

# Fraud and Insolvency Risk Indicators for School Districts and Charter Schools

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Presented by:

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# FCMAT

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

# What is FCMAT and What Does it Do?

- **We are education professionals serving K-14 and county offices of education**
- The Fiscal Crisis and Management Assistance Team (FCMAT) staff spend most of our time in county offices of education, school districts, community colleges and charter schools. We provide:
  - Management assistance
  - Technical assistance
  - Professional learning
  - Fiscal crisis intervention
  - AB 139 audits
  - Data management support

**We are a part of a local educational agency's support system**

# Fraud Financial Statements

- Attendance Fraud – overstating income
- Payroll Fraud – overstating expenses
- Benefits Fraud – overstating expenses, misreporting vacation time
- Vendor Fraud – overstating expenses
- Accrual Fraud – not accruing or over-/under-accruing revenue/expense; affects financial statements (motive/intent = performance evaluations?)
- Representation Fraud – failure to disclose or under-disclosure in the management representation letter and during interviews (intent?)
- Conflicts of Interest – related parties, friends, family, all of which can affect the financial statements

# FRAUD

## The Basics

What is your word for fraud?

# FRAUD

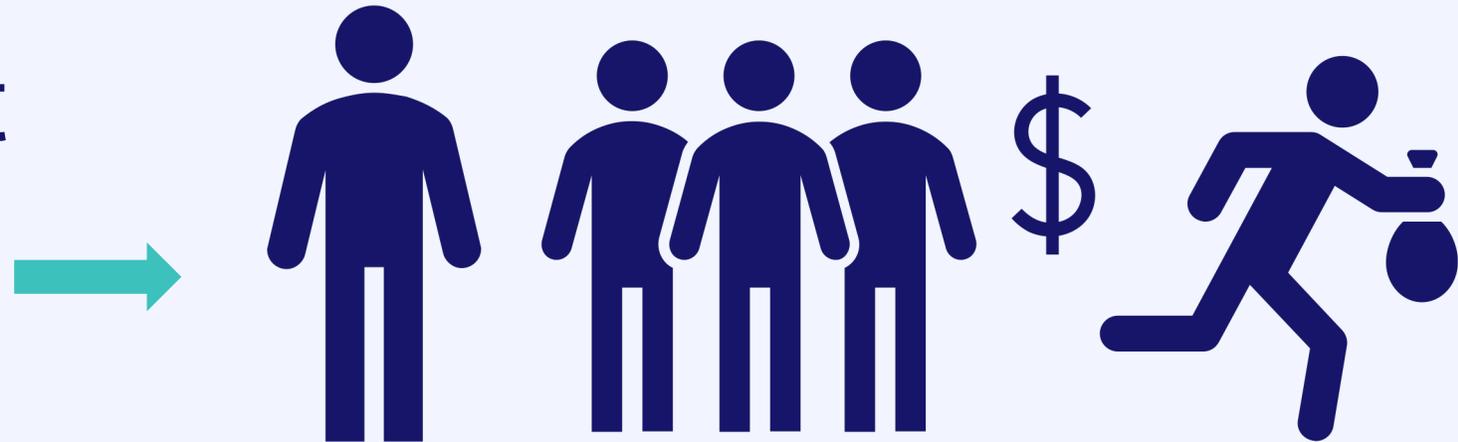
★ Black's Law Dictionary defines fraud as:

“**all** multifarious **means** which human ingenuity can devise, and which are resorted to by one individual **to get an advantage over another** by false suggestions or suppression of the truth. It includes all surprises, tricks, cunning or dissembling, and any unfair way **by which another is cheated.**”

# FRAUD Has Many Names

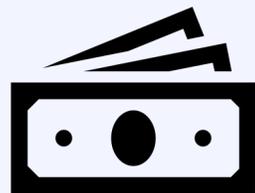
- ✓ Misappropriation
- ✓ Theft
- ✓ Embezzlement
- ✓ Collusion
- ✓ Conflicts of Interest

**What's Common**



# MISAPPROPRIATION

★“In law, **misappropriation** is the **intentional, illegal use** of the **property** or **funds** of another person for one's own use or other unauthorized purpose, particularly by a **public official**, a **trustee** of a **trust**, an executor or administrator of a dead person's **estate** or **by any person with a responsibility to care for and protect another's assets** (a **fiduciary duty**).”



Definition by Wikipedia via Google Search

# Fraud Trends

## School Districts

- **Associated Student Bodies (ASB)**
  - Forgeries (yes, it is still happening)
  - Circumventing internal controls
    - Altered paperwork/receipts – documents just don't look right
    - No paperwork
    - Bank reconciliations
      - Months behind
      - Cancelled checks are missing
      - Journal entries other than typical non-sufficient fees (NSF)/interest
      - Outstanding deposits more than a few days (not months)
      - Look for whole dollar amounts or repeating amounts (\$3,000, etc.)

# Fraud Trends (cont.)

## School Districts (cont.)

- **Associated Student Bodies (cont.)**
  - Check payee vs. books do not match
    - Sample cleared bank checks to books
      - Auditors need to add this to sample testing for at least a whole month or two at a minimum
  - Fictitious payees
    - Sample vendors and background check (Employer Identification Number, etc.)

# Fraud Trends (cont.)

## School Districts (cont.)

- **Associated Student Bodies (cont.)**
  - Cash theft
    - Falsifying cash count forms
      - Removing cash before counted (best way to steal)
    - Diversion schemes
      - Paying for bounced check and NSF fee with cash for items (yearbook)
      - Look for journal entries crediting cash. Clue: most software (e.g., ASB Works, Blue Bear/School Books) has a receipt reversal and NSF fee feature = no need for journal entry

# Placentia-Yorba Linda USD ASB Alleged Embezzlement



OFFICE OF THE  
**DISTRICT ATTORNEY**  
ORANGE COUNTY, CALIFORNIA  
TODD SPITZER

## Former Esperanza High School Clerk Charged with 222 Felonies for Embezzling More than \$700,000 of Student Funds

[REDACTED] of Midway, was charged with 222 felony counts of misappropriation or embezzlement of monies by a public officer and an enhancement of aggravated white collar crime over \$500,000. [REDACTED] faces a maximum of 230 years in state prison if convicted on all counts.

[REDACTED] is currently being held at the Orange County Jail on \$709,084.00 bail, which is equivalent to the amount [REDACTED] is accused of embezzling over a five-year period. In order to post bail, [REDACTED] must show that the funds were not feloniously obtained.

[REDACTED] is accused of embezzling the money by writing checks to [REDACTED] self, [REDACTED] husband and [REDACTED] deceased mother. Prosecutors were limited in charging [REDACTED] with embezzlement only to a five year window between 2012 and 2017 due to the availability of bank records.

Source - <http://orangecountyda.org/civica/press/display.asp?layout=15&Entry=5899>

# Esperanza HS – 1 Year Later

- Case No. 19NF2185
- Pled guilty
- Sentenced: March 13, 2020
  - 222 counts
    - Misappropriation/embezzlement, aggravated white collar crime over \$500k
  - 14 years state prison
  - Insurance settlement, approximately \$1,500,000

# Placentia-Yorba Linda USD ASB Alleged Embezzlement

Table 9: Transactions and Amounts Comparison

Sorted Largest Check Amount to Smallest		2010-11 through 2017-18	
2004-05 through 2010-11	Number of Checks	Check Amount	Number of Checks
\$4,350.00	2	\$4,000.00	2
4,200.00	2	3,900.00	3
4,150.00	2	3,854.00	2
4,100.00	2	3,850.00	2
4,000.00	8	3,751.00	3
3,784.50	4	3,750.00	4
3,750.00	5	3,746.00	3
3,745.00	2	3,745.00	2
3,650.00	2	3,700.00	2
3,645.00	2	3,649.00	2
3,545.00	2	3,648.00	2
3,539.48	2	3,612.00	6
3,525.00	2	3,600.00	5
<b>3,500.00</b>	<b>26</b>	3,560.00	2
3,450.00	2	<b>3,500.00</b>	<b>44</b>
3,410.00	2	3,489.00	2
3,400.00	7	3,475.00	2
3,300.00	2	3,452.00	2
3,250.00	3	3,425.00	2
3,245.00	3	3,400.00	6
3,209.25	3	3,250.00	2
3,200.00	2	3,152.00	2
3,150.00	3	3,150.00	4
3,145.00	2	3,125.00	3
<b>3,000.00</b>	<b>15</b>	3,105.00	2
2,875.00	2	<b>3,000.00</b>	<b>19</b>
2,500.00	7	2,950.00	2
2,450.00	3	2,500.00	6
2,400.00	3	2,400.00	2
2,175.00	2	2,100.00	2
2,000.00	3	2,000.00	5
1,800.00	2	1,000.00	3
1,000.00	3		

# Fraud Trends (cont.)

- **Food Services**

- Cash theft

- Line staff pocketing money directly from paying students (often no cash register, instead using change boxes or drawers)

- **District Office**

- Concealed bank accounts

- Similar name as district or school bank account. Checks deposited to perpetrator created account

- Purchasing

- Diversion scheme: creating vendor names similar to legitimate names

- Payroll

- Fictitious invoices

# Fraud Trends (cont.)

## School Districts (cont.)

- **Governance**

- Campaign contributions/conflicts of interest
  - Board member votes for approval of contract for friend
- Pay-to-play
  - Money exchanged for services or the privilege to be a part of something
    - You must play to get in the game

Governance fraud is often associated with quid pro quo

- A favor or advantage given or expected for something in return (you do this for me, and I'll do that for you)

# Fraud Trends (cont.)

## School Districts (cont.)

- **Maintenance & Transportation**
  - Conversion – e.g., scrap metal recycling cash receipts to personal or departmental use (off books)
- **Facilities**
  - Contractor/facilities management collusion
  - Conflicts of interest/contractor relationships – dinners, parties, vacations
  - Internal controls – facilities independent of business department

# Fraud Trends (cont.)

## School Districts (cont.)

- **Facilities (cont.)**
  - Allowance and contingency shortcuts
    - Failure to document costs in detail
    - Failure to require architect's detailed review and approval
    - Failure to reconcile architect's approval date with work commencement
  - Payments to alternative alleged district accounts, vendors, or other organizations
  - Altered and unreconciled documents
    - Change order process (requests, proposals, authorizations)
    - Change order requirements

# Fraud Trends (cont.)

## Charter Schools

- Related parties
  - Undisclosed related parties
  - Sole statutory member
  - CMO, EMO and other charter-connected organizations, vendors and entities
  - Regional and national headquarters relationships
- Consolidated financial reporting
- Lack of detailed documentation
- Conflicts of interest – Form 700
- Expenditures for noneducational purposes
- Fictitious vendors
- Fictitious employees
- Charter responsibility – audit reports, audit notes, GAAP (auditor is blamed)

# KTLA: Exclusive -- School Operator Accused of Taking \$3 Million -- Chip Yost Reports

(02:26) 10/09/2009 at 05:27am



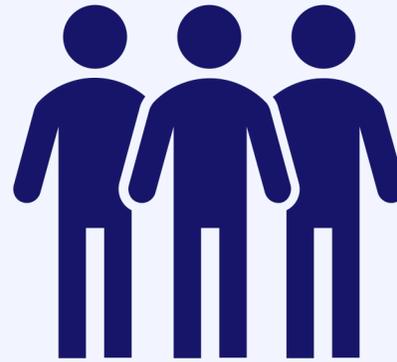
# Albor Charter – 14 Years Later

- Case No. 09CF0788
- Pled guilty
- Sentenced: October 28, 2020
  - 17 counts
    - Misappropriation/embezzlement, grand theft, conflicts of interest, aggravated white collar crime over \$500k
  - 5 years state prison

# Common Factors in Fraud

- Fraud often has these factor(s):
  - Employees, vendors, related parties, board members, volunteers, etc. are the offenders.
  - The person or people involved are often capable of both committing fraud or unethical behavior and concealing it.
  - The offenders are capable, with an understanding of the internal controls and the ability to exploit internal control weaknesses to plan and carry out fraud.

**What's Common**



# Factors that Affect Awareness & Detection

- Tone at the top
- Operating environment
- Segregation of duties
- Internal controls and their effectiveness
- Awareness of and realistic perspective on weaknesses
- A well-designed system can deter fraud by:
  - Reducing opportunity, thus reducing vulnerability
  - Increasing perceived chance of detection

# Factors that Increase the Risk of Fraud

- A perception that nobody cares, or that management doesn't so why should I
- A perception that there are no consequences
- Inefficient or poor authorization and oversight, with no follow-up
- Failure to limit access to assets or sensitive data
- Irregular journal entries and transfers, with no review
- Inefficient or poor monitoring of internal controls by management and the governing board
- Collusion among employees, especially where little or no supervision, oversight or monitoring exists

# Types of Controls

**Preventive Controls:** Stop fraud before it occurs

- May be manual or automated processes
- Perceived likelihood of detection — those who believe they are likely to be caught are less likely to commit fraud

**Detective Controls:** Identify fraud after it occurs

- For when prevention fails
- May be manual or automated processes
- High tech vs. low tech

Good internal control systems use BOTH!

# Fraud Detection: High Tech vs. Low Tech

## High Tech

- Anti-fraud analytics have evolved from asking simple, rule-based questions of data to letting the data tell a story through visualization, predictive models, anomaly detection, pattern recognition and text-mining techniques. Data visualization serves as a digital art form that can intuitively display connections in your data and help you zero in on bad actors.
- Data analytics is statistics, modeling and data mining to analyze current and historical facts to make predictions about future or unknown events.
- Social media: Facebook, Twitter, etc.
- Computer forensics – from professional specialty services to common user tools: data imaging, data archiving, internet research, data mining.

Source: 2019 ACFE Conference

# Fraud Detection: High Tech vs. Low Tech (cont.)

## Low Tech

- Vet your vendors (background checks, W-9, SSN/FEIN)
- Review bank reconciliations
  - Outstanding checks/deposits/adjustments
- Visually scan registers:
  - Detailed general ledger – even telephone expense
  - Cash disbursements journal
  - Cash receipts journal
  - General journal – diffused/allocated entries
  - Payroll register – fictitious employees

# Fraud Detection: High Tech vs. Low Tech (cont.)

## Low Tech (cont.)

- Review cancelled checks – front/back
  - Evaluate signatures
- Customers – buried expenses
- Other lists – hidden transactions
- School connected organizations (foundations, boosters, other nonprofits), pass-through/conduit entities, and even their fundraisers and volunteers
  - Request copy of IRS Determination Letter
  - Require submission of a fundraiser approval form
  - Require financial reports, budget, bank reconciliations
  - Require training, insurance, hold-harmless agreements, etc.

# Fraud Detection: High Tech vs. Low Tech (cont.)

## Low Tech (cont.)

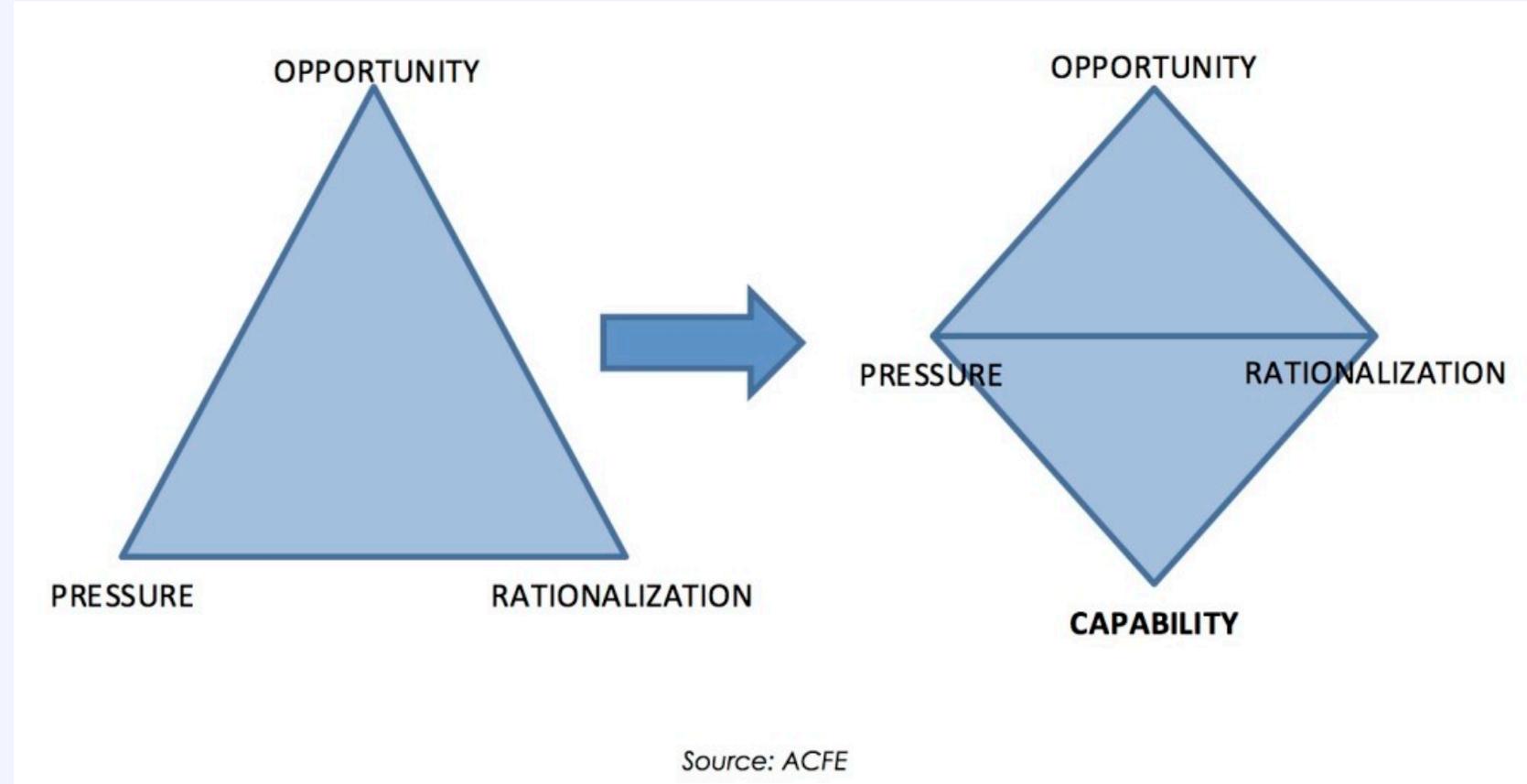
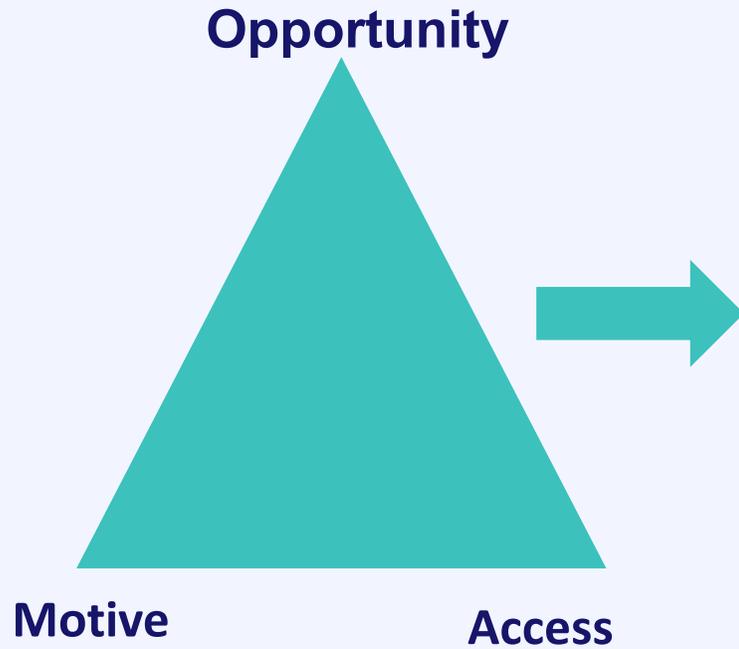
- Construction contracts
  - Are instruction bulletins, change order proposals, change order authorizations, and change orders compared with each other?
  - Is work begun or payment made only after the change authorization approval date?
  - Are architects' approvals required even for contingency and allowance transactions?
  - Are board-approved purchase orders required for all changes?

# Fraud Detection: High Tech vs. Low Tech (cont.)

## Low Tech (cont.)

- Access points
  - Computer systems – using others' identifications
  - Backups – how secure are the IT backups?
  - Camera systems – are they working?
- Documents – Excel, Word, PDFs
  - Properties – is the document being passed off as historical when in fact the properties (metadata) indicate it is recent?

# Fraud Indicator Evolution



# Opportunity

- Opportunity is created when there are internal control weaknesses, ineffective governance, or lack of oversight.
- Opportunity means people will take advantage of the circumstances.
- Fraudsters believe an opportunity exists and assume that:
  - No one is aware.
  - No follow up occurs for employees who violate policy.
  - No one will consider the offense serious.
  - No one will care.

# Access and Opportunity Can Be Prevented



# Pressure

- **Pressure or incentive is the motivation** that leads to unethical and fraudulent behavior. It can be triggered by:
  - Sudden financial shortfalls
  - Living beyond one's means
  - Greed
  - Poor credit standing and inability to obtain credit
  - Unexpected expenditures
  - Family or peer pressure
  - Gambling losses
  - Alcohol, drugs, or extramarital affairs

# Rationalization

- The fraudster must justify his or her actions. For example: “This is just a loan. I’ll pay it back when I get paid.”
- Myths, Fallacies and Justification
  - “Everyone does it.”
  - “I’m worth it; I’ve earned it.”
  - “The district won’t miss it; they can afford it.”
  - “I work hard and haven’t had a raise in five years!”
  - “I’m borrowing the money and will pay it back.”

# Capability

- Having the necessary skills or abilities to pull it off.
- Recognizing the opportunity to commit fraud and having the ability to turn it into reality.
- Position, ego, intelligence, coercion, deceit and stress all contribute to capability.
- Capability is needed not only to carry out fraud, but more importantly to conceal it.
- Capability includes the skills needed to understand internal controls and exploit weaknesses in those controls to plan and implement fraud.

# Basics of Fraud Detection

- Sample vendors (background checks, W-9, SSN/FEIN)
  - Fictitious/false vendors, flimsy documentation
- Review bank reconciliations
  - Outstanding checks/deposits/adjustments
- Visually scan registers:
  - Detail general ledger – (even telephone expense)
  - Cash disbursements journal
  - Cash receipts journal
  - General journal – (diffused/allocated entries)
  - Payroll register – (fictitious employees)

# Basics of Fraud Detection (cont.)

- Review cancelled checks – front/back
  - Evaluate signatures (very important in ASBs)
- Customers – (buried expenses)
- Other lists – (hidden transactions)
- Related/connected organizations – foundations, boosters, the charter's nonprofit, other nonprofits: pass-through/conduit entities (sole statutory member – bylaws/articles of incorporation)



# Basics of Fraud Detection (cont.)

- Construction contracts
  - Are instruction bulletins, change order proposals, change order authorizations, and change orders compared?
  - Is work or payment implemented only after the change authorization approval date?
  - Are architect's approvals required even for contingency and allowance transactions?
  - Are board-approved purchase orders required for all changes? (This is a huge loophole for fraudsters)
  - Credible supporting documentation for invoices/billing

# Basics of Fraud Detection (cont.)

- Ask during the audit planning phase — what are our true weaknesses?
  - Please don't just go through a checklist.
  - Think about the district/charter you are auditing and ask yourself, “What is unique here that may have an issue?”

# Question #1 – Multiple Choice

What is commonly required to commit fraud?

- a) At least one person
- b) Motive
- c) Opportunity
- d) Access
- e) All of the above

# Basics of Fraud Detection (cont.)

Most Important

LISTEN AND GO WITH YOUR INSTINCTS

# ASB Top 14 Easy Audit Findings

- Purchases prior to PO approval
  - A check request is typically not pre-approval; it is reimbursement after shopping has taken place
  - All purchases must be pre-approved before any shopping occurs
- Purchases missing required signatures – Education Code Section 48933(b) for K-12 and 76063 for community colleges
  - Student representative
  - Club advisor – must be certificated instructor
  - Administrator – board designee, often school principal
- Missing or late budget – no budget, no spending

# ASB Top 14 Easy Audit Findings (cont.)

- No manual and/or FCMAT manual not adopted as part of board policy (board policy = local laws)
- Missing or backdated fundraiser approval forms and missing three signatures (all fundraisers must be approved – Education Code Section 48932 –board authority to fundraise, and 51521 – prohibits others from fundraising without board approval)
- No revenue potential/reconciliation (estimate, actual and difference)
- ASB account does not meet the requirements to be a club/class (lacks an application, constitution, bylaws, certificated instructor as club/class advisor)

# ASB Top 14 Easy Audit Findings (cont.)

- Class accounts are trust accounts and should be treated the same as a club
  - Needs certificated club advisor
  - Same pre-approval of all purchases
  - Same process for fundraising
  - Needs application, constitution & bylaws
- Missing cash count and/or ticket control form
  - Money not counted with a witness and missing dual count signatures and dates. Includes start-up cash. Transported without witness.
- Negative year-end accounts or large balances or savings accounts (review the trial balance)

# ASB Top 14 Easy Audit Findings (cont.)

- No budget carryover limits or forms
- Untimely deposits, money sitting around in the safe (go look), or no safe at all, or a safe with a handle
- District business office does not audit/review all ASB sites appropriate to their need
- No training programs – internal/external (where are the sign-in sheets to document training?)

# Warning Signs of Fraud

What are some of the significant **WARNING SIGNS** to watch for that can lead to or signal fraud?

# Warning Signs of Fraud (cont.)

- Receipts are not issued, kept or requested by advisors, volunteers, trustees, etc.
- Charter management organizations (CMOs), EMOs, LLCs, corporations, disregarded entities, and other related entities/nonprofits are not available for audit. Lack of transparency and disclosure. Possible consolidation issue.
- Records are missing
- Records are altered

# Warning Signs of Fraud (cont.)

- Bank reconciliations are several months behind
- Bank reconciliation errors
  - Outstanding deposits are carried forward
  - Numerous voiding transactions and error corrections that usually do not have any supporting documentation or reasons for such entries
- Cancelled checks are not kept and reconciled to books (this is an old but still very valid audit procedure). At least sample cancelled checks.

# Warning Signs of Fraud (cont.)

- Numerous adjusting journal entries, or entries lack explanations and written authorization
- No use of subsidiary ledgers and journals where detail transactions should be entered, and
  - Other supporting software systems are disconnected, or
  - The data is imported into incorrect months

# Internal Controls

- The foundation of a good internal control system includes
  - Up-to-date and approved policies and procedures
  - Thorough and accurate manuals
  - Transparency
  - Training
- Current board policies and administrative regulations
- Current manuals and handbooks that are authorized and approved in board policy

# Question #2 – True or False

Internal controls can completely prevent fraud.

# Charter Schools Are Particularly Susceptible to Allegations of Fraud and Actual Fraud

Both established and start-up charters are susceptible

Do not let your guard down

- Charter schools often:
  - Become so focused on education and overall mission that the complex business side of operations is minimized or overlooked
  - Delegate business function to a back-office service provider and believe everything financial is being overseen
  - Fail to look at the back-office service provider's internal controls
  - Have fewer experienced business staff

# Charter Schools Are Particularly Susceptible to Allegations of Fraud and Actual Fraud, (cont.)

- Charter schools often (cont.):
  - Have board members who are inexperienced in business, internal controls systems, and governmental and nonprofit business
  - Lack written accounting, human resources and employment policies, procedures and best practices manuals
  - Have little to no accounting, business or fraud awareness training

# Charter Schools Are Particularly Susceptible to Allegations of Fraud and Actual Fraud, (cont.)

- Charter schools often (cont.):
  - Overlook performing formal account reconciliations and follow-up
  - Have difficulty obtaining or retaining highly qualified business staff (e.g., pay, start-up perceived as risky by candidates, close family ties within the organization)
  - Have less segregation of duties due to smaller size of charter school (fewer staff doing more work), higher levels of trust, and less oversight

# Charter Schools Are Particularly Susceptible to Allegations of Fraud and Actual Fraud, (cont.)

Charter schools often (cont.):

- Have a greater number of untrained volunteers
- Have fewer resources to vet vendors

# Charter Schools Are Particularly Susceptible to Allegations of Fraud and Actual Fraud, (cont.)

- Charter schools often (cont.):
  - Use, or don't properly or fully disclose or approve, related party or affiliate vendors, contractors, service providers (e.g., family members and friends). Although related parties are not illegal, failure to disclose related party relationships and the details of the transaction will raise concerns and possible allegations. Transparency is critical, as is a level of professional skepticism.
  - Have less knowledge about conflicts of interest, Government Code 1090, and proper and consistent filing of state Form 700, Statement of Economic Interests.

# Indicators of Risk or Potential Insolvency

The screenshot shows the FCMAT website interface. At the top, there are navigation links: SERVICES, News (with a dropdown arrow), Fiscal Tools (with an up arrow), Professional Learning (with a dropdown arrow), and Other Services (with a dropdown arrow). A dropdown menu is open under 'Fiscal Tools', listing several items: Projection-Pro, Local Control Funding Formula Resources, Fiscal Health Risk Analysis, Indicators of Risk or Potential Insolvency (highlighted with a blue dot), Special Education Efficiency Tool, Charter School Annual Oversight Checklist, and Accounting Controls Risk Analysis. Below the dropdown is a blue button labeled 'View The Manual'. The main content area features a large heading 'New — 2021 CC' and 'M' followed by 'ural'. At the bottom, there are five service tiles: 'Request FCMAT Assistance' (with a speech bubble icon), 'Help Desk & FAQs' (with a question mark icon), 'Local Control Funding Formula' (with a calculator icon), 'Special Education Efficiency' (with an apple icon), and 'Projection-Pro' (with a laptop icon). The footer contains the FCMAT logo on the left, the tagline 'Providing Fiscal Assistance and Services to Local Educational Agencies' in the center, and the page number '58' on the right.

# Fiscal Health Risk Analysis

- Fiscal Health Risk Analysis (FHRA)
- 2018-19 Budget Act provides for FCMAT to offer more proactive and preventative services to fiscally distressed districts under the following conditions
  - Disapproved budget
  - Negative interim report certification
  - Three consecutive qualified interim report certifications
  - Downgrade of an interim certification by the county superintendent
  - “Lack of going concern” designation

## Fiscal Health Risk Analysis (cont.)

- More than 20 FHRA's have been completed
- All FHRA reports are available at [www.fcmat.org](http://www.fcmat.org) at Publications & Reports, then select FCMAT Reports and choose K-12 Management Assistance Reports. URL = [www.fcmat.org/fcmat-reports](http://www.fcmat.org/fcmat-reports)
- Auditors should look to see if one of your district/charter audit clients has had an FHRA

# Indicators of Risk or Potential Insolvency (FHRA)

- FCMAT has several tools to help with assessing indicators of risk or potential insolvency
- FCMAT has defined common indicators for districts that have neared insolvency and need assistance from outside agencies
  - See [www.fcmat.org/FiscalTools](http://www.fcmat.org/FiscalTools)
    - Fiscal Health Risk Analysis (FHRA)
      - Designed to evaluate fiscal health and risk of insolvency
      - K-12 and community colleges (charter schools in development)
      - Excel workbook based requiring only a Yes, No or N/A response

# Indicators of Risk or Potential Insolvency (FHRA) (cont.)

- Fiscal Health Risk Analysis (FHRA) (cont.)
  - Risk score based on 20 numbered sections
  - Three spreadsheet tabs: Instructions & Summary, FHRA Questions, and example documents used to help answer questions
  - Non-answer = No answer = higher risk
  - The greater number of No answers = higher risk
  - FCMAT recommends districts complete their own FHRA annually
- Auditors: consider obtaining your district's FHRA for your records or incorporate FHRA into your planning

# Indicators of Risk or Potential Insolvency (FHRA) (cont.)

## Example Questions

### 3. Budget Monitoring and Updates

- 3.1 Are actual revenues and expenses consistent with the most current budget?
- 3.2 Are budget revisions posted in the financial system at each interim report, at a minimum?
- 3.3 Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum?
- 3.4 Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142?
- 3.5 Do the district's responses fully explain the variances identified in the criteria and standards?

# Indicators of Risk or Potential Insolvency (FHRA) (cont.)

- Fiscal Health Risk Analysis (FHRA) (cont.)
  - Budget and Fiscal Status plus 20 numbered sections
    - Annual Independent Audit Report – 4
    - Budget Development and Adoption – 12
    - Budget Monitoring and Updates – 10
    - Cash Management – 7
    - Charter Schools – 5
    - Collective Bargaining Agreements – 9
    - Contributions and Transfers – 3

# Indicators of Risk or Potential Insolvency (FHRA) (cont.)

- Fiscal Health Risk Analysis (FHRA) (cont.)
  - Budget and Fiscal Status and 20 numbered sections (cont.)
    - Deficit Spending (unrestricted general fund) – 4
    - Employee Benefits – 5
    - Enrollment and Attendance – 10
    - Facilities – 8
    - Fund Balance and Reserve for Economic Uncertainty – 5
    - General Fund – Current Year – 7
    - Information Systems and Data Management – 6
    - Internal Controls and Fraud Prevention – 9

# Indicators of Risk or Potential Insolvency (FHRA) (cont.)

- Fiscal Health Risk Analysis (FHRA) (cont.)
  - Budget and Fiscal Status and 20 numbered sections (cont.)
    - Leadership and Stability – 8
    - Multiyear Projections – 4
    - Non-Voter-Approved Debt and Risk Management – 4
    - Position Control – 6
    - Special Education – 7
  - Total of 133 questions – not all questions carry equal weight. Some areas carry higher risk and count more heavily in calculating a district's fiscal stability

# FHRA Findings

- 19/20 (95%) = 19 of the 20 completed FHRAs found that districts identified as having fiscal issues also had the following:
  - 7.1 No board plan to eliminate/reduce contributions
  - 15.11 No internal audit process
- 18/20 (90%)
  - 8.1 Deficit spending in current year
  - 8.2 Projected deficit spending
- 17/20 (85%)
  - 12.4 Unrestricted fund balance not stable or increasing
  - 15.10 Fraud reporting

# FHRA Findings

- 16/20 (80%)
  - 3.6 Not addressed COE identified deficiencies
  - 8.3 No board approved plan to reduce deficit spending
  - 10.1 Enrollment not increasing
  - 13.7 No restricted program cost accounting
- 15/20 (75%)
  - 2.5 Budget not approved unconditionally
  - 2.12 Do not adhere to budget calendar
  - 4.3 No/poor cash flow forecasting
  - 11.4 Facilities under used
- 14/20 (70%)
  - 18.1 Non-voter debt repayment plan out of general fund
  - 19.6 No certificated staffing ratios adoption and adherence
  - 20.4 SpEd costs not all budgeted and accounted

# Indicators of Risk or Potential Insolvency - List

- Comprehensive list of indicators of risk or potential insolvency
- Separate list for K-12, community colleges, and charter schools
- 15 sections
  - Unreliable Budget Development
  - Insufficient Budget Monitoring or Updates
  - Inadequate Cash Management
  - Mismanaged Collective Bargaining Agreements
  - Increasing and/or Unplanned Contributions and Transfers
  - Continuing Deficit Spending
  - Mismanaged Employee Benefits

# Indicators of Risk or Potential Insolvency – List (cont.)

- 15 sections (cont.)
  - Inattention to Enrollment and Attendance Reporting
  - Decreasing Fund Balance and Reserve for Economic Uncertainty
  - Ineffective Internal Controls and Fraud Prevention
  - Breakdown in Leadership and Communication
  - Lack of Multiyear Planning
  - Inattention to Non-Voter-Approved Debt and Risk Management
  - Lack of Position Control
  - Related Issues of Concern

# Indicators of Risk or Potential Insolvency

## Charter School Annual Oversight Checklist

- Updated in 2020
  - Good for authorizers and charter schools
  - Tool for measuring charter operations
  - 9 sections soliciting a Yes, No, or N/A
  - All sections have detailed subsections
  - Section II, Fiscal and Business Operations has 10 subsections:
    - Student Attendance, Cash Receipts, Disbursements, Records Retention, Payroll, Budget-Accounting-Financial Reporting, Audit, Financial Condition, Equipment Inventory, and Other

# Indicators of Risk or Potential Insolvency

## County Office Accounting Controls Risk Analysis

- Designed for county offices to assess if a fiscally independent district has adequate accounting controls
- Good resource for other LEAs
- 5 sections soliciting a Yes, No, or N/A
  - Warrant Issuance Controls
  - Purchasing and Invoicing Controls
  - Internal Controls
  - Audits and Compliance
  - Governance

**Thank You for Attending**