
Indicators of Risk or Potential Insolvency

For California Charter Schools

The Fiscal Crisis and Management Assistance Team (FCMAT) has compiled the following list of indicators of risk or potential insolvency based on more than 30 years of experience with local educational agencies since the inception of Assembly Bill (AB) 1200 in 1991. This list will continue to be revised to ensure it remains relevant and helpful.

Each indicator signifies a lack of function, commitment or attention to one or more critical elements of a charter school's operations. The existence of any one of these indicators increases the risk of insolvency and the need for assistance from outside agencies. A charter's failure to manage these critical areas will eventually lead to fiscal insolvency and its discontinuation.

Identifying issues early is the key to maintaining fiscal health. Diligent multiyear planning, proactive risk assessment and accurate cash flow projections enable charters to better understand their financial objectives and to develop strategies to sustain a high level of fiscal effectiveness and overall solvency. Charters should discuss these indicators regularly and complete a Fiscal Health Risk Analysis (FHRA) periodically, if not annually, to assess their fiscal health risk and progress. The FHRA for charter schools is available at: www.fcmat.org/fiscal-health.

1. Inattention to Annual Independent Audit Report

- Most recent and/or two prior audit reports include material apportionment and/or internal control findings
- Most recent and/or two prior audit reports include material weakness findings
- Failure to correct findings in most recent and/or prior two audit reports
- Failure to complete and present most recent audit report to the board within statutory timelines

2. Inadequate Budget Development and Adoption

- Unreasonable and/or unclear budget assumptions
- Reliance solely on prior-year rollover budget method
- Failure to use position control data
- Failure to correctly calculate Local Control Funding Formula (LCFF) revenue
- Failure to submit Senate Bill (SB) 740 funding determinations for nonclassroom-based charters timely and/or funding determinations reduced by the California Department of Education (CDE)
- Reliance on private revenues/donations
- Failure to prioritize expending restricted funds before unrestricted funds
- Failure to adopt and/or follow a budget calendar
- Failure to solicit input from the budget advisory committee, parents, board, administrators and staff during budget development
- Failure to adopt and file the LCAP and budget with the county superintendent of schools within statutory timelines

- Reliance on carryover funds
- One-time sources used for ongoing expenditures
- Failure to address deficiencies noted in the authorizer's oversight letter(s)
- Failure to adopt and file interim financial reports and unaudited actuals within statutory timelines
- Failure to align the budget with Local Control Accountability Plan (LCAP) expenditures
- Negative and/or contra accounts used for expenditures other than appropriate abatements and Standardized Account Code Structure objects 5700s and 7300s
- Lack of a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and their potential multiyear impact on the unrestricted general fund

3. Insufficient Budget Monitoring and Updates

- Failure to regularly update budget assumptions
- Negative or three consecutive qualified interim report certifications
- Actual revenues and expenditures not consistent with the most current budget
- Failure to post budget revisions in the financial system routinely and/or to communicate them to the board regularly
- Failure to encumber and adjust encumbrances for salaries and benefits
- Failure to make necessary budget revisions to reflect board-approved compensation increases before the next financial reporting period
- Failure to produce timely and accurate financial information
- Lack of clearly written and articulated budget assumptions to support budget revisions at each interim report
- Failure to regularly reconcile balance sheet accounts in the general ledger
- Failure to respond entirely or in part to authorizer's questions and requests regarding budget development
- Requisitions and/or purchase orders processed when the budget is not sufficient

4. Inadequate Cash Management

- Failure to reconcile county treasurer and bank (cash and investment) accounts monthly
- Failure to project cash flows for the current fiscal year and the subsequent year
- Lack of a reasonable plan to address cash flow needs
- Failure to properly account for the assigning or selling (factoring) of accounts receivable(s)
- Failure to document and reconcile intercharter borrowing and/or transfers
- Lack of communication to the board about the charter's cash position (with a clear distinction between cash and fund balances)
- Failure to include repayment of borrowed funds in cash flow projections

5. Mismanaged Collective Bargaining and Unrepresented Employee Agreements or Compensation Agreements

- Failure to consider and adequately quantify the fiscal impact of compensation increases or collective bargaining agreements and/or failure to include their effects in the budget and multiyear projections (MYPs)
- Failure to identify resources to cover the fiscal impact of compensation increases or collective bargaining agreements
- Failure to conduct thorough and/or timely analyses of proposed compensation increases or settlements
- Compensation increases or settlements (including step-and-column costs) above the funded cost-of-living-adjustment for the current and prior two fiscal years

6. Increasing and/or Uncontrolled Contributions and Transfers

- Insufficient control and monitoring of contributions/transfers to other restricted programs and/or funds
- Lack of a board-approved plan to eliminate, reduce, or control contributions/transfers to other restricted programs and funds
- Contributions/transfers to restricted programs and/or other funds not budgeted and/or not included in the MYPs

7. Continued Deficit Spending (Unrestricted General Fund)

- Deficit spending in the current or two subsequent fiscal years
- Lack of or failure to implement a board-approved plan to reduce and/or eliminate deficit spending
- Failure to decrease deficit spending over the past two fiscal years

8. Mismanaged Employee Benefits

- Failure to complete actuarial valuations in accordance with the Governmental Accounting Standards Board requirement to determine the unfunded liability for other post-employment benefits, if applicable
- Lack of a board-adopted plan to fund health and welfare retiree benefit liabilities, if applicable
- Lack of or failure to comply with a policy to limit accrued vacation balances
- Failure to verify benefit eligibility of all employees, retirees and dependents within the last five years
- Failure to track, reconcile and/or report compensated leave balances

9. Inattention to Enrollment and Attendance

- Decreasing and/or unstable enrollment and/or average daily attendance (ADA)
- Failure to monitor and analyze enrollment and ADA data at least monthly

- Enrollment and/or ADA projections and assumptions not based on historical data, industry standards, and other reasonable considerations
- Failure to submit the Pupil Estimates for New or Significantly Expanding Charters form timely, if applicable

10. Inattention to Facilities

- Lack of an accurate long-range facilities master plan
- Lack of sufficient and available capital outlay to cover all contracted obligations for capital facility projects
- Failure to track and account for facility-related projects
- Failure to use facilities fully in accordance with the Office of Public School Construction's loading standards
- Failure to include facility needs (e.g., maintenance, repair, and operating requirements) in the adopted budget
- Failure to meet Williams Act facility inspection requirements and/or to resolve outstanding issues

11. Decreasing Fund Balance/Net Position and Reserve for Economic Uncertainty

- Failure to accurately estimate the ending fund balance
- Failure to maintain the minimum reserve for economic uncertainty in the current and two subsequent years
- Lack of a board-approved plan to restore the minimum reserve for economic uncertainty, if applicable
- Unstable or decreasing projected unrestricted fund balance
- Failure to include assigned or committed reserves above the recommended reserve level in the unrestricted fund balance when one-time costs or unfunded or contingent liabilities exist

12. Mismanaged General Fund – Current Year

- Lack of control or monitoring of total compensation costs
- Uniform complaints or legal challenges regarding the use of supplemental and concentration grant funding
- Failure to use restricted funds fully within required timelines
- Failure to account for program costs, including maximum allowable indirect costs, for each restricted resource and other fund

13. Nonintegrated Information Systems and Data Management

- Financial and human resources systems not integrated
- Failure to use systems to provide the financial and personnel data needed to make informed decisions

- Lack of capacity or failure to maintain accurate and consistent data across all systems (e.g., student information, human resources, food services, and special education)
- Failure to review, verify, correct and certify California Longitudinal Pupil Achievement Data System (CALPADS) data before submission deadlines
- Inaccurate data consistently reported to CALPADS and other state agencies
- Failure to accurately identify students who are eligible for free and reduced-price meals, English learners and/or foster youth, in accordance with the LCFF and LCAP
- Lack of emergency data recovery systems
- Failure to conduct regularly scheduled tests of the security measures that protect students' and employees' personal information

14. Ineffective Internal Controls and Fraud Prevention

- Lack of controls that limit access to the financial system
- Failure to update financial system access and authorization upon employment actions (e.g., resignations, terminations, promotions and demotions) and/or failure to review system access and authorization at least annually
- Lack of segregation, supervision and/or monitoring of duties in accounts payable, accounts receivable, purchasing, contracts, payroll and/or human resources
- Failure to post and reconcile beginning balances for the new fiscal year with the ending balances from the prior fiscal year
- Failure to review and clear prior year accruals by the first interim reporting period
- Failure to reconcile or close general ledger timely
- Failure to disclose related-party transactions
- Lack of an internal audit process
- Lack of adequate processes and procedures to discourage and detect fraud
- Lack of an independent fraud reporting service (e.g., an anonymous hotline) and lack of a process for following up on such reports

15. Weaknesses in Leadership and Stability

- Frequent turnover in the chief business official and/or superintendent/chief executive officer (CEO) positions (incumbents have been with the charter less than two years)
- Lack of regular communication among the superintendent/CEO and all administrative cabinet members
- Failure to perform the superintendent's/CEO's evaluation according to the terms of their contract
- Failure to hold board meetings regularly
- Failure to make board meeting agendas and minutes available to the public
- Deteriorating relationships between and among the board, superintendent/CEO and authorizer

- Failure to train board members in budget and governance at least every two years
- Failure to provide timely training on financial management, budget and governance to the administrators responsible for budget management and decision making
- Failure to follow, adopt, update, implement and/or communicate board policies, administrative regulations and bylaws
- Micromanagement by board members
- Systems fully or partially controlled by highly influential special interest groups
- Nonprofit exempt status has been revoked, denied or suspended

16. Inadequate Multiyear Projections

- MYPs not in accordance with reasonable outyear assumptions and long-term commitments
- Insufficient restricted funds to pay for staff and lack of a plan to fund these positions with unrestricted funds
- Failure to explain trend analyses
- Failure to prepare LCFF calculations with multiyear considerations
- Failure to consider most recent MYP when making financial decisions

17. Inattention to Debt and Risk Management

- Debt repayment sources are unstable and/or unpredictable
- Downgrade of credit rating within the current and two prior fiscal years
- Outdated actuarial study (more than two years old) and/or lack of a plan to pay for any unfunded liabilities when self-insured
- High levels of debt (e.g., revenue anticipation notes, bridge financing, selling of accounts receivables), with total annual debt service payments greater than 2% of the charter's unrestricted general fund revenues

18. Lack of Position Control

- Incomplete accounting of all positions and costs
- Failure to analyze and/or adjust staffing based on staffing ratios and enrollment
- Failure to regularly reconcile budget, payroll and position control
- Failure to identify budget sources for new positions before board approval
- Failure to obtain board approval before posting new positions and extra assignments
- Failure to adopt and/or follow staffing ratios for certificated, classified and administrative positions
- Lack of regular meetings among human resources, payroll and budget staff to discuss issues and improve processes

19. Unmonitored Special Education

- Failure to monitor special education costs and/or contribution rate above the statewide average
- Failure to align special education staffing ratios, class sizes and caseloads with statutory requirements and industry standards
- Failure to access available funding sources for special education costs
- Failure to use appropriate tools to make informed decisions regarding whether to add services
- Failure to budget and/or account for all special education costs
- Identification rate of students as eligible for special education is above the countywide and/or statewide averages
- Failure to analyze and/or meet maintenance of effort requirement at each financial reporting period