
Indicators of Risk or Potential Insolvency

For California Community Colleges

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 community college district's operations. The existence of any one of these indicators increases the risk of insolvency and the need for assistance from outside agencies. A district's failure to manage these critical areas will eventually lead to fiscal insolvency and loss of local control.

Identifying issues early is the key to maintaining fiscal health. Diligent multiyear planning, proactive risk assessment and accurate cash flow projections enable districts to better understand their financial objectives and to develop strategies to sustain a high level of fiscal effectiveness and overall solvency. Districts 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 community colleges is available at: www.fcmat.org/fiscal-health.

1. Inattention to Annual Independent Audit

- Most recent and/or two prior audit reports include material apportionment and/or internal control findings
- Most recent and/or prior two audit reports include material weakness findings
- Failure to correct findings in most recent and/or prior two audit reports
- Failure to file audit reports accurately and timely in three or more of the five previous reporting periods
- 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
- One-time sources used for ongoing expenditures
- Failure to align the budget with the district's strategic plan or other commitments
- Failure to use position control data
- Failure to solicit input during budget development in accordance with the district's documented planning model
- Failure to correctly estimate Student Centered Funding Formula (SCFF) revenue
- Failure to prioritize expending restricted funds before unrestricted funds
- Lack of a documented policy and/or procedure in accordance with the district's strategic plan for evaluating the proposed acceptance of grants and other types of restricted funds and their potential multiyear impact on the unrestricted general fund

- Reliance on carryover funds
- Failure to use contra expenditure accounts in accordance with the Budget and Accounting Manual
- Failure to integrate enrollment management and budget development systems
- Failure to adopt and/or follow a budget calendar

3. Insufficient Budget Monitoring and Updates

- Failure to regularly update budget assumptions
- 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 produce timely and accurate financial information
- Quarterly financial status reports (CCFS-311Qs), clearly written summaries of the reports, and clearly written and articulated budget assumptions to support the budget revisions not submitted to the board quarterly
- Failure to complete budget revisions following board approval of collective bargaining agreements
- Failure to address budget-related deficiencies noted in the most recent Accrediting Commission for Community and Junior Colleges (ACCJC) Annual Fiscal Report
- Failure to create a written plan to address issues of concern after notification of enhanced monitoring or watch-list status based on the college's ACCJC Annual Fiscal Report
- Requisitions and/or purchase orders processed when the budget is not sufficient
- Failure to encumber and adjust encumbrances for salaries and benefits
- Failure to regularly reconcile balance sheet accounts in the general ledger

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
- Insufficient cash resources in other funds to meet current and projected obligations in those funds
- Failure to include repayment of borrowed external and internal funds in cash flow projections
- Lack of communication to board about the district's cash position (with a clear distinction between cash and fund balances)

5. Mismanaged Collective Bargaining 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)
- Settlements (including step-and-column costs) above the funded cost-of-living-adjustment for the current and prior two fiscal years
- Failure to conduct thorough and/or timely analyses of proposed compensation increases or settlements
- Failure to obtain board approval and certification of collective bargaining agreements for all bargaining units in the current and either of the prior two years
- Failure to identify resources to cover the fiscal impact of compensation increases or collective bargaining agreements
- Failure to analyze faculty staffing and reassigned time for the past two years, including the impact of the overall cost as it relates to collective bargaining

6. Increasing and/or Uncontrolled Intra- and Interfund Transfers

- Insufficient control and monitoring of intra- and interfund transfers (i.e., contributions or encroachments) to categorical and other auxiliary programs
- Failure to obtain advance board approval for intra- or interfund transfers from or to the unrestricted general fund
- Lack of a board-approved plan to eliminate, reduce or control intra- and interfund transfers
- Failure to make unrestricted general fund transfers when needed to cover projected negative fund balances in other funds
- 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 Governmental Accounting Standards Board requirements to determine the unfunded liability for other post-employment benefits
- 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 or collective bargaining agreement to limit banked and overload hours and other 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 Reporting

- Decreasing and/or unstable enrollment
- Failure to monitor and analyze enrollment, weekly student contact hours (WSCH), and full-time equivalent student (FTES) data at least monthly through second principal appointment (P-2)
- Failure to track historical WSCH and FTES data to establish future trends
- Failure to maintain and reconcile WSCH data at the college (if applicable) and district levels at least monthly through P-2
- Enrollment projections and/or assumptions not based on historical data, demographic trend analysis, high school enrollments, community participation rates, industry standards, and other reasonable considerations
- Failure to file enrollment reports accurately and timely in three or more of the five previous reporting periods
- Differences between institutional research and business/fiscal staff on enrollment and FTES projections
- SCFF supplemental and success metrics not addressed in college enrollment plans
- Failure to include established academic productivity goals in the district's comprehensive enrollment plan
- Failure to review, verify and correct data as needed before state report submission deadlines
- Lack of or failure to comply with a board policy on enrollment

10. Inattention to Facilities

- Lack of sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facility projects
- Failure to track and account for facility-related projects
- Failure to use lecture classrooms for at least 48 or 53 hours per 70-hour week, as defined by the Board of Governors (BOG) policy on Utilization and Space Standards
- Failure to use laboratory classrooms for at least 27.5 hours per 70-hour week, as defined by the BOG policy on Utilization and Space Standards
- Lack of an accurate long-range facilities master plan that includes current and projected facility needs, condition, and assessment and that aligns with the district's five-year capital outlay plan
- Failure to annually adopt and follow a five-year scheduled maintenance plan

- Failure to meet the audit, reporting, and citizens' bond oversight committee requirements for Proposition 39 general obligation bonds, if applicable
- Lack of a resolution for a Proposition 39 general obligation bond, parcel tax legal challenges or program audit findings concerning the use of those funds, uniform complaints and/or findings on those items, if applicable
- Lack of an Americans with Disabilities Act transition plan
- Lack of a total cost of ownership calculation/model for new facilities or programs

11. Inadequate Fund Balance 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

- Lack of control or monitoring of total compensation costs
- Percentage of the district's general fund unrestricted budget that is allocated to salaries and benefits, instructional service agreements, backfill of categorical to employee compensation, and pay-as-you-go retiree health benefit expenses is not at or below 85% for the three prior years
- Failure to comply with the Fifty Percent Law (Education Code 84362) for the past three years
- Failure to comply with the Full-Time Obligation Number
- Insufficient restricted funds to pay for staff and lack of a plan to fund these positions with unrestricted funds
- Failure to use restricted funds fully within required timelines
- Failure to comply with statutory and regulatory requirements for individual restricted and unrestricted funding streams
- Failure to account for program costs, including maximum allowable indirect costs, for each restricted resource
- Failure to file state and/or federal financial reports accurately and timely in three or more of the five previous reporting periods

13. Nonintegrated Information Systems and Data Management

- Failure to integrate human resources, position control and financial reporting systems
- Lack of emergency data recovery systems
- Failure to integrate enrollment class scheduling software with the budget development system
- Failure to conduct regularly scheduled tests of the security measures that protect students' and employees' personal information
- Failure to validate the supplemental and success outcomes funded in the SCFF using reports from management information systems
- Failure to use systems to provide key financial and personnel data needed to make informed decisions

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 controls 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, human resources, and/or warehouse/receiving
- 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 October 31
- Failure to regularly reconcile suspense accounts
- Failure to reconcile or close the general ledger timely
- 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
- Lack of an internal audit department or dedicated staff to perform internal audits
- Lack of adequate processes and procedures to limit the issuance and ensure the appropriate use of credit cards (e.g., CAL-Cards)

15. Weaknesses in Leadership, Stability and Communication

- Frequent turnover in the chief business official and/or chancellor/chief executive officer (CEO) positions (incumbents have been with the district less than two years)
- Lack of regular communication among the chancellor/CEO and all administrative cabinet members
- Failure to provide timely training on financial management, budget and governance to the district, college, and department administrators responsible for budget management and decision making

- Failure to follow, adopt, update, implement and/or communicate board policies and administrative regulations
- Failure to train board members in budget and governance at least every two years
- Failure to perform the CEO's evaluation according to the terms of their contract
- Micromanagement by board members

16. Lack of Multiyear Planning

- Unreasonable and/or unclear multiyear assumptions and projections that are not aligned with industry standards including those of the California Community Colleges Chancellor's Office (CCCCO) and of the ACCJC
- Failure to explain trend analyses
- Failure to prepare SCFF calculations with multiyear considerations
- Failure to consider most recent MYP when making financial decisions

17. Inattention to Non-Voter-Approved Debt and Risk Management

- Non-voter-approved debt repayment sources are unstable and/or unpredictable
- Downgrade of credit rating within the current and two prior fiscal year years
- Outdated actuarial study (more than two years old) and/or lack of a plan to pay for any unfunded liabilities when self-insured
- Non-voter-approved debt (e.g., bridge financing, bond anticipation notes, certificates of participation and revenue anticipation notes) with total annual debt service payments greater than 2% of the district'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 identify budget sources for new positions before board approval
- Failure to regularly reconcile budget, payroll and position control
- Failure to obtain board approval before posting new positions and extra assignments
- Lack of regular meetings among human resources, payroll and budget staff to discuss issues and improve processes