

Manual

Fiscal Health Management Principles

Resource and Technical Assistance Manual

Fiscal Health Management Principles: Resource and Technical Assistance Manual

Region 14 Comprehensive Center

The Region 14 Comprehensive Center (R14CC) is one of 20 technical assistance centers supported under the U.S. Department of Education’s Comprehensive Centers program from 2019 to 2024. At R14CC, we think big. We extend the horizon of what is possible within state education agencies by bringing together experts, services, and supports to tackle their most complex challenges. Our center works to drive educational change in Arkansas, Louisiana, and Texas so that every student has the opportunity to thrive.

We provide collaborative, customized, adaptable support at no cost to state education agencies throughout the country.

At R14CC, we design and implement projects in the states within our region that build state education agency capacity to carry out evidence-based policies and programs that focus on:

- » Improving the quality of instruction
- » Increasing access to effective teachers and school leaders
- » Closing education achievement gaps

This resource was originally created in partnership with the Arkansas Department of Education (ADE) as a tool to assist school districts in their financial practices to meet the needs of the students they serve. Through a series of engagements with ADE leadership and school district officials throughout the state, R14CC assisted ADE leadership in the development of six fiscal health management principles and related expectations to support each principle. The principles and expectations were originally designed to align with Arkansas laws, rules, and policies. The material within this resource has been modified to provide more generalized guidance that can be adapted and built upon by other states and districts as the principles apply in a local context. State laws and local policies vary by jurisdiction, and the specific details in the expectations may not be applicable in all settings. However, these principles are intended to guide districts’ fiscal administration, decisionmaking, and strategic planning to educate students and can provide a solid foundation for state- or local-level guidance as it relates to fiscal health operations and ensuring an efficient, successful outcome for the students served.

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Fiscal Health Management Principles: Resource and Technical Assistance Manual

Principle 1: Financial Planning

The district creates an annual budget to guide spending throughout the school year.

1A. Needs Assessments

What is a needs assessment?

A needs assessment is a systematic process used to identify and evaluate the needs, gaps, and requirements of a particular individual, group, organization, or community. It is a valuable tool for school leaders who are decisionmakers, as it provides a data-driven and systematic approach to understanding budget and funding needs as well as challenges faced by students and their teachers in specific education programs—thus enabling school leaders to make informed and effective decisions to improve outcomes and meet the needs of the students.

What is the importance of a needs assessment for financial planning?

Needs assessments are used to identify priorities and allocated resources to support student success. Needs assessments encourage local education agencies (LEAs) and their schools to systematically examine performance gaps and identify, understand, and prioritize the needs that must be addressed to improve outcomes for all students. It is important to ensure that the LEA budget is aligned to its priorities and goals established through the needs assessment process.

Many LEAs may have individual school-level needs assessments that inform each individual school improvement plan. The LEA should use the results from all needs assessments to guide the district budget as well as the district improvement plan, federal programming, and the use of categorical funds.

How does a needs assessment influence an LEA's budget process?

A needs assessment can assist a district in understanding how it is currently allocating resources to address specific schools or student groups. A needs assessment provides answers to questions such as:

- » How do students' needs vary across schools in the LEA?
- » How does performance vary for specific schools and student groups?

- » Do students have access to the interventions and supports to meet their specific learning needs (e.g., students with disabilities, English learners) at the time in which they need them?
- » How is the LEA currently allocating its resources to address specific schools or student groups? How might that need to shift to align to the identified needs of students and families in the district?
- » What is the effectiveness of current school's or LEA's selected programs? Are the funds invested to support those programs resulting in goal accomplishment?
- » If an LEA has completed a needs assessment and has determined that additional funds are needed, how does the LEA pursue additional funding?

What is the process for an effective needs assessment?

The process typically involves the following steps:

- » **Defining the Scope:** Clearly defining the purpose and objectives of the needs assessment, as well as the target population or group for whom the assessment is being conducted.
- » **Data Collection:** Gathering relevant data and information through various methods such as surveys, interviews, focus groups, observations, and analysis of existing data and documents.
- » **Data Analysis:** Examining and interpreting the collected data to identify patterns, trends, and areas of concern or improvement.
- » **Identifying Needs:** Based on the data analysis, identifying the specific needs, challenges, or gaps that need to be addressed within the target population or organization.
- » **Prioritizing Needs:** Determining the relative importance and urgency of the identified needs to allocate resources effectively.
- » **Developing Strategies:** Formulating action plans and strategies to meet the identified needs, which may involve creating new programs, modifying existing ones, or implementing targeted interventions.
- » **Implementation:** Putting the strategies into action and monitoring their progress to ensure they are effectively addressing the identified needs.
- » **Evaluation:** Continuously assessing the outcomes and impact of the implemented strategies to determine their effectiveness and make any necessary adjustments.



1B. Student Enrollment Trends

What are student enrollment trends?

The student enrollment trend refers to the pattern or direction in which the number of students attending an educational institution or a specific academic program changes over a period of time. Student enrollment trends are used to inform decisionmaking and resource allocation.

Why should a district monitor change in enrollment?

- » Enrollment, specifically as measured by each state (e.g., average daily attendance, average daily membership), is a determinant of a district's foundation funding, a vital unrestricted resource for base expenditures.
- » Enrollment is correlated with important district financial measures, such as the amount of funding available to meet identified needs.
- » Proper enrollment projections help reduce the risk of overstaffing.
- » Proper enrollment projections also help to reduce the need to hire staff at the start of the school year due to unanticipated enrollment increases.
- » In conjunction with enrollment, revenue and expenditure trends allow a district to properly budget.

What resources exist to help a district monitor their enrollment trends?

- » Local knowledge of factors affecting enrollment, such as housing, birthrates, or economic development

1C. Staffing

How does staffing impact my district's budget processes and fiscal health?

Personnel compensation—made up of salary and benefits—comprise the largest part of a district's budget and may often account for the largest differences in school-by-school per-student expenditures. Once a budget is approved, it can be difficult to make midyear staffing changes. It is important for districts to understand how requirements in state law and policies intersect with the district's strategic plan, enrollment projections, funding levels, and the needs of their students. Districts should consider the following questions related to staffing when monitoring and developing their budget:

- » What processes are in place to project student enrollment for the upcoming year?
- » What reports are used by the district routinely to monitor staffing? How is this information used to engage district leadership in decisionmaking?



- » How does the district monitor staffing to meet state requirements for maximum class size, and how is this used to engage district leadership in decision making processes?
- » What are the current and historical staffing ratios?
 - › Staffing ratios are calculated by dividing the number of students by the staff. This can be done for all staff or types of staff (teachers, counselors, instructional aides, etc.).
- » How does the district allocate staff between schools, and how does this process consider the needs of students in each school?

Maximum class size may be efficient, but it may also limit outcomes and opportunities, and therefore, not meet the needs of the students. This is where the district must consider the balance of effectiveness and efficiency.

What state and federal requirements may impact staffing level decisions?

- » Class size rules: Does my state law set a maximum class size based on grade level? Are there relevant exceptions to consider, such as exceptions made for large-group instruction?
- » State laws and policies: What is the impact of state requirements on teacher placement, licensure, and subject area endorsements on my district's staffing levels?
- » What state and federal requirements for breaks, meals, and leave should I consider for all types of staff and the impact on staffing level decisions?

How can my district implement this expectation?

- » Adopt and implement a schedule to run staffing reports to monitor vacancies, staffing ratios, and budget-to-actuals for salary and benefit expenditures
- » Agree upon a process for how the district allocates its staff to schools that reflects the goals of the district's strategic plan and addresses the concerns identified in the needs assessment
 - › Example: If a needs assessment finds that class sizes are too large, and students are not able to schedule the classes they request, the district may consider a staff allocation change. It could identify the number of staff needed to accommodate the students' needs and allocate the necessary resources in the budget.
- » Districts should monitor their staffing trends using historical enrollment and staffing information and consulting additional resources such as:
 - › District needs assessments based on student outcomes and interests
 - › Community-driven needs assessments based on workforce, housing, economic development, and other factors
- » Staffing ratios should be considered for districts that are similar in terms of size, demographics, or geography. It is important to consider and incorporate into the analysis if districts are utilizing purchased services for staffing and economy of scale when making comparisons.



- › Staffing should be analyzed and adjusted at least annually based on local needs assessments and enrollment trends.

Resources: Historical and current unrestricted budget and expenditures; enrollment projections; results of district needs assessment; relevant state and federal requirements, such as staffing levels, accreditation standards, and breaks, meals, and leave requirements for all types of employees

1D. Budget Tracking by Fund

What is budget tracking by fund?

A budget by fund is a financial plan that outlines the expected revenues, expenditures, and other financial activities for each specific fund maintained by an LEA. A fund is a separate accounting entity used to segregate and track financial resources for specific purposes, programs, or activities. LEA revenues and expenditures should be budgeted in the proper fund.

How does ensuring revenues and expenditures are budgeted in the proper fund support district budgeting practices?

When expenditures are budgeted in the proper funds, it is easier for a district to establish processes for linking priorities and programs to spending and outcomes. This also enables the district to meet reporting requirements. Additionally, proper budgeting and coding allows districts to track expenditures and allowable funds throughout the year.

Why are revenues and expenditures maintained in separate, distinct funds?

Fund accounting is organized around a set of funds where each fund is created for a specific purpose. Each fund maintains a complete set of self-balancing accounts, which show its assets, liabilities, reserves, fund balances, and expenditures.

What strategies could my district adopt to implement this expectation?

- » Carefully analyze their approved annual budgets and adjust where appropriate
- » Carefully analyze their federal budgets and expenditures to ensure revenue and expenditures are properly budgeted for and monitored
- » Conduct an internal review of booked revenue to the proper fund by cross-checking grant or revenue award agreement letters
- » Consider assigning additional codes in your expenditure tracking to programs or services to enable easier reporting

Resources: Historical and current unrestricted budget and expenditures



1E. Meeting State Requirements for Salary Expenditures

What budget considerations are related to salary expenditures?

- » What will be the cost to raise the salaries of teachers (and associated benefits and retirement contributions), and how will the district account for that additional cost?
- » How does the district's teacher salary schedule compare to nearby or competitive districts?
- » Using application, staffing vacancy, retention, and attrition information, does the district's salary schedule attract and retain educators?
- » How do any increases in state funding for teacher compensation impact the district's budget for retirement contributions and other benefits?
- » What rules related to minimum salary requirements, expenditure requirements, and compensation increases are applicable when reviewing the district's salary schedule (e.g., are there state requirements, such as a minimum salary or minimum wage, that must be considered)?
- » How does the cost of benefit increases impact the district's recurring salary expenditures?

Resources: District teacher salary schedule; salary schedules from other relevant districts, if available; district data on application rates, staffing vacancies, retention rates, and attrition rates; relevant state funding information; district retirement expenditures; relevant rules related to salary requirements

1F. Meeting Budgeting and Expenditures Requirements

What is the importance of a budget and expenditures timeline?

A budget and expenditures timeline is a schedule that outlines the planned budget and projected expenditures for an LEA program or project over a specific period, typically for a fiscal year or a project duration. Federal fund applications and budgets must adhere to established budget and expenditure requirements and timelines.

How can my district ensure that budgeting and expenditure requirements are met?

Districts should ensure they have proper procedures in place for budgeting and reporting of expenditures and are using restricted funds as required by state and federal law. Consult state law, rules, and policies and inquire to your state if you have questions on processes or training for staff on items such as:

- » Spending and carryover requirements for categorical programs
- » Maintenance of effort
- » Financial reporting requirements



Resources: Historical and current unrestricted budget and expenditures; state law, rules, and policies related to budgeting and expenditure

1G. Budget and Expenditures Timelines

What processes should a district have in place to meet deadlines in conjunction with budget submissions for federal funds?

Federal program coordinators at a district should be aware of the annual calendar for grant applications and work in conjunction with district finance/budget staff to ensure projections for incoming funds are part of the budget process. Districts should ensure that their federal program staff are equipped in a way to adhere to the deadlines, processes, and contracts for all federal funds, such as Titles 1-IV, Individuals with Disabilities Education Act (IDEA), Perkins, Child Nutrition, Elementary and Secondary School Emergency Relief (ESSER), etc.

Resources: Timelines related to any federal grant fund the district receives; federal Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at [2 CFR § 200.0–.521](#)



Principle 2: Fiscal Accounting

The district expends funds appropriately and maintains detailed documentation.

2A. Expenditures and Revenue Controls

What processes should a district have in place to ensure expenditures do not exceed current-year revenues?

The LEA accounting operations must follow established accounting policies and procedures ensuring general operational expenditures do not exceed current-year revenues. LEA cash management forecasts and projections should strive to ensure they have a large enough fund balance to cover current expenditures prior to new revenue being received.

- » Intentional awareness of large expenditures, such as debt service, construction, and lease agreements, should be considered.
- » Districts should monitor expenditures in relation to budgeted amounts and have a process in place to ensure proper budgeting and expending of funds.
- » A minimum net legal balance that allows districts to bridge a temporary cash-flow timing gap due to an unexpected event, such as a natural disaster, should be established.

Resources: Historical and current unrestricted budget and expenditures

2B. Monitoring of Allowable Business-Related Costs

LEAs must have processes in place to ensure expenditures are incurred for allowable business-related activities. Enterprise funds account for an activity for which a fee is charged to external users for goods or services, such as certain food service programs, athletic stadiums, or other community operations. Historically, these funds can be vulnerable to error, misuse, and fraud. Ensure that your district has proper internal controls established around the monitoring of the receipt of revenue generated from the fees charged to external users. The process must also ensure the funds collected are used for allowable expenditures (see Principle 3).

Resources: District's written internal controls procedures; results of any audits conducted under the district's internal control procedures

2C. Adequate Documentation of Expenditures

What are good practices to ensure appropriate documentation of expenditures?

LEAs must have a system that ensures clear and itemized documentation is maintained for all expenditures.



- » **Proper Coding:** Ensuring that each district uses and maintains accurate account codes for expenditures is integral for not only tracking current-year funds but also in comparing year-over-year balances.
- » **Internal Controls:** LEA internal control procedures must establish standards for the necessary documentation and required approvals for all expenditures. Adequate documentation includes, but is not limited to, the following:
 - › Invoices, receipts, and purchase orders
 - › Contracts
 - › Board minutes
 - › Procurement adherence (sole source letters, copies of bids)
 - › Inventory records
 - › Timesheets

Resources: Audit results; state financial accounting guidance

2D. Effective Procedures for Salaries and Benefits Payments

What steps should be taken regarding payment of employees?

LEAs must ensure that salaries and benefits paid to employees align to district salary schedules and benefit rate tables, and do not exceed contracted amounts.

- » Certified staff must be paid based on the approved salary schedule for the district.
- » All employees are paid based on policies including stipends and any additional pay.
- » Signed contractual amounts align to payout for each employee.

What considerations should be taken regarding benefit rate tables?

- » Employee benefits, such as health and dental insurance, paid leave, life and disability insurance, and retirement contributions, account for a significant share of a district's total employee compensation costs.
- » The current and anticipated costs of district contributions to each of these benefits and the impact to the district's budget.
- » Competitive benefits may be used as a potential tool for recruitment and retention.
- » Benefit rate tables should follow current requirements of the Fair Labor Standards Act.

Resources: Written district procedures on employee salary and benefit payments; results of any audit comparing district procedures to actual employee salary and benefit payments



2E. Compliance With Procurement Laws and Policies

How does a district ensure an efficient and effective procurement process?

- » Maximize competition by ensuring that specifications are written to allow the purchasing process to be open to a diverse group of bidders
- » Ensure that the competition is equal and fair by providing each vendor with the same information regarding the product or service needs and specifications
- » Select the best value at the lowest price
- » Verify that the bidding process follows thresholds established by board policies and/or state law
- » Reference Education Department General Administrative Regulations ([EDGAR](#)) for federal bidding requirements
- » Review audits and address findings related to procurement and contracting processes
- » Reference state and local guidance concerning procurement and bidding laws

Resources: Relevant federal and state laws; written district procedures on procurement; the results of any audit comparing relevant laws and district procedures to past district procurement processes; [EDGAR](#)

2F. Allowable Use of Activity Funds

What processes are important for ensuring activity funds are handled appropriately?

Each LEA must ensure that funds budgeted for activities are clearly defined and used only for the purpose in which they were established. Activity funds may pose a higher risk for misuse or theft due to the inherent nature of noncentralized cash transactions. It is imperative to document all activities related to each fund, such as sponsors, point of contact, purpose, expenditures, receipts, and bank deposits. Each fund should have a designated contact for a clear, delineated set of internal controls (i.e., the same person handling the receipt of the funds, such as at a concession stand, is not the same and only person responsible for making the bank deposit). Additionally, funds established for a certain purpose must only be used for the intended and documented purpose.

District staff should conduct training for activity fund fiduciaries.

Resources: Audit results; district financial procedures and policies



2G. Allowable Use of Federal Funds

What does necessary, reasonable, and allocable mean?

Under the Uniform Grant Guidance, allowable federal fund costs must be necessary, reasonable, and allocable in accordance with program requirements. Allowable expenditures shall be both *necessary* and *reasonable* in cost (nature and amount).

When determining whether a cost is *necessary*, consideration may be given to:

- » Whether the cost is identified in the approved budget or application
- » Whether there is an educational benefit associated with the cost
- » Whether the cost aligns with results and findings from a needs assessment
- » Whether the cost addresses program goals and objectives based on data
- » Whether the cost is necessary to achieve an important program objective
 - › Example: The agency may deem transportation to and from an afterschool program to be necessary and allowable since the school does not provide transportation to students.

When determining *reasonableness* of a cost, consideration must be given to:

- » Whether the cost is ordinary and necessary for the proper and efficient performance of the grant
- » Sound business practices; arm's-length bargaining; federal, state, and other laws and regulations; and any terms and conditions of the grant itself
- » Market prices for comparable goods or services for the geographic area
- » Whether the operating agency significantly deviates from its established practices and policies regarding the incurrence of costs

Resources: [Uniform Grant Guidance](#); results of any audits on whether costs for which federal funds are used are necessary, reasonable, and allocable



Principle 3: Internal Controls

The district has established procedures and controls to ensure financial transactions are conducted properly.

3A. Internal Risk Assessment

The district must have a systemic plan to identify areas of high risk regarding school funds.

What are areas of high risk for a district?

The most common audit findings for districts are:

- » Theft/criminal activity
- » Unallowed costs
- » Lack of bank reconciliations
- » Expenditures charged to the program but not included in the approved budget
- » Lack of supporting documentation for expenditures
- » Lack of separation of duties
- » Improper oversight of compliance with applicable federal regulations

Additional items to consider:

- » Susceptibility to theft or fraudulent reporting
- » Complex accounting or calculations
- » Personnel's knowledge, experience, and training
- » Difficulty in creating timely disclosures
- » Size and volume of account balance or transactions

Resources: Local policies; local procedures; district organization chart; job duties and responsibilities



3B. Written Internal Controls Procedures

The LEA should have written internal controls that are implemented with fidelity and reviewed annually.

What are internal controls?

Internal controls defined according to EDGAR 2 CFR § 200.61: Internal controls means a process, implemented by a district, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- » Effectiveness and efficiency of operations
- » Reliability of reporting for internal and external use
- » Compliance with applicable statutes and regulations

Why is it important that a district operate with clear processes for internal controls?

Districts must create clear processes related to accounting and financial reporting to not only ensure smooth district-wide operations but also to ensure compliance. This system of internal controls allows for the procurement and disbursement of goods/services in a timely/effective manner, allows for employees to be compensated in a timely manner, and allows for transactions to be reviewed/authorized by appropriate parties, to name a few. Each part of the process is integral to the operation of the system.

Sound internal controls:

- » Reduce opportunities for fraud, waste, and abuse
- » Help management make better informed decisions
- » Help ensure compliance with laws, regulations, policies, and procedures
- » Promote transparency and accountability
- » Ensure reliability of financial reporting

What steps can a district take to ensure it is implementing internal controls properly?

The district has clearly defined job duties and responsibilities written for staff who are involved with financial transactions such as purchasing, payroll, and depositing of funds. The district also has procedures and practices in place, such as:

- » Segregation of financial duties to prevent errors or fraudulent activity
- » Written procedures for all financial transactions, including cash management, purchasing, and credit card use



» Internal controls are revised to address audit findings

The superintendent is responsible for ensuring that current practice, policies, and procedures are aligned and implemented effectively.

Resources: Local policies; local procedures manual; local organization chart; local job duties and responsibilities; “[Green Book](#)” Standards for Internal Control in the Federal Government

3C. Staff Financial Training.

What financial training should be considered within a district?

Any staff member that has financial responsibilities should be trained in internal control processes and policies. The district should consider any state requirements for district staff financial training as well as any requirements associated with the receipt of grants, federal or otherwise. Additionally, the district should consider adopting a centralized method to keep track of delegations of authority (i.e., if staff members are on leave, who is the next level of authority).

Resources: District requirements for and documentation of any financial training, including participants and content; district policies and procedures related to internal controls

3D. Annual Audit Preparation

What purpose do annual audits serve for districts?

The intent of an audit is to assess the district and its financial operations. This could mean identifying weaknesses in procedures. Audits reveal day-to-day efficiencies, or lack thereof, and other facets to inform what actions must be taken to ensure LEAs are operating effectively in compliance with laws and policies.

Resources: Results of any district audits; written procedures related to district audits



Principle 4: Cash Management

The district maintains fund balances in accordance with state and federal regulations.

4A. Minimum Fund Balance

What considerations should be considered for developing a fund balance policy?

Districts maintain adequate levels of fund balance (also known as net legal balance) to mitigate current and future risks, such as revenue shortfalls and unanticipated cost increases. Fund balance refers to the difference between assets and liabilities on a school district's balance sheet, or in other words, fund balance is education funds remaining at the end of a fiscal year that are carried forward. The fund balance may be used to offset shortfalls of budgeted revenue or to meet unforeseen increases in operating expenses. Certain limitations exist for the expenditure of fund balance. For example, some funds may be restricted (e.g., can only be spent for specific purposes), and it is up to school boards to ensure that their policies reflect generally accepted accounting principles and state law and policies for reporting and minimum balance standards.¹ Considerations that must be taken into account include but are not limited to:

- » State laws or policies
- » Optimal fund balance for each fund, if beyond state minimum requirements
- » Uses for the fund balance
- » Steps to reach the optimal fund balance
- » How the fund balance should be used if the balance is greater than needed

How can a district reduce its net legal balance?

Examining the difference between total revenues and total expenditures may show whether a district is operating with a deficit or surplus in any given year. A comparison of fund balances from year to year can do the same.

If a district wants to reduce its net legal balance, it can increase its expenditures to align with revenues and even gradually increase spending. A district may do this by identifying areas where it is underspending its budget. For example, transfers to the Operating Fund may indicate that the district is balancing its ongoing budget by borrowing from other funds. Transfers into

¹ Governmental Accounting Standards Board. (2009, February). *Fund Balance Reporting*. Available at: <https://gasb.org/page/pageContent?pagelid=/projects/fund-balance-reporting.html&fromTA=true>.



other funds may mean that Operating Fund revenues are subsidizing other operations, such as the child nutrition program.

A district can ensure it maintains a healthy fund balance by:

- » Adopting a process of ongoing reporting of revenues versus expenditures
- » Identifying programs or budgets that have traditionally underspent their allocated budget (e.g., if a department has maintained multiple vacancies for the past several years, it may be time to reevaluate whether allocating funds in the budget for that department is necessary or if the dollars should be reallocated to other needs)
- » Proactively preparing and monitoring the fund balance

Resources: Historical and current unrestricted budget and expenditures; relevant state law or policies

4B. Maintenance of Sufficient Cash Resources

How can a district avoid spending down its fund balances?

LEAs should maintain sufficient cash resources to support current and projected obligations at the end of the fiscal year. Oftentimes, programs that were intended to be temporary become recurring expenses with salary and benefits for personnel. Districts may be tempted to dip into their fund balances (deficit spend) in cases where:

- » Revenues drop due to a decrease in enrollment or shift in demographics without an accompanying realignment in staffing and resources
- » Expenses increase due to economic conditions, compensation increases, or new initiatives

Districts can avoid dipping into their fund balances in the case of declining revenue by carefully monitoring revenues, expenditures, and enrollment, and by adjusting school sites, staffing, and programming accordingly. Additionally, fund balances for each fund should be reviewed prior to approval of any expense. Districts can avoid using their fund balances to cover reoccurring expenses by:

- » Evaluating the cost and impact of increased spending on salaries and programs against established priorities
- » Allocating resources away from less impactful programs toward more successful or more aligned initiatives
- » Proactively budgeting responsibly with consideration to fund balances



What does it mean to have sufficient resources to support current and projected obligations by the end of the fiscal year?

As stewards of taxpayer dollars, district officials must ensure that the district is able to meet its financial obligations each year. While pressure may exist to invest in new programs or provide raises to employees, it is important that district leaders first affirm that their adopted budget is fiscally sound to be able to support such new initiatives and expenditures.

Having a healthy fund balance allows districts to bridge a temporary cash-flow timing gap while maintaining services and improve the district's bond rating, reducing interest costs.

Why is it important to have sufficient resources to support current and projected obligations?

Ultimately, not having sufficient resources can interrupt the educational services provided to students. Not maintaining sufficient fund balances may be an indicator of fiscal distress.

Resources: Historical and current unrestricted budget and expenditures

4C. Minimum Required Expenditures per Rules or Legislation

How can my district ensure it is meeting the minimum expenditure of funds as outlined in the federal and state statute, regulation, or grant?

Districts should carefully plan for and track the spend-down of all federal and state grants to ensure they are spending at least the minimum required percentage. Refer to Principle 1 and Principle 2 for effective practices in planning for and monitoring expenditures. Districts should also prioritize fund spending and strategize the best ways to effectively spend down funds that have more rigid requirements. As an example, knowing that 85 percent of Title I funds must be expended by their statutory due date, or else there are potential repercussions of funds being withheld, these funds may be seen as more of a priority to expend first. This may require looking at processes and procurement methods for these funds specifically.

Frequent monitoring of expenditures and fund balances throughout the course of the year helps the district to ensure they are spending the proper amounts of funds.

Resources: All state and federal requirements pertaining to the expenditure of funds, as found in federal and state statutes, regulations, or grants



Principle 5: Superintendents or School Administrators

The superintendent and/or school administrator are responsible for the financial operations of the district.

5A. Knowledge of the Purpose and Allowable Use of LEA Funds

What are the most common funds and their purpose?

Funding	Purpose
Operating Funds	Unrestricted funds intended to provide the needed resources to operate the district in accordance with state laws and local policies.
State Categorical Funds	Restricted funds intended to supplement funding for schools as provided by the state for the intent to support specialized populations.
Additional (or Supplemental State Funding)	Additional (or supplemental) funding for schools that a state may provide with specific intent, such as supporting specialized initiatives.
Federal Supplemental Educational Funds	<p>Restricted federal funds, such as Elementary and Secondary Education Act (ESEA) grant funds, intended to supplement funding for schools as provided by the state with the intent to support specialized populations.</p> <p>Title I: Support for high-poverty schools and students experiencing high poverty</p> <p>Title II: Funding for teacher training</p> <p>Title III: Funding for English learner services</p> <p>Title IV: Safe and healthy school grants for data and school climate, family engagement grants, and community school grants</p> <p>IDEA: Funding for special education services</p> <p>McKinney-Vento Homeless Education funds: Funding for students experiencing homelessness</p>

Resources: Guidance and requirements on state and federal funding sources applicable to the district

5B. Knowledge of Revenue Generation

How is district revenue generated and calculated?

Revenues are determined by various factors, ranging from local taxes and enrollment averages to base funding, specialized populations, etc. District leaders should be knowledgeable about the state’s mechanisms for calculating and allocating funding for the district.

Resources: Guidance and requirements on federal, state, and local funding sources



5C. Monitoring of LEA Finances

Why is it important to monitor expenditures and fund balances?

Superintendents should ensure they are spending funds to meet the needs of the students. Additionally, districts should be monitoring how effectively schools spend allocated funds. This process can assist in determining whether funds should be moved from one category to another (e.g., supplies to professional development) or reimagined/repurposed. This also allows for more proactive collaboration across departments to ensure funds are spent to meet the needs of the students.

What should districts consider when reviewing nonpersonnel fund balances?

Districts should review high balances for nonpersonnel spending to determine if funds are being expended efficiently and/or if there are internal control issues impacting timely expenditure of funds. Another reason to review high balances for nonpersonnel spending is to determine if there are more effective ways to procure goods/services. Districts may consider reviewing their procurement processes to maximize economies of scale if it is difficult or time-consuming to procure at the school or department level.

Resources: Results of any needs assessments; district historical and current financial reports

5D. Procurement Oversight

Why is it important to monitor contracts?

Monitoring contracts ensures that services are being provided adequately to best serve students and staff. Monitoring contracts allows finance office personnel to plan and forecast as well as to embed processes that consider efficiencies and economies of scale. If several schools or departments use the same contractor/vendor for services, there may be price breaks that can be reached with an aggregated contractual agreement. This may also allow for effective practices to be adopted at a more widespread level.

What questions should be considered when evaluating contracts?

- » What current contracts are the district obligated to?
- » What are the timelines for existing contracts, and when do they end?
- » What are the federal, state, and local requirements for the contracts?
- » What mechanisms does the district have in place to evaluate the effectiveness or need for continuing or renewing a contract?
- » What is the district policy for bid requirements?

Resources: District's written procedures for contract oversight



5E. Accountability to the Local Board

What reports should be reported to the local school board?

The school board is responsible for monitoring district reports to ensure fiscal accountability and transparency. These reports vary and include updates on staffing and student attendance, year-to-date accounting, and projections of future expenses. These reports can also reveal potential cash-flow problems. The superintendent should communicate financial reports that clearly convey the school's financial health. The reports should be able to answer questions such as:

- » How is the district's financial standing?
- » How does the district expect to be doing financially through the remainder of the current fiscal year?
- » What considerations should be taken that may impact the district's financial outlook for the remaining year and subsequent years?

Common types of financial reports include:

- » Detailed statement of changes in fund balances
- » Historical and current unrestricted budget and expenditures
- » Vendor payment history report
- » Expenditure status report
- » Revenue status report

Based upon local needs, each school board may determine the relevant information and reports to best monitor the fiscal operations of the district.

Resources: District financial reports and schedule of when they are provided to the school district

5F. Audit Responsibility

What is the audit process?

Dependent on state statutes and regulations, districts should be audited by a certified public accountant (CPA) or similar state entity. Upon completion of the audit, the auditor will provide a report with findings of noncompliance when applicable. The superintendent has the responsibility to develop a corrective action plan in response to the audit findings. The



superintendent should bring the audit report and recommended corrective action plan to the school board to review.

What components are part of the corrective action plan?

Corrective action plans detail the district’s response to audit findings. Upon receiving the audit findings, each finding needs three planned components:

1. The corrective action
2. The identified person responsible for implementing the corrective action
3. The implementation date

Sample corrective action plan scenarios

Finding	Corrective Action
<p>Finding 1: The ABC District internal controls did not detect salary overpayments to one classified and one licensed employee.</p>	<p>Corrective action: All salary payouts will be reviewed by the human resources (HR) manager prior to issuing final checks to all employees. Documentation of salary payouts will be maintained in a salary overpayment report.</p> <p>Person responsible for implementing corrective action: Mr. Sam Smith, Superintendent</p> <p>Implementation date: Within 1 week of board approval of corrective action plan</p>
<p>Finding 2: The ABC District paid money to a company in which an employee had a financial interest without obtaining a board resolution.</p>	<p>Corrective action: The board will adopt a conflict-of-interest policy, if one is not already in place, and a log of district employees’ financial interests will be maintained and reviewed prior to entering into a contract. A board resolution will be obtained before doing business with a company in which an employee has a financial interest.</p> <p>Person responsible for implementing corrective action: Mr. Sam Smith, Superintendent</p> <p>Implementation date: Within 1 week of board approval of corrective action plan</p>

Resources: District’s written procedures on audits; state requirements on school district audits; past audit reports; past corrective action reports

5G. Financial Report Submission to State and Federal Entities

What kinds of financial reports may school districts be required to submit?

School districts are regularly required to report financial information to their state office of education and the U.S. Department of Education. Common reports include:

- » Annual financial statements to provide a comprehensive overview of the district’s financial condition, including its revenues, expenditures, assets, and liabilities



- » Annual financial report by program or categorical grant financial reports to provide detailed information on how the district has used funds from specific programs or federal categorical grants such as Title I or IDEA

Information on specific reports required to be submitted to the U.S. Department of Education can be found in the Consolidated Federal Funds Report (CFFR), a comprehensive guide to the financial reporting requirements for school districts that receive federal funding.

Resources: District's written procedures on state and federal reports

5H. Long-Term Financial Planning Responsibility

Long-term financial planning is crucial when considering incurring debt, so that current and future educational services are not hindered.

- » Awareness of new debt payment schedules and the impact on the district's budget
- » Balloon payments and lease agreements should be carefully considered prior to obligating district resources

Resources: District's debt payment schedules; balloon payments the district owes in the future; district's lease agreements; district's written procedures on long-term financial planning

5I. Financial Transparency and Ethics

Superintendents have a fiduciary duty to the public to act in a transparent and ethical manner. Transparent business practices build trust and accountability with parents, teachers, and other partners, allowing for difficult decisions to be made for the benefit of the district and its students. Example ways for superintendents to demonstrate financially transparent practices include:

- » Holding regular public meetings to discuss district finances, curriculum, and other important issues as they arise
- » Posting all financial records and contracts online for public review
- » Establishing clear policies and procedures for hiring and firing staff
- » Refraining from making decisions that could benefit themselves or friends or family members
- » Reporting any suspected wrongdoing to the appropriate authorities
- » Developing and implementing a conflict-of-interest policy

Resources: District's written procedures on financial transparency and ethics



5J. Collateralization and Insurance of Funds

Why is it important to ensure deposits are insured and collateralized?

Collateralization is when something of value is pledged or used as a guarantee. Public funds deposited with a financial institution should be secured by collateral in financial institutions.

Districts should be aware of the limitations of their banks prior to depositing any funds, especially large amounts such as bonds. Prior correspondence with the bank should occur prior to any large deposit to ensure the funds are insured and collateralized.

Districts may require monthly written assurance from the financial institution documenting that collateralization has occurred.

Resources: Requirements of district banks on deposits; district's written procedures on collateralization



Principle 6: Local Board Responsibility

The local school board is aware of the district's financial status and makes policy decisions accordingly.

6A. Local Board Budget Oversight

What is the timeline for the budget approval process?

Timelines vary by state but are likely detailed in state law and local policies. Budget development is a cyclical, ongoing process, and local boards should be apprised of budget-related updates throughout the year to inform the finalization of the upcoming fiscal year budgets each spring.

Resources: Relevant state and local requirements; district budget schedule

6B. Local Board Adoption of Fiscal Policies

Where can my district find resources related to policy language and development?

Districts should leverage state school board associations for model policies available for school board use. It is the responsibility of each district to develop a timeline for board policy reviews and make updates as necessary based on changes to state law or state board rules.

Resources: District's written procedures; state school board association

6C. Local Board Review of Audit Results

What is the process for the school board's review of the district's annual audit?

Districts will likely have written procedures on reviewing the district's annual audit. In many districts, the school board receives the official audit report at one meeting and then reviews the report and accompanying comments and recommendations at the next meeting. The school board's review of the audit should be reflected in board meeting minutes.

Resources: District's written procedures on district audits; past school board meeting agendas and minutes of audit review



6D. Local Board Training

What type of trainings should school board members attend?

This will vary by district and state. Common trainings include:

Orientation and Onboarding: Newly elected or appointed school board members should attend an orientation program to familiarize themselves with the district’s structure, policies, budgeting process, and governance procedures.

Legal and Governance Training: Understanding the legal framework surrounding education is essential. Training should cover topics such as the roles and responsibilities of school board members, ethical conduct, open meeting laws, conflicts of interest, and governance best practices.

Policy Development and Review: Board members should receive training on policy development and review processes, ensuring they are familiar with the policies that govern the school district and can contribute effectively to their improvement and implementation.

Educational Finance: School board members should understand the basics of school finance, including budgeting, funding sources, financial reporting, and the impact of funding decisions on schools and student outcomes.

School Law and Advocacy: Training on education laws, regulations, and advocacy helps board members make informed decisions and advocate for the district’s needs at the local, state, and federal levels.

Equity and Inclusion: Training on diversity, equity, and inclusion is vital to ensure that school board members are well-equipped to address issues related to educational disparities and create inclusive learning environments.

School Improvement and Accountability: Board members should be familiar with school improvement strategies, data analysis, and accountability measures to monitor and support academic progress.

Communication and Public Relations: Effective communication with stakeholders, including parents, teachers, and the community, is crucial. Training in communication and public relations helps board members engage with the public and foster positive relationships.

Special Education: Understanding the laws and practices related to special education is vital for board members to ensure that all students receive appropriate supports and accommodations.



Board Governance and Team Building: Training in board governance and team building can enhance the effectiveness of the school board by promoting collaboration and productive decisionmaking.

Resources: State school board association; district's written procedures on school board member orientation and training

