

**CALIFORNIA COMMUNITY COLLEGES  
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# Memorandum

**FS 05-05**  
**By Email Only**

**October 25, 2005**

**TO:** Chief Executive Officers  
Chief Business Officers

**FROM:** Frederick E. Harris, Assistant Vice Chancellor  
College Finance & Facilities Planning

**SUBJECT:** Accounting Advisory: Monitoring and Assessment of Fiscal Condition

**I. Background:**

Pursuant to Education Code Section 84040, the Board of Governors is required to adopt criteria and standards for the periodic assessment of the fiscal condition of California community college districts. In accordance with this requirement, the System Office has established standards for sound fiscal management and a process to monitor and evaluate the financial health of California's community college districts. The purpose of these standards is to identify districts that may benefit from preventative management assistance and those that may require fiscal crisis intervention to prevent emergency loans. These standards are intended to be progressive, with the focus on prevention and assistance at the initial level and more direct intervention at the highest level. These standards are based on the principles of sound fiscal management that are contained in California Code of Regulations (CCR) Section 58311.

The monitoring and assessment process outlined in this accounting advisory is intended to provide for early detection of districts that are experiencing fiscal difficulties. Early detection will allow the district and System Office an opportunity to take proactive/preventative steps to stabilize and address the financial condition of identified districts. This process will utilize various information sources to assess the financial condition of all community college districts and will allow the System Office to provide technical and administrative assistance to bring about improvement in a district's financial condition. If early and preventative intervention fails due to the timing or degree of fiscal condition, direct intervention will be assigned.

**II. Monitoring and Assessment of Financial Condition**

Monitoring and periodic assessment of all districts' financial condition will be performed to determine whether a district requires preventative management assistance or fiscal crisis intervention. This assessment will utilize a wide variety of information to provide an overview of a district's financial condition. The information to be used to perform the assessment will include the following:

- Quarterly Financial Status Reports (CCFS-311Q)
- Annual Financial and Budget Reports (CCFS-311)
- Annual District Audit Reports
- Apportionment Attendance Reports (CCFS-320)
- District Response to Inquires (telephone, written correspondence, site visits, etc.)
- Other available information (i.e., debt reports, Fiscal Data Abstract, etc.)

The overall assessment of a district's financial condition will include, but not be limited to, the following criteria:

- a) Primary Criteria: General Fund Analysis that will include a review of the current, historical and projected fund balance. The main criteria for assessment will be the percentage of unrestricted general fund balance to all expenditures and other outgo of unrestricted general fund. For purposes of this assessment, all unrestricted expenditures and other outgo will include all uses of unrestricted general funds under expenditure object codes 1000 thru 7000.

The minimum prudent unrestricted general fund balance is 5 percent. This minimum prudent level is considered necessary to ease cash flow problems, to deal with unexpected cost increases, and other fiscal uncertainties. If a district falls below this minimum prudent level, further review will be performed to determine if any fiscal problems exist. Such review shall take into account identified one-time revenues and expenditures as designated by the affected district.

- b) Secondary Criteria. Other factors that have an impact upon a district's overall financial stability must be considered in evaluating whether or not a district has an adequate unrestricted general fund balance, including:
1. Analysis of spending patterns will include a review of the current, historical and projected revenues and expenditures. Attention will be given to districts that have a pattern of deficit spending in the current year, and greater scrutiny will be made if there is a history of deficit spending.
  2. Full-Time Equivalent Students (FTES) review will include looking at the FTES patterns in relation to statewide patterns and the potential impact upon revenue. Attention will be given to districts with unusual material fluctuations to the FTES. Districts receiving stability revenue will be further evaluated.
  3. Staffing expenditure (salaries and benefits) increases that are expected to exceed projected revenue increases.
  4. Other factors will be reviewed for pertinent information that could have an impact upon a district's financial condition. Attention will be given to any potential problems such as: a "going concern" audit finding, material internal control audit findings, pending legal actions, late filing of annual audit or financial & enrollment reports and other fiscal or administrative problems that are identified.

Districts are encouraged to regularly complete the *Sound Fiscal Management Self-Assessment Checklist* with their Board and executive staff. This checklist can provide early detection indicators of potential district fiscal concerns and provide districts with the opportunity to identify and address problems at the earliest possible time.

### **III. Follow-up actions**

Based upon the overall assessment and severity of problems identified, the System Office will take follow-up actions to investigate and validate whether or not a district requires periodic monitoring, management assistance and/or fiscal crisis intervention. The specific follow-up actions taken by the System Office will vary depending upon the overall assessment of the district's condition and the severity of the possible fiscal problems. After discussion with the district, the System Office will make one of the following determinations:

#### **1. No further follow-up is necessary.**

Based on further analysis and evaluation of information gathered after the assessment of the primary/secondary criteria, a determination has been made by the System Office that no further follow-up is necessary by the district.

#### **2. Periodic monitoring is necessary.**

Districts in this category will be required to do the following:

- Complete the *Sound Fiscal Management Self-Assessment Checklist* and submit to the System Office with evidence that the district's governing board has been appropriately informed.
- Update and submit their Quarterly Financial Status Report, CCFS 311Q (new version to be issued by end of 2005) to reflect the district's current fiscal status.
- Develop and submit to the System Office a written action plan developed by the district that satisfactorily addresses the identified fiscal concerns.
- Chief Business Official (CBO) and/or other appropriate key staff will maintain regular communication with the System Office regarding recovery progress.

#### **3. The district requires management assistance and will be monitored more closely.**

Districts in this category have one or more deficiencies that require outside assistance and require closer monitoring by the System Office through the following actions:

- Complete the *Sound Fiscal Management Self-Assessment Checklist* and submit to the System Office with evidence that the district's governing board has been appropriately informed.
- Submit a more comprehensive CCFS 311Q (newer version to be issued by end of 2005) monthly to reflect the district's fiscal status.

- Submit to the System Office a management assistance plan that addresses the identified concerns developed with the aid of the Fiscal Crisis and Management Assistance Team (FCMAT) and/or other specialized external assistance.
- District CBO and CEO as needed will participate in a quarterly review on the district's fiscal condition and recovery.
- Depending on the severity of the problem, the district may be required to submit a detailed recovery plan for achieving fiscal stability and an education plan demonstrating the impact of the fiscal plan on the district's education program. This recovery plan needs the district's governing board approval.

#### **4. The district requires immediate fiscal crisis intervention.**

The district's recovery plan for achieving fiscal stability and the educational plan demonstrating the impact of the fiscal plan on the district's educational program have been found to be deficient, the district has substantially failed to implement the plans OR the plans have not been completed in a timely manner. Intervention is determined to be necessary because a district's financial data indicate a high probability that, if trends continue unabated, the district will need an emergency apportionment within three years or that the district is not in compliance with the principles of sound fiscal management specified in Section 58311. Therefore, the Chancellor, in accordance with California Code of Regulations Title 5 Sections 58312 et seq., has the authority to take any of the following actions at district expense:

- Conduct a comprehensive management review of the district and its educational programs and an audit of the financial condition of the district.
- Direct the district to amend and readopt the fiscal and educational plans prepared pursuant to CCR T5 Section 58310 based on the findings of the comprehensive audits.
- Direct outside fiscal crisis intervention assistance from FCMAT, other specialized external assistance and/or through the appointment of a Special Trustee to help address the fiscal concerns and to assist with the district's recovery.
- Assign a Special Trustee to assume management and fiscal control of the district to the extent deemed necessary in order to achieve fiscal stability or solvency and also implement the principles of sound fiscal management.

# California Community Colleges

## Sound Fiscal Management Self-Assessment Checklist

1. **Deficit Spending** - Is this area acceptable? **Yes / No**
  - Is the district spending within their revenue budget in the current year?
  - Has the district controlled deficit spending over multiple years?
  - Is deficit spending addressed by fund balance, ongoing revenue increases, or expenditure reductions?
  - Are district revenue estimates based upon past history?
  - Does the district automatically build in growth revenue estimates?
2. **Fund Balance** – Is this area acceptable? **Yes / No**
  - Is the district's fund balance stable or consistently increasing?
  - Is the fund balance increasing due to on-going revenue increases and/or expenditure reductions?
3. **Enrollment** - Is this area acceptable? **Yes / No**
  - Has the district's enrollment been increasing or stable for multiple years?
  - Are the district's enrollment projections updated at least semiannually?
  - Are staffing adjustments consistent with the enrollment trends?
  - Does the district analyze enrollment and full time equivalent students (FTES) data?
  - Does the district track historical data to establish future trends between P-1 and annual for projection purposes?
  - Has the district avoided stabilization funding?
4. **Unrestricted General Fund Balance** – Is this area acceptable? **Yes / No**
  - Is the district's unrestricted general fund balance consistently maintained at or above the recommended minimum prudent level (5% of the total unrestricted general fund expenditures)?
  - Is the district's unrestricted fund balance maintained throughout the year?
5. **Cash Flow Borrowing** - Is this area acceptable? **Yes / No**
  - Can the district manage its cash flow without interfund borrowing?
  - Is the district repaying TRANS and/or borrowed funds within the required statutory period?
6. **Bargaining Agreements** - Is this area acceptable? **Yes / No**
  - Has the district settled bargaining agreements within new revenue sources during the past three years?
  - Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement?
  - Did the district correctly identify the related costs?
  - Did the district address budget reductions necessary to sustain the total compensation increase?
7. **Unrestricted General Fund Staffing** - Is this area acceptable? **Yes / No**
  - Is the district ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenses?
  - Is the percentage of district general fund budget allocated to salaries and benefits at or less than the statewide average (i.e. the statewide average for 2003-04 is 85%)?

**8. Internal Controls - Is this area acceptable? Yes / No**

- Does the district have adequate internal controls to insure the integrity of the general ledger?
- Does the district have adequate internal controls to safeguard the district's assets?

**9. Management Information Systems - Is this area acceptable? Yes / No**

- Is the district data accurate and timely?
- Are the county and state reports filed in a timely manner?
- Are key fiscal reports readily available and understandable?

**10. Position Control – Is this area acceptable? Yes / No**

- Is position control integrated with payroll?
- Does the district control unauthorized hiring?
- Does the district have controls over part-time academic staff hiring?

**11. Budget Monitoring - Is this area acceptable? Yes / No**

- Is there sufficient consideration to the budget, related to long-term bargaining agreements?
- Are budget revisions completed in a timely manner?
- Does the district openly discuss the impact of budget revisions at the board level?
- Are budget revisions made or confirmed by the board in a timely manner after the collective bargaining agreements are ratified?
- Has the district's long-term debt decreased from the prior fiscal year?
- Has the district identified the repayment sources for the long-term debt?
- Does the district compile annualized revenue and expenditure projections throughout the year?

**12. Retiree Health Benefits - Is this area acceptable? Yes / No**

- Has the district completed an actuarial calculation to determine the unfunded liability?
- Does the district have a plan for addressing the retiree benefits liabilities?

**13. Leadership/Stability - Is this area acceptable? Yes / No**

- Has the district experienced recent turnover in its management team (including the Chief Executive Officer, Chief Business Officer, and Board of Trustees)?

**14. District Liability – Is this area acceptable? Yes / No**

- Has the district performed the proper legal analysis regarding potential lawsuits that may require the district to maintain increased reserve levels?
- Has the district set up contingent liabilities for anticipated settlements, legal fees, etc?

**15. Reporting – Is this area acceptable? Yes / No**

- Has the district filed the annual audit report with the System Office on a timely basis?
- Has the district taken appropriate actions to address material findings cited in their annual audit report?
- Has the district met the requirements of the 50 percent law?
- Have the Quarterly Financial Status Reports (CCFS-311Q), Annual Financial and Budget Reports (CCFS-311), and Apportionment Attendance Reports (CCFS-320) been submitted to the System Office on or before the stated deadlines?