

FALL RIVER PUBLIC SCHOOLS



FINANCIAL OPERATIONS REVIEW

JULY 2009

Massachusetts Association of School Business Officials

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SECTION 1: REPORT OVERVIEW



Massachusetts Association of
School Business Officials, Inc.
Affiliated with the
ASSOCIATION OF SCHOOL BUSINESS OFFICIALS INTERNATIONAL

Department of Elementary and Secondary Education
75 Pleasant St.
Malden, MA 02148

Attention: Laura Miceli

Dear Ms. Miceli:

On behalf of the MASBO Review Team and the MASBO Board of Directors, I would like to thank you for affording us the opportunity to conduct a Financial Operations Review for the Fall River Public School District. The Review Team also recognizes that the two-day site visit was an imposition on the Fall River Superintendent and her staff, and we are certainly appreciative of the hospitality, cordiality and cooperation that they afforded us during this time period.

As per your direction during our initial interview, the primary objectives of the review were:

- To review current business office practices for the purpose of determining their alignment with the statutory requirements of the Commonwealth that pertain to finance procedures;
- To assess the effectiveness of the district's processes associated with budget planning and development, financial reporting, payroll and accounts payable, and cash management;
- To review the current procedure pertaining to the management of student activity accounts;
- To review the written agreement between the school system and the municipality regarding expenditures incurred by the municipality for educational purposes;
- To acknowledge strengths, identify weaknesses, and recommend improvements to the critical financial systems of the school district.

In this regard, Fall River was asked to complete a Self Assessment, and a copy of this document is enclosed as Appendix A. The Review Team then, during its two day site visit, conducted interviews with individuals responsible for the following: facilities management, accounts payable, food services, payroll, special education services, high

school principal regarding budgeting and the student activity account, the athletic director regarding the athletic revolving account and management of gate receipts, city treasurer regarding student activity account management and education related municipal expenditures, Title I services, budget planning and development processes; financial reporting and management processes; and procurement processes. In addition, the overall organizational structure of the Business Office and the district cost centers that interact with this office was reviewed.

The result of this review is compiled in the enclosed report. I sincerely hope that you find the information contained herein beneficial for your purposes. Please contact me if you require any additional clarification regarding any aspect of this report.

Very truly yours,

John A. Crafton,
MASBO Executive Director

INTRODUCTORY COMMENTARY

This report is prepared based upon findings and observations from a two-day site visit to the district. The first part of the report delineates “Existing Conditions” that the MASBO Team discovered during their visit. This section includes topics ranging from “Overall Existing Conditions” on page 4 through “Commendations” on page 18. Issues that will require remediation by School District Administration have been underlined throughout this entire section. Most of these issues have been explained, in much greater detail, within the “Recommendations” portion of the report. This section covers pages 24 through 34.

The “Budget Document” section (from page 20 to page 23) contains an extensive recommendation specifically related to the actual structure of the school district budget.

Finally, several addendums and appendices add support to our conclusions and recommendations.

SECTION 2: EXISTING CONDITIONS

OVERALL EXISTING CONDITIONS

Overview

Fall River Massachusetts is a community comprised of 38.2 square miles located along the eastern shore of Mount Hope Bay at the mouth of the Taunton River. Fall River serves a population of approximately 91,938 residents according to the 2000 census. The City of Fall River has a Mayor-council form of city government. The School Committee submits a proposed budget to the Mayor who in turn submits a proposed City budget to the City Council for each fiscal year. The FY 09 school department requested budget was \$85.7m dollars; the FY09 school department budget was funded at \$82.3m dollars. The FY 08 school department budget was funded at \$86.0m dollars. The state provides 85% of the Fall River school budget under the Net School Spending requirement. The City of Fall River has completed the construction eight schools since 2000 with two more under construction.

The Fall River School Committee is comprised of six elected members and the Mayor serves as a seventh member and Chairman of the School Committee. The Superintendent of Schools was appointed on February 9, 2009. The position of Chief Operations Officer was approved on February 9, 2009. The Chief Operations Officer has been in the COO position for two months and in the district for seven years.

The Fall River School District currently has an interim part time Chief Financial Officer who is the director of the city's Office of Management, Budget and Accountability. The Department of Elementary and Secondary Education will be involved with the hiring of a permanent Chief Financial Officer for the Fall River Public Schools. During the Financial Review Team's interviews, the issue of the interim CFO being housed in two locations, city hall for three days a week and the school department for two days a week, surfaced as a concern. It was explained, however, that this individual manages to be present in both locations at least some portion of each day.

The School District Improvement Plan for 2008-2010 was accepted and voted by the School Committee on February 9, 2009. There is no approved strategic plan for the

Fall River Public Schools. Currently the sense is that the long range vision for the school district has been put on hold while the district confronts what they consider a “crisis mode” scenario.

Central Office Administration currently has the following staff configuration:

- Superintendent of Schools
- Chief Academic Officer/Assistant Superintendent
- Chief Operating Officer
- Part Time Chief Financial Officer
- Assistant Business Manager
- Human Resources Manager
- Executive Director of Special Education
- Director of Engineering
- Grants Account Manager
- Payroll Clerk
- Bookkeeper
- Secretaries to the aforementioned administrators

In interviewing the Superintendent and the Chief Operations Officer the following existing conditions were noted:

- **Specials Education.**

The Special Education population is 18% of the total district’s enrollment. There are approximately 1,900 Individual Education Plans utilized in support of the Special Education population. The school district has 110 Out-of-District Special Education placements. The average day placement for Out-of-District students is \$50,000 per student and the average residential placement starts at \$60,000 and continues from there.

Early Childhood placements tend to be the most costly to the school district. There has been an effort to bring special education students back into the district by creating a district program. The Special Education Out-of-District budget is established by need. The district receives approximately \$1.4m in circuit breaker reimbursements.

Fall River's Special Education Department uses services from the South Coast Collaborative, Reads Collaborative, and the Merrimack Collaborative.

- **The school district is the largest employer in the City.**

The Fall River School District employs approximately 1,400 people making it the largest city department and largest employer in the city.

- **The school district is comprised of sixteen buildings.**

The school district has nineteen buildings which comprise 9 elementary schools, 4 middle schools, 1 high school, 1 alternative program which services grades 6-12, 3 administrative buildings and 1 vacant building. Eight of the fifteen school buildings have recently been under construction and are now occupied as schools. There was no evidence of a capital improvement plan for maintenance of buildings that would tie into a city capital improvement plan.

- **Net School Spending Written Agreement.**

In discussion with the Superintendent and Treasurer it became apparent that there is no signed Net School Spending agreement between the Schools and the City. There was limited evidence to support the Net School Spending charges from the City. Currently the Treasurer's Office charges 46% of it costs to the school department under Net School Spending. Active and retired employee health claims are used in determining NSS health costs. There is a Net School Spending Agreement Proposal that is being developed collaboratively by the city and school department.

- **Review of Job Descriptions.**

In discussion with central office employees it was felt that current job descriptions do not reflect the actual duties employees are performing. In many cases the outdated job descriptions referenced duties performed by another individual. It is felt that by restructuring the existing job descriptions employees will be reporting to and being evaluated by the appropriate supervisor based upon the actual duties performed.

In discussion with Central Office Administration, the following budget process was explained as currently being established procedure in the Fall River Public Schools.

- **Review of Current Budget Process**

The Fall River School Department Budget process begins in April and ends in May. There is no evidence of a budget development calendar which highlights budget events and dates budget materials are due for review by the central office and school committee. The following outlines the processes discussed with administration concerning the development of the Fall River school department budget:

- Principals do not receive a budget packet from Central Office.
- Departments submit narratives based on needs of their department/schools.
- Principals/Department Heads met with Leadership Team to discuss needs and priorities.
- A budget is developed based on the projected available funding.
- School Improvement Councils are not included in budget conversations.
- The budget document is listed by the cost centers which include departments and schools.
- MUNIS org and object codes are designed to meet DESE function codes.
- Each school submits a narrative.
- The Superintendent and the Chief Financial Officer conduct meetings with principals to discuss budget requirements. The Superintendent, CFO, Asst. Superintendent and COO meet to discuss budget requirements.
- Principals have little input into the budget other than projected FTE input.
- The school district budget is developed on a FTE staff count.
- The school district budget process is neither program based nor zero based. It is cost center based.
- Proposed budget document has current FY budget and an amended FY budget document for the new budget cycle.
- The MASBO team did not receive a budget containing School Committee approved goals and objectives.

- School Committee does not approve budget by cost centers.
 - School Committee is very involved with identifying which positions will be funded.
 - Budget process does not provide enough time to adequately gather input or provide necessary discussion.
 - Proposed budget is available for review by the public at the city clerk's office and the public library.
 - Budget narratives are for revolving accounts are sent to City Council for acceptance.
 - Narratives for grants are adopted by the school committee separate from the budget process.
- **Financial Reports to the School Committee.**

The School Committee does receive a monthly financial report which is reviewed by the committee on a line by line item basis at the Finance sub committee level. It was stated by school district staff that the posting of financial data is sometimes delayed by both the city and school department preventing real time accuracy in reports. The lack of real time financial data complicates the forecasting process and reduces the districts ability to accurately substantiate current fiscal conditions.

The City has incorporated MUNIS software as the city's financial software which includes the schools. The school district does not feel adequately trained in MUNIS. MUNIS' training has been scheduled for August 2009 for school department employees. MUNIS is being downloaded onto the school computers during the summer of 2009 which will provide principals the opportunity to view their budgets.

- **Budget Policy.**

In discussion with the administration it was mentioned that the School Committee has a finance sub-committee and some fiscal policies. The Committee's approach to controlling line item transfers is not governed by

written policy , although a policy pertaining to this subject is found in the School Committee policy book. The School Committee, by following its' policies found in the "Fall River School Committee Policy Book", can create the legal foundation for any challenges regarding the way the Committee conducts business.

The School Committee does provide transfer authority to the administration in May to reconcile accounts for the closeout of the school's financial books for ending the current fiscal year. Currently transfers are submitted to the Finance sub committee for review. The Finance sub committee recommends transfers to the full committee for approval. Financial reports are discussed at length during Finance sub committee meetings. If approved the transfer is reconciled in MUNIS.

- **Health benefits are handled by the City for school department employees.**

The City of Fall River is self insured. The city handles all health insurance programs and makes payments based on the claims submitted by school department employees. The costs are back charged to the schools through Net School Spending.

There is disagreement between the school district and the MASBO review team relative to whether the district receives adequate documentation to verify employees enrolled in health care insurance programs. The review team did not receive copies of reports that would provide this information, and a written agreement between the municipality and the district which would require such documentation is not in place. It was also stated by district staff that documentation showing which employees subscribe to an insurance plan and the type of plan they are enrolled in is not available.

It is, therefore, our contention that the school department has no way of verifying employees currently enrolled in the health benefits program or verifying employees who are retired or deceased. Further investigation of this matter may be necessary.

The school department has no way to reconcile these charges against what is being charged by the City to Net School Spending. Current split in health insurance costs are 75% city and 25% employee.

Health insurance claims and CORBA claims have played a major role in the school department's shortfall. CORI checks are initiated when new employees sign up for benefits at city hall. CORI checks are sent to Human Resources and are reviewed by authorized individuals at the school department level.

- **Budget Process and Management**

Budgets are not managed at the building level. Principals are not accountable for managing specific line items in their budget. Utilities needs are not forecast on a monthly basis creating an unknown balance overage or shortfall until the end of the fiscal year. Utility funding is encumbered based on a percentage increase provided by the utilities not actual building history. Salary requirements are not forecast once salaries have been entered into MUNIS. There is no ability to follow dollar requirements for employees leaving or joining the system.

- **Budget Management with City Officials**

Currently the interim Chief Financial Officer is working three days at City Hall and two days with the school department. The proposed district Recovery Plan calls for a city-school department task-force to explore areas where resources and services may be consolidated to maximize efficiencies and cost effectiveness. The school position of Chief Financial Officer for the school district is scheduled to be advertised in the near future.

In discussion with the Central Office the following additional conditions were noted:

- **Revolving Accounts**

In discussion with the Assistant Business Manager the following conditions were noted:

- Currently revolving accounts are under the oversight of the Assistant School Business manager. In response to the MASBO Request for Data

Sheet it was stated that external audits were conducted on an annual basis.

- The Building Use/Cafeteria Revolving Accounts can be used for the payment of utilities, repairs or services performed on the facilities. The Assistant Business Manager oversees all revolving accounts.

- **Student Activity Accounts**

The City Treasurer stated that the School Committee voted to recognize the Student Activity Accounts. There was no evidence that the School Committee had voted to assign Student Activity Account balances for each for each academic level. Currently Student Activity expenses are being paid through a Student Activity Agency Account which has approximately 90 sub accounts and is maintained by the local branch of the Bank of America. The sub-accounts are broken out to accommodate all schools.

No school has an individual checking account. All checks are written at Central Office by the Assistant Business Manager and then sent to the City Treasurer for signature. Student Activity Accounts are tracked at each school utilizing an Excel spreadsheet. MUNIS tracks the Student Activity Accounts at the city level. The account is maintained and controlled by the City Treasurer. This account does not function as an agency account, which is the statutory requirement. Student Activity Accounts do not have a balance limit assigned to them by vote of the School Committee, which is another provision of the law. Student Activity Accounts are audited externally by an outside auditor.

The high school does have a Student Activity Accounts manager who is responsible for depositing money, obtaining deposit receipts and forwarding copies of the deposit receipts to the Assistant Business Manager. The Assistant Business Manager has the oversight of the Student Activity Accounts at the school department level. Student Activity Accounts are audited externally once a year.

- **Cash Collection**

There are no written policies with regards to the collection and deposit of gate receipt money. The following reflects current procedures for ticket sales and gate

receipt collections:

- Prior to a sporting event where tickets will be sold cash boxes with a draw of \$200.00 for change making is given to the ticket seller.
- Tickets are colored and numbered from the first ticket to be sold to the last ticket that was sold.
- At half time money is collected and taken to the equipment room where it is kept until a deposit is made with the bank into the Athletic Revolving Account.
- No night drop is available
- No safe is available in the high school.
- The deposit slip is copied and sent to the Assistant Business Manager.
- Money handlers are not bonded.
- There is no evidence of a chain of custody as money is transferred from one entity to another. The only document appears to be the bank deposit slip.
- Athletic Revolving Account is audited annually.

User fees are not charged in the Athletic Department for sport participation. Gate receipts are collected by the Athletic Department and deposited in the Athletic Revolving Account. The Athletic Revolving Account is audited internally by school department personnel. The Athletic Revolving Account is not being externally audited.

Payroll Procedures

The following reflects the current payroll procedures of the Fall River Public Schools:

The MASBO Team's interview with the payroll clerk resulted in the following procedures being identified:

- School district employees are paid bi-weekly.
- The payroll clerk prepares the bi-weekly payroll for all professional and non

professional employees with the exception of the facility employees who prepare their own payroll. Payroll is paid on a bi-weekly basis. Payroll is done by exception.

- Payroll uses X2 software for attendance tracking. Attendance is entered into the X2 at the school building level. The school forward the attendance to payroll every second Wednesday.
- Time sheets are generated by City Hall every two weeks.
- Schools use the time sheets and key in changes to before sending the time sheets to payroll.
- Payroll warrants are signed by the Superintendent.
- The city processes the payroll and sends the checks back to the school payroll department.
- The school payroll department separates and disperses by courier the checks to the appropriate location.
- X2 and MUNIS software are not integrated. Work being done to provide a crosswalk to alleviate this concern.
- Attendance, annual leave and sick time are checked at the building level.
- Benefit sign-ups are done at City Hall.
- Human Resources handle degree.
- Employees do not receive a statement at the beginning of the year which depicts their step, lane changes or degree advancement for pay purposes.
- Fall River does offer a cafeteria plan.

Facilities Payroll:

Facilities payroll is separate from the professional and municipal payroll: Two payrolls are created on opposite weeks: Week one includes school employees, maintenance employees, custodial employees and secretaries. Week two includes all others.

- Facilities payroll is paid bi-weekly

- City Hall prints out the payroll spreadsheets and sends them to the facilities office.
- If an employee covered by the facilities payroll is out for a shift they are required to call into the facilities office to report their absence.
- The absence by the secretary is recorded in the X2 personnel program.
- If a custodian is out an unassigned custodian (spare) is assigned by the Storekeeper at the warehouse to cover the absentee's work area.
- The custodial contract allows for three shifts.
- Times sheets received for pay purposes are adjusted for absences, annual leave and sick leave by the facility payroll clerk.
- X2 program allows principals to review facility personnel attendance for their building.
- Employee benefits are handled by City Hall.

Purchasing/Accounts Payable

The following reflects the current purchasing procedures of the Fall River Public Schools:

In discussing this issue with the Assistant Business Manager and Accounts Payable employees, the following procedures were identified:

Currently Purchase Orders are created in the following manner:

- A school or department creates individual requisitions which are sent to the Principal for approval. This is done using hard copy and not by computer.
- If approved the requisition is sent to the Assistant Business Manager who checks the account balance to ensure there are adequate funds for the
- purchase. (for a requisition to complete the authorization process can take between one day and one week)
- If the funds are available the appropriate GL # is entered on the requisition.
- The requisition is then sent to bookkeeping where it is entered into MUNIS.

- The requisition then is approved electronically by the Assistant Business Manager when it is approved it is moved forward to the Chief Financial Officer for approval.
- The requisition continues to move forward in the approval process to the City Purchasing Agent which is a requirement of the approval process.
- Upon approval of the Purchasing Agent the requisition becomes a purchase order and is printed out in the school Accounts Office.
- Accounts Payable is responsible for sending out the purchase order to the vendor.
- Three copies of the purchase order are made and sent out to the following: the vendor; accounts payable; and the school for their records.
- When goods are received bookkeeping receives the bill.
 1. A copy of the bill is sent to the school for authorization of payment.
 2. No packing slips are required or utilized in this process.
 3. Normal turn around for payment is four weeks to two months.
 4. The Auditor's Office cuts checks.
 5. The Treasurers Office will typically hold checks for one week to assist the city with its cash flow.
 6. Partial payment is made on goods received from an order not in full receipt. The school or department verifies when the remaining items are received and payment will be processed at that time.
 7. Currently there are nine bookkeepers located throughout the school district in different locations:
 - Accounts Payable: 3 bookkeepers
 - Title I: 1 bookkeeper
 - Other grants: 1 bookkeeper
 - Special Education: 1 bookkeeper
 - Vocational: 1 secretary/bookkeeper (Tradewinds Restaurant)
 - Facilities: 1 bookkeeper
 - Transportation: 1 bookkeeper

Food Service Program

As mentioned previously, the Fall River School Department enrolls approximately 10,000 students. However, it feeds 7,500 on a daily basis. Sixty eight percent of the total student population participates in the Free or Reduced lunch program. The food service program is an in-house self supporting program. In FY 09 food service program began the year with a start up figure of \$605,000 dollars whereas in previous years the start up amount was approximately \$1.2m dollars. A health care cost for food service employees has been transferred from the school department appropriation to the food service program.

The health cost for FY 09 food service employees was \$475,000 for active employees and \$198,000 for retirees. The food service program employs a Food Service Director, an Assistant Director, three field supervisors and cafeteria employees at each school.

The program does offer a universal breakfast program which has a 68% participation rate. In discussion with the Chief Operations Officer, Free and Reduced Lunch figures represent approximately 72% of the 10,000 students enrolled in the school district. The Free and Reduced Lunch percentage determines the rate of eligibility the district is entitled to for Federal and State funding. The Food Service Revolving Account does receive an external annual audit.

Food Service Cash Collection Process

The Nutrition Office prepares a list of students for each school which contains the free and reduced lunch participants. Lunches at the elementary level are prepaid at the school office, with the exception of the Silvia Elementary School where meals are paid for by going through the lunch line. Student names are checked off as payment is made by the student. No cash is transferred in the cafeteria during lunch time, with the exception of the Silvia Elementary School.

Food is delivered to all elementary schools with the exception of the Silvia Elementary School where the food is prepared on site. The middle school does have lunch lines and payments for meals are made at the Point of Sales register. Each school has a Cafeteria Manager who oversees the school cafeteria and the collection and

reconciliation of the money. Production control sheets are utilized during this process. There is a chain of custody for the transferring of money form one entity to another.

Additional Observations

- The Fall River Public Schools does offer School Choice.
- The Fall River Public Schools do not have a five year Capital Improvement Plan.
- The Business Office does not have a Business Office Procedures manual.
- An annual audit is conducted on the Student Activity Accounts.
- The City receives approximately \$2.0m in Medicaid reimbursements. No Medicaid reimbursement money is forwarded to the school department for school department use.
- The schools are responsible for collecting the necessary data for Medicaid reimbursement and all coordination with the New England Medical Billing who does the billing and oversight for reimbursement.
- There is no evidence that employees who handle money are bonded.
- The current purchase order system is not electronic at the building level.
- The Interim CFO is licensed as a School Business Administrator.
- There was no evidence of cross training in the Business area.
- There was no evidence of an employee being MCPPO certified.
- Payroll and Accounts Payable are in separate buildings.
- The budget document provides a limited budget history of actual expenditures (less than three years)
- The school district does not have a strategic plan.
- Budget does not show all aspects of spending.
- The budget document provides limited information in areas of ongoing programs and new initiatives as to their cost effectiveness as part of the budget development process.
- The budget document provides little information on revenues and expenditures in the athletic and food service revolving funds, grants and fee generated revenues

and expenditures.

- There was no evidence that student performance was part of the budget development decision making process.
- Under the current interim Chief Financial Officer scenario there does not appear to be a real method available for city and school budget reconciliation, although the interim CFO contends that a reconciliation process between the city auditor and the CFO is in place. In any event, the effectiveness of such a process would be questionable, especially considering the dual reporting responsibilities of the CFO position (reports to both the school system and the municipality).
- There was no evidence of a preventative maintenance program in effect for buildings and equipment.
- There was no evidence school district assets were being tracked in accordance with GASB 34.
- An amendment to Schedule 19 has been submitted to DESE and currently under review.
- A purchasing sub-committee has been established to streamline the purchasing process.
- The need for the number signatures required in the purchasing process excessive and causes significant delay in vendors being paid.
- Both the city and schools indicated that the time for a purchase order to move through the purchase order system and the accounts payable process is too long.
- There was no evidence of written procedures for the purchasing process.
- There appears to be too many people involved in the purchasing process. There is no MUNIS module for contracts.
- The Organizational Chart is currently being revised.

Commendations

- The districts recognition of the need for MUNIS training and the implementation of the training scheduled for August 2009.

- The district recognition of the need for the installation the MUNIS software at the building level. Implementation scheduled for the summer of 2009.
- The central office administration's efforts to evaluate, reorganize and act to create a more cost effective accountable operation.
- The district's efforts to provide a crosswalk between the X2 and MUNIS software.

SECTION 3: BUDGET DOCUMENT ANALYSIS

Budget Document Review

Comments on the Current Budget Document

The “Proposed 2009 Operating Budget” and the “FY 2010 Proposed Level Service Operating Budget” were presented for MASBO’s review. The first document was developed from a Cost Center perspective and included budgets for all of Fall River’s schools and school system departments. A “pyramid” concept was employed to convey revenue and expense information. The “pyramid” concept entails providing a general summary (preferably an executive summary) and then providing a more detailed breakdown of information as each cost center is addressed.

The budget’s summary information was contained within a narrative prepared by the Superintendent. This was accompanied by a summary of appropriations and a list of schools and departments. The cost center breakdown included the actual FY 07 and FY 08 revenue and expenditures, “proposed” FY 09 revenues and expenditures and staffing FTE information. Information pertaining to each teacher and paraprofessional is also provided in this document.

The “FY 2010 Proposed Level Service Operating Budget” was essentially a projection of staff salaries by school and department. This document also included a summary spreadsheet delineating the municipal education-related expenditures.

Suggestions for Improving the Budget Document.

The Fall River Budget is lacking in the following areas:

- The Introductory section should include a table of contents, general information about the district such as enrollment and staffing data, MCAS scores, a list of school committee members and key district administrators, the mission statement, the district strategic goals, and budget assumptions.
- A budget calendar and an overview of the budget process, informing the public of when and how the budget is put together should also be included.
- The budget’s narrative should provide a more clear explanation of what the school

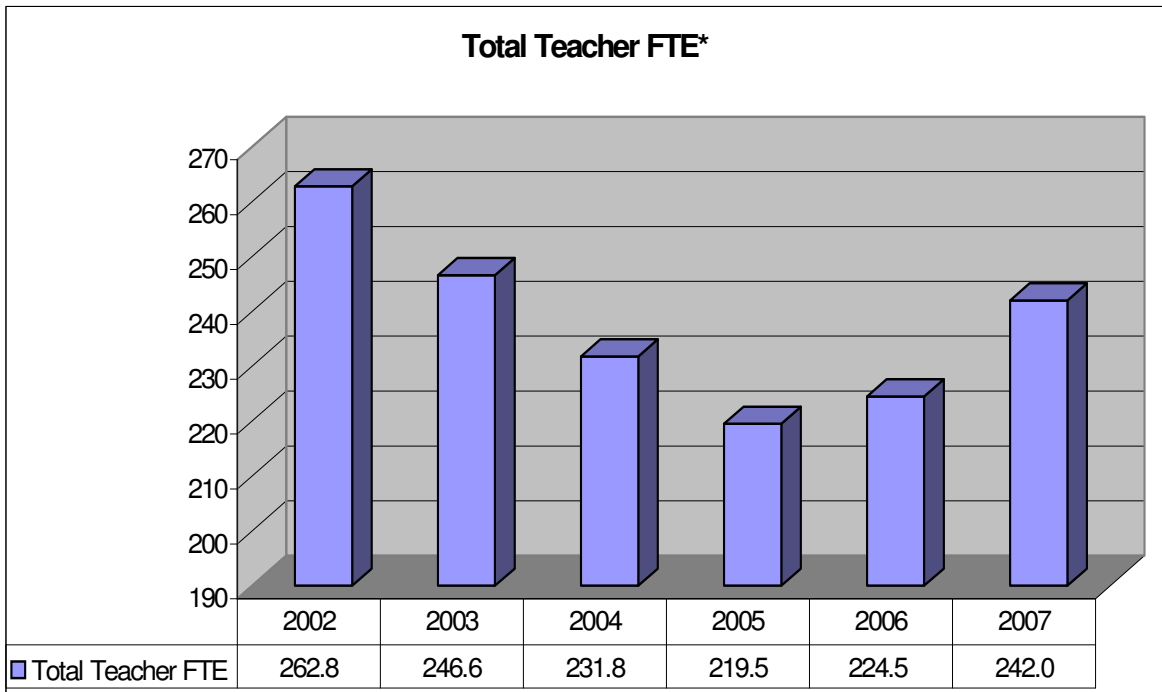
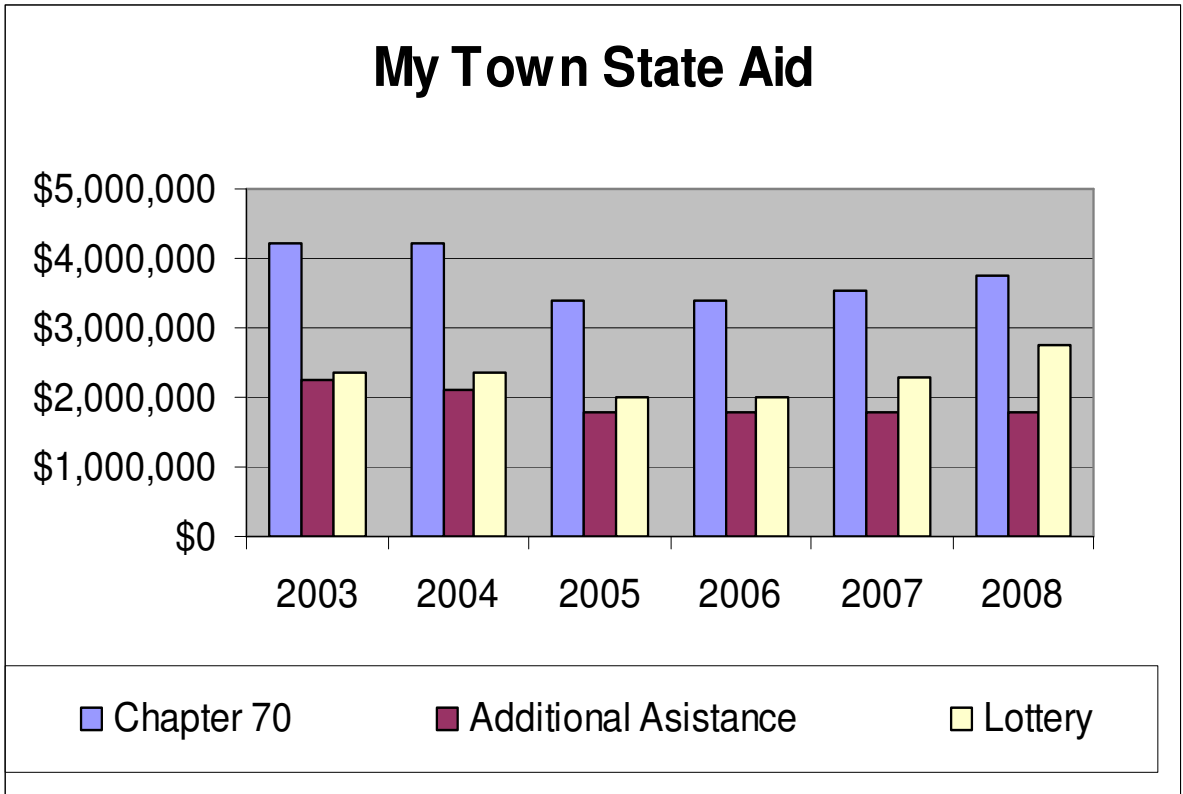
district is trying to accomplish with its budget request and should tie requests to the goals of the district's strategic plan. It should also discuss enrollment, political or other trends that will have an impact on attaining those goals.

- Continuous page numbers and references to more detail in later pages are an essential aid to the reader.
- According to ASBO guidelines, three years of actual budget history as well as the current and proposed budget years should be shown. This information is critical to both the reader and the presenter to highlight spending and revenue trends for future planning purposes.
- The revenue, expenses and staffing for special revenue funds (grant, revolving and gift, etc.) should appear in a separate section. It is totally missing.
- There are no graphs, tables or narrative explanations (other than the superintendent's narrative) of expenditures. Information should be provided in a variety of formats (narrative, mathematical and graphical), to enable all readers to grasp and digest the information provided. Charts and graphs should be incorporated into the budget document and used to clarify information and bring areas of interest or concern to the reader's attention.

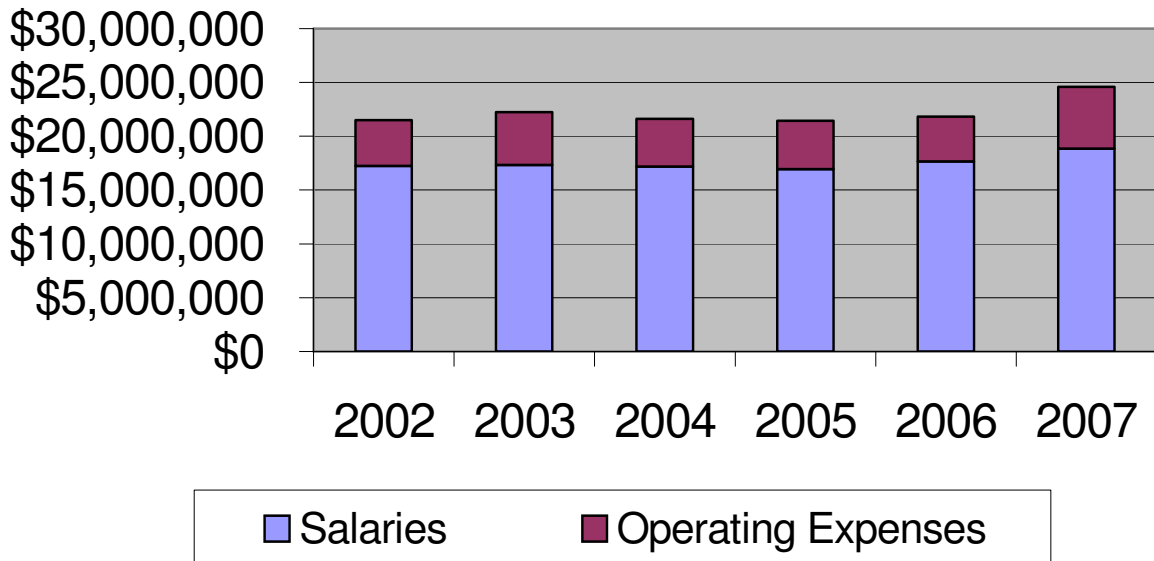
Some examples of charts and graphs are shown below as samples of what might be incorporated in future budget documents.

A "Budget Development Guide" has been included as Addendum B in this report. It is strongly recommended that this Guide be used as reference in the development of future budgets.

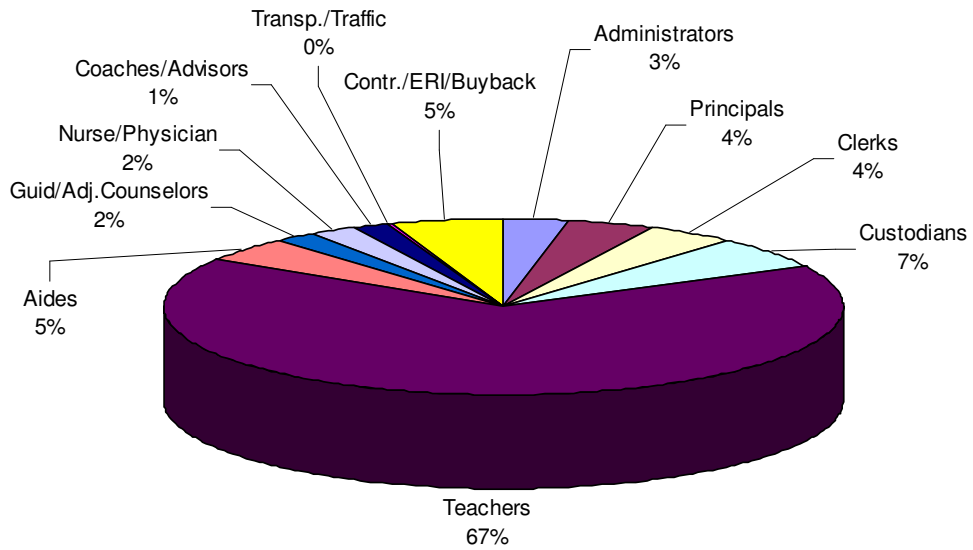
SAMPLE GRAPHS AND CHARTS



Budget Comparison



2009 Salaries



SECTION 4 : RECOMMENDATIONS

RECOMMENDATIONS

School Committee Policies

All school committee policies should be reviewed particularly those related to school finance. If outside resources are utilized for this purpose, it is important that these policies be tailored to the practices within the Fall River Public Schools. There should be a policy pertaining to the Budget Transfer Authority addressing the financial and accounting benchmarks which would require the administration to require a transfer.

Written Agreement with the Municipality

The School Committee does appear to be in the process of finalizing a written agreement related to 603 CMR 10.0 for calculating indirect charges levied by the city to the school department. This agreement should be reauthorized each year by the School Superintendent and the City Treasurer.

Regulation 603 CMR 10.04 Financial Accounting and Reporting, Other Municipal Departments, requires a school district to report to the Department of Education each year the financial amount of municipal services expended on behalf of the school district in accordance with the expenditure categories and cost allocation methods set forth in guidelines detailed in that regulation. This information is reported as part of the school district's End-of Year Pupil and Financial Report.

School district personnel should review the document and the assessed costs from the municipality each year. It is important that proper documentation be maintained in the event of an audit. The school department also needs to review the documentation, which lists employees assessed for insurance and retirement costs.

Student Activity Accounts

The School Committee should formally adopt the recommended guidelines for the operation and oversight of Student Activity Funds developed by the Massachusetts Association of School Business Officials (MASBO) in order to assure that Fall River is in

compliance with current state statutes. The School Committee vote should include the authorization of the High School Student Activity Account as well as the specified dollar amount allowed in the high school checking account. The control of this checking account is currently with the Central Office. The High School should maintain control of this checking account, under the jurisdiction of the Principal, including writing checks and record keeping for the individual sub accounts within the Student Activity Account.

In addition the School Department should work with the City to establish mutually agreeable written procedures for requesting reimbursement into the high school checking account following the warrant process.

The same process should be used for all schools that have Student Activity Accounts with the Principal at each school being the custodian of their account. It is also important that the guidelines be followed pertaining to 'past' class accounts. These should be liquidated following the graduation of each class in accordance with student activity regulations and an established written policy approved by the School Committee.

These accounts should be monitored by the Central Office and audited on a regular basis. The larger accounts should have an outside audit conducted on a regular basis (if not annually, then every other year).

Revolving Accounts and Cash Collection

There should be a written cash collection policy and procedures for all revolving accounts including but not limited to Athletic (gate receipts), Food Service, Student Activity Accounts and User Fee accounts.

Separation of duties and change of custody requirements should be clearly stated. All individuals who are responsible for the collection of cash/monies should be bonded under the City of Fall River's insurance policy. Larger accounts such as Athletics, Food Service and User Fees should have a periodic external audit by an outside company at least every other year. Internal audits of all revolving accounts should occur annually.

Job Descriptions for Business Office Personnel

All job descriptions need to be reviewed and updated. They should be in accordance with ADA requirements including the level of education and expertise required to perform the role. Each position description should clearly spell out the tasks required to perform the job including knowledge of technology programs such as Excel or Word. Accurate job descriptions ensure that staff members know and are capable of performing all tasks required of them; and consequently, should contain an elucidation of physical requirements. Evaluation Standards should also be stated in the job description.

School Department Budget Process, Calendar and Monitoring

The budget process should be clearly defined, in writing, with timelines (budget calendar) and the responsibilities of all participants. The process must utilize student achievement data as a primary factor in making budget decisions.

The School Committee should vote on the Goals and Objectives of the System at the beginning of the budget cycle.

The completed document should be clear, comprehensive, and concise; and it should provide accurate historical (three year history of actual expenditures) and current information on all fund sources. The Association of School Business Officials (ASBO) Meritorious Budget guidelines are an excellent reference for this purpose and are included in this report as A.

Budget development is a year long process. The budget process should begin in the early fall and include the involvement of all stakeholders within the building and externally with the appropriate individual school constituencies, in particular, School Councils.

Principals should receive a budget packet from the Central Office including a timeline for its development, submission to Central Office, and a 'uniform' process for its' completion by each Principal or appropriate administrator.

The Principal's Goals and Objectives should reflect both those of the School Committee and the Superintendent, and budgetary submissions and considerations should support the attainment of these goals and objectives.

The Budget should show all areas of spending including revolving accounts, food service fund, and grant funds.

It is critically important that the district adopt a specific policy for handling how the school committee will approve and monitor the annual budget. This is particularly important with regard to the issue of budget transfers. It is, therefore, recommended that the School Committee vote either a 'cost center' budget or a 'function code' budget.

Explanatory Note: As a point of clarification, it should be understood that Mass. General Law requires that school district budgets be both site based and program based. The establishment of line items for budget monitoring purposes can be accomplished either on a cost center or a function code basis.

Addendum C contains a detailed explanation of this process in an article authored by the Department of Revenue and taken from the "City and Town" newsletter. Information from this article can be utilized in the development of the aforesaid policy.

The School Administration and Building Principals should oversee the individual school budgets following the guidelines established by the School Committee. Policies should not be so restrictive as to prohibit an administrator or principal from making a budgetary decision that will positively impact the educational operation to improve student performance within their school program.

Pertaining to the monitoring of funds, school building principals should receive monthly financial reports indicating the status of their budgets. It is extremely important that the posting of expenditures to all accounts be done in a timely manner as to adequately reflect the balances in the individual budgets. This 'real time data' will show current fiscal conditions and allow for accurate forecasting.

Two substantial areas of budget monitoring that need to be strengthened include special education costs and utility services. With regard to special education, monthly submissions by the Special Education Director to the Central Office that include the current financial conditions particularly as they relate to outside placements should be

provided. This report should also include a synopsis of pending evaluations and placements that may impact the current budget.

As for the facilities area, it is recommended that a complete review of heating and electricity expenses be provided to the Central Office by the middle of April with projections through the end of the fiscal year.

Procedures Manual

A procedures manual should be developed for the business office operations. This manual will provide employees a guideline to follow when they are being cross trained or required to substitute in a position.

A procedures manual will also be useful in the evaluation of job performance of personnel. There is a sample procedures manual on the Masbo web site that can be adapted for use by the Fall River School District.

School District Organizational Chart

The School System organizational chart should be reviewed and revised to clearly delineate staff relationships in regards to authority, supervision and evaluation.

School District Automation of Financial, Purchasing, Payroll, Personnel (Attendance and EPIMS), Maintenance and Building Rental Software

In our discussions with Fall River School District staff, it was clear that this was an area of great need. There were significant areas of overlap and duplication of effort in the various job functions within the district. For example, payroll was processed at various locations in different departments. While the manual input of this type of data may continue to be completed in this manner, it should be processed at one central location within the school department

This can also be accomplished in the financial area. With the elimination of the duplication of effort in certain areas, staff time may be able to be reallocated to handle the data entry responsibilities of this automation.

A written purchase order process should be established. School building staff inputting purchase requests which are electronically sent to the central office for review, approval and disposition will eliminate paperwork and the manual operations at both the building and central office levels.

It was also noted from our interviews that there appears to be excessive signatory requirements for the approval of purchase orders. The policies and procedures adopted by the School Committee or established by the City should be reviewed to ensure that this process is not so restrictive as to impact the delivery of supplies to the schools or the services to students.

Further review of 'contract' approval processes should ensure that school district personnel are not prohibited from making timely decisions that are required of them. At least one school department employee (CFO or COO) should have the designation of Massachusetts Certified Public Purchasing Official (MCPPO).

School building principals being able to access their budgets and accounts on line will enhance the entire system financial operation.

Throughout our interviews with business office personnel, the need for further training, particularly with Munis, was mentioned on numerous occasions. Both the Payroll and Accounting staff embraced this need and acknowledged that the efficiency in both of these areas would be enhanced by this instruction. A process including a timeline should be established as soon as possible to address this issue.

Capital Improvement Plan

A School District Capital Improvement Plan should be established. It is important that this plan be updated annually, reviewed with appropriate City officials and shared with the School Committee in a public forum so that both the School Committee and the community are made aware of the school system's capital needs on an annual basis.

This plan should include an estimate for a ten year period. All systems, in a school, such as the boilers, the roofs, the heating and ventilating systems have an anticipated life and the plan should reflect if that period will be reached during the ten

year period. Each project in the plan should contain an estimated amount and that amount should not be in present dollars but should be the anticipated cost for the time frame in which that project should be undertaken.

A building needs committee should update this plan each year, even if no projects were funded or completed during the year to provide a continuing record when each project was originally planned.

Food Service Program

In our discussions with both the Coordinator of Cafeterias and Central Office Administration it does appear that the School Lunch program has been self sustaining in the past (with the exception of certain benefit areas). As noted with our previous recommendations pertaining to revolving accounts, this program should have clearly **defined, written cash management procedures. These written procedures should include a 'chain of custody' process for cash handling.** All personnel responsible for handling cash including the couriers should be bonded.

It is vital that an accurate budget be developed for this program for fiscal 2010. With the use of school lunch funds for benefits and other related costs over the past few years, the balance in this account appears to be extremely low to continue to cover these expenditures. In fact, if the current spending rate continues without change, the entire Food Service budget will go into deficit. It may be necessary to include some of the expenditures from this revolving account in the general operational budget to insure the Food service budget's sustainability.

Chief Financial Officer

In our interviews with Central Office Administrators, it was noted that the process has been undertaken for the hiring of a Chief Financial Officer for the Fall River Public Schools. It would be our strong recommendation that the District seek a highly qualified licensed school business official in accordance with DESE licensure regulations. This person should have strong background and experience in all areas of school business management including but not limited to School Finances, Purchasing (MCPPO status),

Payroll, Accounting, Food Service, Grant Management, Facilities, Transportation and personnel administration. This position should have a clear line of authority to all areas pertaining to school business and financial operations.

Maximizing School Department Revenue

The School Department appears to be establishing a Policy pertaining to school facility rentals. It is our recommendation that this be completed as soon as possible so the rental of facility revenues can be utilized as part of the operational budget for maintaining school facilities. Many districts have excellent policies that provide for the maximization of this revenue that Fall River could adapt to its' school system.

Chapter 70 revenues are used to support the school system's facility needs and these funds are to be used for educational purposes only. In order to assure that the Chapter 70 spending requirement is adhered to, it is important that the school district recoup, from both public and private groups, the costs necessary for maintaining the facilities that these groups are using.

Transportation

It is recommended that the Fall River School Department explore the option of maintaining an in-house transportation program. As part of this process the review would begin with an evaluation of the existing program. This review should include the possibility of a three tier routing program to reduce costs and analyzing of the existing transportation routes.

It is also recommended that personnel responsible for transportation in the Fall River School District contact the Massachusetts Association for Public School Transportation (MAPT) to discuss assistance with this review. In addition, the District should contact the DESE to discuss the state pilot program for special education transportation.

Medicaid Revenues

The School District is currently processing and submitting for all Medicaid claims. It was unclear as to who was paying the New England Medical billing cost. The

school department should ensure that this is being funded through the Medicaid funds and not their operational budget. In addition, various municipalities have agreements with their School Departments to refund all or a portion of these funds to the school department as they are generated by the school system. A significant amount of a school staff persons' time goes into the oversight of this program.

Inventory Control

It is recommended that a written inventory control procedure be developed and that this inventory be maintained for all warehoused items including those related to the food service program. This could be done utilizing the existing district inventory software or perhaps Munis has this type of module.

The school district should ensure its' compliance with GASB 34 and maintain an inventory of all items as require by District/City guidelines.

Electricity Procurement

The School District/City should review any opportunities for reducing electricity costs through competitive procurement options. (It was unclear whether this was explored). This could substantially reduce these utility costs.

Review of Statutes

The following statutes should be reviewed thoroughly by all administrators that are responsible for the implementation of financial operations in the district:

- Chapter 41 Sec 58: Spending in excess of an appropriation
- Chapter 44 Sec 31: Liabilities in Excess of Appropriations Forbidden
- Chapter 44 Sec 53: Receipt and Appropriation
- Chapter 44 Section 64: Payment of bills in excess of appropriations
- Chapter 71 Sec 16A: Segregation of Duties
- Chapter 71 Sec 16B: Budgets/Apportionment
- Chapter 71 Sec 16B1/2: 5% Rule Districts
- Chapter 71 Sec 16D1/2: Nonresident Tuition
- Chapter 71 Sec 16G1/2: Stabilization Fund
- Chapter 71 Sec 17A: Culinary Arts

- Chapter 71 Sec 20A: Instructional Materials
- Chapter 71 Sec 34: Money in Excess of Appropriations
- Chapter 71 Sec 37M: Consolidation
- Chapter 71 Sec 47: Athletic Programs
- Chapter 71 Sec 71C: Community Programs
- Chapter 71 Sec 71E: Adult programs
- Chapter 71 71F Nonresident Tuition
- Chapter 71B Sec 5A Circuit Breaker

These statutes outline the basics upon which school district financial operations are built. Complete copies of each of these statutes are available by going to the Members Only section of the MASBO website.

Summary Comments

In summary, the MASBO team found an inordinately high number of issues that will require the attention of the School Committee and Administration. On the other hand, on several occasions we encountered evidence that Central Office was aware of particular problems and was taking action to correct them. The four Addenda contained in this report should assist in addressing many of the issues that are cited in this report. Other assistance and information can be obtained by accessing the MASBO Website (sample operations manual, statutes mentioned above, etc.) or contacting John A. Crafton, MASBO Executive Director at 978- 452-7044 or masboexec@mec.edu .

It is our opinion that hiring an appropriately qualified Chief Financial Officer or Assistant Superintendent for Business and Finance must necessarily be among the initial corrective action measures to be implemented by the school district. Once this leadership position is in place, aggressive corrective action pertaining to the following matters, which are very critical to the efficient and effective operation of the school district, can take place:

- the consolidation of payroll and accounts payable functions into one office;
- the development of a formal written agreement delineating municipal educational expenditures as well as the method for determining the level of each expenditure;
- preparation of a clear, concise and comprehensive district budget;

- implementation of appropriate budgetary monitoring through the projection of salary, utilities, and other expenditure accounts;
- monitoring district cash management through the establishment of formal written procedures; automation of budget, purchasing and personnel functions.

Effective School District Financial Operations require the establishment an environment which incorporates the adoption national “generally accepted accounting principles” (GAAP). Separation of duties, transparency, and the use of a “check and balance” process are particularly important.

School district operations within the frame of reference of the separation of duties concept provide for regularly scheduled reconciliation of expenditures with the municipality. This is, indeed, the primary reason why school business administrators should not be also responsible for municipal financial operations. Other areas and activities that should employ the separation of duties concept are: implementation of line item transfers; the purchasing process (receipt of goods/services, authorization of invoices, etc.); limitation of authorization relative to the general ledger; and cash management (collection of fees, gate receipts, etc.).

Transparency should be prevalent in financial reporting; the written agreement between the district and the municipality where municipal charges to the district are clearly explained and agreed upon; the installation of financial software and equipment that will permit each cost center to view is budget; regular special education reports that delineate service changes or student roster changes that would impact the budget; and the inclusion of revenue and expenditure information regarding all funds in the annual budget.

Finally, Checks and balance processes can be established by conducting regularly scheduled internal and external audits, and establishing “chain of custody” procedures in the cash management process.

SECTION 5: ADDENDA

ADDENDUM A PAYROLL PROJECTIONS/BEST PRACTICE PROCEDURES

The following is a formula that will allow you to accurately project salary accounts, compare budget to actual expenditures and Monitor positions usage (FTE):

$$\begin{aligned} & \text{Total Amount Expended to Date} \\ & \quad + \\ & \text{Total Payroll Amount for your current Payroll} \\ & \quad \text{+/- *Non-Recurring Charges or Adjustments*} \\ & \quad = \text{Net Payroll for "Run-out"} \\ & \quad \quad \times \\ & \quad \text{Number of pays remaining} \end{aligned}$$

Adjustments that must be factored in so that remaining pays can be estimated accurately:

$$\begin{aligned} & \text{Step / Increments Due} \\ & \text{Cost of Living Adjustments Due} \\ & \text{Degree Change Adjustments} \\ & \text{End of Year Payments (Stipends, Sick Leave Buy Backs, etc.)} \\ & \quad \text{+/- Adjustments for Vacancies / Leaves / Position Growth} \\ & \quad \text{- Expected Funding Offsets & Reimbursements} \end{aligned}$$

The following are recommendations for accurately monitoring payroll on a continual basis:

- Maintain Salary Book (history of salary agreements)
- Randomly audit a sampling of employee pays each period
- Explain payroll changes period-to-period
- Maintain a payroll procedures manual
- Weekly coordination with HR on employee changes (no-pays, new hires, retirements, etc.)

ADDENDUM B

BUDGET DEVELOPMENT GUIDE

The Budget as a Policy Document (PD)

PD1. **Mandatory:** The document should include a coherent statement of entity-wide long-term financial policies.

PD2. The document should include a coherent statement of entity-wide, non-financial goals and objectives that address long-term concerns and issues.

PD4. **Mandatory:** The document shall include a budget message that articulates priorities and issues for the budget for the new year. The message should describe significant changes in priorities from the current year and explain the factors that led to those changes. The message may take one of several forms (*e.g., transmittal letter, budget summary section*).

PD5. The document should include clearly stated goals and objectives of organizational units (*e.g., departments, divisions, offices or programs*).

The Budget as a Financial Plan (FP)

FP1. The document should include and describe all funds that are subject to appropriation.

FP2. **Mandatory:** The document shall present a summary of major revenues and expenditures, as well as other financing sources and uses, to provide an overview of the total resources budgeted by the organization.

FP3. **Mandatory:** The document shall include summaries of revenues and other financing sources, and of expenditures and other financing uses for the prior year actual, the current year budget and/or estimated current year actual, and proposed budget year.

FP4. **Mandatory:** The document shall describe major revenue sources, explain the underlying assumptions for the revenue estimates, and discuss significant revenue trends.

FP5. **Mandatory:** The document shall include projected changes in fund balances, as defined by the entity in the document, for appropriated governmental funds included in the budget presentation (fund equity if no governmental funds are included in the document).

FP6. **Mandatory:** The document should include budgeted capital expenditures, whether authorized in the operating budget or in a separate capital budget.

FP7. The document should describe if and to what extent significant non-routine capital expenditures will affect the entity's current and future operating budget and the services that the entity provides.

FP8. **Mandatory:** The document shall include financial data on current debt obligations, describe the relationship between current debt levels and legal debt limits, and explain the effects of existing debt levels on current and future operations.

FP9. The document shall explain the basis of budgeting for all funds, whether cash, modified accrual, or some other statutory basis.

The Budget as an Operations Guide (OG)

OG1. **Mandatory:** The document shall describe activities, services or functions carried out by organizational units.

OG2. The document should provide objective measures of progress toward accomplishing the government's mission as well as goals and objectives for specific units and programs.

OG3. **Mandatory:** The document shall include an organization chart(s) for the entire organization.

OG4. **Mandatory:** A schedule or summary table of personnel or position counts for prior, current and budgeted years shall be provided.

The Budget as a Communications Device (CD)

CD1. The document should provide summary information, including an overview of significant budgetary issues, trends, and resource choices. Summary information should be presented within the budget document either in a separate section (*e.g., executive summary*) or integrated within the transmittal letter or other overview sections, or as a separate budget-in-brief.

CD2. The document should explain the effect, if any, of other planning processes (*e.g., strategic plans, long-range financial plans, and capital improvement plans*) upon the budget and budget process.

CD3. **Mandatory:** The document shall describe the process for preparing, reviewing and adopting the budget for the coming fiscal year. It also should describe the procedures for amending the budget after adoption.

CD4. **Mandatory:** Charts and graphs should be used, where appropriate, to highlight financial and statistical information. Narrative interpretation should be provided when the messages conveyed by the graphs are not self-evident.

CD5. The document should provide narrative, tables, schedules, or matrices to show the relationship between functional units, major funds, and non major funds in the aggregate.

CD6. **Mandatory:** The document shall include a table of contents to make it easy to locate information in the document

CD7. A glossary should be included for any terminology (including abbreviations and acronyms) that is not readily understandable to a reasonably informed lay reader.

CD8. The document should include statistical and supplemental data that describe the organization, its community, and population. It should also furnish other pertinent background information related to the services provided.

CD9. The document should be produced and formatted in such a way as to enhance its understanding by the average reader. It should be attractive, consistent, and oriented to the reader's needs.

ADDENDUM C

A Review of the School Committee's Authority to Make Internal Budget Adjustments

by Glenn S. Koocher, M.P.A. and
Stephen J. Finnegan, J.D.

An area of increasing controversy and some contention among municipal officials is the authority of the school committee over the budget for the local or regional school district. Prior to the passage of Proposition 21/2, school committees enjoyed fiscal autonomy, whereby the legislative bodies of the cities and towns were required to appropriate the funds requested by the school committee for school purposes. Proposition 21/2 repealed school fiscal autonomy and vested bottom line budget approval with the municipal budget authority.

After the passage of Proposition 21/2, the Commissioners of Education and Revenue issued a joint memorandum underscoring the line item and transfer authority of school committees based in part on *Leonard v. School Committee of Springfield*, 241 Mass 325 (1922). Subsequently, two laws further reinforced the line item and transfer authority of school committees. (St. 1981, c. 471 and 782.)

The Massachusetts Education Reform Act of 1993 (MERA) made some significant changes to the law governing public education. However, setting the district budget and determining district policy remains firmly with the school committee, (M.G.L. Ch. 71, Sections 34 and 37) and the fiscal authority of the board changed little under MERA. Indeed, one of the changes to school budget authority added the minimum required local contributions and net school spending mandates to Chapter 70.

The final promulgated school budget, of course, is subject to the legal requirements of net school spending but is also subject to review by the mayor or city manager and city council in cities, and the review of a town finance committee and decision of the town meeting.

Regional school district budgets must receive the approval of two-thirds of the school committee and two-thirds of the member municipalities pursuant to M.G.L. Ch. 71, Section 16B, but are otherwise subject to "all the powers and duties conferred by law upon school committees." (M.G.L. Ch. 71, Section 16.) These municipal reviews impact only the final school department budget, and "shall not allocate appropriations among accounts or place any restrictions on such appropriations." (M.G.L. Ch. 71, Section 34.)

School committees make dozens of difficult decisions during the budget process that includes at least one mandatory public hearing (M.G.L. Ch. 71, Section 38N) but in fact, usually involves more. The board must act, often with passionate special interests seated before them, to vote affirmatively or negatively on individual programs and line items recommended by the superintendent of schools. Someone usually goes home disappointed with virtually every decision.

It is no surprise that when municipal budgets are tight special interests lobby with added vigor for their priorities. It is not unusual for school advocates to take their case to the municipal officials, often hoping to reverse a controversial decision of the school committee. More frequently, town meetings, boards of selectmen, or city councils will promulgate the municipal budget, including the final level of school spending, with a strong recommendation to the school committee.

Although this may sound like a mandate to the average citizen, it is really only a strongly worded recommendation that is not binding. M.G.L. Chapter 71, Section 37 is clear that the school committee shall "... review and approve budgets for public education in the district."

Moreover, Section 34 adds that "the vote of the legislative body of a city or town shall establish the total appropriation for support of the public schools, but may not limit the authority of the school committee to determine expenditures within the total appropriation." Furthermore, Section 34 states that "the city or town appropriating body may make nonbinding monetary recommendations to increase or decrease certain line items allocating such appropriations."

For example, if a school committee approves a budget of \$10 million for a district where required net school spending is \$9.75 million, the town meeting or city council may approve the lower figure, but only the school committee is empowered legally to make the subsequent internal budget adjustments to cut the \$250,000 trimmed by the municipal legislative body. Anticipating the potential for a contentious debate and public scrutiny, and in the hope that municipalities will fund at the higher rather than minimally required levels, school districts often present more detailed budget requests with ample documentation and program explanations.

A second major area of budget contention arising since MERA adjusted the dynamics between superintendents and school committees, concerns the authority to transfer among accounts. Various school committees have adopted policies or rules that allow a superintendent to transfer up to a certain amount, usually five thousand dollars, from one line item to another without the approval of the board.

Both Massachusetts Association of School Committees (MASC) counsel and the Department of Revenue, Division of Local Services, have opined that, based upon M.G.L. Ch. 71, Sections 34 and 37, the authority to transfer among accounts is vested solely in the school committee, and therefore may not be delegated to the superintendent or other officer.

While a school committee may not delegate the statutory authority to transfer among accounts to the superintendent, **they may grant authority to transfer within an account by following the guidance offered in 1994 by the Division of Local Services:** “The school committee could grant the superintendent more discretion by limiting the number of allocations to fewer, more general categories in its budget vote and by labeling subcategories as information only.

For example, despite education reform, the school committee could budget general teacher salaries as a cost center with information items for each school. The superintendent could then use amounts shown for one school in another school without the necessity of a formal transfer vote. Conversely, the committee could give principals more authority by voting to allocate actual budget items to each school, requiring a formal committee vote to transfer from one school to another.”

School committees that want to scrutinize the annual operating budget more closely might have many “cost centers” identified in their promulgated budget; others that want to allow the superintendent more discretion could have fewer such accounts. ❁

Editor’s Note: This article represents the opinions and conclusions of the authors and not those of the Department of Revenue.

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ADDENDUM D

Financial Reporting Principles and Guidelines

Financial Reporting Principles

1. The District Financial Report provides a snapshot of the financial condition of the district at a specified point in time.
2. The District Financial Report provides a comparison of budgeted to actual expenditures and a forecast of remaining expenditures for the purpose of determining any anticipated deficit or surplus.
3. The District Financial Report is the key method by which the school business manager fulfills his/her primary function of the school business manager to monitor expenditures and to advise the superintendent.
4. The District Financial Report should be produced and provided to the School Committee regularly but in no case less than once per quarter.
5. The District Financial Report is a critical means of ensuring internal control.
6. The District Financial Report allows for proactive rather than reactive management and maintains public confidence in government and the district.

Key Elements of the Financial Report

1. At a minimum, the District Financial Report shall include the following columns of data:
 - a. Original Budget
 - b. Transfers & Adjustments
 - c. Revised Budget Amount
 - d. Year-to-date expended
 - e. Encumbrances
 - f. Available Budget
 - g. Project Expenses
 - h. Projected Ending Balance

For regional school districts, a section should also be dedicated to revenues and should include the following columns of data:

- a. Budgeted Revenue
 - b. Revenue Adjustments
 - c. Year-to-date receipts
 - d. Projected ending revenue
2. The report should include not only the status of the general fund but also grant funds, revolving funds, and capital funds.
3. Any significant surpluses or deficits should include an explanatory note

4. The report should have a header that contains the name of the entity, the budget year, and the date-ending for which information is presented.
5. The pages of the report should be numbered consecutively and pages should include a date stamp.
6. The report should include a narrative to discuss, at a minimum, significant changes from prior reports, and concerns or issues for the remainder of the year.
7. All assumptions upon which projections are based should be thoroughly documented in the report.

Other Guidelines and Recommendations

1. The level of detail of the report is dictated by the accepted practices of the district as well as any approved school committee policies.
2. The report should be easy to read and the data easily interpreted by non-financial constituents.
3. It is recommended that the report be made available electronically via the district's website.
4. Expenditure forecasts should be based on reliable historical data or known or accurately predictable variables. For example, forecast of energy expenditures should be based on historical monthly consumption multiplied by established contract prices.
5. A minimum of 3-5 years of historical data is recommended as the basis of any projections.
6. All figures in the financial report should be thoroughly checked by at least one additional person and reconciled to reports generated from the district's financial system.