



FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

Failed SEMOE: What's Next?



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Special education maintenance of effort (SEMOE) looks at two things: whether a local educational agency (LEA) has budgeted enough to remain eligible for Individuals with Disabilities Education Act (IDEA) funds and whether it actually spent enough to meet the compliance requirement. When an LEA fails, the first question is whether the failure occurred in budget or actuals, because the next steps and consequences are different.

The Four Tests

SEMOE includes two sets of comparisons: Actuals to Actuals (SEMA) and Actuals to Budget (SEMB). Each area applies four tests: State and Local Total, State and Local Per Capita, Local Only Total, and Local Only Per Capita expenditures. An LEA only needs to pass one of the four tests in each area to meet its SEMOE obligation. With declining enrollment, the end of one-time funding, and continued work toward budget alignment, more LEAs are encountering a SEMA or SEMB failure—often for the first time.

SEMB: Budget Eligibility Failure

SEMB compares the Actual expenditures from the comparison year with its current-year budget. Failing all four SEMB tests is serious because it affects IDEA eligibility, but the LEA still has time to correct its course. During the fiscal year, the LEA can review its budget and spending, identify allowable exemptions, and demonstrate through interim reporting that it expects to meet the SEMOE requirement.

SEMB Failure Response

A SEMB failure is not something to set aside until year-end. The response should begin with validating the report, continue through interim monitoring, and remain active through close of books. The following steps provide a practical order for that work.

1. Start by confirming the comparison year, pupil count, and every amount entered in the report. A routine input error can change the outcome of one or more tests, so rule that out before moving to exemptions or budget adjustments.

2. Next, enter every supportable exemption from 2025-26 and every reasonably projected exemption for 2026-27 on the Budget line of the subsequent year tracking (SYT) worksheet. The exemptions may not close the entire gap, but they should still be reported. Doing so gives the LEA, Special Education Local Plan Area (SELPA), and the California Department of Education (CDE) a more accurate picture of the remaining shortfall and shows that the LEA is actively monitoring its path to compliance.
3. Update special education expenditures at First Interim and ensure appropriate costs are coded to Goal 5xxx.
4. Run the SEMA-Interim (SEMA-I) supplemental form using year-to-date expenditures, current encumbrances, and the LEA's best full-year projection. At First Interim, include actual expenditures from July 1 through October 31 and projected totals for the full fiscal year. The goal is to determine whether the current spending plan will produce a passing result by year-end and make programmatic adjustments to improve services and student outcomes early in the year, thoughtfully increasing expenditures to meet the SEMOE obligation.
5. If the SEMA-I passes, submit it with an updated SYT reflecting the adjusted budget line to the SELPA for submission to the CDE.
6. If the LEA does not pass at First Interim, repeat the review at Second Interim and continue monitoring through year-end. At Second Interim, report on actual expenditures through January 31 and projected totals for the full year.
7. Also look for eligible special education costs that have not yet been captured. If the projected spending still falls short, determine whether the local General Fund contribution needs to increase. New state special education revenue should not automatically be treated as a replacement for the LEA's existing local contribution.

Federal Funds During a SEMB Failure

Until the LEA produces a passing SEMA-I, the SELPA will need to restrict federal expenditure coding and cannot process federal expenditure reports that include the LEA's spending. Put simply, the LEA cannot use or claim federal funds until it shows that projected spending is sufficient. The LEA has until close of books for the current year to establish a pass. If it never passes, the federal expenditure reports cannot be submitted. Because the LEA did not spend or claim those federal funds, it does not repay the unspent amount.

SEMA: Actuals Compliance Failure

SEMA compares actual expenditures from the prior year with actual expenditures from the comparison year. A SEMA failure is more critical than a SEMB failure because the fiscal year has closed. At that point, the LEA has failed an IDEA compliance test, not a budget eligibility test. This is why fiscal staff should validate the data and

make sure all appropriate special education costs have been captured before unaudited actuals are finalized and promoted to the county office of education.

SEMA Failure Response

Once a possible SEMA failure appears, the work becomes both technical and time sensitive. Fiscal staff need to confirm if the result is accurate, identify any remaining allowable adjustments or exemptions, and document the final calculation before coordinating the response with the SELPA.

1. Before closing the books, review the general ledger for any appropriate adjustments. Confirm that eligible special education costs have not been left outside the program, that all program costs are included, and the indirect cost charge, Program Cost Report Allocation factors, and level of distribution are accurate. This is the last opportunity to correct the expenditure picture before the Actuals test becomes final.
2. Validate the comparison year, pupil count, and all entered amounts. Data-entry errors are common and should be ruled out before treating the result as final.
3. Identify, calculate, and document every allowable exemption. Determine whether those exemptions bridge the gap between the failed amount and a passing result.
4. Maintain a clear audit trail showing the original calculation, each correction or exemption, supporting records, and the resulting amount of any remaining failure.
5. Coordinate promptly with the SELPA because an unresolved failure may stop pending federal claims and will lead to a CDE invoice.

Repayment Requirement

Federal law requires the CDE to recover funds when an LEA does not meet the SEMOE compliance requirement. Depending on the circumstances, the CDE may seek repayment of the SEMOE shortfall after allowable exemptions or may seek the full amount of federal funds. The LEA's history, documentation, and communication may affect that determination. Any repayment must come from a non-federal source.

If reimbursement claims for the affected grant period remain unsubmitted—that is, unreimbursed 2025-26 federal claims—the SELPA cannot submit those claims to the CDE while the failure is unresolved. The LEA also cannot claim remaining federal funds. This makes early coordination among the LEA, SELPA, and CDE essential.

Final Takeaway

The important distinction is timing. A failed SEMB tells the LEA that it needs to act during the current year: restrict federal spending, monitor the interim data, and document how it will reach a passing SEMA-I. A failed SEMA when the prior year has closed means the LEA will face a non-federal repayment obligation and federal

claims will be held without sufficient exemptions applied. In either situation, start with the same basics: verify the data, capture all appropriate expenditures, document allowable exemptions, communicate early, and keep monitoring the LEA's position through the applicable reporting deadline.