

# Purpose of Financial 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.

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.

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

The LDE 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.

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 three and 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
3. Trends in Fiscal Conditions
- a. Total Current Expenditures per pupil is 90 percent or less of state average: short-term reaction of school systems is to reduce expenditures—this serves as indicator of ability of school system to cut expenditures if required
  - b. Relationship between accountability scores and per pupil expenditure: another measure of ability of school system to cut expenditures and expected outcome on accountability scores
4. Future Obligations
- a. School systems with 15 percent above the state average of school employees projected to retire within the next five years: indicates that over 45 percent of school system personnel has 15 or more years of service
5. Status of Business Certification of Business Official
- a. Is current business official in process of being certified under R.S.17:84.2

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

The LDE 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.

1. Level 1 – Fiscal Management/Behavior – school systems meeting the criteria in this category have problems because they have not implemented financial management practices that are designed to ensure good internal controls in their systems; therefore, if not addressed the risk is higher that these smaller problems could lead to more severe problems in the future.
- a. Submittal of General Fund Budget Form A by 9/30 as required by law
  - b. Submittal of final AFR by 10/31
  - c. Audit opinion – Internal Control on Government Auditing Standards

- d. Single Audits – Consecutive audit findings
  - e. Known Material Fraud in any program
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, unless a CAROI agreement is established by the LDE. This agreement allows for funds to remain in the school system to correct the systematic problem and enhance the program. 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
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 severity of the problem will be indicated by the type of the opinion issued. 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
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 in a school system. 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 district is necessary to justify the deficit spending.

5. Level 5 – Major Events
- a. 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.

- b. New School System or Major Event – A school system categorized in this manner requires LDE to closely monitor 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 or having experienced a special event.

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

The LDE 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 September 30 each year – The LDE 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.