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# Indicators of Risk or Potential Insolvency

## FOR K-12 LOCAL EDUCATION AGENCIES

The Fiscal Crisis and Management Assistance Team (FCMAT) has compiled the following indicators of risk or potential insolvency based on approximately 25 years of extensive work with local education agencies (LEAs). Although some of the indicators have been on the list from the beginning, others have been removed or added as changes occurred, such as the evolution of funding models and changes in fiscal and education policy.

FCMAT will continue to update this document as additional changes occur. Each item listed indicates a lack of function, focus, or attention to one or more critical elements of an organization's operations, which may eventually contribute to an LEA becoming insolvent. The existence of any one of the indicators increases risk. The more indicators identified in any LEA, the greater the risk of collapse or failure.

### 1. Leadership Breakdown

- a. Absence of a strong leadership team that includes at least the board and superintendent
- b. Micromanagement from board members
- c. Systems that are fully or partially controlled by highly influential special interest groups
- d. Ineffective or lack of adequate personnel supervision
- e. Spiraling litigation and/or settlements against the district
- f. Board policies and administrative regulations that are routinely ignored, not updated, and not communicated to staff
- g. Inability to consider long-term impacts of collective bargaining agreements

### 2. Ineffective Communication

- a. Staff unrest and/or low morale
- b. Lack of communication to staff
- c. Inadequate engagement of all educational constituencies, particularly parents
- d. Lack of interagency cooperation

### 3. Collapse of Infrastructure

- a. Breakdown of internal systems (management information systems, data management)
- b. Unhealthy, unsafe and unmonitored facilities
- c. Neglect of deferred maintenance and lack of an implementable deferred maintenance plan
- d. Low budget priority for facility issues
- e. Lack of a long-range facilities plan

### 4. Inadequate Budget Development

- a. Inability to transition adequately to the regulations that govern the Local Control Funding Formula (LCFF)
- b. Flawed average daily attendance (ADA), enrollment, revenue, and unduplicated pupil count projections
- c. Deficit spending and failure to maintain adequate reserves and fund balance
- d. Manipulation of multiyear projections and ignorance of trend analyses
- e. Disconnection between budget and the Local Control Accountability Plan (LCAP)
- f. Reliance on the rollover budget
- g. Inability to accurately estimate the ending fund balance

### 5. Limited Budget Monitoring

- a. Inattention to county office of education (COE) information, analysis and oversight of the budget, including a lack of understanding of AB 1200
- b. Lack of control and monitoring of total compensation as a percentage of total expenses
- c. Actual expenditures not in line with the most current budget
- d. Failure to reconcile the general ledger balance sheet accounts regularly, particularly receivables and payables

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# Indicators of Risk or Potential Insolvency (continued)

- e. Lack of internal controls
- f. Lack of control and monitoring of contributions to restricted programs
- g. Consistently failing to update budget assumptions

## 6. Lack of Data Accuracy, Collection, and Reporting

- a. Inability to adequately collect, assess and report student data via the California Pupil Achievement Data System (CALPADS)
- b. Consistently poor data quality
- c. Data not used to inform decision making and the LCAP
- d. Ignoring audit exceptions related to data collection and reporting
- e. Limited access to timely personnel, payroll, budget control data and reports
- f. Failure to accurately identify students eligible for free and reduced-price meals, English learners, and foster youth, in accord with LCFF and LCAP requirements

## 7. Human Resources Issues

- a. Poor or limited use of position control, and lack of integration with payroll and financial system
- b. Unauthorized hiring
- c. Overstaffing
- d. Large numbers of staff working out of assignment
- e. Administrators who consistently crisis manage
- f. Lack of professional development for all staff

## 8. Inattention to and/or High Levels of Debt

- a. High levels of non-voter-approved debt (COPs, bridge financing, etc.)
- b. Inattention to unfunded liabilities
- c. Not conforming to GASB 68 requirements to recognize and report the district's proportionate share of net liability for pension programs
- d. Debt service and/or pay as you go as a percentage of general fund expenditures is out of control
- e. Parcel taxes allocated and used for ongoing expenditures

## 9. Cash Monitoring and Accounting Deficiencies

- a. Lack of monitoring of cash
- b. Lack of a plan for short-term cash flow needs
- c. Inability to balance cash
- d. Not informing the board of cash position regularly, and not understanding and communicating to the board and superintendent that cash and fund balance are not the same thing

## 10. Related Issues of Concern

- a. Not understanding the connection between budget and program staff as it relates to the LCAP
- b. Misunderstanding the effect of the cost of living adjustment (COLA) in the LCFF era
- c. Inattention to, lack of cooperation with, and inadequate monitoring of charter schools for which the district or county office is the authorizer
- d. Consistently low-performing schools and an inability to close the achievement gap
- e. Chronically overestimating revenues and underestimating staffing costs
- f. Inability to adequately explain the concept and impact of the GAP percentage factor to the board, bargaining members, and other constituents