

Fiscally Accountable/Independent Risk Analysis



FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Key Indicators for Fiscally Accountable and Fiscally Independent TK-12 School Districts

The Fiscal Crisis and Management Assistance Team (FCMAT) has developed the Fiscally Accountable/Independent Risk Analysis as a tool to help county superintendents of schools determine whether a fiscally accountable or fiscally independent school district¹, as defined by Education Code (EC) 42647 and 42650, has adequate warrant, disbursement, and internal controls to maintain its status as fiscally accountable or independent. This analysis should be conducted at least annually to ensure ongoing compliance.

Each of the key control areas below contains several questions. Answering "No" to an individual question does not necessarily indicate insufficient controls. Instead, the tool should be used to help determine if the district has adequate warrant, disbursement, and internal controls to maintain its status as fiscally accountable or independent.

If the district lacks proficiency in multiple sections (indicating moderate or high risk), there may be cause for concern, and additional review may be warranted. The more items identified as deficient, the greater the risk that controls are not adequate for the fiscally accountable or independent status to continue.

If a district lacks proficiency in multiple areas and demonstrates that with a higher percentage of "No" answers, corrective action plans should be developed. Every "No" answer should be a compliance concern.

A fiscally accountable or fiscally independent district should continually monitor its warrant, disbursement, and internal controls to ensure ongoing compliance with the requirements of EC 42647 and 42650. A lack of adequate controls may indicate a need for revocation of the fiscally accountable or fiscally independent status. A county superintendent should consider using this assessment in conjunction with [FCMAT's Fiscal Health Risk Analysis](#).

District Name: _____

☐ Fiscally Independent [EC 42647]

Processes all warrants, except debt service, independent of the county office of education.

Date of approval by superintendent of public instruction (SPI): _____

☐ Fiscally Accountable [EC 42650]

Processes vendor and/or payroll warrants as designated by the county superintendent, except debt service, independent of the county office.

Date of approval by county superintendent: _____

Date of approval by county auditor: _____

Designated categories:

☐ Vendor warrants

☐ Payroll warrants

Identified exclusions: _____

Person designated as district auditor/district disbursing officer: _____

Education Code 42650 requires that the county superintendent provide for a periodic review of a district's financial transactions and internal control, pursuant to Section 1241.5(a). The most recent review by the county superintendent is dated _____.

¹This tool is intended primarily to review TK-12 districts, because county superintendents do not have fiscal oversight responsibilities for community college districts. However, a county superintendent may still provide warrant authorizations for community college districts. EC 85266 (fiscally accountable) and 85266.5 (fiscally independent) provide the legal basis for community college districts to approve warrants independent of a county office.

Is the district adhering to appropriate controls and maintaining compliance in the following areas?

Yes No N/A

1. Warrant Issuance Controls

- | | | | |
|---|--------------------------|--------------------------|--------------------------|
| • Does the governing board designate, either through a board policy or board resolution, a district internal auditor or district disbursing officer responsible for issuing warrants? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Is the person responsible for issuing warrants bonded in an amount determined by the governing board? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the district have audit procedures to ensure only legally authorized expenditures are approved for payment? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the district secure payroll and commercial warrants at all times? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the district maintain controls over the signing of warrants, including safeguarding any electronic or facsimile signatures? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the district track the sequencing of warrant numbers and investigate any unidentified gaps? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the district use banking safeguards, such as positive pay, to ensure all issued warrants are authorized? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the district's financial system have safeguards to prevent any unauthorized issuance of warrants? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the district's financial system have safeguards to prevent any unauthorized posting to the general ledger? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the district have safeguards to prevent those responsible for posting to the general ledger from also issuing warrants? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the district have safeguards to prevent those responsible for issuing warrants from also posting to the general ledger? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Are issued warrants and the associated registers and documentation audited by someone other than the person responsible for issuing the warrants? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Are warrant pre-lists and/or registers consistently forwarded to the county auditor on the same day warrants are issued? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Are warrant pre-lists or registers consistently forwarded to the county office of education on the same day warrants are issued? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Are procedures followed to verify that general ledger cash balances show sufficient cash in all issuing funds before warrants are generated? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Are safeguards in place to prevent the issuance of warrants from the debt service fund, where applicable? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Is the oversight of all purchases and payments centralized in the district office, including the issuance of all warrants and the processing of all contracts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Are there 13 or more "Yes" responses for Warrant Issuance Controls? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Is the district adhering to appropriate controls and maintaining compliance in the following areas?

Yes No N/A

2. Purchasing and Invoicing Controls

- Are procedures followed to obtain additional required authorizations for purchases that exceed district-established amounts? ☐ ☐ ☐
- Are requisitions or purchase orders prohibited from being processed when the budget is insufficient to support the expenditure? ☐ ☐ ☐
- Does the bidding process adhere to the Public Contract Code? ☐ ☐ ☐
- Are the employees who are responsible for modifying the vendor master file prohibited from adding or modifying vendor invoices? ☐ ☐ ☐
- Are the employees who are responsible for adding or modifying vendor invoices prohibited from authorizing and generating disbursements? ☐ ☐ ☐
- Are the employees who are responsible for approving invoices and payments prohibited from processing and recording payments? ☐ ☐ ☐

Are there five or more “Yes” responses for Purchasing and Invoicing Controls? ☐ ☐ ☐

3. Internal Controls

- Does the district have adequate internal controls and separation of duties, where necessary, in the following areas?
 - Accounting, including accounts payable and accounts receivable ☐ ☐ ☐
 - Budgeting. ☐ ☐ ☐
 - Information Technology. ☐ ☐ ☐
 - Personnel/Human Resources ☐ ☐ ☐
 - Purchasing/Procurement. ☐ ☐ ☐
 - Warehousing/Receiving. ☐ ☐ ☐
 - Internal Audit (where applicable) ☐ ☐ ☐
- Is the district adequately staffed in the following areas?
 - Accounting, including accounts payable and accounts receivable ☐ ☐ ☐
 - Budgeting. ☐ ☐ ☐
 - Information Technology. ☐ ☐ ☐
 - Personnel/Human Resources ☐ ☐ ☐
 - Purchasing/Procurement. ☐ ☐ ☐
 - Internal Audit (where applicable) ☐ ☐ ☐

Are there 10 or more “Yes” responses for Internal Controls? ☐ ☐ ☐

Is the district adhering to appropriate controls and maintaining compliance in the following areas?

Yes No N/A

4. Audits and Compliance

- | | | | |
|---|--------------------------|--------------------------|--------------------------|
| • Does the district have an internal audit function? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • If there is an internal audit function, are the internal auditors independent of the individuals or departments subject to audit? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Have material findings resulting from the most recent and the prior two years' external audits or reviews been addressed and corrected, and have procedures been implemented to prevent a recurrence of those findings? These include audits and reviews from the following: | | | |
| A public, independent certified public accountant | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| California Public Employees Retirement Systems (CalPERS) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| California State Teachers Retirement Systems (CalSTRS) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| FCMAT | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Franchise Tax Board | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Internal Revenue Service | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| State Controller's Office | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Other state and federal agencies | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Various school finance consultants | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the district submit accurate, timely and compliant reports for STRS, PERS, Federal Insurance Contribution Act (FICA), workers' compensation and unemployment insurance, as well as for federal and state tax withholdings? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does the district make accurate and timely payments for STRS, PERS, FICA, workers' compensation and unemployment insurance, as well as for federal and state tax withholdings? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Are mandated financial and statistical reports, including attendance data, reviewed and approved by management before submission? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • If the district has a current study, report, evaluation, or audit that contains evidence that the district is showing <i>fiscal distress</i> , has the district provided the report to the county office, and is the district addressing the issues identified? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • If the district has a current study, report, evaluation or audit (including an Assembly Bill (AB) 139 extraordinary audit) that contains evidence indicating potential <i>asset misappropriation or fraud</i> , has the district provided the report to the county superintendent of schools, and is the district addressing the issues identified? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Are there 12 or more "Yes" responses for Audits and Compliance? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Is the district adhering to appropriate controls and maintaining compliance in the following areas?

Yes No N/A

5. Governance

- Does the governing board review and approve all payments made by the district? ☐ ☐ ☐
 - Does the board maintain a conflict of interest policy that is reviewed and updated, if necessary, at least biannually? ☐ ☐ ☐
 - Has a conflict of interest policy been widely distributed to all staff and contractors? ☐ ☐ ☐
 - Have the governing board and all appropriate staff and consultants filed Form 700 (Statement of Economic Interests) on time? ☐ ☐ ☐
 - Does the board follow statutory regulations on the adoption of the district budget, Local Control and Accountability Plan (LCAP), and interim reports, including timely submission to the county office? ☐ ☐ ☐
 - Did the district receive a positive certification on its most recent and prior two interim reports? ☐ ☐ ☐
 - Were the district's most recent adopted budget and LCAP approved by the county superintendent? ☐ ☐ ☐
- Are there five or more "Yes" responses for Governance? ☐ ☐ ☐**

6. Technology

- Does the district have an adequate financial system and hardware to process warrants as authorized? ☐ ☐ ☐
 - Does the district provide for regular maintenance of its financial software including backups and updates? ☐ ☐ ☐
 - Does the district provide for regular maintenance of its technology hardware to keep it reliable and capable of supporting the financial software? ☐ ☐ ☐
 - Are the district staff responsible for maintaining the financial software and hardware capable and trained? ☐ ☐ ☐
 - If the district outsources for financial system services and support, is the system reliable and capable? ☐ ☐ ☐
 - Does the district have a redundant or backup warrant processing system in case the primary system fails? ☐ ☐ ☐
 - Does the district have an up-to-date and appropriate disaster recovery plan to ensure continuity of services? ☐ ☐ ☐
- Are there five or more "Yes" responses for Technology? ☐ ☐ ☐**

RISK ANALYSIS

1. Total the number of sections in which the district did not meet the minimum number of required "Yes" responses.
2. Use the key below to determine the level of risk associated with the district's current warrant, disbursement and internal controls.

0 – 1
Low

2 – 3
Moderate

4-6
High