

LOUISIANA DEPARTMENT OF EDUCATION



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## Fiscal Risk Assessment Process June 2022

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# Outline



- What is the Fiscal Risk Assessment?
- What are the Fiscal Risk Factors?
- What happens if a School System or Charter does not meet the criteria? Actions Needed



# What is the Fiscal Risk Assessment?



# What is the Fiscal Risk Assessment?

- The Louisiana Board of Elementary and Secondary Education through the Office of Management and Finance in the Louisiana Department of Education is required by Act 7 of the 2005 Regular Session of the Louisiana State Legislature to define “financially at risk” as a status of any city, parish, or other local school board the unresolved finding of which subjects the school system and its board to provisions of the law regarding the judicial appointment of a fiscal administrator.
- By law, each city, parish, or other local public school board shall be notified on a regular basis by the state Department of Education of its status related to the elements of the definition of financially at risk.

# What is the Fiscal Risk Assessment?

- Act 7 does not reduce the independence and responsibility of local school systems and their boards with respect to being responsible for their fiscal status.
- The Louisiana Department of Education will share its information with SBESE and with local school systems, but the Department of Education must rely on information being forthcoming from the local school systems.
- Ultimately, the purpose of Act 7 is to allow the state to be aware of what is happening at the local level in terms of financial issues and to assist in resolving these problems promptly and in the best interest of the school children in each school system



## **What are the Fiscal Risk Factors?**



# What are the Fiscal Risk Factors?

**Phase 1 – Maintaining awareness of external conditions encountered by school systems that if not addressed could lead to financial problems.**

- The LDOE will evaluate data concerning external conditions that could eventually require a fiscal related decision to resolve. These factors are totally or partially outside the control of the school systems.

# Maintaining Awareness of External Conditions

## 1. Student Enrollment Factors

- a. Declines in Public School Enrollment
- b. Sudden Changes in Non-public School Enrollment

## 2. Trends in Local Revenue

- a. Significant negative growth in local property and sales taxes over last five years: indicator of overall economic conditions
- b. Property and sales tax collections per pupil less than 50% of state average: indicator of recorded willingness to raise local revenues
- c. Local Tax Effort Index: indicator of ability and willingness to raise local revenues



# Maintaining Awareness of External Conditions

## 3. Fiscal Conditions

- a. Total Expenditures per pupil as a percent of state average: short-term reaction of school systems is to reduce expenditures—this serves as indicator of the school system’s ability to cut expenditures if required
- b. Relationship between accountability score and per pupil expenditure: another measure of the school system’s ability to cut expenditures and expected outcome on accountability scores

4. Future Obligations a. School systems with over 45 percent of school system personnel has more than 15 years of service

5. Status of Business Certification of Business Official a. Is current business official certified under R.S.17:84.2

# What are the Fiscal Risk Factors?

**Phase 2 – Identifying factors that could lead to weaknesses or problems in the financial operations of a school system.**

The LDOE will evaluate data concerning issues with a school system's financial operations that may cause problems, which eventually may require a fiscal related decision for resolution.

# Identifying Factors That Could Lead to Weaknesses

## 1. Level 1 – Fiscal Management/Behavior

School systems not meeting the criteria in this category have not implemented financial management practices that are designed to ensure good internal controls in their systems. If not addressed, there is a higher risk is higher these smaller problems could lead to more severe problems in the future.

- a. Submittal of General Fund Budget as required by law
- b. Submittal of final AFR by October 31
- c. Audit opinion – Internal Control on Government Auditing Standards
- d. Single Audits – Consecutive audit findings
- e. Known Material Fraud in any program



# Identifying Factors That Could Lead to Weaknesses

## 2. Level 2 – Identified Problems Having Fiscal Impact

Items in this category may indicate the mismanagement of a program to the degree that funds must be repaid (referred to as a questioned cost). The school system is required to repay these funds to the federal government. These types of problems can be corrected but must be directly addressed and closely monitored to ensure this does not continue.

- a. Questioned Costs from A – 133 – Single Audit Report
- b. Questioned Costs from Program Monitoring Review
- c. Questioned Costs from Fiscal Monitoring Review

# Identifying Factors That Could Lead to Weaknesses

## 3. Level 3 – Auditing Outcomes

Items in this category may indicate that the independent auditor has found a critical problem in these areas of a school system's financial operations. The type of the opinion issued will indicate the severity of the problem. Problems such as these can be corrected but must be directly addressed by the school system and then closely monitored.

- a. Audit opinion – General Purpose Financial Statements
- b. Audit opinion – Schedule of Expenditures of Federal Programs
- c. Audit opinion – Compliance with Laws and Regulations on Federal programs

# Identifying Factors That Could Lead to Weaknesses

## 4. Level 4 – Problems with Balanced Budgets and Fund Balances

Items in this category may indicate there could be, or there already exists, cash flow problems. These types of problems must be addressed immediately or the school system could be at risk of insolvency.

- a. General Fund Deficit Spending
- b. General Fund Balance as a Percentage of General Fund Revenues

**Note: General Fund Deficit Spending may be acceptable in certain instances. In such instances, correspondence from the LEA is necessary to justify the deficit spending.**



# Identifying Factors That Could Lead to Weaknesses

## 5. Level 5 – Major Events

- a. New School System – A school system categorized in this manner requires LDOE to monitor closely the development and implementation of appropriate systems, policies, and procedures to ensure successful provision of educational services to students as a result of being newly formed
- b. Major Event – Events such as natural disasters create unforeseeable educational and financial circumstances for school systems. The Department of Education must immediately monitor these school systems in order to assure the school system is able to work through issues.

# Identifying Factors That Could Lead to Weaknesses

## 5. Level 5 – Major Events

c. Going Concern Opinion – Items in this category indicate that problems already exist in a school system that put the entity at risk of being able to continue operations.

# What are the Fiscal Risk Factors?

## Phase 3 – Emergency procedures for financially at-risk school systems

The LDOE will evaluate certain data as it becomes available throughout the fiscal year concerning issues with a school system's financial operations that may cause problems, which eventually may require a fiscal related decision for resolution.

1. Evaluation of the next year's General Fund Budget that is due to the Department each year – The LDOE will evaluate the general fund balance as a percentage of general fund revenues.
2. Emergency Action – An emergency action plan may be implemented during the fiscal year due to receipt of information or an occurrence that creates a critical situation.



# Further Definition of Risk Factors

The LDOE provides a detailed explanation of each risk measurement and the sources for this information.

## Financial Risk Assessment – Description of Factors (FY2020-2021)

### **Part I: Assessment of External Factors Influencing Financial Behavior of School Systems and Schools**

#### **(A) Public School Enrollment**

This assessment factor looks at trends in public school enrollment over a five year period. School systems must adjust to changing enrollment. Tracking and projecting student enrollment suggests which school systems may be required to make adjustments in order to retain financial viability. This financial assessment factor highlights school systems that incur a loss of students over a five year period in different magnitudes. It also highlights the number of years with a decline in student enrollment.

**Source:** Student Information System (SIS); Elementary/Secondary student count; October 1, 2015 through October 1, 2020

#### **(B) Non-Public School Enrollment (K-12)**

This assessment factor looks at non-public school enrollment in state-approved non-public schools. It highlights the percentage of non-public enrollment to total district enrollment, actual non-public school enrollment for the latest available year, and any change greater than 15% in non-public enrollment for the latest five years. A change in public school enrollment is captured in Public School Enrollment Trends (Factor A); however, the documentation of the non-public school enrollment can provide a reason for this change.

**Source:** Non-public Schools Annual Data Collection by LDOE; K-12 student count; School Years 2016-2017 through 2020-2021

**Note:** This assessment factor is applicable to City-Parish only.



## Reviewing the Findings

# Reviewing the Findings

- Preliminary findings will be provided to each School System and Charter.
- After reviewing each of the factors, the School System or Charter will complete the [School System Response Form](#) , and return it to [SchoolFinanceHelpDesk@la.gov](mailto:SchoolFinanceHelpDesk@la.gov) .



# Response Form

- Responses received will be reviewed and used to make updates (if necessary) to the data for the school system. The response form includes the following items:

- **Additional Information/Comments**

Should you find that the data for your school system or school is in error for any given factor, provide updated information accompanied by documentation to substantiate the update. Also provide any additional comments or information that you feel should be considered during the review process.

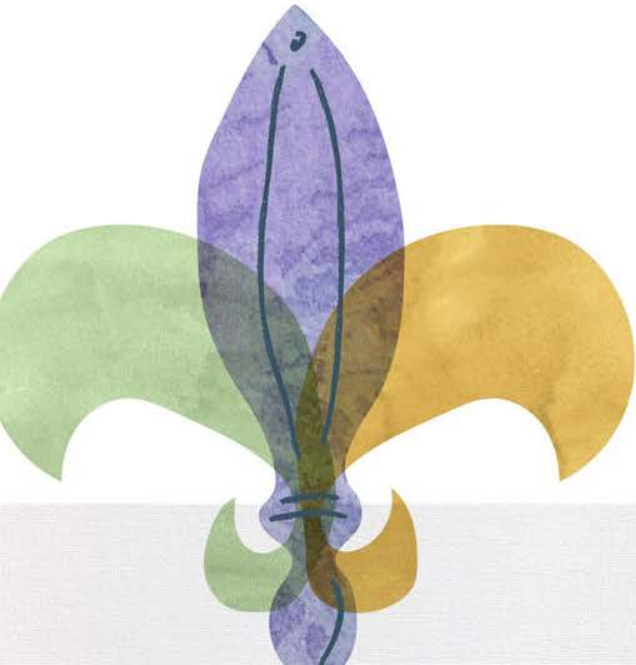
# Response Form

- **Factor R (General Fund Deficit Spending)**

If your school system or school experienced general fund deficit spending, provide details to justify why the situation occurred, and/or outline plans that have been or will be put in place to address any deficiencies.

- **Factor S (General Fund Balance as a Percentage of General Fund Revenue)**

If your fund balance is near or below the recommended percentage of general fund revenues, or has decreased significantly from the prior year, provide details regarding the status of your general fund balance and/or outline any plans that have been or will be put in place to address any deficiencies.



# **What Happens if a School System or Charter Does Not Meet the Criteria? Next Steps and Actions Needed**



# Next Steps and Actions Needed

An action summary will be prepared in which the issues for each school system are listed. The action summaries will be provided to the State Board of Elementary and Secondary Education (BESE) along with the Department's recommendation for further follow-up categorized as follows:

- **No Action Necessary**
- **Monitor**
- **In Corrective Action**

## Next Steps and Actions Needed

- An initial report is prepared for BESE in late summer. The report shows School Systems and Charters that showed areas of concern and how many years these concerns have happened.
- The categories of Monitor and In Corrective Action will typically have findings in different areas.

- Monitor** - This category represents schools systems the Department will monitor regarding specific items either through an already established procedure such as the Audit Resolution Process, or via written inquiries as either a precautionary measure, or to assure continued progress in areas that have been problematic in the past.

School Systems	Audit Not Available	(I) Material Weakness on Internal Controls	(J) Consecutive Audit Finding For 2 Years	(J) Consecutive Audit Finding For 3 or 4 Years	(J) Consecutive Audit Finding For 5 or More Years	(R) General Fund Deficit Spending	(S) Gen Fund Balance as % of Gen Fund Revenue
		X				3 Deficits in Last 5 Years	
	X	X					
	X					1 Deficit in Last 3 Years	
	X		1			1 Deficit in Last 3 Years	
	X			1		2 Deficits in Last 3 years	
		X			2	1 Deficit in last 3 Years	
	X					3 Deficits in Last 5 Years	
	X		1	1		3 Deficits in Last 5 Years	
		X		1		1 Deficit in Last 3 Years	
	X					2 Deficits in Last 3 years	
	X						



- **In Corrective Action** - School systems in this category have situations that require a detailed review by the Department; follow-up may include, but not be limited to, a conference call, site visit, or BESE dialogue.

School Systems	Audit Not Available at Time of Assessment	(I) Material Weakness on Internal Controls	(J) Consecutive Audit Finding For 2 Years	(J) Consecutive Audit Finding For 3 or 4 Years	(J) Consecutive Audit Finding For 5 or More Years	(R) General Fund Deficit Spending	(S) Gen Fund Balance as % of Gen Fund Revenue
				1		4 Deficits in Last 5 Years	4.89%
	X			1		3 Deficits in Last 5 Years	
						3 Deficits in Last 5 Years	1.79%
				1		1 Deficit in Last 3 Years	0.79%
				2		1 Deficit in Last 3 Years	5.00%
		X		2		3 Deficits in Last 5 Years	4.51%
						1 Deficit in Last 3 Years	4.59%
						1 Deficit in Last 3 Years	-13.40%
						1 Deficit in Last 3 Years	4.12%
							-1.94%
						1 Deficit in Last 3 Years	0.08%

## Next Steps and Actions Needed

- LDOE staff will work with the Schools placed In Corrective Action category to identify areas of concerns and to develop an action plan to address the issues in a timely and complete manner.
- Typically in December, a final report will be provided to BESE summarizing each School System of Charter's findings and subsequent action plan. See example on the next slide.

School Systems and Schools		Audit Not Available at Time of Assessment	(I) Material Weakness on Internal Controls FY2018-19	(J) Consecutive Audit Finding	(J) Consecutive Audit Finding	(R) General Fund Deficit Spending	(S) Gen Fund Balance as % of Gen Fund Revenue FY2018-19	Factors Influencing Financial Behavior	Corrective Action Plan
					2	1 Deficits in Last 3 Years	5.00% Needs Improvement	Acadiana Renaissance (ARCA) experienced two unexpected financial events which caused the school to experience deficit spending. To comply with a state ruling ARCA had to add transportation. Additionally for safety purposes the outdoor playground had to be replaced.	ARCA will increase the fund balance by implementing tighter financial controls. This includes consistently monitoring spending patterns to ensure the school stays within the annual budget limitations.  Monitoring spending patterns and tighter controls has proven to be effective as the school has not experienced any deficit spending since FY19 and the cumulative fund balance continues to increase each year.  The goal is for general fund balance to increase to 7.5% needed to achieve an Excellent rating.
			X		2	3 Deficits in Last 5 Years	4.51% Unacceptable	Personnel turnover during and immediately following FY19 largely contributed to the late submission of the annual audit.  Low enrollment and disproportionate instructional and operating expenses caused deficit spending and a deficit	FirstLine is on track to submit the upcoming audit report on time.  Increasing the capacity and adhering to existing financial reporting deadlines have been effective. Timely submission resolved the prior period adjustment finding.  Procedures to monitor and evaluate expenditures and ensure they are proportionate to student enrollment have been effective.



# Contact Information

Send questions to [schoolfinancehelpdesk@la.gov](mailto:schoolfinancehelpdesk@la.gov) or call School System Financial Services Office at (225) 342-3617.