

OFFICE OF AUDITOR GENERAL



Budget and Revenue
Audit

November 14, 2008

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Budget and Revenue Audit Executive Summary

OBJECTIVE

To evaluate the Budget and Revenue operations including the internal control environment, policies, procedures and compliance to determine whether controls are appropriately designed and operating effectively.

BACKGROUND

The District's Budget and Revenue Department provides direction and support for the planning, development and implementation of the District's annual budget. The Department also provides consultation and assistance to District management in preparing, monitoring and amending cost center budgets, preparing monthly financial reports for the Board of Education, and producing budget amendments. The Budget and Revenue Department is also responsible for coordinating, overseeing, protecting and maximizing the District revenues.

Starting with the 2009-2010 budget development, the District will be moving toward a site-based budgeting model. As directed by the Superintendent, the District will be moving toward a more transparent budget and place accountability in the schools. The consulting firm of Education Resource Strategies has been hired to support the District in this transition.

SCOPE

To evaluate the policies, procedures and controls surrounding processes utilized in the development and monitoring of budget changes. We observed operating processes to assess the control environment and evaluated efficiencies. We evaluated the District's compliance with regulatory requirements; the policies which address significant business control and risk management practices; and the documentation of key activities of the budget cycle, revenue coordination, oversight, protection and maximization. We evaluated the communication process for the annual budget to internal and external parties and the procedures used to monitor the results of operations. Interviews were held with various individuals throughout the District to obtain an understanding of their responsibilities in developing and monitoring the budget process outside of the budget department.



Budget and Revenue Audit Executive Summary

CONCLUSION

The Budget and Revenue Audit revealed the need for improvement in two basic areas. The first and most important area is the development of policies and procedures. Although there are procedures currently in place, they are not written or consistent. Much is assumed regarding the policies and procedures for budget development, monitoring and oversight. Moving from the current budget model to a site-based budget model will be complicated by the fact that policies, procedures, goals, objectives and responsibilities are not concise nor communicated to all involved. These should be developed in order to form a strong alliance among all staff, District and school, as well as strengthen the operating and the control environment. These elements must be identified, agreed upon, documented and executed for the benefit of the District as a whole in order to move forward.

Calculations in all areas of budgeting should be revisited to establish correct procedures, allocation methodology and to reduce and eliminate unnecessary steps in the process. Simplification should be considered in order to maintain procedures and allow for a change to site-based budgeting.

The second basic area is that of communication. Once policies, procedures, goals, objectives and responsibilities are substantiated in written format, the communication of this information will need to be accomplished. A key component of this communication will be the training of all staff. Training should be developed and given during this transition period as we move to site-based budgeting. Schools do not have a clear understanding of basic budgeting concepts that will apply regardless of the model used.

Another key element of communication is providing information to the Board, Superintendent and other end-users through the final annual budget presentation. This has already become a key component as the District begins its' work with Education Resource Strategies. The immediate charge for the 2009-2010 budget presentation is transparency. Work has begun on creating a clearer view of the budget and a more understandable version of the elements included in the final presentation.



Budget and Revenue Audit Summary of Recommendations

Rec #	Audit Recommendations
	<i>Policy and Procedures</i>
1.	<i>Establish a comprehensive operating procedures manual for all aspects of budget operations. Communication of this information as well as the elements to be included should be considered.</i>
2.	<i>Re-evaluate the TAPU rate structure to determine a more appropriate allocation and approach for discretionary spending of the schools.</i>
3.	<i>Evaluate the process currently in practice to eliminate additional databases other than PeopleSoft. Develop and clarify procedures for the maintenance of position management which would also include input from principals.</i>
	<i>Communications</i>
4.	<i>Develop standard training with supporting documentation to be given to all individuals with monitoring and oversight responsibilities. This training should be considered mandatory for all new principals, assistant principals, secretaries, department heads and others new to the budget process.</i>
5.	<i>Develop the budget book to follow best practices with the inclusion of budgetary policies, financial planning, operational structure, education initiatives and goals, and related statistical and supplemental data to support in the transition to a more transparent budget process.</i>
6.	<i>Develop the mandatory format presented in Section 170.2 of the Commissioner's Regulations for presentation of revenue received by the Board.</i>
7.	<i>Develop procedures and documentation to be distributed and available on SharePoint to all budget monitors. Include in the procedures a communication process to ensure understanding of transfers made by the Budget Department as well as requests made by budget monitors.</i>



Budget and Revenue Audit Observations, Recommendations and Action Plans

OBSERVATION #1

Policy and Procedures

A comprehensive policy and procedures manual does not exist for the operations of the budget department. Written documentation to support procedures, objectives, budgetary policy and job descriptions and responsibilities were not available. It is apparent that individuals within the department are knowledgeable of their responsibilities, but the overall understanding of the department District-wide is not known. Although there are memos and information communicated to the various grant monitors, department heads, chiefs, principals and other individuals during the development of the budget, there is not available documentation to enable all to understand the budget process.

Information concerning the entire budget process should be documented and available to all necessary individuals. The manual should include procedures used in developing the budget, responsibilities for budget monitoring and oversight, the budget calendar, explanation of the budget process, budget policies, contingency plans, reporting requirements such as transfer of funds, how to report a change in budget, procedures for monitoring, and other elements. Written and communicated policies and procedures would enhance the accuracy and consistency of the process, facilitate clarity of the process and aid in holding employees responsible and accountable for the monitoring and oversight of the budget process, both within the budget department and with budget monitors throughout the District.

A budget procedure and reference manual should be written to include procedures and policies used by the District in creating and maintaining the budget. Consideration should be given to providing this information on Sharepoint and/or on the District website.

RECOMMENDATION and MANAGEMENT RESPONSE

Establish a comprehensive operating procedures manual for all aspects of budget operations. Communication of this information as well as the elements to be included should be considered.

Management Responses:

The District is currently undergoing a multi-year financial redesign project with the assistance of Education Resource Strategies. A comprehensive operating procedures manual will be the culmination of elements of this project. The completed manual will include not only procedures, but calendars, forms to be used, accountability information and communication protocol. The completed manual will be available to pertinent staff and will be available electronically through SharePoint or a designated website.

Responsibility: John Scanlan, Deputy Superintendent, Administration; Vernon Connors, Budget Director **Due Date:** September 1, 2009



Budget and Revenue Audit Observations, Recommendations and Action Plans

OBSERVATION #2

Calculation and Allocation Review

Discussions with budget staff and principals indicated a need to re-evaluate the calculation and allocation of the present TAPU money. The calculation goes back to the early 1990s, but since that time, generally a 3 – 5% increase has been added each year. The 08-09 year was increased by 10% by directive of the Superintendent. In testing for reasonableness, it appears that the rate is not reflective of the actual spend rate. Communication from various principals during the audit indicates that understanding the accounts within TAPU and how the dollars should be spent may not be understood by new principals and their secretaries, due to inconsistent training. In reviewing actual spent to the estimated TAPU budget for the past two years it was discovered that most schools under spend this allocation. This further supports the missing element of proper training to principals concerning their fiduciary responsibilities of funding.

The TAPU rate was established to allow the principals to have discretionary funding for their schools. As we move toward site-based budgeting this would be an ideal time to re-evaluate the TAPU calculation and allocation. This review and possible change in TAPU spending may release funds and allow for allocation to other services that will have more of an impact on students.

RECOMMENDATION and MANAGEMENT RESPONSE

Re-evaluate the TAPU rate structure to determine a more appropriate allocation and approach for discretionary spending of the schools.

Management Responses:

The structure for discretionary spending at the school level is being re-evaluated through the financial redesign project of the District. Management is currently working with principals to devolve more control of resources to the schools. All rate structures, TAPU and others, are being evaluated, updated and will be documented for the 2009-10 school year and going forward.

Responsibility: John Scanlan, Deputy Superintendent, Administration; Vernon Connors, Budget Director **Due Date:** September 1, 2009



Budget and Revenue Audit Observations, Recommendations and Action Plans

OBSERVATION #3

Position Management Maintenance

The main component of the budget comes from position management. The maintenance of this process is complicated and time-consuming. According to HCI, Budget and an application support specialist, information is maintained in three different sources: Sharepoint, PeopleSoft, and an Excel spreadsheet created from PeopleSoft. Positions are added/ deleted, coding changes, analysis of vacancies and/or extended absences and also salary changes are necessary outside of PeopleSoft in order to create the budget. Reconciliation is a constant process during the creation of the budget. Sharepoint is used as a reference to ensure that information maintained by HCI and Budget is the actual according to the school principals. Changes controlled by budget must be reported to HCI in order for PeopleSoft to reflect the changes necessary. This process continues not only during the development of the budget but also during the budget year. Budget appears to be the control point in maintaining position management accuracy for the District.

Understanding that there will be the need for analysis of system data which will be completed outside of the system, there is still the need to reduce the steps taken in maintaining and verifying positions within the District. Consideration should be given to establishing one database maintained by HCI. Queries can be used within PeopleSoft to develop reports for use by principals to verify staffing in their locations. The process should be evaluated to eliminate unnecessary steps and delays in maintaining the PeopleSoft data.

RECOMMENDATION and MANAGEMENT RESPONSE

Evaluate the process currently in practice to eliminate additional databases other than PeopleSoft. Develop and clarify procedures for the maintenance of position management which would also include input from principals.

Management Responses:

Efforts are being made to clarify the rules and regulations necessary for the maintenance of position management. This part of the redesign is being conducted by a cross team of individuals which includes input from principals as well as chiefs, Human Capital Initiatives, Finance and Budget. Elimination of duplicate databases will be one of the outcomes of this work. The responsibility of maintenance and accountability of accuracy will be assigned with the establishment of a database. Information from this evaluation and the new formulas will be communicated to necessary staff for the 09-10 budget development. Additional technology investments will be required to allow full integration of the PeopleSoft system. These requirements will be scoped and presented in the next year's budget but are not planned to be implemented before September of 2009. Management is fully aware of the defects caused by multiple data repositories and is implementing a system of record strategy to identify, manage and maintain key data systems.

Responsibility: John Scanlan, Deputy Superintendent, Administration; Vernon Connors, Budget Director **Due Date:** June 1, 2009



Budget and Revenue Audit Observations, Recommendations and Action Plans

OBSERVATION #4

Communications

Training

Through discussions with various budget monitors, principals, department heads and grant monitors, it appears that consistent training has not been made available concerning the entire budget process. Staff in charge of monitoring budgets is at various positions with various levels of understanding. The only formal training that is provided is regarding data entry of budgets into EPM. Other training is given upon request of the principals and department heads by their budget analyst. There is no consistency in the training that is provided and the training only occurs on an as needed basis. Training is provided when necessary for grant funding, but only as needed.

Individuals that are expected to monitor and have oversight for the budget should be trained in the protocol that is expected by the District. This should include understanding of funding sources, including grants, items supplied by the District, items to be supplied from TAPU, procedures to be used in the monitoring of funds, etc. This protocol should include the level of school administration that will perform these duties. Training will support a better understanding of the budget procedure and awareness of responsibilities of budget monitors.

RECOMMENDATION and MANAGEMENT RESPONSE

Develop standard training with supporting documentation to be given to all individuals with monitoring and oversight responsibilities. This training should be considered mandatory for all new principals, assistant principals, secretaries, department heads and others new to the budget process.

Management Responses:

Standard training materials will be developed as a part of the financial redesign. The materials will include all aspects of the budgeting process and will clearly define the monitoring and oversight responsibilities. With the new changes in the procedure, training will be mandatory for all principals, department heads and other designated individuals.

Responsibility: John Scanlan, Deputy Superintendent, Administration; Vernon Connors, Budget Director Due Date: June 1, 2009



Budget and Revenue Audit Observations, Recommendations and Action Plans

OBSERVATION #5

Budget Presentation Material

The current presentation of the annual budget does not allow for a clear understanding of the District's financial and educational goals and objectives. The final presentation of the annual budget, when compared to best practices, is lacking in many of the elements found in other school district budgets. The budget book should be inclusive of documents that would enable the reader, whether internally or externally, to understand the financial and educational goals of the District. Best practices include sections that would explain in clear language the budgetary policies of the District, financial planning, operational structure, educational initiatives and goals, as well as statistical and supplemental data to describe the District, with pertinent background information related to the services provided. Following best practices would allow users of the material to better understand our goals and objectives. It would give clarification and alignment of our budget to the stated educational goals, programs and services delivered and accountability to objectives.

RECOMMENDATION and MANAGEMENT RESPONSE

Develop the budget book to follow best practices, with the inclusion of budgetary policies, financial planning, operational structure, education initiatives and goals, and related statistical and supplemental data to support in the transition to a more transparent budget process.

Management Responses:

As part of the redesign project, the District has reviewed the documentation of other Districts. For the first year of the multiple year project we are building practices around transparency and incorporating the learning from other Districts and Education Resource Strategies. We have also researched the recommended elements and recommendations set forth by the Government Finance Officers Association (GFOA). It is our plan to submit the District's budget book for evaluation to the GFOA Distinguished Budget Presentation Awards which promotes improvement in making budget documents clear, understandable, and complete. All aspects of the book are being considered in order to transition to site-based budgeting and also to create transparency in the information presented.

Responsibility: John Scanlan, Deputy Superintendent, Administration; Vernon Connors, Budget Director **Due Date:** June 1, 2009



Budget and Revenue Audit Observations, Recommendations and Action Plans

OBSERVATION #6

Board Communications

Communication to the Board concerning revenue is not in alignment with Education Law. Written policy was not available to support the communication of a change in revenue source to the Superintendent and/or Board. The budget department presents a summary to the Finance Committee throughout the year to show revenue and grant funding. This brief analysis appears to be presented when there is a change (generally an increase) in budgeted revenue. The report shows budgeted revenue and does not provide actual revenue received.

According to Section 170.2 of the Commissioner's Regulations, the Treasurer is to present the Board with the Budget Status Report for each fund at least quarterly; monthly, if transfers are made. It is stated that the regulation and sound fiscal management practices outline the format of the Budget Status Report. It also states that the format is not optional, but mandated. Revenue accounts are to include estimated revenues, amounts received to date of the report and revenues estimated to be received during the balance of the fiscal year.

It is also suggested (but not mandatory) that the revenue section should show adjustments to the original estimate, percent of revenue collected for the current year and prior school year's actual revenues. Improved communications to the Board and Superintendent would create a better understanding of funding sources and cash flow. This information would increase the Board's understanding of its fiduciary responsibilities.

RECOMMENDATION and MANAGEMENT RESPONSE

Develop the mandatory format presented in Section 170.2 of the Commissioner's Regulations for presentation of revenue received by the Board.

Management Responses:

Management understands the importance of following all regulations and strives to do so. Changes will be made at a later date to facilitate the communication of financial information and to follow regulatory procedure. It is believed that current reporting and the new budget transparency being generated by the redesign project reduces operational risk of this finding and will provide the Board added budget detail in the interim. When the budget redesign has stabilized the additional reporting will be commenced.

Responsibility: John Scanlan, Deputy Superintendent, Administration; Vernon Connors, Budget Director Due Date: August 1, 2009



Budget and Revenue Audit Observations, Recommendations and Action Plans

OBSERVATION #7

Budget Changes

It is unclear whether changes made to various budgets are clearly communicated to the appropriate budget monitors. Through discussions with various budget monitors, principals, department heads and grant monitors, it appears that if the budget monitor is reviewing his/her budgets on a monthly basis, that they will notice transfers made to their accounts. Some of these individuals, upon seeing changes, will request information regarding why the change was made. There are others that are not as diligent in reviewing their reports and therefore do not know when changes have been made. There is no consistency in the communication of budget changes or at least a clear understanding of how budget monitors are notified of changes.

Any change made to an individual's budget should be clearly communicated in a form separate from the actual monthly report. This would also include feedback from transfers requested by the budget monitor. As stated previously, budget monitors should be trained and information given in written documentation regarding expectations of their responsibilities and the procedures to follow. Better communications will allow budget monitors to increase their understanding of their responsibilities and to control the spending of their budgets.

RECOMMENDATION and MANAGEMENT RESPONSE

Develop procedures and documentation to be distributed and available on SharePoint to all budget monitors. Include in the procedures a communication process to ensure understanding of transfers made by the Budget Department as well as requests made by budget monitors.

Management Responses:

The District is currently evaluating the entire budget process with the support of our consultant, Education Resource Strategies. As we work through the changes that will occur for the 09-10 budget cycle, the documentation of all procedures will be included in the Operating Procedures Manual.

Responsibility: John Scanlan, Deputy Superintendent, Administration; Vernon Connors, Budget Director Due Date: June 1, 2009