's acceptance of an emergency apportionment, and throughout the administratorship, the school district governing board may conduct an annual advisory evaluation of the administrator's performance (EC 41326(d)(2)(A)). This evaluation shall focus on the administrator's effectiveness in leading the school district toward fiscal recovery and improved academic achievement (EC 41326(d)(2)(B)). The criteria for this advisory evaluation shall be mutually agreed upon by the school district governing board and the administrator before its commencement. This evaluation shall include but not be limited to all the following (EC 41326(d)(2)(B)):

1. Goals and standards consistent with EC 41327.1 (EC 41326(d)(2)(B)(i)).
2. Commendations in the areas of the administrator's strengths and achievements (EC 41326(d)(2)(B)(ii)).
3. Recommendations for improving the administrator's effectiveness in areas of concern and unsatisfactory performance (EC 41326(d)(2)(B)(iii)).

[13]The term "exclusive representative" refers to the employee organization that is recognized or certified as the sole negotiating representative of public school employees within a designated unit of a public school employer (Government Code 3540.1).

If such an advisory evaluation is conducted, it shall be submitted to the governor; the state Legislature, pursuant to Government Code 9795; the SPI; the SBE president or their designee; the county superintendent; and FCMAT (EC 41326(c)).

County Superintendents' of Schools Responsibilities for School Districts with Type 2 Loans

I. The county superintendent shall assume all legal rights, duties and powers of the governing board of a school district that has received an emergency appropriation exceeding 200% of its recommended reserve (EC 41326(b)).

I. The county superintendent, with concurrence from both the SPI and the SBE president, shall appoint an administrator from a pool of candidates identified and vetted by FCMAT (EC 41326(b)). The appointment of an administrator does not remove any statutory rights, duties, or obligations from the county superintendent (EC 41327.2(a)). The county superintendent retains the responsibility to superintend school districts under their jurisdiction.

- The administrator serves under the direction and supervision of the county superintendent (EC 41326(b)(1)).
- With the approval of the county superintendent, the administrator may enter into agreements on behalf of the school district and, subject to any contractual obligation of the district, change any existing district rules, regulations, policies or practices as necessary to effectively implement the district's recovery plan (EC 41327(c)).

II. The county superintendent shall review each school district's budget and interim reports and shall document its fiscal and administrative status, particularly in regard to the implementation of the district's fiscal and management recovery plans (EC 41327.2(b)). Each report shall include a determination of whether the school district's revenue streams align with its expenditure plan, based on the most recent data available at the time of the report. These reports shall continue for six months following the restoration of all rights, duties, and powers to the school district. They shall be submitted to the following entities:

1. The SPI.
2. The SBE president or their designee.
3. Appropriate fiscal and policy committees of the state Legislature.
4. The DOF.

III. With concurrence from both the SPI and the SBE president, the county superintendent may return power to the school district governing board for an area listed in EC 41327.1(a) (i.e., financial management, pupil achievement, personnel management, facilities management, or community relations and governance) (EC 41326(f)(1)(B)). This is contingent upon the county superintendent's and the SPI's concurrence that the school district's performance under the recovery plan is satisfactory.

IV. Following the return of power to the governing board of the school district that received an emergency apportionment, the county superintendent, the SPI and the SBE president will appoint a trustee by a majority vote (EC 41326(g)).

- This trustee must be selected from a pool of candidates identified and vetted by FCMAT (EC 41320.1(a)).
- This trustee shall report directly to the county superintendent (EC 41320.1(a)(2)).

V. Should the school district violate a provision of the approved recovery plans within five years following the release of the trustee or the repayment of the emergency apportionment, whichever occurs later, the county superintendent, with concurrence from both the SPI and the SBE president, may reassume all legal rights, duties, and powers of the district governing board, either directly or through an administrator (EC 41326(h)). The restoration of local control to the school district governing board shall occur only after the county superintendent has determined that the district's future compliance with the approved recovery plans is likely, or after a period of one year, whichever occurs later.

FCMAT Responsibilities for School Districts with Both Types of Loans

I. FCMAT shall identify and vet a pool of candidates who have recognized expertise in management and finance, experience in mitigating fiscal distress in school districts, and an ability to engage meaningfully with the district's local community (EC 41320.1(b) and 41326(c)).

   - FCMAT shall provide an opportunity for public input on the selection of the trustee (EC 41320.1(b) or administrator (EC 41326(c)) candidate pool.

II. The county superintendent, SPI, and SBE president shall appoint an individual from the FCMAT candidate pool as trustee (EC 41320.1(a)) or administrator (EC 41326(b)).

III. FCMAT shall conduct comprehensive assessments of school districts that are in state receivership (EC 41327.1(b)). Each school district shall be evaluated in the following five major operational areas (EC 41327.1(a)):

   1. Financial management (EC 41327.1(a)(1)).
   2. Pupil achievement (EC 41327.1(a)(2)).
   3. Personnel management (EC 41327.1(a)(3)).
   4. Facilities management (EC 41327.1(a)(4)).
   5. Community relations and governance (EC 41327.1(a)(5)).

IV. Following the completion of the initial comprehensive assessment, FCMAT shall complete improvement plans for the five operational areas that focus on established standards and that align with the school district's financial improvement plan (EC 41327.1(c)). The operational area plans shall be based on the level of improvement required to restore local authority, as determined by the county superintendent in consultation with FCMAT, the SPI, and the SBE president.

V. Once a loan has been made, FCMAT shall complete and file written status reports twice[14] annually until local authority is returned to the school district (EC 41327.1(d)). These reports will indicate the school district's progress in meeting recommendations outlined in its operational area improvement plans and shall be submitted to the following entities:

1. The appropriate fiscal and policy committees of the state Legislature.
2. The members of the Legislature who represent the school district.
3. Any advisory council of the school district.
4. The SPI.
5. The county superintendent.
6. The DOF.

Note: FCMAT shall complete a minimum of two[5] reports identifying the school district's progress in implementing the operational area improvement plans (EC 41326(f)(2)).

VI. FCMAT shall review the county superintendent's fiscal oversight of the school district receiving the emergency apportionment (EC 41326(l)(1)).

1. Within three months of the county superintendent assuming control over the school district, FCMAT shall report its findings to the state Legislature and provide a copy of that report to the DOF, SPI, and SBE president or their designee (EC 41326(l)(2)). This report shall include findings regarding fiscal oversight actions that were or were not taken. It may also include recommendations for an appropriate legislative response to improve fiscal oversight.

   Note: FCMAT has developed a tool for evaluating the fiscal oversight practices of county offices, which is available online here.

2. Following the initial report on the county superintendent's fiscal oversight, FCMAT will perform annual reviews to evaluate the effectiveness of the county superintendent's oversight of the school district (EC 41326(l)(3)).

VII. If FCMAT determines that a county superintendent failed to fulfill their fiscal oversight responsibilities for a school district that received an emergency appropriation, then the SPI, with the concurrence of the SBE president or their designee, may exercise the authority of that county superintendent (EC 41326(l)(4)).

In addition, the SPI and the SBE president shall further require the county superintendent to demonstrate remediation of the fiscal oversight deficiencies identified in FCMAT's reviews (EC 41326(l)(4)).

VIII. If the SPI finds, based on FCMAT's initial report and annual reviews on the county superintendent's fiscal oversight (EC 41326(l)(2)–(l)(3)), that a county superintendent failed to appropriately consider particular types of indicators of financial distress or to take appropriate remedial actions within a school district, the SPI shall further investigate whether this occurred in other districts with negative[15] or qualified[16] certifications that are under the county superintendent's jurisdiction (EC 41326(l)(4)).

[14]Although statute and historical practice provide for comprehensive reviews twice annually, the emergency appropriation legislation from 2012 mandated such reviews only once a year. The frequency of these reviews will be established in the emergency appropriation legislation specific to each district.
[15]A negative certification is issued when a district cannot meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.
[16]A qualified certification is assigned when a district may not meet its financial obligations for either the current fiscal year or the two subsequent fiscal years.

Legislative Budget Subcommittees

I. The legislative budget subcommittees shall annually review each school district with an emergency apportionment (EC 41326(j)). These reviews are to include the following:

1. An evaluation of the school district's financial condition.
2. The recovery plan's impact on the school district's educational program.
3. The administrator's efforts to obtain input from the school district's community and governing board.

Sequence of Events for a School District with an Emergency Appropriation Exceeding 200% of Its Recommended Reserve for Economic Uncertainties

Cash Insolvency

- School district declares cash insolvency.
- School district requests emergency apportionment.
- County superintendent of schools submits report of cash shortfall analysis and size of loan needed to the state.
- Plan to repay loan must be created by the school district and approved by the county superintendent and the superintendent of public instruction (SPI).
- State Legislature drafts a bill to fund the emergency appropriation.
- Once the governor signs the bill, the school district's superintendent is released and its governing board assumes an advisory role.

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Administrator Appointed for Districts that Exceed 200% Threshold

- Administrator appointed from a pool of experts by the county superintendent, with concurrence from the SPI and the State Board of Education (SBE) president.
- Administrator serves under the county superintendent's direction and supervision.
- Administrator functions as both the school district's governing board and superintendent.

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Local Control Returned

- Administrator determines that school district's future compliance with its recovery plan is likely.
- With concurrence from the SPI and the SBE president, the county superintendent returns power to the school district governing board once certain conditions have been met.
- Local control is returned to the school district, and the school district governing board reassumes authority and has authorization to hire a superintendent for the school district.

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Trustee Appointed

- Trustee appointed from a pool of experts by a majority vote of the county superintendent, SPI, and SBE president.
- Trustee reports directly to the county superintendent.
- Trustee serves until the school district establishes adequate fiscal systems and controls.
- Trustee has stay and rescind authority over actions of the school district governing board that may affect the district's financial condition.

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Trustee Released

- After a minimum of three years, the county superintendent, in concurrence with the SPI and the SBE president, may terminate the trustee's appointment.
- Until the loan is fully repaid, the county superintendent retains the right to stay or rescind actions taken by the school district's governing board that may affect the district's fiscal condition.

Note: Should the school district violate a provision of its approved recovery plan within five years following the release of the trustee or the repayment of the emergency apportionment, whichever occurs later, the county superintendent, with concurrence from both the SPI and the SBE president, may reassume all the legal rights, duties, and powers of the school district governing board, either directly or through an administrator (EC 41326 (h)). The restoration of local control to the school district governing board shall only occur after the county superintendent has determined that the district's future compliance with the approved recovery plan is likely, or after a period of one year, whichever occurs later.

CHARTER SCHOOL OVERSIGHT BY AUTHORIZER

California charter schools are unique within the public education system. Although the Charter Schools Act grants them exemptions from many Education Code (EC) provisions that pertain to school districts, charter schools remain subject to a range of other state and federal laws that govern public entities. This includes the same public records, open meeting, and conflict of interest laws as those imposed on school districts and county offices of education.

Effective July 1, 2019, new charter schools and those seeking renewal or material revision shall not operate as, or be operated by, for-profit corporations, for-profit educational management organizations, or for-profit charter management organizations (EC 47604(b)(1)). The petition used to establish a charter school outlines specific charter school functions, requirements, and covenants, which are also typically included in a memorandum of understanding (MOU) developed with the charter school's authorizer. Although charter schools are exempt from the general provisions of Assembly Bill 1200 (Chapter 1213, Statutes of 1991), they may opt to adhere to its standards in an MOU with their authorizing entities, as part of the authorizers' fiscal oversight.

As part of their AB 1200 oversight responsibilities, each county superintendent of schools must evaluate the risks that a school district faces regarding its authorized charter schools (EC 47604.32(a)(4) and 47604.33(b)). This may involve questions about how an authorizing school district fulfills its charter school oversight responsibilities, especially in areas such as accounting, attendance accounting, budgeting, payroll, and the review of charter schools' financial reports. Failure to manage these oversight responsibilities could jeopardize the school district's financial stability. Additionally, any issues related to a school district's charter school oversight responsibilities that could negatively impact the school district's financial condition must be considered by the county superintendent during their review of the district's oversight.

Effective July 1, 2020, as mandated by AB 1505 (Chapter 486, Statutes of 2019), a new charter school or one with a revised charter or an approved material revision can be authorized by either a school district or a county office. The authorizer is responsible for providing adequate and appropriate oversight of the charter school, as outlined in EC 47604.32. This includes fiscal oversight of the charter school which involves determining whether the charter school adheres to prudent business practices and generally accepted accounting principles for its revenues, expenditures and financial reports.

The authorizer may revoke a charter if they find, through a showing of substantial evidence, that the charter school did any of the following (EC 47607(f)):

- Committed a material violation of any of the conditions, standards, or procedures set forth in the charter (EC 47607(f)(1)).
- Failed to meet or pursue any of the student outcomes identified in the charter (EC 47607(f)(2)).
- Failed to meet generally accepted accounting principles, or engaged in fiscal mismanagement (EC 47607(f)(3)).
- Violated any law (EC 47607(f)(4)).

Provided it complies with all oversight responsibilities required by law, an agency that authorizes a charter that will be operated as or by a nonprofit public benefit corporation shall not be liable for the charter school's debts, obligations, or claims arising from its acts, errors, or omissions (EC 47604(d)).

FCMAT has developed free tools to help both charter schools and authorizers fulfill their fiscal oversight responsibilities. These include the following, which are available online at fcmat.org/charter-and-authorizer:

- The Charter School Annual Oversight Checklist helps determine whether a charter school has implemented adequate management controls. It also helps evaluate whether a charter school is meeting the requirements outlined in its petition and the MOU with its authorizing agency.
- The Charter School Petition Evaluation Matrix helps school districts and county offices evaluate charter school petitions. This document guides the reviewer through the charter school petition review process, helping to identify the petition's strengths and weaknesses.
- The Fiscal Health Risk Analysis (FHRA) helps evaluate a charter school's fiscal health and risk of insolvency in the current and two subsequent fiscal years. Charter schools should periodically, if not annually, complete an FHRA periodically, to assess their fiscal health risk and progress.
- The Indicators of Risk or Potential Insolvency list helps charter schools identify risks to their fiscal solvency. Each indicator on this list signifies a lack of function, commitment or attention to one or more critical elements of a charter school's operations. Neglecting to manage these critical areas will result in fiscal insolvency and the charter school's discontinuation.
- The *California Charter School Accounting and Best Practices Manual* helps inform charter schools about various legal requirements and pertinent FCMAT recommendations. Each chapter addresses one or more critical aspects of charter school financial management and related areas. This manual serves as a comprehensive guide to charter school accounting policies and procedures, along with being a reference for valuable financial and accounting resources. Its purpose is to help charter schools with navigating accounting policies, procedures, and other common functions.

Charter School Authorizer Oversight Responsibilities

Authorizers must ensure that each charter school performs the following:

I. Annually prepare and submit the following reports to its authorizer and the county superintendent (EC 47604.33(a)). If the county board of education is the authorizing agency, the reports should be submitted to the county superintendent.

    1. A preliminary budget, to be submitted by July 1 (EC 47604.33(a)(1)).

        - For a charter school in its first year of operation, the information submitted pursuant to EC 47605(h) satisfies this requirement.

    2. A local control and accountability plan (LCAP) and an annual update to the LCAP, to be submitted by July 1 (EC 47604.33(a)(2)).

        i. Each charter school shall hold a public hearing for the adoption of an LCAP, using a template prescribed by the State Board of Education (SBE) (EC 47606.5(a)). The LCAP, or the annual update of goals and actions, should be designed to achieve the goals outlined in the charter school's petition.

ii. Each charter school must develop an LCAP focused on the state's eight priority areas (as outlined in EC 52060(d)(1)–(8)) relevant to the grade levels it serves or the specific nature of its programs (EC 47606.5(a)).

- The goals for state priorities and their descriptions may be modified to align with the grade levels served and the nature of the programs provided by the charter school, pursuant to the California Department of Education's [CDE's] Local Control and Accountability Plan and Annual Update Template. This may involve incorporating only the statutory requirements explicitly applicable to charter schools in the Education Code.

iii. Each charter school must consult with its local community when developing and annually revising its LCAP (EC 47606.5(d)). This process should include teachers, principals, administrators, other school personnel, parents and students.

iv. The LCAP must be reviewed and revised annually by the charter school's governing body (EC 47606.5(a)).

- The law does not explicitly require that the charter school authorizer approve or disapprove the LCAP; rather, the authorizer will review the LCAP and annual update of goals and actions as part of its regular oversight duties (EC 47604.32(a)(3)).

5. A first interim financial report, to be submitted by December 15 (EC 47064.33(a)(3)). This report shall reflect changes through October 31.
6. A second interim financial report, to be submitted on or before March 15 (EC 47064.33(a)(4)). This report shall reflect changes through January 31.
7. A final unaudited report for the full prior fiscal year, to be submitted by September 15 (EC 42100(b) and 47064.33(a)(5)).

Note: Authorizers must also ensure that charter schools provide any other reports required by their petitions or MOUs.

II. Provides its authorizer, the county superintendent, the State Controller's Office (SCO), and the CDE with a copy of its annual independent financial audit report for the preceding fiscal year by December 15 of each year (EC 47605.6(m)). This is not applicable to charter schools that have an audit that is part of their authorizers' audit reports pursuant to EC 41020.

Note: The law does not offer provisions for extending the audit timeline for charter schools.

- Annual audits should begin in the first year in which a charter school has revenues or expenditures, which may precede the year in which classes start and it has average daily attendance (ADA). EC 14501 states that audits must follow the US Comptroller General's standards. Chapter 1 of the Comptroller General's 2024 *Government Auditing Standards* yellow book addresses the "foundation and principles for the use and application of government auditing standards." Standard 1.03 states, in part:

> Management and officials of government programs are responsible for providing reliable, useful, and timely information for transparency and accountability of these programs and their operations. Legislators, oversight bodies, those charged with governance, and the public need to know

whether (1) management and officials manage government resources and use their authority properly and in compliance with laws and regulations; (2) government programs are achieving their objectives and desired outcomes; and (3) government services are provided effectively, efficiently, economically, ethically, and equitably.

III. Responds promptly to all reasonable inquiries, including but not limited to those regarding its financial records and inquiries from (EC 47604.3):

- Its authorizer.
- The county office that has jurisdiction over its authorizer.
- The superintendent of public instruction (SPI).

IV. Consults with its authorizer, its county superintendent, or the SPI regarding any reasonable inquiries (EC 47604.3).

V. Notifies the county superintendent with jurisdiction over its authorizer of the charter school's location before starting operations (EC 47604.4(b)). This shall include the location of each site, if applicable.

Charter School Authorizer Duties

I. In addition to any other duties imposed, an authorizer shall perform all the following for the charter schools under its authority (EC 47604.32(a)):

1. Identify at least one staff member as a contact person for each charter school (EC 47604.32(a)(1)).
2. Visit each charter school at least annually (EC 47604.32(a)(2)).
3. Ensure that each charter school complies with legal requirements for all reports, including the LCAP and the annual update required pursuant to EC 47606.5 (EC 47604.32(a)(3)).
4. Monitor the fiscal condition of each charter school (EC 47604.32(a)(4)).
   - The authorizer shall use any financial or other information it obtains from the charter school to assess the charter school's fiscal condition (EC 47604.33). This includes but is not limited to the reports required by EC 47604.33.
5. Provide timely notification to the CDE if any of the following have occurred or will occur regarding a charter school (EC 47604.33(a)(5)):
   i. A charter renewal is granted or denied (EC 47604.33(a)(5)(A)).
   ii. A charter is revoked (EC 47604.33(a)(5)(B)).
   iii. A charter school will cease operation for any reason (EC 47604.33(a)(5)(C)).

II. The authorizer shall fund the cost of performing the duties listed above through supervisorial oversight fees collected pursuant to EC 47613 (EC 47604.32(f)).

III. In addition to any financial or other information it obtains from the charter school, the authorizer shall use the charter school's preliminary budget, first interim report, second interim report, and final unaudited actuals report to assess its fiscal condition (EC 47604.33(b)).

IV. The cost of performing the duties required by EC 47604.33 shall be funded with supervisorial oversight fees collected pursuant to EC 47613 (EC 47604.33(c)):

- The charter school authorizer may charge for the actual costs of a charter school's supervisorial oversight, not to exceed 1% of the charter school's revenue (EC 47613(a)).
- A charter school that obtains substantially rent-free facilities from its authorizer may be charged actual supervisorial oversight costs not exceeding 3% of the charter school's revenue (EC 47613(b)).
- A local educational agency that is given the responsibility for supervisorial oversight of a charter school pursuant to EC 47605(k)(1) may charge for the actual costs of supervisorial oversight (EC 47613(c)). A charter school that is charged for costs under EC 47613(c) may not be charged pursuant to EC 47613(a) or (b) (EC 47613(c)).

County Superintendent of Schools Charter School Oversight Rights

In addition to any other rights, county superintendents may perform the following:

I. A county superintendent may monitor the operations of and conduct an investigation into a charter school under their jurisdiction, based on written complaints by parents or other information that justifies the investigation (EC 47604.4(a)).

- If a county superintendent monitors or investigates a charter school pursuant to EC 47604.4, the county office shall not incur any liability beyond the cost of the investigation (EC 47604.4(a)).

II. At any time during a fiscal year, a county superintendent may review or audit the expenditures and internal controls of any charter school under their jurisdiction if they have reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination (EC 1241.5(c)):

1. Within 45 days of completing a review, audit or examination, the county superintendent shall report their findings and recommendations during a regularly scheduled meeting of the charter school's governing board (EC 1241.5(c)).
   - The county superintendent must provide a copy of this information to the charter school's authorizer (EC 1241.5(c)).
2. Within 15 calendar days of receiving this report, the charter school shall notify its authorizer and the county superintendent of its proposed response to the county superintendent's recommendations (EC 1241.5(c)).

III. A county superintendent may ask FCMAT to review the fiscal or administrative condition of a school district or charter school under their jurisdiction (EC 42127.8(c)(2)).

Revoking of a Charter by the State Board of Education

The SBE may revoke a charter, based on the SPI's recommendation, if the SBE finds any of the following (EC 47604.5):

- Gross financial mismanagement that jeopardizes the charter school's financial stability (EC 47604.5(a)).
- Illegal or substantially improper use of charter school funds for the personal benefit of any of the charter school's officers, directors, or fiduciaries (EC 47604.5(b)).
- Substantial and sustained departure from measurably successful academic practices, such that it would deny the educational development of the charter school's students (EC 47604.5(c)).
- Failure to improve student outcomes across multiple state and school priorities identified in the charter (EC 47604.5(d)).

PUBLIC DISCLOSURE RESPONSIBILITIES

Collective Bargaining

To foster public awareness of commitments made during collective bargaining, California Government Code (GC) 3547.5(a) requires the disclosure of provisions, including associated costs, in any tentative collective bargaining agreement for the current and subsequent fiscal years. This information must be disclosed during a public meeting before the agreement becomes binding for the public school employer and the exclusive representative.[17]

A literal interpretation of this statute suggests that it applies only to employees in collective bargaining groups and excludes individuals and unrepresented employee groups. However, GC 3547.5 should not be interpreted in isolation. In accordance with the oversight provisions in Assembly Bills 1200 (Chapter 1213, Statutes of 1991) and 2756 (Chapter 52, Statutes of 2004), as well as subsequent related legislation, each county superintendent of schools has a statutory responsibility to monitor school districts' fiscal health. Salaries and benefits typically make up 80-90% of a school district's general fund expenditures. Consequently, school districts should disclose any changes in salaries and benefits, including those that affect unrepresented employees, and each county office of education should review them for fiscal sustainability.

The school district superintendent and the chief business official (CBO) shall certify in writing that the district can meet the costs associated with the agreement for its entire duration (GC 3547.5(b)). This certification shall itemize any budget revisions necessary to meet the agreement's costs in each year of its term. If a school district lacks a permanent, interim or acting CBO capable of certifying the agreement's affordability, a best practice is for the school district superintendent to sign the agreement and note that the district is currently without a CBO or acting CBO.

If the superintendent submits a school district's disclosure after the departure of a CBO who refused to certify it, and if the county office is aware of the CBO's refusal, FCMAT recommends that the county office conduct a heightened review of the agreement and its multiyear fiscal impact on the district. Following this review, the county office should communicate in writing to the school district governing board any concerns it may have regarding the agreement's affordability. This communication should include an acknowledgment that the CBO refused to certify the agreement. It should also provide information regarding any potential intentional delays by the school district in submitting the agreement to the county superintendent.

In Management Advisory 92-01, "Public Disclosure of Collective Bargaining Agreements" (issued on May 15, 1992), the CDE provided advice on the minimum information that should be included in collective bargaining public disclosure documents. It advised that this minimum information would also satisfy the requirements for the salary settlement notification component outlined in the State Standards and Criteria for Fiscal Solvency.

According to the state standards and criteria, if employee negotiations are unresolved and a settlement is reached, the reviewing agency (county superintendent for school districts and superintendent of public instruction [SPI] for county offices) must receive a salary settlement notification. This notification must include an analysis of the settlement's cost and its impact on the operating budget. A template for disclosing collective bargaining agreements is available on FCMAT's website.

[17]The term "exclusive representative" refers to the employee organization that is recognized or certified as the sole negotiating representative of public school employees within a designated unit of a public school employer (GC 3540.1).

Additionally, a school district shall provide the county superintendent, upon request, with all relevant information needed to understand the financial impact of any final collective bargaining agreement reached pursuant to GC 3543.2 (GC 3540.2(d)).

Education Code 42142 provides that within 45 days of adopting a collective bargaining agreement, the school district superintendent shall forward to the county superintendent any current year budget revisions that are needed to fulfill the agreement's terms. Further, any additional costs incurred by the school district that may result from the agreement shall also be reflected in the district's interim reports and multiyear projections.

If a school district fails to adopt all the budget revisions needed in the current fiscal year to meet the costs of a collective bargaining agreement, the county superintendent shall issue a negative[18] or qualified[19] certification for the district on the next interim report in accordance with EC 42131 (GC 3547.5(c)).

Additional Requirements for Local Educational Agencies with Qualified or Negative Budget Certifications

Government Code 3540.2 establishes additional oversight measures for the collective bargaining process. In cases where a school district has a qualified or negative budget certification per EC 42131, the district must allow the county superintendent at least 10 working days to review and comment on any proposed agreement between the exclusive representative and the public school employer before the agreement's ratification (GC 3540.2(a)). The school district shall also provide the county superintendent with all information needed to understand the financial impact of that agreement (GC 3540.2(a)). If the county superintendent believes that the agreement poses a risk to the school district's fiscal well-being, they shall notify the county board of education, the district, and the school district's superintendent, governing board, parent organizations, and teacher organizations within the specified 10-day period (GC 3540.2(c)). Upon request, the school district shall provide the county superintendent with all relevant information needed to understand the financial impact of any final collective bargaining agreement reached pursuant to GC 3543.2 (GC 3540.2(d)).

A similar provision applies to county offices and school districts for which the county board serves as the school district's governing board. If these entities receive a qualified or negative certification under EC 1240, they must allow the SPI at least 10 working days to review and comment on any proposed agreement or contract made between the exclusive representative and the public school employer or its designated representative before the agreement's ratification (GC 3540.2(e)). If the SPI believes that the agreement poses a risk to the county office's or school district's fiscal well-being, they shall notify the county board and the county superintendent within the specified 10-day period.

[18] A negative certification is issued when a district cannot meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.
[19] A qualified certification is assigned when a district may not meet its financial obligations for either the current fiscal year or the two subsequent fiscal years.

Non-Voter-Approved Debt

To foster public awareness of long-term commitments made to support debt, both the Education Code and the Government Code include requirements for the disclosure and review of the structure, terms, cost, and school district's ability to repay proposed non-voter-approved debt issuances.

I. Regardless of its budget certification status, a school district must disclose all non-voter-approved debt issuances to the county superintendent and the county auditor at least 30 days before the approval of such issuances by the school district governing board (EC 17150.1(a)). This notification requirement applies to certificates of participation (COPs) and debt instruments that are secured by real property, such as revenue bonds, and bond anticipation notes (BANs). Exceptions to this requirement include debt instruments secured solely by specific general obligation bonds that have already been authorized by voters but not yet issued.

   1. The school district must provide its governing board and the county auditor, county superintendent, and public with information regarding the debt issuance (EC 17150(a) and 17150.1(a)). This must include repayment schedules and other information needed to assess the anticipated effect of the debt issuance. It must also include the cost of the issuance and evidence of the district's ability to repay its obligation.

      Note: FCMAT recommends that, whenever possible, the county office work with the county auditor to ensure that both entities are requesting the same information from local school districts.

   2. Within 15 days of receiving this information, the county superintendent and the county auditor may comment publicly to the school district governing board regarding the district's ability to meet its debt obligation, based on the information provided (EC 17150(a) and 17150.1(a)).

   Note: The proceeds from COPs and other non-voter-approved debt secured by real property cannot be used for a school district's general operations, regardless of the district's budget certification (EC 42133.5).

County boards share a similar disclosure obligation, and the SPI also has a similar responsibility to comment publicly, if necessary.

II. County offices must notify the SPI at least 30 days before the county board's approval of the issuance of COPs or other non-voter-approved debt instruments secured by real property (EC 17150.1(b)):

   1. County offices are required to provide information pertaining to the debt issuance, including repayment schedules; issuance costs, and evidence of their ability to repay the obligation, as well as the information needed to assess the anticipated effect of the debt issuance (EC 17150(b) and 17150.1(b)).

   2. Within 15 days of receiving this information, the SPI is authorized to comment publicly to the county board regarding the county office's ability to meet its debt obligation, based on the information provided (EC 17150(b) and 17150.1(b)).

Reporting requirements and a sample disclosure form for non-voter-approved debt are available on FCMAT's website.

Additional Requirements for Local Educational Agencies with Qualified or Negative Interim Report Certifications

For a school district that has an interim report with a qualified or negative certification, the county superintendent must approve the issuance of any non-voter-approved debt instruments, such as COPs, BANS, tax and revenue anticipation notes, lease purchases secured by real property, revenue bonds, or those secured by real property not subject to voter approval (EC 42133(a)). This is contingent upon the county superintendent determining that the debt repayment is likely.

If a county office holds a qualified or negative certification, the SPI must approve the issuance of any non-voter approved debt instruments (EC 42133(b)), similar to the relationship between a school district and a county superintendent.

Requirement to Accrue Full Liability for Other Postemployment Benefits

The Governmental Accounting Standards Board[20] (GASB) requires that governmental agencies disclose their financial obligations associated with providing other postemployment benefits (OPEBs). Such benefits include medical, dental, vision, hearing, prescription drugs, long-term care, long-term disability, death benefits, and life insurance.

The Governmental Accounting Standards Board was established in 1984 with the responsibility of creating and improving accounting and financial reporting standards for state and local governments. GASB fulfills this role, in part, by issuing GASB statements. In June 2004, the organization issued two related statements: *GASB Statement No. 43, Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans*, and *No. 45, Accounting And Reporting By Employers For Postemployment Benefits Other Than Pensions*, respectively. In 2009, it released *GASB Statement No. 57, OPEB Measurements By Agent Employers and Agent Multiple-Employer Plans*.

In June 2015, GASB approved new accounting standards for governmental entities that provide postemployment benefits other than pensions. Consequently, GASB Statement Nos. *43*, *45* and *57* were replaced by Nos. *74* and *75*, which became effective for fiscal years ending on June 30, 2017, and June 30, 2018, respectively. *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and *No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, introduced significant changes in how government employers recognize and measure their OPEB liability.

Financial Statements

GASB Statement No. 75 incorporated post-retirement liability into the balance sheet, specifically in the statement of net position. Previously, it was disclosed in the financial statement notes. This change leads to a more immediate recognition of OPEB-related expenses in the entity's financial statements. *GASB Statement No. 75* also introduced a significantly more comprehensive note section and requirement for supplementary information pertaining to postretirement liability.

[20]Charter schools organized as nonprofit organizations are not subject to GASB requirements. Instead, these entities are subject to the requirements of the Financial Accounting Standards Board.

Actuarial Evaluations

GASB Statement No. 75 requires that OPEB liability for both employers and nonemployer contributing entities be measured as follows:

I. Determine the portion of the present value of projected benefit payments to be provided to current active and inactive employees based on their past periods of service. This is the total OPEB liability.

II. Reduce the total OPEB liability by the amount of the OPEB plan's fiduciary net position.

Under *GASB Statement No. 45*, certain entities with very small OPEBs were eligible for a triennial valuation of their postemployment benefit liability. *GASB Statement No. 75* revised this guidance to allow entities with fewer than 100 employees (both active and inactive) who receive OPEBs through the plan to use a specified alternative measurement method instead of an actuarial valuation. Please note that *GASB Statement No. 75* requires all entities, regardless of size, to perform an actuarial valuation or calculate the total OPEB liability using the specified alternative method at least every two years. More frequent valuations or calculations are encouraged, especially for larger entities.

Other changes were also implemented in how the valuations are calculated, including:

- **Amortization Period:** *GASB Statement No. 75* eliminated the provision that allowed governmental entities to amortize the unfunded liability over a maximum of 30 years.
- **Cost Method:** *GASB Statement No. 75* eliminated the provision that allowed governmental entities to choose from six different cost methods. Instead, it established a single cost method for attributing the present value of benefit payments to specific years.

Fiscal Oversight Considerations

I. The State Standards and Criteria for Fiscal Solvency require all school districts to estimate all unfunded OPEBs and any unfunded portions of self-insured benefit programs at the time of budget adoption. Any changes to these unfunded liabilities must be disclosed at interim reporting periods. Further, county offices and school districts are required to disclose all long-term commitments and identify their funding streams. This information should be taken from the actuarial report created for this purpose.

II. Education Code 42127.6(a)(1) requires all school districts to provide their respective county superintendents with copies of any reports in which they are "showing fiscal distress." Per the 2005 *Unfunded Liabilities* summary report by the Business and Administrative Services Committee[21] of the California County Superintendents,[22] this definition includes any actuarial reports showing an unfunded liability.

III. FCMAT's Indicators of Risk or Potential Insolvency list includes inattention to debt and/or high levels of debt as risk factors for potential insolvency.

[21]Formerly known as the Business Administration Steering Committee.
[22]Formerly known as the California County Superintendents Educational Association.

Workers' Compensation Claims

Education Code 42141 requires, in part, the following:

I. If a school district or county office, either individually or as a member of a joint powers authority (JPA), is self-insured for workers' compensation claims, the school district superintendent or the county superintendent shall annually provide to the school district governing board or county board of education, as appropriate, information regarding the estimated accrued but unfunded costs associated with those claims (EC 42141(a)).

II. The estimate of costs shall be based on an actuarial report that is conducted at least once every three years and includes annual fiscal information (EC 42141(a)).

- If a school district or county office regularly contracts for an actuarial report for other fiscal matters, and if this report separately and clearly presents the estimate of workers' compensation costs as required by EC 42141(a), then a separate actuarial report on these costs is not required (EC 42141(a)).
- The actuarial report shall be performed by an actuary who is a member of the American Academy of Actuaries (EC 42141(a)).

III. The cost information and a copy of the actuarial report shall be presented by the superintendent at a public meeting of the governing board (EC 42141(b)).

IV. During the meeting, the governing board shall disclose, as a separate agenda item, its decision to either reserve adequate funds in its budget to cover the present value of accrued but unpaid workers' compensation claims or to adjust its workers' compensation reserve fund by that value (EC 42141(b)).

V. The school district governing board shall certify annually to the county superintendent the amount of money, if any, that it will reserve in its budget for the cost of those claims and shall submit to the county superintendent any budget revisions that may be necessary to account for the budget reserve (EC 42141(c)).

VI. The county board shall certify annually to the SPI the amount of money, if any, that has been reserved in the county office's budget for the cost of those claims (EC 42141(d)).

ANNUAL AUDIT REQUIREMENTS

Local Educational Agency, Joint Powers Authority, and Regional Occupational Center and Program Audit Responsibilities

I. Local educational agencies (LEAs) (Education Code [EC] 41020(a)), most joint powers authorities (JPAs) (Government Code 6505(b)), and regional occupational centers and programs (EC 41020(q)) are required to contract for an annual audit of their books and accounts by April 1 of each year (EC 41020(b)(3)). The annual audit must include an audit of income and expenditures by source of funds (EC 41020(b)(1)). Alternatively, the LEA governing board may make arrangements with the county superintendent of schools to provide for this audit (EC 41020(b)(1)).

   If an LEA fails to contract for an audit by April 1, the county superintendent is responsible for contracting with an audit firm on the LEA's behalf (EC 41020(b)(3)) by May 1 of each year (EC 41020(b)(1)). This audit shall include all funds under the LEA's jurisdiction and control (EC 41020(b)(1)), with the associated costs to be borne by the school district (EC 41020(e)(1)).

II. By December 15, a report of each LEA's audit for the preceding fiscal year shall be filed with the respective county superintendent, the California Department of Education (CDE), and the state controller (EC 41020(h)(1)). The audit shall comply fully with the *Government Auditing Standards* issued by the Comptroller General of the United States (EC 41020(b)(4)).

III. By January 31, each LEA governing board shall review at a public meeting the annual audit, including any audit exceptions, recommendations or findings issued by the auditor (EC 41020.3(a)). It shall also review any descriptions of correction or plans to correct any exceptions or findings.

Note: Per the State Controller's Office's (SCO's) "K-12 LEAs Audit Report Requirements" guidelines, EC 41020 applies to all LEAs, including JPAs and charter schools. However, EC 41020 does not apply to community colleges (EC 41020(b)(5)) or to JPAs established per EC 17567 (JPAs that provide health benefits, workers' compensation and property insurance).

Charter School Audit Responsibilities

I. Charter schools must outline in their charter petitions the process for conducting annual independent financial audits, which must adhere to generally accepted accounting principles (EC 47605(c)(I)). The petitions must also specify how any audit exceptions and deficiencies shall be resolved to the satisfaction of the charter schools' authorizers.

II. Although EC 41020(b)(3) requires the county superintendent to contract with an audit firm for LEAs that fail to contract for an audit by April, charter schools should adhere to the audit process outlined in their petitions and comply with any provisions set forth by the SCO. Information on these requirements is available online here. Moreover, FCMAT recommends that audit extensions be addressed in charter school petitions in the same section that describes how annual, independent financial audits shall be conducted (as outlined in EC 47605(c)(5)(I)).

III. Charter schools must submit copies of their annual audits to their authorizers, the California Department of Education (CDE), the SCO, and their respective county superintendents by December 15 of each year (EC 47605(m)).

Note: This requirement does not apply if a charter school's audit is part of the audit of its authorizer.

Auditor Contracts, Requirements and Responsibilities

I. Unless approved by the responsible county superintendent and the LEA governing board, a contract for conducting an audit of an LEA is not valid if (EC 41020(b)(2)):

- The LEA has a disapproved budget.
- The LEA has received a negative[23] certification on any budget or interim financial report during the current fiscal year or either of the two preceding fiscal years.
- The LEA has received a lack of going concern designation from the county superintendent.

II. Annual audits shall be performed by a certified public accountant (CPA) or a public accountant who is licensed by the California Board of Accountancy (CBA) (EC 41020(f)(1)). The auditor must also be included in the directory of CPAs and public accountants deemed by the SCO as qualified to conduct audits of LEAs. The SCO publishes an updated directory by December 31 of each year, which is available online here.

Note: It is unlawful for a public accounting firm to provide audit services to an LEA if any of the following individuals has performed audit services for that LEA in each of the six previous fiscal years (EC 41020(f)(2)):

- Lead audit partner.
- Coordinating audit partner with primary responsibility for the audit.
- Audit partner responsible for reviewing the audit.

However, the Education Audit Appeals Panel may waive this requirement if it finds that there are no other eligible auditors available to perform the audit (EC 41020(f)(2)).

III. The auditor is required to review the correction or plan of correction to determine if the exceptions have been resolved in the audit of an LEA for a subsequent year (EC 41020(l)). If the auditor finds that the exceptions remain unresolved, they must immediately notify the county office of education and the CDE. Following this notification, the CDE will either consult with the LEA to resolve the exception or require the county superintendent to follow up with the LEA.

IV. The auditor shall, upon request, provide a school district's fiscal information to the county superintendent if the county superintendent determines that the district may not be able to meet its obligations for the current or subsequent fiscal year (EC 41020.8). This shall not constitute a violation of auditor-client confidentiality.

[23] A negative certification is issued when a district cannot meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

County Superintendent of Schools Audit Responsibilities

I. If an LEA fails to submit its annual audit report by December 15, the county superintendent may investigate the cause of the delay and take action to obtain the report in the most effective manner by (EC 41020.2(a)):

- Granting an extension for the audit, after consulting with the school district governing board and the auditors, and with the consent of the SCO and the SPI (EC 41020.2(a)(1)).
    - Per the SCO's "Filing Extensions" guidelines, the request for an extension must be received by both the SCO and the CDE by December 15. The SCO and the CDE will review the request and its accompanying justification before providing notification regarding the approval or denial of the extension. The CDE's guidelines state that extensions will be granted only under extraordinary circumstances.
    - Per the SCO's "Filing Extensions" guidelines, a charter school seeking an audit extension must obtain approval from its authorizer. The charter school's authorizer should then notify the SCO and the CDE of the extension.
- Contracting with another audit firm to complete the audit, after consulting with the SCO, school district governing board and auditors (EC 41020(a)(2)). If the county superintendent takes this action, they should, to the extent possible, help the school district initiate action to avoid payment to the original contracted audit firm.
- Requesting that the SCO investigate the situation and initiate action (EC 41020.2(a)(3)).

II. Each county superintendent is responsible for reviewing each LEA's annual audit report (EC 41020(k)(1)) and shall review the audit exceptions in the annual audit reports of their LEAs (EC 41020(i)(1)). The county superintendent shall determine whether each audit exception has been corrected or if the LEA has developed an acceptable plan of correction in the following areas (EC 41020(i)(1)–(i)(2)):

- Attendance.
- Inventory of equipment.
- Internal control.
- Miscellaneous items.
- Instructional materials program funds.
- Teacher misassignments pursuant to EC 44258.9.
- Information reported on the school accountability report card pursuant to EC 33126.

If a description or plan of correction is not included in the audit, the county superintendent shall notify the LEA and request the LEA governing board provide this information by March 15 (EC 41020(j)(2)(A)). The county superintendent will then review the description or plan of correction to determine its adequacy (EC 41020(j)(2)(3)). If the county superintendent finds that the description or plan is inadequate, they shall require the LEA to resubmit the deficient portion of its response (EC 41020(j)(2)(3)).

III. By May 15, each county superintendent shall certify to the SPI and the SCO that county office staff have completed reviews of the audits and audit exceptions (EC 41020(k)(1)). This certification should confirm that all exceptions have been reviewed and that, except as noted in the certification, either they have been corrected or the LEA has submitted an acceptable correction plan.

In addition, the county superintendent shall identify, by LEA, any attendance-related audit exceptions or exceptions involving state funds and require these LEAs to submit to the SPI the appropriate reporting forms to resolve the exceptions (EC 41020(k)(1)).

IV. The county superintendent shall adjust future local property tax requirements when audit exceptions have a fiscal impact on local property taxes (EC 41020(o)).

V. The county superintendent may request fiscal information from a school district's auditor if the district may not be able to meet its obligations for the current or subsequent fiscal year (EC 41020.8).

VI. The county superintendent is required to notify in writing the CPA or public accountant and the CBA if they determine that an audit conducted under EC 41020 was not performed in substantial conformity with the provisions of the *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide) (EC 41020.5(a)). This notification is also required when audit reports, including amended reports, for two consecutive years fail to conform to the Audit Guide, as required by EC 14504.

If the county superintendent's determination becomes final, the CPA or the public accountant will be ineligible to perform school audits for either a period of three years, or, in the event of an appeal, any period as determined by the Board of Accountancy (EC 41020.5(c)). The appeal process is outlined in EC 41020.5(a)–(c)).

VII. The county superintendent or the county board of education may refer an independent auditor of an LEA to the CBA for potential action if the LEA's audit was conducted in a manner that may constitute unprofessional conduct, as defined by California Business and Professions Code 5100 (EC 14504.2(e)). Such conduct includes but is not limited to gross negligence resulting in a material misstatement in the audit.

California Department of Education Audit Responsibilities

I. The CDE is responsible for reviewing each LEA's annual audit report (EC 14502.1(a)) and any audit exceptions related to federal and state compliance (EC 40120).

State Controller Audit Responsibilities

I. For school districts that receive emergency apportionments (i.e., emergency loans) from the state, EC 41320.1(e) allows the state controller or their designee to conduct an audit in lieu of the audit required under EC 41020. The state controller has the discretion to either conduct the audit themselves, select an auditor they have designated as both active and able to perform audits of kindergarten through grade 12 LEAs, or approve an auditor chosen by the school district. Before beginning the audit, the selected auditor (if any), the county superintendent, a FCMAT representative, the SPI, and the school district superintendent, or their respective designees, shall meet to discuss the audit's terms and timeline.

These audits are required until the state controller, in consultation with the county superintendent and the SPI, determines that the school district is financially solvent (EC 41320.1(e)). This determination cannot occur earlier than one year following the plan's implementation or later than the full repayment of the apportionment, including interest (EC 41320.1(e)). In addition, the state controller shall conduct quality control reviews pursuant to EC 14504.2(c)(1)–(2).

II. The State Controller's Office (SCO) is responsible for reviewing each LEA's annual audit report and ensuring it meets the reporting requirements through the SCO's report certification process (EC 14504).

III. The SCO must conduct a quality control review of the audit working papers for the independent auditor(s) responsible for the audits conducted in the prior three fiscal years if (EC 14504.2(c)(1)):

- The LEA has received an emergency apportionment (EC 14504.2(c)(1)(A)).
- The LEA's budget is disapproved or it received a negative certification during the current or preceding fiscal year (EC 14504.2(c)(1)(B)).
- The LEA has received a lack of going concern designation from its county superintendent (EC 14504.2(c)(1)(C)).

Superintendent of Public Instruction Audit Responsibilities

I. The superintendent of public instruction is responsible for ensuring that LEAs have either corrected or developed plans of correction for (EC 41020(m)(1)):

1. All federal and state compliance audit exceptions (EC 41020(m)(1)(A)).
2. All exceptions that the county superintendent certifies as not having been corrected as of May 15 (EC 41020(m)(1)(B)).
3. All repeat audit exceptions that are not assigned to a county superintendent to correct (EC 41020(m)(C)).

FISCALLY ACCOUNTABLE AND FISCALLY INDEPENDENT SCHOOL DISTRICTS

A fiscally independent school district draws its own payroll and commercial warrants (i.e., checks) directly against the county treasury, independent of the county superintendent of schools, except for debt service warrants. In these school districts, no county officer is responsible for producing reports, statements or other data related to the payments made by these warrants. However, fiscally independent school districts must provide the county superintendent with necessary reports and data for retirement or other required reports. Additionally, if requested, lists of the warrants must also be provided to the county auditor and/or county superintendent. The school district retains all warrants, vouchers and supporting documentation. School district personnel authorized to issue warrants on behalf of the district must secure an official bond. This bond is conditioned on the faithful performance of their duties.

Fiscally independent school districts require approval from the superintendent of public instruction (SPI), which is granted following an application process that assesses the adequacy of the district's internal control[24] system. Eligibility to apply for fiscal independence is limited to unified school districts or those with an average daily attendance exceeding 10,000. As of this writing, there are 10 fiscally independent school districts.

Fiscally accountable school districts are similar to fiscally independent districts, with the primary difference being that their authority to issue warrants is limited to specific expense categories designated by the county superintendent. Typically, most fiscally accountable school districts draw warrants directly from the county treasury for payroll and commercial purposes independently of the county superintendent, although some may do so only for one of these purposes. Similar to fiscally independent school districts, fiscally accountable districts cannot issue debt service warrants. The reporting requirements for both types of school districts are also similar.

Fiscally accountable school districts require the approval of both the respective county superintendent and county auditor. This approval is granted through an application process that assesses the adequacy of the school district's management and accounting internal controls. As of this writing, there are 11 fiscally independent school districts.

The status of a school district is unrelated to its choice of financial system. Whether a school district is fiscally independent, fiscally accountable, or neither, it may choose to use the county superintendent's financial system or opt for a different system. This decision does not affect the school district's fiscally independent or fiscally accountable status.

FCMAT has developed the Fiscally Accountable/Independent Risk Analysis tool to help county superintendents of schools determine whether a fiscally accountable or fiscally independent school district, as defined by Education Code (EC) 42647 and 42650, respectively, has the accounting controls necessary to maintain its status. This analysis should be conducted at least annually to ensure ongoing compliance.

[24]The term "internal control" refers to the procedures and protocols used by a local educational agency (LEA) to protect its assets and ensure efficient operations. Internal control is the primary mechanism for preventing and/or deterring illegal acts or fraud. Proper internal control provides reasonable assurance that operations are effective and efficient, that the financial information produced is reliable, and that the LEA complies with all applicable laws and regulations.

FISCALLY ACCOUNTABLE AND FISCALLY INDEPENDENT SCHOOL DISTRICTS

A fiscally accountable or fiscally independent school district should continually monitor its accounting controls to ensure ongoing compliance with the requirements outlined in EC 42647 or 42650. A lack of adequate controls may indicate the need for revocation of a school district's fiscally accountable or fiscally independent status. A county office of education should consider using this assessment in tandem with FCMAT's Fiscal Health Risk Analysis (FHRA) tool. Both tools are available online at fcmat.org.

If a fiscally independent school district receives a negative[25] or qualified[26] interim certification, the SPI may suspend or revoke its fiscally independent status (EC 42652(a)). Similarly, if a fiscally accountable school district receives a negative or qualified interim certification, county superintendent may suspend or revoke its fiscally accountable status (EC 42652(b)).

Note: At any time during a fiscal year, the county superintendent may audit the expenditures and internal controls of fiscally accountable school districts (EC 1241.5(a)). This audit shall be conducted in a timely and efficient manner. The county superintendent shall report their findings and recommendations to the school district governing board within 45 days of completing the audit.

[25]A negative certification is issued when a district cannot meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

[26]A qualified certification is assigned when a district may not meet its financial obligations for either the current fiscal year or the two subsequent fiscal years.

FISCAL OVERSIGHT RESPONSIBILITIES OF SPECIFIC ENTITIES

School District Governing Boards

A school district governing board is primarily responsible for managing the district's fiscal affairs, including oversight of budgeting and financial reporting. The oversight responsibilities assigned to other entities through Assembly Bill 1200 (Chapter 1213, Statutes of 1991) and related legislation are a consequence of local governing boards failing to take primary responsibility and fulfill their fiduciary duties.

I. By July 1 of each year, each school district governing board shall (Education Code [EC] 42127(a)):

   1. Hold a public hearing on the budget to be adopted for the subsequent fiscal year (EC 42127(a)(1)). The agenda for this hearing must be posted at least 72 hours in advance.

   2. Adopt a budget and a local control and accountability plan (LCAP) or an annual update to the LCAP (EC 42127(a)(2)).

   Note: The public meeting during which a school district governing board adopts a budget and an LCAP must be held after, but not on the same day as, the public meeting at which the governing board conducts the required public hearings on the proposed budget and LCAP (EC 52062(b)(2)).

II. The school district governing board shall file the adopted budget and LCAP with the county superintendent of schools within five days of adopting the budget and LCAP or by July 1, whichever comes first (EC 42127(a)(2)(A)).

III. Within 45 days of the governor's signing of the annual Budget Act, the school district must make available to the public any budget revisions reflecting the Act's funding (EC 42127(h)).

IV. If the county superintendent disapproves or conditionally approves a school district's budget because it fails to meet the standards outlined in EC 42127(d)(1), the school district governing board shall take the following steps by October 8 (EC 42127(d)(3)):

   1. Revise the adopted budget to include changes in projected income or expenditures subsequent to July 1, and review and respond to the county superintendent's recommendations at a regular governing board meeting (EC 42127(d)(3)).

   2. Adopt the revised budget (EC 42127(a)(2)(A)).

   3. File the revised budget with the county superintendent (EC 42127(a)(2)(C)).

V. If the budget is disapproved by the county superintendent, the school district governing board has five working days to select a budget review committee (BRC) after receiving a list of candidates from the superintendent of public instruction (SPI) (EC 42127.2(a)). However, the school district governing board and the county superintendent may agree to waive the requirement to form a BRC (EC 42127.1(a)).

VI. If the BRC disapproves the budget, the school district governing board has five working days to respond to the SPI (EC 42127.3(b)). This response should include any budget revisions and proposed actions to be taken as a result of the BRC's recommendations. Subsequently, the SPI shall either approve or disapprove the revised budget based on the BRC's recommendations and the response of the school district governing board.

VII. If a school district's adopted budget or audited financial statements include a negative unrestricted fund balance or a negative cash balance, its governing board shall include with the adopted budget a statement that identifies the reasons for the negative balance (EC 42127.5). The school district shall also include the steps that have been taken to ensure the negative balance will not occur at the end of the current fiscal year.

VIII. By September 15 of each year, each school district governing board must approve, using a form prescribed by the SPI, a statement detailing all the district's receipts and expenditures for the preceding fiscal year (EC 42100(a)). This statement, along with any charter school statements if the school district is an authorizing entity, shall be filed with the county superintendent.

IX. Every school district superintendent shall submit two interim reports to their respective governing board during each fiscal year (EC 42130). The first interim report shall cover the school district's financial and budgetary status for the period ending October 31. The second interim report shall cover the period ending January 31. Both reports shall be approved by the school district governing board no later than 45 days after the close of the respective reporting periods, which fall around December 15 and March 15. All reports shall be in a format or on forms prescribed by the SPI and shall be based on the State Standards and Criteria for Fiscal Solvency.

County Superintendents of Schools

Fiscal Oversight

I. The county superintendent shall maintain responsibility for the fiscal oversight of each school district within their county (EC 1240(b)).

II. The county superintendent is not responsible for the fiscal oversight of the community college districts within their county; however, they may perform financial services on behalf of these community college districts (EC 1240(l)(4)).

Adopted Budget and Local Control and Accountability Plan

I. The county superintendent shall examine each school district's adopted budget to determine whether it complies with the state standards and criteria adopted by the State Board of Education (SBE) pursuant to EC 33127 (EC 42127(c)(1)).

II. The county superintendent shall determine whether the budget will allow the school district to meet its budget year and multiyear financial obligations (EC 42127(c)(2)).

III. The county superintendent shall determine whether each school district's LCAP or annual update to the LCAP:

1. Adheres to the template adopted by the SBE pursuant to EC 52064 (EC 52070(d)).
2. Adheres to the expenditure requirements set forth in EC 42238.07 for funds allocated based on the number and concentration of unduplicated students,[27] as specified in EC 42238.02 and 42238.03 (EC 52070(d)(3)).
3. Includes the required calculations to determine whether there is a carryover requirement[28] pursuant to EC 42238.07 and 52064 (EC 52070(d)(4)).
4. Includes a description of the planned uses of the specified funds and a description of how these uses satisfy the requirements for contributing toward meeting the increased or improved services requirement,[29] if applicable (EC 52070(d)(1)(E)).

IV. The county superintendent shall provide technical support to all school districts with disapproved LCAPs (EC 52071(b)). This support must include the identification of strengths and weaknesses (EC 52071(c)(1)) or the assignment of an academic expert or experts (EC 52071(c)(2)).

V. The county superintendent shall determine whether the adopted budget includes the expenditures necessary to implement the approved LCAP (EC 42127(c)(3)).

VI. The county superintendent shall determine whether the adopted budget includes a combined assigned and unassigned ending fund balance that exceeds the minimum recommended reserve for economic uncertainties (EC 42127(c)(4)).

VII. By September 15 of each year, the county superintendent shall approve, conditionally approve, or disapprove the adopted budget for each school district (EC 42127(d)(1)). The county superintendent shall either conditionally approve or disapprove a budget when it lacks adequate assurances that the school district will meet its current and future obligations and resolve any problems identified in the referenced studies, reports, evaluations, or audits (EC 42127(c)(2)).

VIII. By September 15 of each year, the county superintendent shall submit written recommendations to the governing boards of school districts with conditionally approved or disapproved budgets (EC 42127(d)(1)). These recommendations must outline any necessary budget revisions and the reasons for these recommendations, including any required adjustments for budget approval.

- The county superintendent may assign a fiscal advisor to help the school district develop a budget that complies with the recommended revisions (EC 42127(d)(1)).
- The county superintendent may appoint a committee to examine and comment on the county superintendent's review and recommendations (EC 42127(d)(1)). This committee must report its findings to the county superintendent by September 20.

IX. By September 15 of each year, the county superintendent shall develop budgets for school districts that have failed to do so (EC 42127(d)(1)). This shall be done at the school districts' expense. The county superintendent shall then transmit the budgets to the respective school district governing boards, and:

[27]Students who are foster youth, eligible for free or reduced-priced meals, or identified as English learners. Each eligible student is counted only once, even if they meet more than one of these criteria.

[28]A requirement that a certain percent of unspent funds be carried forward in a specific fund, as opposed to being retained in the unrestricted fund, for use during the following year.

[29]The LCFF requires a local educational agency (LEA) to provide evidence in its LCAP to demonstrate how the LEA plans to increase or improve services for unduplicated students compared to the services provided to all students. Services must be increased or improved in proportion to the increase in funds apportioned on the basis of the number and concentration of unduplicated students. To "increase services" means to grow services in quantity and to "improve services" means to grow services in quality.

1. The budget prepared by the county superintendent will be deemed adopted unless the county superintendent approves any modifications by the school district governing board (EC 42127(d)(1)).
2. The approved budget will be used as a guide for the school district's priorities (EC 42127(d)(1)).
3. The SPI will review and certify the budget approved by the county superintendent (EC 42127(d)(1)).

X. The county superintendent shall review the revised adopted budget[30, 31] to determine whether it (EC 42127(f)(1)):

1. Complies with the state standards and criteria adopted by the SBE pursuant to EC 33127 (EC 42127(f)(1)).
2. Allows the school district to meet its financial obligations during the fiscal year (EC 42127(f)(1)).
3. In the case of a conditionally approved budget, satisfies all conditions established by the county superintendent (EC 42127(f)(1)).
4. Is consistent with a financial plan that will enable the school district to satisfy its multiyear financial commitments (EC 42127(f)(1)).

XI. By October 22 of each year, the county superintendent shall provide a list to the SPI identifying all school districts for which budgets may be disapproved (EC 42127(e)).

XII. By November 8 of each year, the county superintendent shall approve or disapprove the revised budget (EC 42127(f)(1)).

1. If the county superintendent disapproves the revised budget, they will call for a BRC under EC 42127.1 unless the school district governing board and the county superintendent agree to waive this requirement and the California Department of Education (CDE) approves the waiver (EC 42127(f)(1)).
    - Alternatively, the BRC may take the form of a regional review committee (RRC), comprising individuals with expertise in both fiscal and educational aspects of local educational agency (LEA) management (EC 42127.1(c)). The county superintendent shall convene the RRC, subject to the approval of the school district governing board and the SPI.
        - The members of the RRC shall be reimbursed for their services and associated expenses by the CDE at rates established by the SBE (EC 42127.1(d)).
    - The county superintendent may request that the State Controller's Office (SCO) conduct an audit or review of the school district's fiscal condition to help the BRC or RRC (EC 42127.2(e)).
2. If the budget is approved by the BRC or RRC, the county superintendent shall accept their recommendations and approve the budget (EC 42127.3(a)).

[30]For school districts, see Point V of the "Adopted Budget and Local Control and Accountability Plan" subsection of this guide.
[31]For county offices, see Point VI of the "Adopted Budget and Local Control and Accountability Plan" subsection of this guide.

Disapproved Budget, Qualified or Negative Certification, or Other Fiscal Uncertainty

I. The county superintendent shall annually present a report to the SPI and to the governing board of any school district with a disapproved budget or a negative[32] or qualified[33] interim certification, or that was determined at any time to be in a position of fiscal uncertainty pursuant to EC 42127.6 (EC 1240(e)). This report will discuss the school district's fiscal solvency. A report template can be downloaded here.

II. In the case of a school district with a qualified or negative certification, the county superintendent has 10 working days to review and comment on the district's proposed collective bargaining agreement (Government Code [GC] 3540.2(a)). This includes determining whether the proposed agreement would endanger the school district's fiscal well-being (GC 3540.2(c)). The county superintendent shall notify the following entities of their determination within those 10 days (GC 3540.2(c)):

1. The school district.
2. The county board of education.
3. The school district superintendent.
4. The school district governing board.
5. Each recognized parent and teacher organization of the school district.

If a school district does not adopt all necessary budget revisions in the current fiscal year to meet the costs of a collective bargaining agreement, the county superintendent shall issue a qualified or negative certification for the district in the next interim report (GC 3547.5(c)).

III. The county superintendent shall review and consider the school district studies, reports, evaluations, or audits containing evidence of fiscal distress based on the SBE's state standards and criteria, and when commissioned by one or more of the following entities (EC 42127(c)(2) and EC 42127.6(a)(1)):

- The school district.
- The county superintendent.
- The SPI.
- State control agencies.

The county superintendent shall also consider findings by an external reviewer indicating that the school district is at moderate or high risk of intervention, based on the presence of common indicators for a district needing intervention[34] (EC 42127(c)(2) and EC 42127.6(a)(1)).

In the event that such findings are made, the county superintendent shall investigate the school district's financial condition (EC 42127.6(a)(1)). They must determine if the school district may be unable to meet its financial obligations for the current or two subsequent fiscal years and should therefore receive a qualified or negative certification (EC 42127.6(a)(1)).

[32] A negative certification is issued when a district cannot meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.
[33] A qualified certification is assigned when a district may not meet its financial obligations for either the current fiscal year or the two subsequent fiscal years.
[34] FCMAT's *Indicators of Risk or Potential Insolvency* list is available online at fcmat.org.

Unaudited Actuals

I. By September 15 of each year, each school district governing board shall approve and file a statement with the county superintendent detailing all the district's receipts and expenditures for the preceding fiscal year (EC 42100(a)). This shall include any statements for charter schools authorized by the school district once these statements have been approved by the school district governing board. By October 15, the county superintendent shall verify the mathematical accuracy of these statements, which are often referred to as the "unaudited actuals." The county superintendent shall then transmit a copy of these statements to the SPI.

Fiscally Accountable School Districts

I. At any time during a fiscal year, the county superintendent may audit the expenditures and internal controls of fiscally accountable school districts (EC 1241.5(a)). This audit shall be conducted in a timely and efficient manner. The county superintendent shall report their findings and recommendations to the school district governing board within 45 days of completing the audit.

Lack of Going Concern

I. The county superintendent shall review and consider studies, reports, evaluations, or audits containing evidence that a school district is demonstrating fiscal distress under the state standards and criteria EC 42127.6(a)(1)). This shall also include findings by an external reviewer that a school district is at moderate or high risk of intervention based on the presence of common indicators for a school district needing intervention.[35]

II. In the event that such findings are made, the county superintendent shall investigate the school district's financial condition (EC 42127.6(a)(1)). They must determine if the school district may be unable to meet its financial obligations for the current or two subsequent fiscal years and should therefore receive a qualified or negative certification.

The county superintendent must then provide a written lack of going concern determination to both the SPI and the school district governing board (EC 42127.6(a)(1)). This notification shall include the assumptions used in making the determination and the basis for it. It shall also be made available to the public.

In addition, the county superintendent shall report to the SPI regarding the school district's financial condition and the county superintendent's proposed remedial actions (EC 42127.6(a)(1)). The county superintendent shall take at least one of the following actions and all that are necessary to ensure the school district meets its financial obligations:

- Assign a fiscal expert to advise the school district on its financial problems (EC 42127.6(a)(1)(A)). The county superintendent shall pay for this expert.
- Conduct a study of the school district's financial and budgetary conditions (EC 42127.6(a)(1)(B)). If expertise is needed for the study, the county office may hire staff with the SPI's approval. The school district shall pay 75% and the county office shall pay 25% of those staff costs. County offices can request reimbursement for their 25% portion through a FCMAT reimbursement, subject to the approval of the CDE and Department of Finance (DOF).

[35] FCMAT's *Indicators of Risk or Potential Insolvency* list is available online at fcmat.org.

- Direct the school district to submit a financial projection of all its fund and cash balances for the current and subsequent fiscal years (EC 42127.6(a)(1)(C)).
- Require the school district to encumber all contracts and other obligations, to prepare appropriate cash flow analyses and budget revisions, and to record all receivables and payables (EC 42127.6(a)(1)(D)).
- Direct the school district to submit a proposal for addressing its fiscal condition (EC 42127.6(a)(1)(E)).
- Withhold compensation from the school district superintendent and school district governing board members for failure to provide requested financial information (EC 42127.6(a)(1)(F)). The school district may appeal this action to the SPI.
- Assign FCMAT to review teacher hiring practices and retention rates, the percentage of provision of highly qualified teachers, and the extent of teacher misassignment within the school district (EC 42127.6(a)(1)(G)). If a review team is assigned, the school district shall follow the team's recommendations.

Suspicion of Fraud, Misappropriation of Funds, or Other Illegal Practices

I. The county superintendent may at any time review or audit the expenditures and internal controls of any school district (EC 1241.5(b)) or charter school (EC 1241.5(c)) within their jurisdiction if they suspect the presence of fraud, misappropriation of funds, or other illegal fiscal practices.

II. Within 45 days of completing a review, audit or examination, the county superintendent shall report their findings and recommendations to the governing board of the school district (EC 1241.5(b)) or charter school (EC 1241.5(c)) at a regularly scheduled meeting.

- The school district governing board shall, within 15 calendar days of receiving this report, notify the county superintendent of its proposed actions (EC 1241.5(b)). After reviewing the school district governing board's response, the county superintendent may disapprove any fund payment orders, in accordance with EC 42638.
- The charter school's governing board shall, within 15 calendar days of receiving this report, notify its authorizer and the county superintendent of its proposed actions (EC 1241.5(c)).

III. If the county superintendent finds evidence that fraud or misappropriation of funds has occurred, they shall notify the school district governing board, local district attorney, state controller, and SPI (EC 42638(b)).

Audit Responsibilities

I. The county superintendent may determine whether an LEA's audit has been performed in substantial conformity with the provisions of the *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide) (EC 41020.5(a)).

II. After receiving the final audit reports and submitting them to each LEA's respective governing board, the county superintendent shall do all the following (EC 41020(j)):

1. Review audit exceptions related to attendance, equipment inventory, internal controls, and miscellaneous matters (EC 41020(j)(1)). Attendance exceptions or issues shall include but not be limited to those related to independent study and local control funding formula allocations pursuant to EC 42238.02, as implemented by EC 42238.03.
2. Notify and request each LEA's governing board to provide a description of the corrections or a plan of correction if it has not been provided as part of the audit required by EC 41020 (EC 41020(j)(2)(A)). The corrections or plan of correction must be submitted to the county superintendent by March 15.
3. Review the description of correction or plan of correction and determine its adequacy (EC 41020(j)(3)). If the description of the correction or plan of correction is inadequate, the county superintendent shall require the school district to resubmit the deficient portion of its response.

III. By May 15 of each year, each county superintendent shall certify to the SPI and state controller that county office staff have completed reviews of the audits and audit exceptions of LEAs within their jurisdiction for the prior fiscal year (EC 41020(k)(1)). This certification should confirm that all exceptions have been reviewed and that, except as noted in the certification, either they have been corrected or the LEA has submitted an acceptable correction plan.

In addition, the county superintendent shall identify, by LEA, any attendance-related audit exceptions or exceptions involving state funds and require these LEAs to submit to the SPI the appropriate reporting forms to resolve the exceptions (EC 41020(k)(1)).

State Board of Education

I. The SBE shall adopt state standards and criteria (EC 33127(a)).

II. The SBE shall adopt and may periodically update a comprehensive list of professional and legal standards (EC 41327.1(a)). All school districts are encouraged to use this guide, which is designed to help school districts conduct effective educational programs and implement fiscal and management practices. These standards shall serve as the basis for evaluating the progress of school districts that have received an emergency apportionment. The standards shall, at a minimum, address all the following operational areas:

1. Financial management (EC 41327.1(a)(1)).
2. Pupil achievement (EC 41327.1(a)(2)).
3. Personnel management (EC 41327.1(a)(3)).
4. Facilities management (EC 41327.1(a)(4)).
5. Community relations and governance (EC 41327.1(a)(5)).

The SBE last approved the comprehensive list of professional and legal standards in March 2019. It is available online here.

III. Within five days of the SPI receiving an appeal from the governing board of a school district designated a lack of going concern under EC 42127.6, the SBE president or their designee, in conjunction with the SPI, shall either deny or sustain it (EC 42127.9(b)).

Superintendent of Public Instruction

I. The SPI, state controller, and DOF shall revise and update, as necessary, the state standards and criteria used by transitional kindergarten through grade 12 LEAs in developing and managing their annual budgets (EC 33127(d)). These revisions or updates shall specify the fiscal year in which they are applicable.

II. The SPI shall review and certify school district budgets that have been developed by county superintendents in cases where a school district governing board failed to submit a budget (EC 42127(d)(1)).

III. The SPI can extend by up to a maximum of 15 working days beyond November 30 the deadline for a BRC's review of a school district's proposed budget and underlying fiscal policies (EC 42127.2(c)). Following the receipt of an extension, the BRC will submit to the county superintendent, SPI and school district governing board either a recommendation for budget approval or a report disapproving the budget, along with suggested revisions aimed at enabling the district to fulfill its financial obligations (EC 42127.2(b)(1)–(2)).

IV. Upon approving a BRC waiver, the SPI must ensure that the county superintendent adopts a balanced budget for the school district by December 31 (EC 42127.1(a)).

- The SPI may adopt a budget for any school district that has not already done so by December 31 (EC 42127(f)(1)).

V. By January 10 of each year, the SPI shall report to the state Legislature and the DOF if any school district, even one with a BRC waiver, did not have an adopted budget by December 31. This report shall include the following information (EC 42127(f)(1)):

1. The reasons the budget was not adopted by the deadline.
2. The steps being taken to finalize budget adoption.
3. The date the adopted budget is anticipated.
4. Whether the SPI has or will exercise the authority to adopt a budget for the school district.

VI. The SPI may request that FCMAT review the fiscal and administrative conditions of any (EC 42127.8(c)):

- County office.
- School district.
- Charter school.

VII. The SPI, with the concurrence of the SBE president or their designee, shall either deny or sustain, within five days of receiving it, an appeal from a school district governing board regarding change(s) made to its budget pursuant to EC 42127.3(b), 42127.6(c) or 42131(b) (EC 42127.9(b)). If the appeal is upheld, the SPI may revise the change(s) adopted by the county superintendent or issue guidelines outlining how the school district governing board or the county superintendent must modify the district's budget.

VIII. Within 10 days of receiving an appeal from a school district governing board pursuant to EC 42127.6(b) or (d), the SPI shall deny or sustain any or all parts of it (EC 42127.6(b) and (d)).

IX. The SPI shall monitor the efforts of county superintendents who are exercising their fiscal oversight authority (EC 42127.6(k)). If the SPI finds that a county superintendent's actions are not effectively resolving a school district's financial problems, the SPI may intervene by exercising the county superintendent's fiscal oversight authority. If the SPI assumes this authority, they shall:

1. Take further actions to ensure the school district's long-term fiscal stability.
2. Promptly notify the following entities
   - The county superintendent.
   - The county board.
   - The school district superintendent.
   - The school district governing board.
   - The appropriate policy and fiscal committees of each house of the state Legislature.
   - The DOF.
3. Be reimbursed by the county superintendent for all costs incurred in exercising such authority.

APPENDICES

Appendix A: California Department of Education Guidance

Appendix B: FCMAT Tools and Resources

Appendix C: County Office of Education Fiscal Oversight Reimbursement Information

Appendix D: Sample Fiscal Oversight Review Checklists and Procedures

Appendix E: *BASC Local Control and Accountability Plan (LCAP) Approval Manual*

Appendix F: County Office of Education Fiscal Oversight Letter Templates

Appendix G: Administrator Roles and Responsibilities

Appendix H: Trustee Roles and Responsibilities

Appendix I: California Department of Education Management Advisory 92-01, "Public Disclosure of Collective Bargaining Agreements"

Appendix J: State Standards and Criteria for Fiscal Solvency

Appendix K: Certified Public Accountants Directory Service

Appendix L: *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*

Appendix M: Standards for Comprehensive Reviews

Appendix N: Glossary of Education Terms

Appendix O: Governmental Accounting Standards Board Statements

Appendix A: California Department of Education Guidance

Click any title below to access the latest guidance from the California Department of Education.

State Standards and Criteria for Fiscal Solvency

In accordance with Education Code 33127, the state standards and criteria were designed to help school districts and county offices of education develop annual budgets and manage expenditures originating from those budgets. They are used to develop, review, monitor and assess school district and county office budgets and interim financial reports, as well as to monitor transitional kindergarten through grade 12 local educational agencies' fiscal stability. The state standards and criteria were originally adopted by the State Board of Education in May 1989 and have been updated periodically to align with legislative changes.

Fiscal Status

Information on the current status of school districts' and county offices' fiscal health (budget approvals, interim report certifications and emergency appropriations).

Forms and Templates

A repository of various budgetary forms and templates designed for school districts and county offices. The following documents were available at the time of this publication:

- "Application for Exemption from the Required Expenditures for Classroom Teachers' Salaries."
- "Notice of Interim Certifications from County Offices of Education."
- "Request for Approval from the State Superintendent of Public Instruction."
- "Request for Waiver of Budget Review Committee."
- "Status of School District Budget Approvals."

Accounting

Information and guidance on accounting and financial reporting for school districts and county offices. The following resources were available at the time of this publication:

- Advisories, bulletins and letters.
- The latest edition of the *California School Accounting Manual*.
- Every Student Succeeds Act per-pupil expenditure reporting information and guidance.
- Guidance for federal program audits, monitoring and compliance.
- Information on the appropriations limit (also referred to as the "Gann Limit") that was established by Proposition 4 in 1979.
- Governmental Accounting Standards Board statements.
- Indirect cost rate information.
- School Level Finance Survey reporting information and guidance.
- Standardized Account Code Structure guidance.

Appendix B: FCMAT Tools and Resources

Fiscal Health Risk Analysis

Click here to view and download FCMAT's Fiscal Health Risk Analysis for community college districts, school districts, charter schools, and county offices of education.

Indicators of Risk or Potential Insolvency

Click here to view and download FCMAT's Indicators of Risk or Potential Insolvency lists for community college districts, school districts, charter schools, and county offices of education.

Fiscally Accountable/Independent Risk Analysis

Click here to view and download FCMAT's Fiscally Accountable/Independent Risk Analysis for county offices.

Annual Fiscal Uncertainty Report Template

Click here to view and download FCMAT's annual fiscal uncertainty report template for county offices.

FCMAT Progressive Intervention Slide Deck

Click here to view and download FCMAT's slide deck on progressive intervention pursuant to EC 42127.6.

FCMAT Fiscal Alerts

Click here to view and download FCMAT's fiscal alerts for local educational agencies.

California Charter School Accounting and Best Practices Manual

Click here to view and download FCMAT's *California Charter School Accounting and Best Practices Manual* for school districts and county offices.

Charter School Annual Oversight Checklist

Click here to view and download FCMAT's Charter School Annual Oversight Checklist for school districts and county offices.

Charter School Petition Evaluation Matrix

Click here to view and download FCMAT's Charter School Petition Evaluation Matrix for school districts and county offices of education.

Index of Statutory and Regulatory References Pertaining to Fiscal Oversight

Click here to view and download FCMAT's Index of Statutory and Regulatory References Pertaining to Fiscal Oversight.

Appendix C: County Office of Education Fiscal Oversight Reimbursement Information

Click here to view the latest guidance on reimbursements to county offices of education for fiscal oversight performed in accordance with Assembly Bills 1200 (Chapter 1213, Statutes of 1991), 139 (Chapter 620, Statutes of 2001), and 2756 (Chapter 52, Statutes of 2004).

Appendix D: Sample Fiscal Oversight Review Checklists and Procedures

Click below to view and/or download sample checklists or procedures in Portable Document Format (PDF), Microsoft Word (DOCX) or Excel (XLSX) formats.

Adopted Budget Review Checklist — PDF | XLSX

Interim Review Checklist — PDF | XLSX

Unaudited Actuals Technical Review Checklist — XLSX

Public Disclosure of Collective Bargaining Workbook — XLSX

Non-Voter-Approved Debt — Procedures — PDF | DOCX

Non-Voter-Approved Debt — Summary of Disclosure — PDF

Appendix E: *BASC Local Control and Accountability Plan (LCAP) Approval Manual*

Click here to view and download the latest edition of the California County Superintendents' *BASC Local Control and Accountability Plan (LCAP) Approval Manual* available at the time of this publication.

Appendix F: County Office of Education Fiscal Oversight Letter Templates

Click the links below to download FCMAT's fiscal oversight letter templates for county offices:

Budget and Local Control and Accountability Plan Board Approval Letter

Budget and Local Control and Accountability Plan Conditional Budget Approval Letter

Adopted Budget Approval After Initial Conditional Approval Letter

Adopted Budget Conditional Approval Letter

Approval After Initial Budget Disapproval Letter

Conditional Budget Approval Letter

Disapproved Budget Due to Local Control and Accountability Plan Letter

Disapproved Budget Letter

Annual Summary Assembly Bill 139 Letter — Long

Annual Summary Assembly Bill 139 Letter — Short

Positive Certification Changed to Qualified Certification Interim Report Letter

Qualified Certification Change to Negative Certification Interim Report Letter

Concurrence with School District's First Interim Qualified Certification Letter

Concurrence with School District's First Interim Qualified Certification (2) Letter

Interim Review Response Letter

Lack of Going Concern (1) Letter

Lack of Going Concern (2) Letter

Lack of Going Concern (3) Letter

Concurrence with School District's Second Interim Negative Certification Letter

Appendix G: Administrator Roles and Responsibilities

When a school district becomes insolvent and requires an emergency state apportionment exceeding 200% of its recommended reserve for economic uncertainties, as per the State Standards and Criteria for Fiscal Solvency, the county superintendent of schools, under the supervision of the superintendent of public instruction (SPI), assumes control of the district to ensure its return to fiscal solvency.

The county superintendent, with concurrence from both the SPI and the State Board of Education (SBE) president, will appoint an administrator in accordance with relevant Education Code (EC), including EC 41325, 41326 and 41327. The administrator makes all decisions, including those normally made by a school district's governing board and superintendent. They serve under the direction and supervision of the county superintendent, with concurrence from both the SPI and the SBE president or their designee. The administrator serves until their service is terminated by the county superintendent, with concurrence from both the SPI and the SBE president or their designee.

An administrator shall have recognized expertise in management and finance and shall be selected from a pool of candidates identified and vetted by the Fiscal Crisis and Management Assistance Team (FCMAT). When selecting a candidate pool for the administrator position, FCMAT shall consider candidates' expertise in management and finance, experience in mitigating fiscal distress in districts, and ability to engage meaningfully with the district's local community.

On behalf of the county superintendent, the administrator shall perform the following functions:

1. Assume all legal rights, duties, and powers of the school district governing board, superintendent, and personnel commission if applicable.
2. Assume control and oversight of all school district fiscal, educational, programmatic and operational functions, with the primary objective of returning the district to fiscal solvency and restoring its local control and governance.
3. Implement substantial changes in the school district's fiscal policies and practices, including, if necessary, the filing of a Chapter 9 bankruptcy petition to restructure the school district's indebtedness.
4. Revise the school district's educational program to reflect realistic income projections and to improve student performance relative to state standards.
5. Represent the school district in consultation with its governing board, governmental agencies, parents, community, and the exclusive representatives[36] of its employees.
6. Encourage all community members to accept a fair share of the burden of the school district's fiscal recovery.
7. Consult with and seek recommendations from the county superintendent, SPI and FCMAT to ensure the school district's fiscal recovery and solvency.
8. Request advice and assistance from the California Collaborative for Educational Excellence, as needed.
9. Upon approval by the county superintendent, enter into agreements on behalf of the school district and, subject to any contractual obligations of the district, change district rules, regu-

[36]The term "exclusive representative" refers to the employee organization that is recognized or certified as the sole negotiating representative of public school employees within a designated unit of a public school employer (GC 3540.1).

lations, policies, or practices as needed to effectively implement the district's fiscal recovery plans.

10. Certify that all necessary collective bargaining agreements have been negotiated and ratified, and that they are consistent with the terms of the school district's recovery plan.
11. Ensure the school district has completed all reports required by the county superintendent and the administrator.
12. Determine, with concurrence from the county superintendent and the SPI, whether the school district's future compliance with its approved recovery plan is likely.
13. Discuss options for resolving the school district's fiscal problems with all the following groups within 30 days of assuming authority, and then consider information from one or more of the following groups at least monthly:
    - The school district governing board.
    - Any advisory council of the school district.
    - Any parent-teacher organization of the school district.
    - Representatives from the community in which the school district is located.
    - The administrative team of the school district.
    - FCMAT.
    - Representatives of the school district's employee bargaining units.
    - The county superintendent.
14. Prepare or obtain the following reports and plans for approval by the county superintendent and the SPI:
    I. A management review and recovery plan.
    II. A multiyear financial recovery plan, to be submitted annually by July 1, to repay all state loans.
    III. An annual report on the school district's financial condition, including, but not necessarily limited to, all the following information:
        i. Specific actions taken to reduce expenditures or increase revenue, and the amount of the resulting cost savings and increases in revenue.
        ii. A copy of the adopted budget for the current fiscal year.
        iii. The budgetary reserve amount.
        iv. The status of employee contracts.
        v. Any obstacles to the implementation of the recovery plans.
15. Conduct, in consultation with FCMAT, comprehensive assessments in the following areas:
    I. Financial management.
    II. Pupil achievement.

   III. Personnel management.

   IV. Facilities management.

   V. Community relations and governance.

16. Evaluate employees who report directly to the administrator and who oversee the evaluation of other employees as defined by California law and the school district's policies.
17. Review all school district policies and procedures and make appropriate decisions for addition, deletion or modification.
18. Provide leadership and direction, as needed, in planning and financing school additions or improvements to meet growth needs, or in strategically identifying and coordinating school consolidations and/or closures.
19. Identify and assess potential and actual lawsuits against the school district and determine potential settlement options or other resolutions.
20. Assist as needed in matters pertaining to the school district's fiscal recovery and solvency, with the intent to return the district to local control and governance.
21. Perform any additional duties or address any additional goals as outlined in the emergency appropriation legislation.

Appendix H: Trustee Roles and Responsibilities

Acceptance by a school district of an emergency state apportionment (i.e., loan) made pursuant to Education Code (EC) 41320 constitutes an agreement by the district that a trustee will be appointed to ensure its fiscal recovery and solvency per EC 41320.1. The trustee shall be appointed by the county superintendent of schools, superintendent of public instruction (SPI), and State Board of Education (SBE) president or their designee, by majority vote. They shall report directly to the county superintendent and act as an advisor to the school district's governing board and superintendent, guiding them through the recovery process. The trustee holds the authority to stay and rescind any actions of the school district governing board that are inconsistent with the school district's fiscal recovery plan. They shall serve in this capacity until the school district establishes adequate fiscal systems and controls, and the SPI assesses that the district is likely to comply with the fiscal plan approved pursuant to EC 41320.

This trustee shall have recognized expertise in management and finance and shall be selected from a pool of candidates identified and vetted by the Fiscal Crisis and Management Assistance Team (FCMAT). When selecting a candidate pool for the trustee position, FCMAT shall consider candidates' expertise in management and finance, experience in mitigating fiscal distress in districts, and ability to engage meaningfully with the school district's local community.

Note: With approval from the county superintendent, SPI, and SBE president or their designee, a trustee may be appointed with the authority and responsibilities of an administrator, as set forth in EC 41325.

The trustee shall monitor and review the school district's operations, and shall perform the following functions:

1. Serve in a fiscal oversight capacity until the school district establishes adequate fiscal systems and future compliance with its approved recovery plan is likely.
2. Provide advice and make recommendations to school district staff and governing board members regarding budgetary, fiscal, or other issues that may affect the district's financial condition.
3. Attend all school district governing board meetings and review all materials before each meeting to determine if any items or intended actions will have a negative fiscal impact on the district's financial condition.
4. Stay or rescind an action of the school district governing board or personnel commission when the action may adversely affect the district's financial condition or conflict with its approved recovery plan.
5. Notify the county superintendent after staying or rescinding a decision by the school district governing board. The county superintendent shall then notify the SPI and the SBE president or their designee of this action within five business days.
6. Monitor the financial projections and cash balances of all school district funds for the current and two subsequent fiscal years, and assist district staff in preparing these projections if necessary.
7. Monitor all collective bargaining activity and review all proposals being considered, including their resulting fiscal impact.

8. Meet regularly with the school district superintendent and the chief business official to obtain updates on the district's efforts to reduce expenditures or increase revenues.
9. Help the county superintendent establish timelines and prescribe formats for reports and other materials to be used to monitor and review the school district's operations.
10. Maintain open and ongoing communication with the county superintendent and the school district's staff, governing board and community, and promptly inform the county superintendent of any critical issues or incidents.
11. Review and approve the school district's required annual report on its financial condition, including the following information:
    I. Specific actions taken to reduce expenditures or increase income, and the cost savings and increased revenue resulting from those actions, to ensure they are aligned with the school district's needs and recovery plan.
    II. The adopted budget for the current fiscal year.
    III. Reserves for economic uncertainties.
    IV. Status of employee contracts.
    V. Obstacles to implementing the adopted recovery plan.
12. Use FCMAT's Fiscal Health Risk Analysis tool to annually evaluate the school district's risk of insolvency in the current and two subsequent fiscal years, and communicate any findings to the county superintendent.
13. Determine, with concurrence from the county superintendent and SPI, whether the school district is likely to comply with its approved recovery plan.
14. Provide regular updates to the county superintendent regarding the school district's progress toward fiscal stability.
15. Consult with and seek recommendations from the county superintendent, SPI and FCMAT about ensuring the school district's fiscal recovery and solvency.
16. Assist, as needed and pursuant to EC 41320.1, 41321 and 41322, in matters pertaining to the school district's fiscal recovery and solvency.
17. Review the school district's financial and budgetary conditions, including an analysis of internal controls, to determine if the district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or if it should receive a qualified[37] or negative[38] interim financial certification.
18. Meet with appropriate school district staff, as needed, to assess the district's fiscal health, organizational structure and staffing, effectiveness of internal controls, and other related matters.
19. Consult with the school district governing board on fiscal and budgetary matters, facilities projects, debt obligations and other operational areas as needed.

[37]A qualified certification is assigned when a district may not meet its financial obligations for either the current fiscal year or the two subsequent fiscal years.
[38]A negative certification is issued when a district cannot meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

20. Provide recommendations for improvements in school district processes related to the budget, such as position control, opportunities for cost containment, and reducing contributions from the general fund to restricted programs.

21. Ensure the school district conducts its business operations in accordance with statutory requirements and adheres to acceptable legal and professional standards.

22. Advise the county superintendent regarding potential actions to improve or protect the school district's fiscal solvency.

23. Provide additional support, technical assistance, professional learning, and advice in the Long Range Recovery Plan (LRRP) for the five operational areas defined by EC 41327.1 (financial management, facilities management, personnel management, community relations and governance, and pupil achievement). Focus on helping the school district address the recommendations identified in the LRRP to support its recovery, organizational effectiveness and future solvency. Report annually to the county superintendent regarding the school district's progress in implementing its LRRP.

Appendix I: California Department of Education Management Advisory 92-01, "Public Disclosure of Collective Bargaining Agreements"

CALIFORNIA STATE DEPARTMENT OF EDUCATION | **Bill Honig**
721 Capitol Mall; P.O. Box 944272 | Superintendent
Sacramento, CA 94244-2720 | of Public Instruction

Management Advisory 92-01

May 15, 1992

To: County and District Superintendents
County and District Board Presidents
Chief Financial Officers

From: Robert W. Agee
Deputy Superintendent for Field Services

Subject: PUBLIC DISCLOSURE OF COLLECTIVE BARGAINING AGREEMENTS

Local educational agencies (LEAs) are now required by AB 1200 (Statutes of 1991, Chapter 1213) to publicly disclose the provisions of all collective bargaining agreements before they enter into a written agreement. This provision ensures that the public is aware of the costs associated with a tentative collective bargaining agreement before it becomes binding on the district or county office of education. The new legislation also requires that the State Superintendent of Public Instruction (SSPI) establish a format for the purpose of satisfying this public disclosure requirement. Government Code Section 3547.5 states:

> **Before a public school employer enters into a written agreement with an exclusive representative covering matters within the scope of representation, the major provisions of the agreement, including, but not limited to, the costs that would be incurred by the public school employer under the agreement for the current and subsequent fiscal years, shall be disclosed at a public meeting of the public school employer in a format established for this purpose by the Superintendent of Public Instruction.**

The intent of the legislation is to ensure that members of the public are informed of the major provisions of a collective bargaining agreement before it becomes binding on the district. **The SSPI is not proposing to mandate a specific form or procedure for the public disclosure; however, he recommends that, at a minimum, the following procedures and format be used by all LEAs in meeting the Government Code Section 3547.5 mandate for public disclosure of collective bargaining agreements.** It should be noted that these procedures and format are only recommendations. County offices of education and school districts have the opportunity to modify and expand them to address issues unique to their own situations.

The SSPI is recommending that the public disclosure include, at a minimum, the following information:

Management Advisory 92-01
May 15, 1992
Page 2

1. Make available to the public a copy of the proposed agreement prior to the day of the public meeting; the number of days the agreement should be made available to the public is determined locally.

2. Prepare a summary of the proposed agreement and distribute it to board members along with a copy of the agreement prior to the day of the public meeting; the number of days the summary should be made available to the public is determined locally. At a minimum, the summary should include the following items:

   a. Major provisions of the agreement that affect compensation. This would include direct increases in salaries, and increased health and welfare (H&W) benefits. Some examples of the types of provisions which should be highlighted include the percent change in the on-schedule salaries; changes in the level of H&W benefits; changes in H&W benefit dollar contributions by the employer; changes in step and column or longevity provisions; changes in overtime, differential, callback and standby pay provisions; changes in teacher or classified staffing ratios; one-time bonuses or off-the-schedule increases, etc.

   b. Other provisions which will result in increased expenditures such as class size reduction or increased staff development days. While these do not equate to an increase in compensation for the employees, they will result in an increased cost to the LEA.

   c. Costs of the proposed agreement categorized into these four components for the current and subsequent fiscal years:

      1 - salaries,
      2 - benefits,
      3 - other compensation, and
      4 - other non-compensation costs

      Clearly indicate the percent increase of total compensation (salaries, benefits, and other compensation provisions) for the average represented employee as a result of the settlement. The approximate cost to the LEA of providing a one percent increase in total compensation should also be presented.

   d. Identify the proposed source(s) of funding for the current and subsequent years and outline the assumptions used to determine that resources will be available to meet the obligations of the proposed settlement.

   e. Identify other major provisions that do not directly affect the LEA's costs, such as binding arbitration, grievance procedures, etc.

Management Advisory 92-01
May 15, 1992
Page 3

The summary should be signed by the superintendent prior to submittal to the board, and signed by the board president after the agreement has been approved.

3. The disclosure item should be listed as an informational item on the agenda. Each LEA is legally responsible for making this information available to the public prior to the board's adoption of any collective bargaining agreement. We strongly recommend that school districts also make such information available to their county offices of education prior to adoption.

The above information may also be used to satisfy the Salary Settlement Notification component of the statewide Criteria and Standards. Three years ago the State Board of Education adopted statewide Criteria and Standards for use in developing and monitoring LEA budgets. Included was a Salary Settlement Notification component very similar to the new public disclosure requirement. Specifically, the Criteria and Standards state that if salary and benefit negotiations for teachers are not finalized at the time the budget is adopted, when they are finalized the school district must determine the cost of the settlement and provide an analysis of the cost of the settlement to the county office of education along with its impact on the operating budget.

The CDE developed the Impact of Salary Settlement Notification Form that LEAs have been using to meet this reporting requirement. The information required in this form is virtually the same as required by the new provisions of AB 1200. Therefore, to reduce duplicative effort and paperwork, the Impact of Salary Settlement Notification form will be eliminated. In its place, LEAs will submit the materials developed to meet the public disclosure requirements of AB 1200.

If you have any questions regarding this information, please call Bill Fong in the Office of School Financial Reports at (916) 327-5289.

NOTICE

THE GUIDANCE IN THIS FISCAL MANAGEMENT ADVISORY IS NOT BINDING ON LOCAL EDUCATION AGENCIES OR OTHER ENTITIES. EXCEPT FOR THE STATUTES, REGULATIONS, AND COURT DECISIONS THAT ARE REFERENCED HEREIN, THIS FISCAL MANAGEMENT ADVISORY IS EXEMPLARY, AND COMPLIANCE WITH IT IS NOT MANDATORY. (See Education Code section 33308.5)

RWA:DC:dc:92-0047

Appendix J: State Standards and Criteria for Fiscal Solvency

Click here to view the State Standards and Criteria for Fiscal Solvency.

Appendix K: Certified Public Accountants Directory Service

Click here to view the State Controller's Office's Certified Public Accountants Directory Service for kindergarten through grade 12 local educational agency audits.

Appendix L: *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*

Click here to view the Education Audit Appeal Panel's most recent *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Appendix M: Standards for Comprehensive Reviews

Click here to view the standards for comprehensive reviews.

Appendix N: Glossary of Education Terms

Click here to view EdSource's Glossary of Education Terms.

Appendix O: Governmental Accounting Standards Board Statements

GASB Statement No. 74

Click here to view Governmental Accounting Standards Board (GASB) *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

GASB Statement No. 75

Click here to view GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.