



Statewide Program on District Fiscal Practices and Budgetary Conditions

Act 23 of 2017, S.C. Code Ann. § 59-20-90 (2017)



The Legislative Mandate

- On May 9, 2017, Governor McMaster approved the Act 23, which directs the South Carolina Department of Education (SCDE) to develop and adopt a statewide program on fiscal practices and budgetary conditions.
- The State Department of Education shall work with district superintendents and finance officers to develop and adopt a statewide program with guidelines for:
- identifying fiscal practices and budgetary conditions that, if uncorrected, could compromise the fiscal integrity of a school district; and
- (2) advising a district identified under item (1) to take appropriate corrective actions.
- S.C. Code Ann. § 59-20-90(A) (2017).





The Legislative Mandate

- The State Board of Education (SBE) is directed to promulgate regulations on the statute. S.C. Code Ann. § 59-20-90(B) (2017).
- Section § 59-20-90 applies to all South Carolina school districts, including the South Carolina Public Charter School Districts. Section § 59-20-95 applies to state agencies that are also local education agencies.





East Knox Local School District Placed in Fiscal Watch

Targeted News Service

COLUMBUS, Ohio, Sept. 30 -- The Ohio State Auditor issued the following news release:

provide an acceptable financial recovery plan prompted Auditor of Yost today to place East Knox Local School District (Knox County) in fiscal watch.

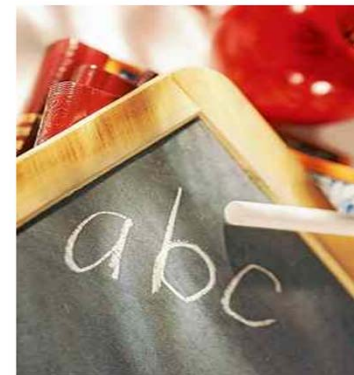
ents cannot be made without a well-laid plan," Auditor Yost said.

"My office is ready to work with the district to help guide it toward fiscal health."

The school district was first placed in fiscal caution on September 4, 2012 by the State of Education. The declaration was based on an audit of the fiscal year ending June 30, 2012, as well as the audit of the fiscal year ending June 30, 2013, as well as the audit of the fiscal year ending June 30, 2014. The district was required to submit a plan to address its financial issues. No such plan has been submitted.

The school district must now submit a financial recovery plan by the end of the fiscal year. If the school district is unable to submit

2016 election preview: Cardinal School District hopes to avoid fiscal emergency with new 4.5 mill levy



Metro Creative Connection



HUFFPOST

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by fiscal emergency.

AdChoices levy on Nov. 8 to

will probably end
ne oversight from

ion in August.

er turnout.

"We are expecting a very high percentage of voters



THE BLOG 09/23/2016 06:03 pm ET | Updated Mar 24, 2017

32 School Districts in Illinois Placed On 'Financial Watch' List for 2016

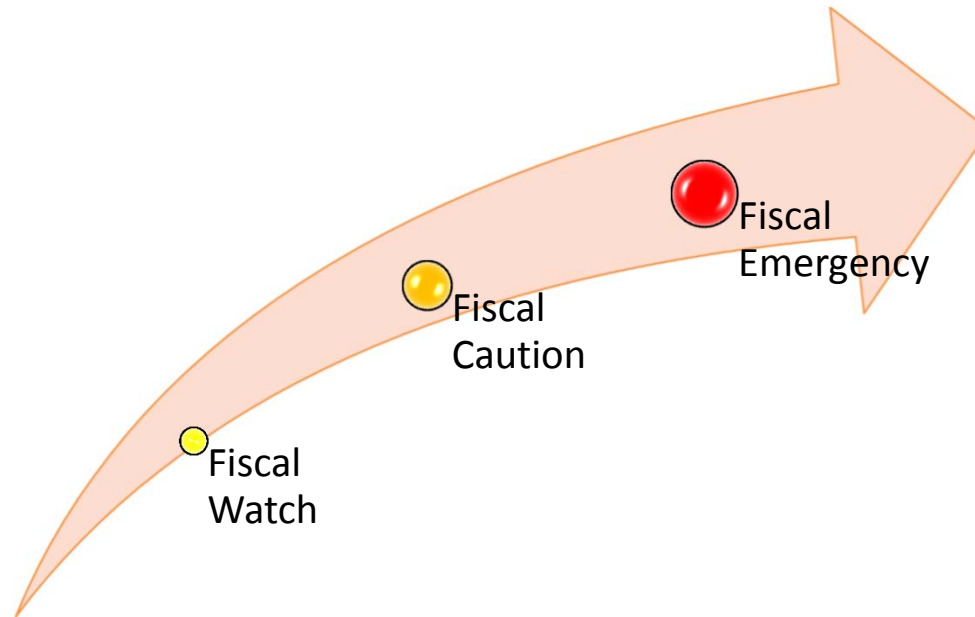
By Reboot Illinois

A new analysis of the financial health of Illinois' school districts shows the majority remain



Escalating Levels of Concern

- The statute identifies three “escalating levels of fiscal and budgetary concern” that must be defined in the statewide program:





Escalating Levels of Concern

- Each level has some similarities.
- Each has conditions under which the State Superintendent “shall” or “may” declare a level of concern.
- Each requires the district to develop and submit a financial recovery plan to the SCDE.





Fiscal Watch

- ***The Superintendent may declare a fiscal watch.***
- By statute, there are two situations in which the State Superintendent may declare fiscal watch in her discretion.
- an independent, outside auditing firm notifies the department that the district is not operating under generally accepted accounting principles; or
- the district does not maintain a general reserve fund of at least one month of general fund operating expenditures of the previous two completed fiscal years.



Fiscal Watch

- Not operating under GAAP
- While all districts should operate under generally accepted accounting principles (GAAP), not every failure to do so warrants declaration of a fiscal watch.





Task Force: Maintaining general reserve funds

- The legislature was concerned that school districts plan for variations in cash flow and state funding. To that end, the statute includes the requirement quoted above that a district maintain a “general reserve fund of at least one month of general fund operating expenditures of the previous two completed fiscal years.”
- The SCDE has added to its guide for auditors beginning in School Year 2017-18 a requirement that the auditors perform this test to determine whether the district dropped below the required general reserve fund minimum at the conclusion of the audit period.



Fiscal Watch: Maintaining general reserve funds

- The task force discussed the meaning of this language and determined that the following will be calculated:
- A. Determine the district's unrestricted fund balance for FY 2016-17.
- B. Calculate the general fund operating expenditures from FY 2015-16 and also calculate the general fund operating expenditures from FY 2016-17. General fund operating expenditures include instructional, support services, and community services expenditures. General fund operating expenditures do not consist of (debt service) and (capital fund expenditures). General fund operating expenditures also do not include (interfund transfers). Average the general fund operating expenditures for FY 2015-16 and FY 2016-17.
- C. Multiply the FY 2015-16 and FY 2016-17 average general fund operating expenditures by 8.33% (1 month).
- D. If the unrestricted fund balance in Part A is greater than the amount calculated in Part C, the District meets the requirement. If the unrestricted fund balance in Part A is less than the amount calculated in part 2, the District does not meet the requirement and a finding should be noted.

2
years



Fiscal Caution: Maintaining general reserve funds

- The task force discussed the meaning of this language and determined that the following will be calculated:
- A) Determine the district's unrestricted fund balance for FY 2016-17.
- B) Calculate the general fund operating expenditures for FY 2016-17. General fund operating expenditures include instructional, support services, and community services expenditures. General fund operating expenditures do not consist of (debt service) and (capital fund) expenditures. General fund operating expenditures also do not include (interfund transfers).
- C) Multiply the general fund operating expenditures for FY 2016-17 by 8.33%. (1 month)
- D) If the unrestricted fund balance in part A is greater than the amount calculated in Part 2, the District meets the requirement based on this test. If the unrestricted fund balance in Part A is less than the amount calculated in part 2, the District does not meet the requirement and a finding should be noted.





**SC DEPARTMENT OF EDUCATION
OAS RISK ASSESSMENT - CRITERIA 9 - FUND BALANCE
6/30/2016**

Source: FY 2015-2016 LEA Audit Reports (Due 12/1/16)

Combined Balance Sheet - General Fund

Statement of Revenues, Expenditures, Changes in Fund Balance - Governmental Funds

District #	FY 2015-16 Unrestricted Fund Balance	FY 2015-16 General Fund Operating Expenditures	FY 2014-15 General Fund Operating Expenditures	2 yr. Avg Expenditures	Watch	Cautious	Watch	Cautious	Fund Bal %	
95	\$729,213.00	\$12,284,792.00	\$12,059,833.00	\$12,172,312.50	\$1,013,953.63	\$1,023,323.17	FAIL	FAIL	5.94%	*
102	\$9,441,454.00	\$75,949,530.00	\$73,728,558.00	\$74,839,044.00	\$6,234,092.37	\$6,326,595.85	PASS	PASS	12.43%	
121	\$6,420,259.00	\$22,587,020.00	\$22,107,377.00	\$22,347,198.50	\$1,861,521.64	\$1,881,498.77	PASS	PASS	28.42%	
145	\$18,686,693.00	\$87,512,530.00	\$82,700,607.00	\$85,106,568.50	\$7,089,377.16	\$7,289,793.75	PASS	PASS	21.35%	
152	\$8,069,284.00	\$390,442,007.00	\$411,325,745.00	\$400,883,876.00	\$33,393,626.87	\$32,523,819.18	FAIL	FAIL	2.07%	*
156	\$9,231,147.00	\$33,177,124.00	\$33,702,517.00	\$33,439,820.50	\$2,785,537.05	\$2,763,654.43	PASS	PASS	27.82%	
174	\$27,144,821.00	\$221,433,232.00	\$212,693,656.00	\$217,063,444.00	\$18,081,384.89	\$18,445,388.23	PASS	PASS	12.26%	
182	\$4,300,891.00	\$20,988,092.00	\$20,429,386.00	\$20,708,739.00	\$1,725,037.96	\$1,748,308.06	PASS	PASS	20.49%	
196	\$5,906,242.00	\$42,974,177.00	\$42,460,863.00	\$42,717,520.00	\$3,558,369.42	\$3,579,748.94	PASS	PASS	13.74%	
197	\$109,092.00	\$15,768,309.00	\$15,972,845.00	\$15,870,577.00	\$1,322,019.06	\$1,313,500.14	FAIL	FAIL	0.69%	*
198	\$8,856,592.00	\$70,922,912.00	\$70,314,491.00	\$70,618,701.50	\$5,882,537.83	\$5,907,878.57	PASS	PASS	12.49%	
232	\$31,477,792.00	\$177,796,953.00	\$166,010,994.00	\$171,903,973.50	\$14,319,600.99	\$14,810,486.18	PASS	PASS	17.70%	
444	\$12,747,380.00	\$68,126,220.00	\$67,627,318.00	\$67,876,769.00	\$5,654,134.86	\$5,674,914.13	PASS	PASS	18.71%	
450	\$30,917,657.00	\$82,319,744.00	\$77,319,279.00	\$79,819,511.50	\$6,648,965.31	\$6,857,234.68	PASS	PASS	37.56%	
451	\$18,959,513.00	\$60,614,710.00	\$59,803,582.00	\$60,209,146.00	\$5,015,421.86	\$5,049,205.34	PASS	PASS	31.28%	
453	\$4,189,772.00	\$24,390,464.00	\$24,786,970.00	\$24,588,717.00	\$2,048,240.13	\$2,031,725.65	PASS	PASS	17.18%	
454	\$23,277,933.00	\$95,062,613.00	\$94,003,662.00	\$94,533,137.50	\$7,874,610.35	\$7,918,715.66	PASS	PASS	24.49%	
455	\$6,663,216.00	\$25,282,670.00	\$25,429,091.00	\$25,355,880.50	\$2,112,144.85	\$2,106,046.41	PASS	PASS	26.35%	
459	\$9,369,165.00	\$18,191,081.00	\$17,815,660.00	\$18,003,370.50	\$1,499,680.76	\$1,515,317.05	PASS	PASS	51.50%	
485	\$51,447,504.00	\$234,972,816.00	\$222,837,234.00	\$228,905,025.00	\$19,067,788.58	\$19,573,235.57	PASS	PASS	21.90%	
514	1,926,633.00	6,811,156.00	6,652,816.00	\$6,731,986.00	\$560,774.43	\$567,369.29	PASS	PASS	28.29%	
520	\$4,120,630.00	\$52,236,761.00	\$52,062,203.00	\$52,149,482.00	\$4,344,051.85	\$4,351,322.19	FAIL	FAIL	7.89%	
530	\$2,260,464.00	\$9,330,911.00	\$7,853,433.00	\$8,592,172.00	\$715,727.93	\$777,264.89	PASS	PASS	24.23%	



The FY2016 Results: Maintaining general reserve funds

- Average Fund Balance **18.80%**
- Lowest Fund Balance **(4.72%)**
- Highest Fund Balance **51.50%**
- 18 districts at **10.00%** or below
- 39 districts at **20.00%** or above
- 20 districts at **24.99%** or above
- 8 districts at **33.32%** or above
- FY2017 anticipate 10-15 districts on the Fiscal Watch/Caution list for Fund Balance (below **8.33%**)





Fiscal Watch

- ***The Superintendent shall declare a fiscal watch.***
- The statute describes when the State Superintendent shall declare a fiscal watch:
- The State Superintendent of Education ***shall*** declare fiscal watch if:
- he determines, within his discretion, that a district declared to be in fiscal watch has not acted reasonably to eliminate or correct practices or conditions that prompted the declaration and has determined that a state of fiscal watch is necessary to prevent further decline; and
- there is any type of ongoing, related investigation by any state or federal law enforcement agency or any other investigatory agency of the State.
- S.C. Code Ann. § 59-20-90(C)(1)(2017).

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Fiscal Watch

Task Force: Ongoing Investigation

- ***What is an “ongoing, related investigation”?***
- The task force discussed the types of investigations that could be covered by the statute.
- fraud
- unethical fiscal practices
- misappropriation of funds
- embezzlement or other financial irregularities
- Forgery, falsification, or alteration of documents and/or information (e.g., checks, bank drafts, deposit tickets, promissory notes, travel expense reports, contractor agreements, purchase orders, electronic files, etc.) with the intent to obtain an unauthorized financial benefit;
- Deviations from standard procedures in the handling or reporting of money, cash equivalents or financial transactions, including procurement card with the intent to obtain an unauthorized financial benefit;





Fiscal Caution

- ***The State Superintendent may declare a fiscal caution.***
- The State Superintendent may declare a “fiscal caution” whenever conditions are observed or reported “that could result in a declaration of fiscal emergency.” The statute contemplates two methods by which this could occur: (a) from review of the district’s auditors; or (b) from reports by the district’s auditors.





Fiscal Caution

- the district's audits have been reviewed and there are conditions observed that could result in a declaration of fiscal emergency; or
- the outside, independent auditing firm conducting the district's audit reports to the State Superintendent that any conditions or practices exist that could result in a declaration of fiscal emergency.
- The written communication, verbal communication, or both, between the department and the school district constitutes the consultation with the local board of education required in subitem (a).
- The task force determined that the following are examples of conditions or practices that could result in a fiscal emergency, and therefore might warrant declaration of a fiscal caution:



Fiscal Caution Task Force: Conditions That Could Result in a Fiscal Emergency

- Lack of relevant, reliable, and consistent financial information
- Identification of weak internal controls
- Repeated yellow book findings
- Modified opinion on the financial statements
- Unbudgeted multi-year deficit spending
- Inability to meet 75% spending threshold on Funding Flexibility Proviso





Fiscal Caution

- ***The State Superintendent shall declare a fiscal caution.***
- Act 23 requires that the State Superintendent declare a fiscal caution in these circumstances:
- The State Superintendent **shall** declare a school district to be in a state of fiscal caution if:
- upon review of the district's annual audit, the department determines financial practices occurring that are outside of acceptable accounting standards exist;
- a district submits an annual audit more than sixty days after the December first deadline as provided in Section [59-17-100](#);
- the department discovers any other fiscal practices or conditions that could lead to a declaration of fiscal emergency through the examination of a school district's past two years' audits;





Fiscal Caution

The State Superintendent shall declare a fiscal caution.



- the department reviews a district's annual audit and determines the district is not maintaining the mandatory minimum of one month of general fund operating expenditures in its general reserve fund;
- an outside, independent auditing firm declares that a school district's financial records are unauditable;
- the department identifies significant deficiencies, material weaknesses, direct and material legal noncompliance or management letter comments which, in the opinion of the department, the aggregate effect of the reported issues has a significant effect on the financial condition of the district; or
- there is an ongoing investigation being conducted by any federal or state agency, law enforcement or otherwise, with regard to the district's finances or local board of trustees.





Fiscal Caution Differences

- Insufficient general reserve fund.
- As noted above, the State Superintendent may declare a fiscal watch if the district does not maintain a one month general reserve fund. In this section the State Superintendent must declare a fiscal caution if the SCDE's review of the audit leads to the conclusion that the reserve fund is not being maintained.
- Fiscal Watch is two years average general fund operating expenditures vs. Fiscal Caution is one year general fund operating expenditures.





Fiscal Caution Differences

- Ongoing investigation into district finances or its board of trustees
- "there is an ongoing investigation being conducted by any federal or state agency, law enforcement or otherwise, with regard to the district's finances or local board of trustees"
- This provision is similar to the one above concerning declaration of a fiscal watch; however, it is an investigation by any state or federal agency (not just law enforcement) and it is specific to the district's finances or board (not just "related").





Fiscal Emergency

- ***The State Superintendent shall declare a fiscal emergency.***
- The State Superintendent is required to declare a fiscal emergency in five situations. There is no provision for prior notice in these sections.
- Failure to submit an acceptable fiscal caution recovery plan.
- a district under fiscal caution fails to submit an acceptable recovery plan within one hundred twenty days or fails to submit an updated recovery plan when required;
- Failure to comply with a fiscal caution recovery plan.
- the department finds that a district under fiscal caution is not complying with an original or updated recovery plan and determines that fiscal emergency is necessary to prevent further decline;



Fiscal Emergency

- Risk of debt default.
- a district is at risk of defaulting on any type of debt, to include, but not be limited to, tax anticipation notes, general obligation bonds, or lease-purchase installment agreements;
- Three fiscal years of fiscal watch or caution.
- a district has previously been under fiscal watch, fiscal caution, or any combination of fiscal watch and fiscal caution for three fiscal years collectively, regardless of whether these three years are continuous; or
- Necessary to correct fiscal problems.
- he determines that a declaration of fiscal emergency is necessary to correct the district's fiscal problems and to prevent further fiscal decline.



Fiscal Emergency

- *The State Superintendent may recommend taking over the district's financial operations.*
- If the State Superintendent finds a district has not made reasonable proposals or taken action to correct the practices or conditions that led to the declaration, the Superintendent may make a recommendation to the State Board of Education that the department take over financial operations of the district for the fiscal year in which a fiscal emergency is declared as part of the technical assistance offered to the district. Upon approval of the recommendation by the State Board of Education, the department may maintain financial operations until the district is released from a fiscal emergency.





Appeal to the State Board

- Fiscal Watch. The district board may appeal to the SBE within ten days of when a fiscal watch is declared; however, the district must continue working with the SCDE pending the appeal. S.C. Code Ann. § 59-20-90(C)(5) (2017). The SBE must hold a hearing on the appeal within thirty days after the filing of the appeal. *Id.*
- Fiscal Caution and Emergency. The statute does not provide for appeals to the SBE for the intermediate and highest levels of fiscal concern.



Financial Recovery & TA

- Financial Recovery Plan required at all levels
- SCDE provides TA after Fiscal Watch
- SCDE provides TA in implementing proposals and making recommendations after Fiscal Caution & Fiscal Emergency
- SCDE required to visit and inspect districts under Fiscal Caution & Fiscal Emergency





Financial Recovery & TA

- Address the issue at hand – Who? What? When? Where? Why? How?
- Policy & Procedure Driven
- Financial Economic Outlook Driven
- Revenue Projection
- Expenditure Projection
- Fund Balance Analysis
- Provide a timeline for fiscal recovery
- [Multiyear Financial Planning Tool](#)





Release from Fiscal Concern Status

- The district cannot be released in the fiscal year in which the declaration was made. The earliest a district may be released from a level of caution is the following fiscal year. S.C. Code Ann. §§ 59-20-90(C)(4) (fiscal watch); - (D)(6) (fiscal caution); - (E)(8) (fiscal emergency) (2017). “The State Superintendent shall notify the local board chairman, district superintendent, and chief financial officer of the release” from the declaration. *Id.*





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ANY
QUESTIONS
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