

From: Danny Varat <DannyVarat@scstatehouse.gov>  
To: Catherine McNicollCatherineMcNicoll@scstatehouse.gov  
Date: 3/20/2018 4:23:00 PM  
Subject: Re: School Finance

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Thanks

Sent using OWA for iPhone

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From: Catherine McNicoll  
Sent: Tuesday, March 20, 2018 4:13:43 PM  
To: Danny Varat  
Subject: School Finance

The statute is pretty straight forward, so the trimmed down version is still pretty long. I can summarize this simply as: There were likely issue with the district's finances and the district must work closely with and under the scrutiny of the Department of Education to repair the issues.

"Fiscal caution" is the second level of concern, and is the intermediate level of concern.

The State Superintendent after consulting with the local board can declare fiscal caution when conditions are discovered by an audit that indicate that could result in a fiscal emergency.

The State Superintendent, alone, shall declare a school district to be in a state of fiscal caution if:

- The district's annual audit demonstrates financial practices occurring that are outside of acceptable accounting standards exist;
- a district submits an annual audit late;
- 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;
- 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.

The State Superintendent shall notify the district in writing that a declaration of fiscal caution for the district is pending and request a written proposal for correcting the conditions that led to fiscal caution and for preventing further fiscal difficulties that could lead to fiscal caution within at least ten business days before the effective date of the declaration. (Summary: After the notice they have ten business days to correct or the declaration becomes official.)

Under Fiscal Caution the Department of Education shall visit and inspect the district; provide technical assistance in implementing proposals; and make recommendations concerning the board's proposals. Additionally, the department may order a performance audit of the district.

Under Fiscal Caution the district must be required to provide written proposals for discontinuing or correcting the practices and conditions that led to the declaration of fiscal caution to the department; and be given approximately sixty days to provide a written proposal, which the department may extend an additional thirty days at the request of the district, provided that no additional extension may be granted under any circumstances.

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, he may report to the State Board of Education that a declaration of fiscal emergency is necessary to prevent further fiscal decline.

A district under a declaration of fiscal caution must not be released from fiscal caution in the same fiscal year in which the declaration was made, but may be released the following fiscal year if the department determines that the corrective actions have been or are being successfully implemented. The State Superintendent shall notify the local board chairman, district superintendent, and chief financial officer of the release of the district from fiscal caution.

*Best Regards,*

*Catherine McNicoll*

*Director of Legal & Legislative Affairs*

*Lieutenant Governor's Office*

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