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Operations****ADOPTED: 6/12/96****REVISED: 3/3/03****SUBJECT: Financial Accountability of School Districts****PAGE: 1 of 13**

### OVERVIEW OF FISCAL ACCOUNTABILITY RESPONSIBILITIES

Key responsibilities of the County Superintendent of Schools are to maintain responsibility for the fiscal oversight of school districts and to review and monitor the fiduciary functions of school districts. The provisions of AB 1200 (Chapter 1213, 1991 Statutes) and subsequent statutes redefined and expanded responsibility and authority for county superintendents of schools and county offices of education in the area of school district financial accountability. For purposes of this administrative regulation, the term "AB 1200" is defined to include all current state requirements for San Diego County Office of Education fiscal oversight and financial accountability of school districts. The objective of AB 1200 is the financial stability of all school districts.

The County Superintendent of Schools or his/her designee is responsible for the consistent implementation of AB 1200 standards. The Assistant Superintendent, Business Services is designated to handle all school district financial accountability processes for the San Diego County Office of Education. The Assistant Superintendent, Business Services shall establish and maintain an ongoing, internal analysis of numerous financial variables to monitor the fiscal condition of each school district. The Assistant Superintendent, Business Services shall periodically review and report to the County Superintendent of Schools on the fiscal status of the school districts under his/her jurisdiction.

The Assistant Superintendent, Business Services and the District Financial Services section provide the following mandated services to school districts to ensure the efficient and effective use of all available financial resources for the education of children in California in accordance with the provisions of state law:

- Comply with financial report requirements.
- Monitor budgets, cash flow, and other financial conditions.
- Review and comment upon proposed collective bargaining agreements.
- Oversee audit compliance; resolve annual audit findings and apportionment exceptions.

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- Address school district financial difficulties.
- Conduct studies and use intervention processes to assist school districts.

The Assistant Superintendent, Business Services, and the District Financial Services section encourage school districts to maintain good financial planning practices through establishment of sound procedures for budget development, interim reports, annual audits, and internal controls. The following five sections itemize requirements for the San Diego County Office of Education and school districts in state law and California Department of Education regulations for 1) annual budget review and approval process—disapproval procedure; 2) budget monitoring and interim reports; 3) audit oversight responsibilities; 4) allegations of illegal fiscal practices; and 5) budget assumptions.

I. ANNUAL BUDGET REVIEW AND APPROVAL PROCESS — DISAPPROVAL PROCEDURE

The County Superintendent of Schools shall examine and approve or disapprove adopted school district budgets to determine whether the budgets (1) comply with the criteria and standards adopted by the State Board of Education and allow the school districts to meet their financial obligations during the fiscal year; and (2) are consistent with financial plans that will enable the school districts to satisfy multiyear financial commitments. The Business Advisory Services section coordinates the annual budget review and approval process.

If a school district budget does not satisfy one of the conditions itemized above, the budget will be disapproved and the disapproval procedure will be implemented in accordance with mandated timelines. Written recommendations for budget revision and the reasons for those recommendations shall be transmitted to the school district governing board. A fiscal advisor may be assigned to assist with budget development or a committee may be appointed to examine and comment upon the budget review and recommendations.

The governing board shall review the County Superintendent of Schools' recommendations at a regular meeting. The school district response to recommendations of the County Superintendent of Schools shall include any revisions to the adopted budget and other proposed actions to be taken as a result of these recommendations.

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A list identifying school districts that may have disapproved budgets and a second list of school districts with disapproved budgets shall be submitted to the Superintendent of Public Instruction in accordance with established state deadlines.

A report regarding the fiscal solvency of any school district with a disapproved budget, qualified interim certification, or a negative interim certification, or that has been determined at any time to be in a position of fiscal uncertainty pursuant to Education Code section 42127.6 shall be submitted annually to the school district governing board and the Superintendent of Public Instruction.

**Revised Adopted Budget - Dual Budget Adoption Cycle**

The County Superintendent of Schools shall examine and approve or disapprove revised adopted budgets to determine whether the budgets (1) comply with the criteria and standards adopted by the State Board of Education and allow the school districts to meet their financial obligations during the fiscal year; and (2) are consistent with financial plans that will enable the school districts to satisfy multiyear financial commitments.

If a school district's revised adopted budget does not satisfy one of the conditions itemized above, the budget will be disapproved and the disapproval procedure will be implemented in accordance with mandated timelines. Written recommendations for budget revision and the reasons for those recommendations shall be transmitted to the school district governing board. A fiscal advisor may be assigned to assist with budget development or a committee may be appointed to examine and comment upon the budget review and recommendations.

The governing board shall review the County Superintendent of Schools' recommendations at a regular meeting. The school district response to recommendations of the County Superintendent of Schools shall include any revisions to the revised adopted budget and other proposed actions to be taken as a result of these recommendations.

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The County Superintendent of Schools shall review the response and approve or disapprove the budget. If the school district budget is disapproved, the County Superintendent of Schools will call a Budget Review Committee, which will be selected and convened by the Superintendent of Public Instruction.

#### Fiscal Plan and Budget

If the Superintendent of Public Instruction disapproves the budget, the County Superintendent of Schools shall develop and adopt, in consultation with the school district governing board and the Superintendent of Public Instruction, a fiscal plan and budget that will govern the operation of the school district for the current fiscal year.

In the event an agreement is reached with the school district governing board that revises its budget to comply with this agreement, the County Superintendent of Schools shall approve the budget and the Budget Review Committee procedure will be canceled.

## II. BUDGET MONITORING AND INTERIM REPORTS

### "Going Concern"

The County Superintendent of Schools or his/her designee monitors school district budgets by reviewing and approving or disapproving adopted budgets, and confirming or changing the certification of first and second interim reports. The District Financial Services section coordinates the budget monitoring and interim report review and certification process.

The County Superintendent of Schools has authority to advise and assist a financially troubled school district with regard to the current year's operation as well as to those activities affecting subsequent years' projections and budgets. If, at any time during the fiscal year, there is reason to believe that a school district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or if the school district has a qualified interim report, the San Diego County Office of Education may take whatever actions are deemed necessary to ensure that the school district meets its financial obligations. If the County Superintendent determines that it is necessary to conduct a study of the financial and budgetary conditions of the district, that study must include a review of internal controls.

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Initial Notification of School District and Superintendent of Public Instruction

Before the San Diego County Office of Education takes any actions listed in Education Code section 42127.6, the school district governing board and the Superintendent of Public Instruction shall be notified in writing of the determination that the school district **may** be unable to meet its financial obligations. The notification shall clearly state the basis for the determination and include the assumptions used. The notification shall be available to the public.

Second Notification of School District and Superintendent of Public Instruction

If, after the San Diego County Office of Education takes action to move the school district toward fiscal solvency, the school district **will** be unable to meet its financial obligations for the current or a subsequent fiscal year, the school district governing board and the Superintendent of Public Instruction shall be notified in writing of the determination that the school district will be unable to meet its financial obligations. The notification shall clearly state the basis for the determination and include the assumptions used. The notification shall be available to the public.

Budget Revisions

When a school district has a negative certification or it is confirmed that the school district will not be able to meet its financial obligations for the current or subsequent fiscal year, budget revisions to enable the school district to meet its obligations in the current year will be developed and imposed. The County Superintendent of Schools may stay or rescind any action of the governing board determined to be inconsistent with the school district's ability to meet its financial obligations for the current or subsequent fiscal year, including any actions up to the point that the subsequent year's budget is approved by the County Superintendent of Schools.

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Notification of Budget Revisions or Stay or Recission of Actions

The school district governing board shall be notified of action to revise the budget or to stay or rescind inconsistent school district actions. The notification shall include the actions to be taken, the reasons for the actions, and the assumptions used to support the necessity for the actions. The San Diego County Office of Education, in consultation with the governing board, shall assist in developing a school district budget for the subsequent fiscal year. The San Diego County Office of Education shall continue to work with the school governing board until the budget for the subsequent fiscal year is adopted.

School District Appeals

Within five (5) days of the determination or notice of budget revisions, the school district may appeal the following to the Superintendent of Public Instruction:

1. The basis of the County Superintendent of Schools' determination that the school district may not be able to meet its financial obligations or proposed actions to examine the school district's financial condition.
2. The County Superintendent of Schools' determination that the school district will not be able to meet its financial obligations.

Until resolution of the appeal, the County Superintendent of Schools may stay any action of the governing board determined to be inconsistent with the school district's ability to meet its financial obligations for the current or subsequent fiscal year.

3. The County Superintendent of Schools' budget revisions pursuant to Education Code section 42127.3(b), 42127.6(e), or 42131(b).

If the appeal is denied, the school district shall implement the change(s) adopted by the County Superintendent of Schools. If the appeal is upheld, budget changes shall be implemented in accordance with revisions and/or guidelines issued by the Superintendent of Public Instruction.

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### Administrative Expenses

Contracts executed by the County Superintendent of Schools for purposes of determining a school district's fiscal solvency shall be subject to the approval of the Superintendent of Public Instruction. The authorized administrative expenses incurred by the San Diego County Office of Education for necessary actions, or for costs associated with improving the school district's financial management practices, shall be prorated between the San Diego County Office of Education and the school district in accordance with law.

### III. AUDIT OVERSIGHT RESPONSIBILITIES

The County Superintendent of Schools is responsible for review of certain audit exceptions and follow-up on prior-year exceptions in annual audits of school districts under his/her jurisdiction. District Financial Services section coordinates the audit oversight process. The San Diego County Office of Education will conduct complete finding-by-finding reviews of audits, including unresolved prior-year exceptions. Complete documentation of the audit resolution process shall be maintained by the San Diego County Office of Education. These records will be kept available for inspection by the State Controller.

#### Documentation

School districts will be contacted to provide evidence that they have resolved the exceptions. Sufficient documentation to confirm school district actions taken to resolve exceptions includes copies of amended reports and corrective action plans. If the description of the correction or the plan for correction is not adequate or to the satisfaction of the San Diego County Office of Education, the school district will be required to resubmit the portion of the response that is inadequate.

#### Written Response to School Districts

The San Diego County Office of Education will respond in writing to school districts regarding the adequacy of audit exception corrections, or plans for correction, identifying the areas that require further explanation, corrective action or a plan for correction.

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When an annual audit stipulates a second-year problem, the San Diego County Office of Education will follow up with school districts in order to resolve exceptions in the following areas: attendance, internal control, inventory of equipment, and miscellaneous areas under the purview of the County Superintendent of Schools.

Corrections

The San Diego County Office of Education shall monitor filing of corrected attendance reports within a reasonable period of time for simple, apportionment-significant exceptions. If an auditor does not provide a quantification for a finding that concerns a condition of apportionment, or there is no accompanying recommendation to file a corrected attendance report, the San Diego County Office of Education may determine that a corrected report is required. A formal statement from an approved independent auditor may be a requirement to substantiate quantification.

Annual Auditor

The San Diego County Office of Education shall provide for a certified public accountant or public accountant as an annual auditor for those school districts that do not secure an auditor for the current fiscal year. The cost of the audits provided for by the San Diego County Office of Education shall be paid from the County School Service Fund and a prorata share of the cost shall be charged to each affected school district.

Certification to Superintendent of Public Instruction

The San Diego County Office of Education shall certify to the Superintendent of Public Instruction that all school district audits were reviewed; all applicable exceptions were reviewed, and corrections made, noting exceptions; or an acceptable plan was submitted.

The San Diego County Office of Education shall also identify to the Superintendent of Public Instruction the attendance-related exceptions that have a fiscal impact on the state. The certification shall include as separate attachments (1) a list of those school districts or joint powers agencies that have no unresolved audit exceptions; and (2) a list of those school districts or joint powers agencies that have unresolved audit exceptions and an explanation as to why they have not been resolved.



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San Diego County Office of Education certification will constitute assurance to the California Department of Education that those findings that fall within San Diego County Office of Education purview have been handled.

Review of Audit Resolution Process

The San Diego County Office of Education may be chosen by the State Controller's Office to participate in a review of the audit resolution process.

Fiscal Information

The auditor conducting the annual audit may be requested to provide the San Diego County Office of Education with fiscal information on a school district if it is determined that the school district may not be able to meet its obligations for the current or subsequent fiscal year. The auditor shall send a copy of any information submitted to the San Diego County Office of Education to the affected school district.

Material Misstatements of Auditor

The County Superintendent of Schools or County Board of Education may refer an independent auditor to the State Board of Accountancy for action if an audit of a school district was conducted in a manner that may constitute unprofessional conduct resulting in material misstatement(s) in the audit.

IV. ALLEGATIONS OF ILLEGAL FISCAL PRACTICES

At any time during a fiscal year, the County Superintendent of Schools may review or audit the expenditures and internal controls of a school district if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The review or audit shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

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The County Superintendent shall report the findings and recommendations to the school district governing board at a regularly scheduled meeting within 45 days of completing the review, audit, or examination. Upon review of the school district governing board report of its proposed actions on the County Superintendent's recommendations, the County Superintendent may disapprove an order for payment of funds consistent with Education Code section 42638.

If the County Superintendent determines there is evidence that fraud or misappropriation of funds has occurred, he or she shall notify the school district governing board, the State Controller, the Superintendent of Public Instruction, and the San Diego County District Attorney.

V. BUDGET ASSUMPTIONS

Establishment of Assumptions

The District Financial Services section shall make school districts aware of the importance of developing and documenting assumptions for the preparation of budgets and interim reports with multiyear projections for the governing board and San Diego County Office of Education approval processes. Districts shall be encouraged to consider, define, and include the following information in assumptions for each applicable fiscal year:

A. General Fund Revenue

1. Revenue Limit

- a. Average daily attendance (ADA) and method used for enrollment projections
- b. Statutory cost-of-living adjustment (COLA), deficit factor, and other components of the revenue limit calculation
- c. Property tax revenues

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2. Other State Revenues
  - a. Lottery revenue estimated per ADA
  - b. Mandated cost revenues—estimate, actuals, and projected reimbursements
  - c. Special education revenues
    - (1) Material differences from prior-year actuals
    - (2) Statutory COLA and deficit factor
    - (3) Growth units
  - d. Categorical program revenues
    - (1) Material differences from prior-year actuals
    - (2) Statutory COLA, deficit factor, and ADA used for special education and other significant programs
  - e. New incentive funding
  - f. Interest earnings—rates, and trends used as basis for estimate; cash balances; and changes in distribution and timing of local taxes or other significant funds
  - g. Tax revenue anticipation notes (TRANS)—issue amounts, repayment schedule, and estimated earnings
  - h. Other significant changes in revenues
  - i. One-time revenues

3. Federal Revenue
  - a. Material differences from prior-year actuals
  - b. Impact Aid

**B. General Fund Expenditures**

1. Certificated and Classified Salaries
  - a. Status of negotiations with collective bargaining groups
  - b. Multiyear salary and benefits implications
  - c. Assumptions used in calculating the cost of implementing settlement of collective bargaining agreement(s), i.e., step and column, attrition, statutory changes
  - d. Costs of staffing changes and class size adjustments

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2. Employee Benefits
    - a. Rates used in projecting benefits for STRS, PERS, Social Security, Medicare, Unemployment Insurance, and Workers' Compensation
    - b. Assumptions on increases regarding the component costs of health and welfare benefits costs, including self-funded portions, and applicable caps
    - c. Applicable actuarial disclosures
  3. Retiree Benefits
    - a. Governing Board policy and number of retirees covered
    - b. Cost of current benefits; fund(s) and object(s) in which costs are recorded
    - c. Assumptions for cost projections
    - d. Applicable actuarial disclosures
    - e. Cost of golden handshake or other retirement incentives, including multiyear costs
  4. Other Significant Expenditures (account code objects 4000 through 7000)
    - a. One-time expenses, e.g., sizable carryover, one-time capital outlay, new school or facilities improvement
    - b. Major obligations including certificates of participation (COPs), lease-purchases, and bond repayments with amounts due in the budget year
  5. Transfers between Funds
    - a. Purpose of major interfund transfers
    - b. Loans between funds
- C. General Fund Ending Balance
1. Components
    - a. Major changes in component amounts from prior-year actuals
    - b. Reserve for Economic Uncertainties
    - c. Other reserves
  2. Significant Restricted Amounts

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**D. Other Funds**

1. Significant Changes in Revenues, Expenditures, and Transfers
  - a. Material differences in component amounts from prior-year actuals
  - b. One-time expenses, e.g., sizable carryover, one-time capital outlay, new school or facilities improvement
  - c. Major obligations including certificates of participation (COPs), lease-purchases, and bond repayments with amounts due in the budget year
  - d. Significant restricted amounts
  
2. Reserve for Economic Uncertainties and Other Reserves

**Determination and Notification**

In the event the San Diego County Office of Education determines that a school district may or will be unable to meet its financial obligations for the current or a subsequent fiscal year pursuant to Section II, "Budget Monitoring and Interim Reports," assumptions used as the basis for the determination and notification(s) may include, but not be limited to, the general information listed above.

**Legal Reference:** Education Code  
1240, 1241.5, 14504.2, 41020, 41020.6, 42127 et seq., 42131, 42638  
Government Code  
3540.24.  
California Department of Education: Management Advisories  
94-08 (6/94), 95-04 (5/1/95), and 95-07 (12/22/95) and Standardized Account Code Structure (SACS) Instruction Manual