

Chapter 3

Business Operations

This chapter addresses the business operations as reviewed by the Office of Educational Quality & Accountability and is divided into the following sections:

- A. Planning and Budgeting
- B. Financial Processes
- C. Asset and Risk Management
- D. Activity Funds
- E. Auditing and Internal Controls

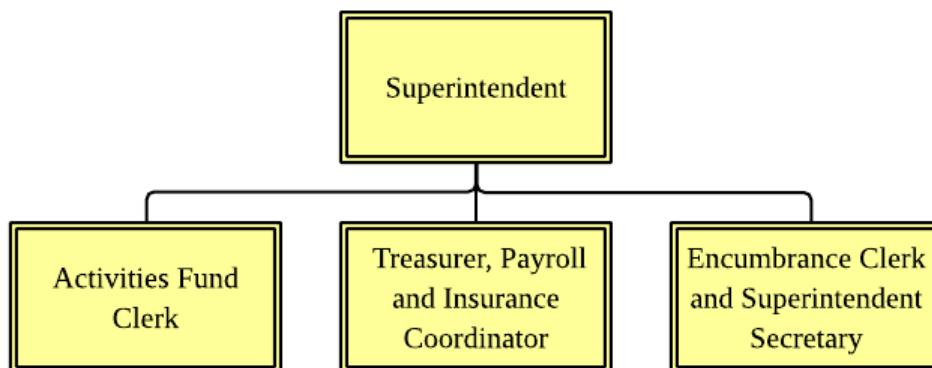
Financial, asset, and risk management in school districts require thoughtful planning and decision-making. Public school districts must meet or exceed increasingly rigorous academic standards without exceeding their budgetary resources. The superintendent and board of education must ensure that the district receives all available revenue from local, state, and federal sources and expends those funds in accordance with all applicable laws, rules, regulations, and policies so that the district can best meet or exceed the established academic standards.

Background

Oklahoma law entrusts a school district's board of education with specific responsibilities, including the oversight of investments and funds. The school board is allowed to contract with the county treasurer for the management of its accounts, or it may choose to appoint a treasurer.

District superintendents oversee business services and is assisted normally, depending on the size of the district, by two to five employees who perform various business service functions. The financial secretary, who may also fulfill all treasurer duties, processes the district's payroll and handles all insurance. The encumbrance clerk processes encumbrances, purchasing documents and payments to vendors. The activity clerk is responsible for all financial transactions pertaining to student activity funds. **Exhibit 3-1** shows the typical organization of a district's business operations based on an enrollment of 1,000-1,999 (Community Group E2).

Exhibit 3-1
Sample of a Community Group E2 Business Operations Organization



Source: OEQA Sample of an Archived Organizational Chart

Financial Statements

Financial statements for districts are prepared based upon Generally Accepted Accounting Principles (GAAP) that require funds to be combined by fund type and for the financial statements to be prepared based on these combined funds. The accounts of the district are organized based on funds, each of which is a separate entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures.

All districts’ financial statements are prepared on a prescribed procedure of accounting that demonstrates compliance with the cash basis and budget laws of the State of Oklahoma. Revenues are recorded as received in cash, except for revenues susceptible to accrual and material revenues that are not received at the standard time of receipt. Expenditures are recorded in the accounting period in which the fund liability is incurred and encumbered. Districts generally prepare financial statements that include the fund types illustrated in **Exhibit 3-2**.

Exhibit 3-2
Funds Contained in a Sample District’s Annual Financial Report

Type	Purpose
General Fund	To account for all revenue and expenditures applicable to the general operations of the district.
Special Revenue Funds	To account for the financial activity of the building and child nutrition funds.
Debt Service Fund	To account for the revenue received from ad valorem taxes dedicated to the repayment of bonds and the subsequent payment of debt service.
Bond or Capital Projects Fund	To account for monies received from the sale of bonds for specific capital projects that span several years.
Agency Fund	To account for the activities of various student groups.

Source: OEQA Sample of an Archived Financial Report

Oklahoma Cost Accounting System

Oklahoma Statutes, Title 70, Section 5-135.2, require school districts to report financial transactions for all funds using the Oklahoma Cost Accounting System (OCAS). Policies and procedures set forth in OCAS describe the basis of funding of Oklahoma public schools, the duties and procedures for the financial operations of the district, and the role of the Oklahoma State Department of Education (SDE) and the district in receiving, dispensing, reporting, and accounting for school funds.

School boards, superintendents, business managers, encumbrance clerks, treasurers, independent auditors, and other parties with responsibilities for school budgets and the administration of school district funds must be familiar with OCAS policies and procedures. A district's annual audited financial statements must include all necessary financial information and related disclosures as prescribed by OCAS.

Revenue Sources

General fund revenues from state sources for current operations are governed primarily by the State Aid Formula under the provisions of Title 70, Article XVIII. B. Section 200 of the Oklahoma School Code. The Oklahoma State Board of Education administers the allocation of state funding to school districts based upon state aid factors, the weighted average district membership, and several categories of prior year revenues.

Intermediate revenue sources primarily represent a four mill levy assessed on a countywide basis and distributed to the county school districts based upon average daily membership for the preceding school year. Local sources of funding are derived from ad valorem (property) taxes assessed each year by the district pursuant to Article X, Section 9 of the Oklahoma Constitution. These taxes consist of the following components:

- no less than five mills of a total of 15 mills levied for county, municipal, and school district purposes;
- 15 mills levied specifically for school district purposes;
- an emergency levy of five mills; and
- ten mills levied for local support.

A mill is the equivalent of \$1 per \$1,000 of net asset valuation. Most constituents of a district have approve an ongoing millage for the general fund and the building fund. Therefore, the emergency and local support mill levies are no longer subject to annual voter approval, so the district annually receives a certain number of mills (this number varies from district to district) levied on net assessed valuation of property within the district boundaries for the general fund.

State funds and ad valorem taxes are accounted for in the general fund of the district, which is authorized pursuant to Title 70, Section 1-117, Oklahoma Statutes 2001, as amended pursuant to Article X, Section 9, of the Oklahoma Constitution. The purpose of the general fund is to pay for

operations. School districts are not authorized to use these revenues for capital expenditures as defined in the statutes.

Ad valorem taxes for bond issues are required by statute to be collected by the county treasurer and remitted to the school district for deposit into the sinking fund. The total debt service requirements may be reduced by any surplus from the prior fiscal year or any direct contributions made into the sinking fund.

Ad valorem tax rates for sinking fund purposes are determined by ascertaining the actual dollars of revenues required for payment of principal and interest on indebtedness, fees, and judicial judgments. A reserve for delinquent taxes, in an amount of not less than five percent and not more than 20 percent of the net required tax collections, is added to the required debt service collections.

The revenue requirements for both debt service and general fund are then divided by the total assessed valuation of all taxable property within the district. Multiplying the resulting quotient by 100 results in the tax rate expressed as a percent; multiplying the resulting quotient by 1,000 results in the tax rate expressed in mills.

Over the past five years, the average assessed property value per student for our state has increased by 13.4 percent (**Exhibit 3-3**). Each year there was approximately a \$2,000 increase with the exception of 2016-17, which had a slight decrease.

Exhibit 3-3
Trend in Assessed Property Value per Student 2012-13 through 2016-17

Entity	2012-13	2013-14	2014-15	2015-16	2016-17	Percent Change
State	\$43,631	\$45,248	\$47,329	\$49,623	\$49,471	13.4%

Source: Office of Educational Quality and Accountability, Profiles Database

Exhibit 3-4 shows the average percent of revenue received from 2012-13 to 2016-17, for the state. The state’s average local and county revenue percentage consistently increased while state and federal revenue decreased during the five-year period.

Exhibit 3-4
Sources of Revenue as a Percentage of Total Revenue, All Funds State Average

Source of Revenue	State Average Percentages					Percentage Point Change
	2012-13	2013-14	2014-15	2015-16	2016-17	
Local and County	39.6%	40.3%	40.8%	42.1%	43.2%	3.6 pp
State	48.0%	48.0%	47.7%	46.3%	45.5%	(2.5) pp
Federal	12.5%	11.7%	11.6%	11.6%	11.3%	(1.2) pp

Source: Office of Educational Quality and Accountability, Profiles Database

Expenditures

Exhibit 3-5 compares 2016-17 expenditures as a percentage of total expenditures. As shown:

Exhibit 3-5
Percentage Breakdown of 2016-17 Expenditures by Type, All Funds

Entity	Instruction ¹	Student Support ²	Instruction Support ³	District Admin. ⁴	School Admin. ⁵	District Support ⁶	Other
State	53.0%	7.0%	3.8%	2.9%	5.7%	17.9%	9.7%

Source: Office of Educational Quality and Accountability, Profiles Database

Exhibit 3-6 shows the average state expenditures for the past three fiscal years, disaggregated by function code. Total expenditures decreased by 2.8 percent over the three years. All instructional

¹ Instruction – Activities dealing directly with the interaction between teachers and students

² Student Support – Activities designed to assess and improve the well-being of students and to supplement the teaching process

³ Instruction Support – Activities associated with assisting the instructional staff with the content and process of providing learning experiences of students

⁴ District Administration – Activities involving the establishment and administration policy in connection with operating the entire school district

⁵ School Administration – Activities concerned with overall administrative responsibility for a single school or a group of schools

⁶ District Support – Consists of central services (activities that support other administrative and instructional functions, fiscal services, human resources, planning, and administrative information technology), operation and maintenance of plant services (activities concerned with keeping the physical plant open, comfortable, and safe for use, and keeping the grounds, buildings, and equipment in an effective working condition and state of repair), and student transportation services (activities concerned with the conveyance of students to and from school as provided by state law)

areas have decreased over the past three years with district administration expenditures experiencing the largest decrease.

Exhibit 3-6
Trend in State Average Expenditures per Student, All Funds
2014-15 through 2016-17

Expenditure Classification	2014-15	2015-16	2016-17	Percent Change
Instruction	\$4,177	\$4,208	\$4,105	(1.7%)
Student Support	\$548	\$555	\$539	(1.6%)
Instructional Support	\$296	\$298	\$280	(5.4%)
District Administration	\$231	\$234	\$232	(9.4%)
School Administration	\$451	\$457	\$443	(1.8%)
District Support	\$1,411	\$1,375	\$1,350	(4.3%)
Other	\$761	\$706	\$710	(5.5%)
Total	\$7,875	\$7,834	\$7,658	(2.8%)

Source: Office of Educational Quality and Accountability, Profiles Database

Fund Balance

The fund balance, often referred to as “carryover,” is defined as the excess of assets over liabilities and is used in future years to offset any revenue shortfalls or negative midyear adjustments that may occur. Fund balance is the amount of cash that is not obligated by purchase orders, contracts, outstanding warrants, or other obligations. A healthy fund balance can be beneficial to a school district by permitting longer investment terms and bridging periods of low cash flow during the year. Perhaps more importantly, it helps the district maintain cash flow to get through the first part of the new school year until state aid distribution can catch up with the district’s obligations.

A school district’s fund balance policy can provide guidance for the development and implementation of an annual budget. Oklahoma public school laws provide guidance regarding the allowable year-end balances. Title 70, Section 18 of Oklahoma Statutes provides the maximum amount, as a percentage of total general fund collections, that a school district can maintain as a fund balance. **Exhibit 3-7** shows the table of maximum allowable balances expressed as a percentage of their general fund collections.

Exhibit 3-7
Maximum Allowable Balances at Year End

General Fund Collections	Maximum Allowable Balances
less than \$1,000,000	40%
\$1,000,000 - \$2,999,999	35%
\$3,000,000 - \$3,999,999	30%
\$4,000,000 - \$4,999,999	25%
\$5,000,000 - \$5,999,999	20%
\$6,000,000 - \$7,999,999	18%
\$8,000,000 - \$9,999,999	16%
\$10,000,000 or more	14%

Source: SDE Technical Assistant Document, July 2009

Bonds

Article X, Section 26 of the Oklahoma Constitution prohibits school districts from issuing debt without approval of “60 percent plus one” of the district’s voters. A district’s outstanding debt is limited to ten percent of its assessed valuation. The issued debt may be used for acquiring or improving school sites, constructing, repairing, remodeling, equipping buildings, or acquiring school furniture, fixtures, or equipment. **Exhibit 3-8** compares a sample district’s average daily membership (ADM), assessed property value, and bonding capacity over a five-year period. Although ADM had decreased, the district’s property value and bonding capacity increased.

Exhibit 3-8
Trends in a Sample District’s ADM, Assessed Values, and Bonding Capacity

School Year	ADM	Assessed Property Value	Bonding Capacity
2010-11	1,782.1	\$37,224,505	\$3,722,450
2011-12	1,741.2	\$41,748,752	\$4,174,875
2012-13	1,703.3	\$42,051,070	\$4,205,107
2013-14	1,640.3	\$44,606,318	\$4,460,632
2014-15	1,655.7	\$51,550,220	\$5,155,022
Percent Change	(7.1%)	38.5%	

Source: OEQA Archived Sample District

The debt service expenditures per student are based upon the amount of outstanding debt and number of students a district has during a particular school year. Districts must balance facility and equipment needs with the amount of tax money requested of district taxpayers. **Exhibit 3-9** shows the state average for debt service expenditures per student for the past five years.

Exhibit 3-9
Trend in Debt Service Expenditures per Student
State Average 2012-13 through 2016-17

Year	State Average Debt Service per Student
2012-13	\$760
2013-14	\$813
2014-15	\$845
2015-16	\$847
2016-17	\$947
Percent Change	24.6%

Source: Office of Educational Quality and Accountability, Profiles Database

A. PLANNING AND BUDGETING

An organization's budget development and management establishes the foundation for all other financial operations. The budget process should be strategic in nature and consist of activities that encompass the development, implementation, and evaluation of a comprehensive plan for student success.

The National Advisory Council on State and Local Budgeting (NACSLB) has identified four essential principles of effective budgeting. The specific principles include the following tasks:

1. Set broad goals to guide decisions.
2. Develop strategies and financial policies.
3. Design a budget supportive of strategies and goals.
4. Focus on the necessity of continually evaluating goal achievement.

FINDING 3-1

There are districts with no formal general fund balance policy. With a formal policy, the school board could provide additional guidance to district management pertaining specifically to what the district's fund balance goal should be and what steps should be taken to reach and maintain that goal within the statutory maximum limits. Pursuant to Oklahoma statute 70 O.S. 18-200.1 school districts with a general fund revenue between \$1,000,000 and \$2,999,999 cannot have a fund balance greater than 35 percent; however, state statute does not establish a minimum or ideal fund balance level.

Districts should monitor the budget on a regular basis to increase the fund balance. A district's financial secretary should monitor the budget to make sure payroll expenditures stay around 85 percent of the total expenditures for the district. To help accomplish meeting this percentage,

districts could hire retirees or part-time employees to keep from paying retirement and health insurance benefits.

Based on discussions with principals and financial personnel, districts have made efforts to make repairs and maintenance to equipment and facilities themselves before calling an outside vendor. Buying items in bulk, which allows districts to take advantage of discounts offered on larger purchases. These changes in business practices, while minor, will allow districts to save money and increase their fund balances.

Exhibit 3-10 shows the results of a sampling of archived staff surveys. Survey respondents were asked if their district had an adequate number of staff to carry out operations. On average 54% of survey participants did not agree that their district had adequate staffing.

Exhibit 3-10
Staff Survey Regarding the District’s Staffing Adequacy

Survey Statement	Agree	No Opinion	Disagree
The district has an adequate number of staff to carry out its operations.	30%	15%	54%

Source: OEQA Sampling from Archived Surveys

As shown in previous exhibits, the state average in instructional expenditures has decreased to the lowest level over a five-year period for instructional expenditures. Several district superintendents acknowledge this trend occurring, however, their realities for hiring additional instructional staff competes with the need to make upgrades to facilities.

Good financial management requires the accumulation of a general fund balance, that is large enough to cover cash needs early in the school year and to provide funds for unexpected changes in revenues and expenditures. Good management also requires that statutory limits are not exceeded, which could cause penalties to be assessed.

A district’s general fund balance policy should outline what the board considers to be an adequate balance to maintain efficient cash flow, cover emergency expenditures, adjust for revenue shortfalls, and avoid excess balance penalties or paying interest on non-payable warrants. The fund balance is a measure of the financial stability of a district and is an integral part of the budgeting process. Fund balance policies are also needed to provide guidance as to how to achieve and maintain a minimum fund balance. Districts that are fortunate enough to achieve a substantial fund balance should also include policy guidance as to what priority needs should be funded.

District leadership should analyze the needs from an instructional perspective and facility needs to best determine how district funds should be spent. Consider including board members or a parent representative during the analysis of district needs to allow for different ideas to be looked at. The GFOA has developed standards for fund balance and recommends that:

- Governmental agencies establish a fund balance policy setting forth unreserved balances.

- The level of these recommended unreserved balances is based on unique characteristics and needs.
- Unreserved balances are no less than five percent of general operating revenues or no less than one or two months of regular general fund operating expenditures.
- Accountability measures consider long-term forecasting.

RECOMMENDATION

Develop a fund balance policy that addresses the requirements of Oklahoma statute and allows a district to begin setting aside fund balance reserves in the budget process.

School boards should provide guidance through the fund balance policy that establishes a fund balance target range, how to maintain the balance, and the use of the district's fund balance that exceeds the target amount. This should help ensure that the funds are only used for critical priority items and districts are not assessed an excess balance penalty. Reports to the school board will help the members to monitor the fund balance and have an understanding of the impact of actions that effect the balance. OEQA consulting teams suggest that districts aim to meet a standard of maintaining at least two months of regular general fund operating expenditures as recommended by the GFOA.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING 3-2

Some districts do not encourage staff and community involvement in its budget development process and do not prepare a budget calendar outlining critical dates important for developing the division's budget. It is not uncommon for superintendents to use the estimate of needs prepared by the external auditor and prior year actual revenues and expenditures as the basis for preparing the district's budget. The estimate of needs has also been used as a document submitted for board approval as a district's budget.

Such districts need to adopt a process for involving community members and district employees in the budget development process. During interviews several schools' staffs have indicated they are not involved or consulted for their input during the budget development process. The practice has been that school boards adopt their budget at a regular board meeting.

Districts have an opportunity to strengthen their standing in the local community when members are included in the budget development process. Greater visibility encourages more universal support for district initiatives. Involving community members and school district staff in budget development helps to ensure an understanding of and support for the adopted budget.

Exhibits 3-11 shows the responses from a sampling of staff survey responses regarding the budgetary process. Over half had *no opinion* or *disagreed* with the statement, "District

stakeholders provide input into the budgetary process.” This may show that many staff members are unaware of or not involved in the budgetary process.

Exhibit 3-11
Sampling of Staff Survey Results Related to the Budgetary Process

Survey Statement	Agree	No Opinion	Disagree
District stakeholders provide input into the budgetary process.	40%	53%	7%

Source: OEQA Sampling of Archived Surveys

Exhibit 3-12 shows the responses from a sampling of parent surveys regarding parents’ roles in decision making. Over 80% had *no opinion* or *disagreed* with the statement, “Parents play an active role in decision making in our school.” Though not specific to budgetary input, the results may show that parents are not involved in the process.

Exhibit 3-12
Sampling of Parent Survey Results Related to Decision Making

Survey Statement	Agree	No Opinion	Disagree
Parents play an active role in decision making in our school.	20%	48%	32%

Source: OEQA Sampling of Archived Surveys

The GFOA recommends that the budget be developed using a results and outcomes approach. Using this approach, the budget should be developed to address the highest priorities of the district that could be achieved with the available resources. For example, if the district identified a need for additional staff members, the budget would be developed to incorporate this need, and, subsequently, be communicated clearly to all stakeholders.

Many districts have a budget committee comprised of community members, business leaders, and district employees who provide input to the board of education and superintendent on the priorities that should be addressed. Some Oklahoma public school districts use a budget committee that provides regular input to the superintendent and treasurer during the budget process. Other districts publish their budget materials and other related information on their websites to ensure that all stakeholders are informed of budget processes and decisions that are being made.

One school district in Oklahoma has a transparent budget development process that has a commendable level of public input. The normal process for budget development in this district involves these steps:

1. **Preliminary Budget:** Prior to the end of the current fiscal year, the superintendent and other key administrators prioritize items for the following fiscal year. Many contributions for this process come from school employees and the public.

2. Preparation of Proposed Budget: After the school board approves the estimate of needs, proposed budgets are devised within the approved revenues and expenditures for the budget year.
3. Receipt of Public Comments: The school board conducts a public hearing to take all comments on financial matters, both past and future, in the district.
4. Adoption of a Final Budget: This includes any revisions due to public comments and potential program allocations received prior to this date.
5. Amending of Final Budget: Changes are made throughout the year to ensure that all expenditures have an appropriate amount of budgeted funds available and to adapt the current budget to reflect midterm allocation changes.

RECOMMENDATION

Develop a process including a budget calendar to provide the community with information about the budget process and to inform them how and when they may provide input. Share the current status of all budgets on a quarterly basis with staff and community members.

The superintendent and school board should adopt and publish an annual budget calendar and create a budget advisory committee. The budgetary process and timeline should be communicated throughout the district in order to foster transparency. Budget discussions for the upcoming school year should begin early in the spring semester at the latest. Budget discussions should include opportunities for input from district staff and community stakeholders. Posting the budgetary process, timeline, and documents in public places and online will also facilitate better communication, understanding, and support of the adopted budget. A sample budget calendar is provided in **Exhibit 3-13**. Each year, the district adjusts the dates by one or two days to match the new work calendar, but the process typically follows this schedule.

Exhibit 3-13 Sample Budget Calendar

Date	Budget Activity
October 3	Introduction of budget process to principals and administrative staff
October 16	Submission of budget calendar to school board (regular meeting)
	Establishment of December date for public hearing on budget
October 20	Preliminary administrative staff budget committee meeting #1
	Review of budget process assignments and calendar
October 30	Administrative budget committee meeting #2
	Establish preliminary overall budget priorities
October 31	Submission of budget requests by principals and administrative staff
November 20	Public reminder concerning December date for public hearing on budget
November 27	Administrative budget committee meeting #3
	Analysis of budget requests and review of preliminary priorities
	Preliminary report on market analysis of cohort school districts
November 29	Advertise for December public hearing
December 4	Advertise for December public hearing
December 4	Annual school board legislative work session
December 8	Administrative budget committee meeting #4
	Refinement and alignment of projected expenditures
December 11	Public hearing on proposed budget (regular meeting)
	Report to school board on preliminary budget priorities (regular meeting)
	Invitation for school board member input on preliminary budget priorities
December 18	Administrative budget committee meeting #5
January 8	Analysis of preliminary budget priorities
	Review of projected state revenues based on the state proposed budget
January 11	Administrative budget committee meeting #6
	Refinement of budget priorities based on school board work session
January 22	Presentation of projected state revenues based on state proposed budget
	Invitation for further school board member input on budget
January 25	Administrative budget committee meeting #7
	Refinement of budget priorities based on public hearing and board member input
February 5	Presentation of first formal draft of budget.
February 7	Administrative budget committee meeting #8
	Refinement of budget priorities
February 19	Presentation of second formal draft of budget (regular meeting)
	Update on projected state revenues
March 8	Administrative budget committee meeting #9
March 19	Target date for school board approval of budget (regular meeting)
May TBD	Called meeting for school board certification of final budget April 25-May 4
May 7	Target date for issuance of professional personnel contracts
May 21	Target date for issuance of classified personnel contracts

Source: OEQA Archived Exhibit from a Sample District

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING 3-3

Several districts do not provide sufficient budget information on its website. This results in less stakeholder transparency.

While many districts provide a link to the Oklahoma State Department of Education that puts it in compliance with the June 6, 2010 Senate Bill 1633 (otherwise known as the *School District Transparency Act*), the district could provide more transparency by providing direct links to current year information. By providing this current year information, the district would provide greater access to stakeholders, employees, and others who are looking to gather information as it relates to the district.

It is considered best practice to provide at the least one year of financial data on the district website for easy viewing. A copy of the approved budget, charts supporting the budget, and other items of importance will help the general public. It was also noted during review and discussion with the Oklahoma State Department of Education that districts are supposed to include credit card charges on the website.

An Example District provides considerable budget information on its website. In addition to the board-adopted operating budget that contains numerous schedules and charts and explains the budget development process for each fund, the website includes the district's Estimate of Needs and answers to frequently asked questions.

The Example District budget document provides easily understood information and includes:

- Table of Contents;
- Budget Philosophy;
- Timetable;
- Budget Guidelines by Fund;
- Function Expenditure Code Definitions;
- General Fund Revenues – Comparative Analysis;
- General Fund – Fixed Cost Analysis;
- General Fund Budget by Project Reporting; and
- Current Condensed Financials.

The example district's online document titled *Frequently Asked Questions* includes answers to several questions:

- how the district receives money;
- the impact of local real estate taxes and the Oklahoma lottery on the district;
- what a fund balance carryover is;

- how funds are expended; and
- what unfunded mandates are.

RECOMMENDATION

Provide greater budget transparency by including the approved budget, schedules, and charts supporting the budget on the district’s website.

To implement this recommendation the district will need to use the most recent approved budget and post it to the website. Include any supporting documentation, such as easy-to-read reports and charts that provide a high-level review of the budget. Charts could include the breakdown of funding and where budgeted resources go.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING 3-4

The district does not prepare an itemized budget. Instead, the estimate of needs is used each year to establish the maximum expenditure limit for the district’s general fund. The estimate of needs includes the carryover from the previous year, the amount of revenue the district expects to receive during the coming year and expenditures from the previous year, but it does not identify by type of expenditure, how funds are anticipated to be expended.

An effective budget is a financial plan that identifies revenues that are estimated to be received during the upcoming fiscal year and how funds are anticipated to be expended. Budget documents should provide the board and community with financial data in a concise manner that is easily understood and where actual revenues received and expenditures made can be compared back to the estimated amounts. To provide a reference for the estimated amounts in the budget, many budget documents provide the actual revenues received and expenditures made during the previous year or years.

There are many ways budgets can be developed. Some are elaborate and contain a great amount of data and information other than revenues and expenditures. However, all budgets need to clearly identify not only carryover funds and estimated revenues, but also identify estimated expenditures. Many small districts find that expenditures are more easily understood when identified by their type, such as salaries or supplies.

RECOMMENDATION

Develop a budget document that clearly identifies carryover funds and estimated revenues, as well as plans for how funds are to be expended within the public-school district.

Superintendents should develop a budget for the coming year that establishes the carryover from the previous year; estimated revenues to be received during coming year, anticipated

expenditures by object code for the coming year and the carryover that should be available for the year after that. The budget document should then be presented to the board for approval.

Exhibit 3-13 shows an example of a simple budget format that uses OCAS revenue and expenditure classifications. This example could be used as a format for any Oklahoma Public School. Should additional identification be desired, OCAS provides coding for a further breakdown of each of the major classifications shown in the example.

Exhibit 3-13
Example of Budget Document

Description	Current Year Budgeted		Prior Year Actual	
	Detail	Total	Detail	Total
Fund Balance, July 1, XXXX		\$x,xxx		\$x,xxx
Revenues:				
Local Sources	\$x,xxx		\$x,xxx	
Intermediate Sources	x,xxx		x,xxx	
State Sources	x,xxx		x,xxx	
Federal Sources	x,xxx		x,xxx	
Total Revenues		\$x,xxx		\$x,xxx
Expenditures:				
Salaries	x,xxx		x,xxx	
Benefits	x,xxx		x,xxx	
Purchased Professional & Technical Services	x,xxx		x,xxx	
Purchased Property Services	x,xxx		x,xxx	
Other Purchased Services	x,xxx		x,xxx	
Supplies & Materials	x,xxx		x,xxx	
Property	x,xxx		x,xxx	
Other	x,xxx		x,xxx	
Total Expenditures		\$x,xxx		\$x,xxx
Estimated Fund Balance, June 30, XXXX		\$x,xxx		\$x,xxx

Source: OEQA Archived Exhibit

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING 3-5

The school board is not provided budget information that contains comparisons of revenues and expenditures to actual amounts from prior years. Financial reports to the school board provide limited information to enable board members to adequately monitor the district’s funds.

It is difficult for most individuals, including school board members, to understand financial reports unless the reports are formatted and presented in an easily understood manner. Without routine reports that present comparative financial data, school board members and the public have limited information that would enable them to assess current year operations and compare it



to previous months and years. Financial reports are also critical in keeping school board members and the public informed on situations that impact the district's general fund.

As an example of monthly financial reporting, some school districts prepare monthly financial reports for the school board that list revenue by source and expenditures by function for the period. Comparative totals are presented for the previous two years along with the budget for the current year. The monthly financial report also provides information on the district's cash and investment position. This presentation allows board members and administration to monitor the district's financial status and trends in relation to prior year activity. It also assists the school board as they look forward to the budget adoption for the upcoming fiscal year.

RECOMMENDATION

Provide current monthly financial reports to the school board that includes comparative revenue and expenditure data.

Exhibit 3-14 illustrates a sample format that could be used for the general fund. Revenues and expenditures shown use the Oklahoma Cost Accounting System (OCAS) coding structure and can be expanded with more detail as needed. Similar reports using the sample format could be prepared for the building fund and child nutrition fund.

**Exhibit 3-14
Example of Monthly Financial Report**

Gypsy Public Schools General Fund Budget Status Report Month Ended xx,xx,xx						
Description	Previous Year		Current Year			
	Current Month Received/ Expended	Year to Date Received/ Expended	Current Month Received/ Expended	Year to Date Received/ Expended	Estimated/ Budgeted	Remaining Balance
Revenues:						
Local	\$x,xxx	\$x,xxx	\$x,xxx	\$x,xxx	\$x,xxx	\$x,xxx
Intermediate	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
State	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Federal	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Total Revenues	\$x,xxx	\$x,xxx	\$x,xxx	\$x,xxx	\$x,xxx	\$x,xxx
Expenditures:						
Salaries	\$x,xxx	\$x,xxx	\$x,xxx	\$x,xxx	\$x,xxx	\$x,xxx
Benefits	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Purchased Professional and Technical Services	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Purchased Property Services	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Other Purchased Services	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Supplies & Materials	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Property	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Other	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Total Expenditures	\$x,xxx	\$x,xxx	\$x,xxx	\$x,xxx	\$x,xxx	\$x,xxx

Source: OEQA Archived Exhibit

The superintendent and business manager should develop reports for the school board. Monthly financial reports should include types of revenues and expenditures and a comparison with the previous year’s financial information.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING 3-6

Many districts do not have a salary schedule for their classified/support staff. In addition, support staff do not receive cost-of-living adjustments nor do they have salary raises – although certified staff does.

For teachers, districts in Oklahoma must use the state salary schedule as a base. This schedule defines teacher compensation based upon years of experience and educational attainment. It includes annual step increases. Districts adhere to this salary schedule for teachers and provide



them with annual cost-of-living increases. However, many do not provide cost-of-living or other types of annual increases for support staff. **Exhibit 3-15** shows an example of a district’s hourly wages for their support staff. As shown, annual cost-of-living adjustments or step increases are not included in the support salary schedule. The only adjustments for these positions occur at the three-year and 11-year marks.

Exhibit 3-15
Sample District’s Support Salary Schedule Comparison – Hourly Wages

Job Description	# Hours	# Days	Years in Position		
			0-2 Years	3-10 Years	11+ Years
HS Computer Lab/Secretary	8	190	\$11.05	\$11.40	\$11.60
Teacher Asst./Library Asst.	7	159	\$9.15	\$9.50	\$9.70
Para-Professional	7	159	\$10.28	\$10.63	\$10.83
Duty Asst. – Elementary	7	159	\$7.25	\$7.60	\$7.80
Maintenance	8	260	\$12.65	\$13.00	\$13.20
Custodian	8	260	\$10.38	\$10.92	\$11.40
Route Driver – Bus	3.5	158	\$11.73	\$12.08	\$12.28
Cooks	6	159	\$9.17	\$9.52	\$9.97
Delivery/Custodian	8	260	\$10.38	\$10.92	\$11.40

Source: OEQA Sample of an Archived Exhibit

One notable district has a differentiated salary schedule for support personnel that is organized by job category and routinely reviewed. With such a detailed salary schedule, support employees have an opportunity for advancement based upon experience and skill, which can result in increased employee morale and productivity. The schedule includes a salary framework for each category of support staff: teacher assistants, bus drivers, child nutrition manager and staff, and custodians. With a set salary schedule, the district has an established procedure for determining the starting salary of newly employed staff, which provides the basis for administering an equitable compensation plan. The salary schedule provides a method to determine salary increases and provides uniform compensation for longevity and increased competencies. The salary schedule establishes steps that ensure raises are given to support personnel based upon experience. Byng administrators review the support salary schedule periodically to ensure that equitable compensation is maintained. An example of a support salary schedule for a similar sized district is contained in **Exhibit 3-16**.

**Exhibit 3-16
Sample Public School Support Personnel Salary Schedule**

Years of Experience	Superintendent's Secretary (2000 hours)		Principal's Secretary (1840 hours)		Teacher Assistant/ Para-professional (1440 hours)		Custodian (2000 hours)		Cook (1440 hours)		Child Nutrition Manager (1440 hours)		Bus Driver (540 hours)	
	\$/Hour	\$/Year	\$/Hour	\$/Year	\$/Hour	\$/Year	\$/Hour	\$/Year	\$/Hour	\$/Year	\$/Hour	\$/Year	\$/Hour	\$/Year
0	\$8.25	\$16,500	\$7.75	\$14,260	\$7.25	\$10,440	\$7.50	\$15,000	\$7.25	\$10,440	\$7.75	\$11,160	\$12.50	\$6,750
1	8.50	17,000	8.00	14,720	7.50	10,800	7.75	15,500	7.50	10,800	8.00	11,520	12.50	6,750
2	8.75	17,500	8.25	15,180	7.75	11,160	8.00	16,000	7.75	11,160	8.25	11,880	12.50	6,750
3	9.00	18,000	8.50	15,640	8.00	11,520	8.25	16,500	8.00	11,520	8.50	12,240	12.50	6,750
4	9.25	18,500	8.75	16,100	9.00	18,000	8.50	17,000	8.25	11,880	8.75	12,600	12.50	6,750
5	9.50	19,000	9.00	16,560	8.50	12,240	8.75	17,500	8.50	12,240	9.00	12,960	12.50	6,750
6	9.75	19,500	9.25	17,020	8.75	12,600	9.00	18,000	8.75	12,600	9.25	13,320	12.50	6,750
7	10.00	20,000	9.50	17,480	9.00	12,960	9.25	18,500	9.00	12,960	9.50	13,680	12.50	6,750
8	10.25	20,500	9.75	17,940	9.25	13,320	9.50	19,000	9.25	13,320	9.75	14,040	12.50	6,750
9	10.50	21,000	10.00	18,400	9.50	13,680	9.75	19,500	9.50	13,680	10.00	14,400	12.50	6,750
10	10.75	21,500	10.25	18,860	9.75	14,040	10.00	20,000	9.75	14,040	10.25	14,760	12.50	6,750
11	11.00	22,000	10.50	19,320	10.00	14,400	10.25	20,500	10.00	14,400	10.50	15,120	12.50	6,750
12	11.25	22,500	10.75	19,780	10.25	14,760	10.50	21,000	10.25	14,760	10.75	15,480	12.50	6,750
13	11.50	23,000	10.00	20,240	10.50	15,120	10.75	21,500	10.50	15,120	11.00	15,840	12.50	6,750
14	11.75	23,500	11.25	20,700	10.75	15,480	11.00	22,000	10.75	15,480	11.25	16,200	12.50	6,750
15	12.00	24,000	11.50	21,160	11.00	15,840	11.25	22,500	11.00	15,840	11.50	16,580	12.50	6,750
16	12.25	24,500	11.75	21,620	11.25	16,200	11.50	23,000	11.25	16,200	11.75	16,920	12.50	6,750
17	12.50	25,000	12.00	22,080	11.50	16,560	11.75	23,500	11.50	16,560	12.00	17,280	12.50	6,750
18	12.75	25,500	12.25	22,540	11.75	16,920	12.00	24,000	11.75	16,920	12.25	17,640	12.50	6,750
19	13.00	26,000	12.50	23,000	12.00	17,280	12.25	24,500	12.00	17,280	12.50	18,000	12.50	6,750
20	13.25	26,500	12.75	23,460	12.25	17,640	12.50	25,000	12.25	17,640	12.75	18,360	12.50	6,750
21	13.50	27,000	13.00	23,920	12.50	18,000	12.75	25,500	12.50	18,000	13.00	18,720	12.50	6,750
22	13.75	27,500	13.25	24,380	12.75	18,360	13.00	26,000	12.75	18,360	13.25	19,080	12.50	6,750

Source: OEQA Archived Exhibit



RECOMMENDATION

Review current wage levels and cost-of-living adjustment policies of support staff in comparison to peers and local businesses, then adjust as needed.

After researching comparable salaries for support staff with peers and local businesses, districts should develop a plan to adjust wages as necessary. Districts should then inform their staff of the research results so buy-in is achieved and nobody feels they are being treated unfairly. In the end, the results could have a lasting positive impact both in and out of the classroom.

FISCAL IMPACT

This recommendation can be implemented with existing resources, however, the impact to the district budget will be determined once a final decision is made on total raise or bonus. A raise will have financial implications going forward and a bonus would be a one-time cost.

B. FINANCIAL PROCESSES

Day-to-day financial processes should be efficient and effective. They should also be documented, transparent, and rational. Accounting and payroll are among the most important business functions performed by a school district. Although regulations such as the *OCAS* and other accounting standards exist, actual practices can vary widely among Oklahoma school districts.

A sound accounting and payroll system can provide numerous benefits including:

- providing internal controls and safeguards;
- providing timely reporting on the status of funds; and
- allowing systematic disbursements to maximize available funds.

FINDING 3-7

Some districts do not have mandatory participation by employees in the direct deposit of payroll warrants. Direct deposit of payroll is efficient for both employees and the district.

The percentage of districts' employees having their warrants directly deposited into their bank accounts varies from district to district. Hard copy warrants are printed each month for the employees who do not participate in the direct deposit program. The normal procedure for districts with direct deposits is to have a representative from each building come to the administrative office to pick up the hard copy warrants. Employees sign for their warrant and the signature sheets are then sent back to the administrative office.

Direct deposit expedites the availability of funds to the employees' bank accounts, reduces the possibility of warrants being lost or stolen, and is efficient for district staff. Direct deposit benefits both the organization and its employees. A school district benefits because bank account

reconciliation is made simpler and funds are debited from an organization's account on a precisely known date. The district also enjoys reduced processing costs because direct deposited checks eliminate the need to print and distribute pay warrants. Direct deposit saves employees time spent in making trips to the bank, and funds are generally available immediately.

A few districts require that all employees be paid through direct deposit. Each employee designates an account at any bank where his or her paycheck can be directly deposited each month. The district realizes direct deposit streamlines the payroll process and saves money by eliminating the need to handle and safeguard hard copy checks. Check stock is more costly than regular paper, and requires special handling and security to avoid irregularities.

RECOMMENDATION

Require mandatory direct deposit of employee pay to improve efficiency for both the district and employees.

School boards should develop a policy requiring employees to participate in a direct deposit program. Implementation of the policy should provide sufficient time for the employees who are currently not participating to complete required paperwork and for the treasurer to complete transactions with their banks.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING 3-8

Hourly employees record their hours worked on a paper timesheet in several small districts. This method exposes the district to potentially paying for time not actually worked. Moreover, processing a manual paper-based payroll is more time-consuming than processing one that makes better use of existing district technology.

Hourly employees record their hours worked manually on paper and then submit it to payroll for processing. While no instances of dishonesty have been documented, this process does not protect the district against timesheet fraud. Over time, timesheet fraud could cost the district a significant amount of money.

For districts already using the Municipal Accounting System (MAS) for other financial functions, should also use MAS's automated timekeeping module. Implementing a more automated timekeeping process would reduce the possibility of timesheet fraud and reduce the time the treasurer currently spends on weekly and monthly payroll processes.

RECOMMENDATION

Use greater automation in the area of employee timekeeping.

Superintendents and treasurers should work with MAS, a financial software vendor, to use timekeeping software available through them. This will allow both the timekeeping system and financial software to interact and make payroll more automated for hourly employee's time.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING 3-9

Several school districts still make all payments by paper warrant. This is inefficient and riskier than using e-payables credit cards.

It was noted in several reviews that district payments were made by paper warrant. This type of payment method is more costly than electronic payments, both in terms of paper stock costs and labor inefficiency. Moreover, the paper warrants can expose the district to fraud and loss problems.

In districts with e-payments options, the accounts payable process is streamlined, because instead of cutting paper warrants to every vendor, they pay with a credit card for many items and then only generate one paper warrant to the credit card company. Many credit card companies offer rebates, thus generating revenue for the district to use in other areas.

RECOMMENDATION

Adopt an E-payables credit card system to streamline accounts payables operations and potentially generate some usage revenue.

There are many companies and banks that offer an e-payables option for organizations. The superintendent and encumbrance clerk should research the companies that are available to the district and have the companies provide a cost analysis for savings and overall rebates generated.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

C. ASSET AND RISK MANAGEMENT

Asset management involves managing the district's cash resources and physical assets in a cost effective and efficient manner. Effective cash and investment management involves forecasting cash requirements timely and accurately so that funds are made available when needed. Effective asset management involves the safeguarding of property from loss, damage, theft, and obsolescence. Proper safeguarding of district assets requires an effective system of accountability and a culture of adherence to established policies and procedures.

FINDING 3-10

Some districts do not maximize potential for earning interest on their idle cash. This results in a lower rate of return on investments and lower interest earnings by the district.

Based upon review of the district's balance sheet and bank statements, it appears idle cash is only being held in the district checking account. While this ensures that cash is readily available should it be needed, the district is potentially losing out on additional interest that could be earned. The superintendent and treasurer monitor the cash available, but are not investing in accounts as permitted under Oklahoma Statutes: Title 70-5-115. The district has a written policy in the policy manual addressing the option to invest and that the treasurer shall place primary emphasis on safety and liquidity of principal and earnings. The policy calls for available funds to be invested to the fullest extent practicable in interest-bearing investments or accounts, with the investment portfolio remaining sufficiently liquid to meet reasonably anticipated operating requirements.

It has been noted that some districts do not use sweep accounts. Sweep accounts are arrangements where excess funds are automatically moved into overnight investments, which typically earn a higher rate of return than that paid on regular checking accounts. The use of higher-yielding overnight investment mechanisms for unused balances also makes it easier for district and bank personnel to maintain and monitor collateral needed to secure bank balances on deposit.

One district, for example, utilizes this type of banking service, which includes a sweep account where amounts more than \$25,000 are automatically moved from the district's regular checking accounts into an overnight investment account. While the district earns interest on its regular checking accounts, the rate earned on the overnight sweep account is at a higher rate.

RECOMMENDATION

Research possible investment options that are permitted by Oklahoma state law and Federal regulations that could yield a higher interest rate, thus earning the district additional revenue.

To take full advantage of the ability to invest idle cash, the district treasurer and superintendent should review the *Management and Investment of Funds* policy and present to the board the options permitted by law. Once the board has reviewed the options, a decision can be made as to the risk the board, superintendent and treasurer are willing to take to generate interest. Interest earned from non-activity funds shall be deposited in the general fund. The consulting team recommends that the district consider an agreement with its bank to provide a sweep of idle cash into higher yielding investments on an overnight basis. Future competitive bid requests for banking services should include a provision to provide a sweep account.

FISCAL IMPACT

This recommendation can be implemented with existing resources. Revenue generated will be determined by the investment options available.

FINDING 3-11

Fixed asset transactions are not identified and tracked during the year. Some districts do not have a complete listing of its fixed assets where additions and deletions are made as they occur, or a policy that directs a physical inventory to be conducted.

A common practice seen in districts is for teachers to prepare a list of items located in their classroom at the end of each year. The lists include many low value items such as chairs, student desks, books, and other items generally not considered to be fixed assets. The lists are given to the building principal where they are filed. No staff member reviews the lists to determine if items on a previous year's lists are still in the room and, if not, determine what happened to the items.

Policies normally address many issues pertaining to an entity's investment in fixed assets. Policies include guidelines for all fixed assets and regularly address the following:

- responsibility for accounting for the district's investment in fixed assets and the system that is used for that accounting;
- a requirement for annual physical inventories;
- capitalization thresholds for property, equipment, land, and infrastructure;
- depreciation methods, salvage value, and a schedule of estimated useful lives;
- capitalized improvements versus maintenance expenses;
- reporting junked, stolen or missing property, and what approvals are required to delete these items from the inventory;
- receiving donated property; and
- transferring assets between schools or departments.

To protect their investment in fixed assets, school districts should track their assets and have policies that provide direction on how the assets are to be managed. As items are acquired, they are added to the inventory and when the district disposes of an item it is taken off the inventory. When an item cannot be found, the situation is reviewed and appropriate action taken.

RECOMMENDATION

Develop and adopt fixed asset policies and procedures, such as capitalization thresholds, surplus procedures, and lost asset recovery; then, inventory fixed assets and track possession for insurance purposes.

The school board should adopt a detailed fixed asset policy to provide guidance on how district fixed assets are to be managed. The Oklahoma Cost Accounting System (OCAS) procedures manual differentiates coding for equipment at \$2,500. Therefore, the district should consider adopting a threshold of \$2,500 to remain in compliance with the OCAS requirements. Once the

school board approves the policy, the superintendent should communicate the new policy to staff and begin implementation. A physical inventory should be performed, and the results used to create a computerized inventory listing of all items over the established threshold.

A system to track fixed assets and a set of fixed asset policies should help ensure that the district’s investment in fixed assets is being managed as desired by the school board. The system should protect investments by holding staff accountable for the proper care and protection of district assets.

Developing guidelines for conducting the inventory of items located in offices and classrooms will help ensure that the district has the information needed for insurance purposes and will be able to track items purchased with program funds. Guidelines will also ensure that inventory is done in a consistent and standardized manner. The guidelines should include what items need to be inventoried, how to properly estimate the cost of items if the purchase price is not known, what data should be included, a standard form to be used, and when the inventory should be conducted. Guidelines should also make inventoring more efficient. The Oklahoma Department of Career and Technology Education has both a fixed asset policy and accompanying guidelines that could be used as a starting point for MPS.⁷

FISCAL IMPACT

The consulting team recommends allocating \$3,000 for a one-time purchase of inventory software and barcode scanning equipment.

Recommendation	2019-20	2020-21	2021-22	2022-23	2023-24
Develop and adopt fixed asset policies and procedures, then inventory and track possession of assets.	(\$3,000)	\$0	\$0	\$0	\$0

D. ACTIVITY FUNDS

Activity funds are defined as funds that consist of resources received and held by the school as trustee to be expended or invested in accordance with conditions of the trust. Specifically, they are funds accumulated by district-affiliated organizations from various fundraising activities, membership fees, commissions, interest income, and donations. These funds are to be used to promote the general welfare of the school and the educational development and morale of students.

Oklahoma Statute Title 70 O.S. § 5-129 outlines the procedures to be used to account for activity funds. Specifically, the statute requires that the board of education of each school district exercise control over all funds and revenues on hand, received or collected from revenue-generating sources such as student organizations or extracurricular activities that are conducted on school campuses. The statute further defines that deposits are to be made daily or when the



cash on hand exceeds \$100. Under the law, the school board is required to approve all school activity sub-accounts, all fundraising activities, and all purposes for which monies collected in each subaccount may be expended.

FINDING 3-12

Using a night deposit at the bank for gate receipts and after-school activities is not a common practice. Instead, money is brought to the central office and put in the safe. It is then counted the next working day. Putting money in a night deposit would reduce the risk of theft or funds getting lost.

Oklahoma school law requires that activity funds be deposited by the end of the next business day after they are collected, if the funds exceed \$100.⁷ Also, deposits should be made at least once a week even if the collections do not exceed \$100. The National Center for Education Statistics recommends that activities funds be deposited daily.⁸

One district has excellent procedures for timely handling and deposit of gate receipts. The district staff prepare a money log for all athletic events/school activities that reconciles the ticket count to the collections. Two individuals sign off on all the forms and the ticket stubs are kept on file for five years. It is considered a best practice to deposit funds in a night deposit box the day of the event.

RECOMMENDATION

Adjust gate receipt procedures by placing two people in charge of gate money to count the gate receipts after the event, complete a receipt of the money along with a deposit slip, and make a night deposit at the bank.

The activity funds clerk should work with the bank to establish a night deposit drop. Once the night deposit is set up, the activity clerk can meet with all parties responsible for after-school activities and go over procedures.

The activity funds clerk would be responsible for collecting the night deposit keys and ticket sales report from the ticket taker the following morning. The bank would be responsible for verifying that the funds reported on the deposit slip in the night deposit agree. If errors are noted they would contact the school to research the issue.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

⁷ <http://sde.ok.gov/sde/sites/ok.gov.sde/files/2015%20%20LAW%20BOOK%20FINAL%20%282%29.pdf>, page 117.

⁸ https://nces.ed.gov/pubs2004/h2r2/ch_8.asp

FINDING 3-13

Regular training for teachers and staff who handle activity funds does not consistently occur in many districts. There is no yearly meetings to review policies and procedures or to emphasize the importance of receipting money in a timely manner. In addition, these districts lack an official activity fund handbook. However, in some cases, board policies exist related to activity funds, but these are insufficient to provide procedural guidance for those who handle activity funds.

Ideally, written procedures are provided to all activity fund sponsors in the form of a handbook. A typical handbook would include some or all the following sections:

- General Information;
- Responsibilities of the Principal;
- Responsibilities of Sponsors;
- Responsibilities of the Activity Fund Custodian;
- Procedures for Fund Raisers;
- Procedures for Purchasing;
- Sponsor Procedures for Receipting Money;
- Activity Fund Custodian Procedures for Receipting Money;
- Important Points to Remember, Sponsor;
- Important Points to Remember, Activity Fund Custodian; and
- Activity Fund Project Codes.

Some innovative districts publish a comprehensive manual that provides guidance for managing school activity funds. The manual provides instructions and guidelines that cover over 30 topics along with forms, board policies, and examples. Topics in the manual include:

- procedures for purchasing;
- receiving and depositing cash;
- accounts payable;
- administrator responsibilities;
- receipts and deposits; and
- expenditures.

The handbook also includes Oklahoma state laws and State Department of Education regulations pertaining to activity funds. The manual is reviewed annually and updated as needed. It provides

a valuable resource to principals and sponsors, as they manage activity funds and prepare various documents related to activity funds.

RECOMMENDATION

Schedule a meeting at the beginning of the school year with all teachers and staff at each school on proper procedures for collecting activity funds.

The procedures should clearly state how all activity funds are to be administered, and thus will assist principals, teachers, and sponsors in fulfilling their responsibilities. The manual also will provide a good reference for new principals, teachers, and sponsors.

The activity fund clerk should require every sponsor to read the handbook and sign an “activity account sponsor’s affidavit of responsibility” stating that they have read the handbook and understand it. This form should also be signed by the principal and the activity account name or number for which the sponsor is responsible. The sponsor could be issued a receipt book, only upon approval of this affidavit.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

E. AUDITING AND INTERNAL CONTROLS

Internal and external audits provide a review of the district’s compliance with established standards and practices. External audits are required of all Oklahoma school districts and are performed by state-approved public accounting firms. The external audit provides:

- an annual financial and compliance report;
- an examination of the expenditure of federal funds (as applicable); and
- a report to management on internal accounting controls (as applicable).

The internal audit function supplements the work of the external auditor. The internal audit function examines specific areas to determine:

- the adequacy of internal controls;
- compliance with adopted policies and procedures and adherence to applicable law and regulation; and
- efficiency and effectiveness of operations.

FINDING 3-14

Formal processes for employees to be cross trained to support the responsibilities of other positions within the financial operations are not evident. In addition, there are few written procedures to guide staff in the completion of financial processes.

Staff performing business services duties has not been cross-trained to perform critical functions. Cross-training employees helps ensure that processes can continue uninterrupted when key employees are out or leave the district. It is considered a process weakness when only one person knows how to complete certain transactions or complete a specific function.

Without written procedures, employees complete their duties based upon verbal directions that may vary or become stale. Once time has passed after verbal directions are provided, employees often begin to perform their duties differently than instructed, and employees also improvise and develop their own ways to do certain procedures. Processing transactions in an unapproved manner often leads to errors. A desk procedures manual covers each activity's steps in sufficient detail that an individual using it for the first time can perform the steps with little, if any, additional instruction. It also lists specific forms to be used, computer screens accessed, fields on the screen in which to enter information, as well as identifying other positions that supply information for the procedure, or to which it sends information.

Relying on a single individual to complete a critical process places a great amount of stress on that employee and often requires the employee to work overtime in critical situations. It is also an internal control weakness. When only one individual is fully trained and knowledgeable in critical processes, the district is vulnerable if that individual is unavailable.

For internal controls to operate effectively, all employees need a documented reference source detailing how they perform their assigned duties. An employee desk manual has much more detail than a procedures manual and is basically a step-by-step written document approved by management that describes how employees are expected to complete their individual assignments. Detailed desk procedures facilitate cross-training of employees and training of new employees since they provide the step-by-step instruction needed to perform tasks. This increases internal control by helping to ensure processes are performed correctly.

Some business offices have developed excellent detailed desk procedures to use when employees are completing their assigned duties. The payroll department in an out-of-state district developed detailed desk procedures that are placed on the office's server with individual folders containing instructions for each staff member, but all employees of the office have access to them. Detailed explanations on a step-by-step basis for how to fulfill the numerous duties that must be completed accurately and timely are included. An example of a desk procedure that is for a payroll process called "COBRA changes" has detailed steps that include:

1. Receive from benefits, yellow form with the box next to COBRA marked and the change reflected.
2. Pull file. (It will either be in the file cabinet or COBRA basket.)
3. Ask XXX if individual on COBRA has paid anything.

4. Make a copy of the payment sheet or check.
5. Run calculator tape of what individual has paid.
6. Go to Excel, Payroll Server, open health insurance folder, health calculation 2003, COBRA, and COBRA-newchgehealthcal03. (Enable macros.)
7. Complete spreadsheet. (Referring to yellow form and individuals file.)
8. Next to number of payments, enter number of months going to have coverage. (Will be based on effective date until the end of the year.)
9. Note: If individual is an employee, next to employee, enter yes. If not, enter no and next to employee, in the next cell, enter employee's name.
10. Note: Next to coverage for, the start date would be based on the effective date. The end date remains the end of the year.
11. Enter the amount the individual paid next to less amount paid.
12. New monthly payment date will always be the first of the month. (The individual pays monthly.) Also, adjust the number of pays.
13. Next to total payment due by, give the individual 5 to 10 days.
14. The bottom of the spreadsheet may not need to be hid depending on if they owe us any money.
15. Print two copies of the calculation sheet. One copy will go to XXX, one copy is put in individual's COBRA file, and the original is mailed.
16. If the individual owes us money, a letter needs to be sent.
17. Go to Word, Payroll Server, health insurance, and health letters.
18. Use the information from the calculation sheet to complete the letter.
19. Make two copies of letter. One copy goes to XXX, one copy goes in individual's file, and the original is mailed.

RECOMMENDATION

Develop a plan to cross-train district staff in key finance areas and document accounting procedures to reduce exposure to the possibility of loss of data and knowledge base in the event key financial personnel are not able to continue duties for any reason.

A standard format to use when creating desk manuals with instructions should be developed by the superintendent with the assistance of the financial secretary and clerks. The superintendent should review the key duties of business services staff and develop a list of critical processes. Business service staff should develop desk procedures for the list of critical processes.

Once desk procedures have been completed, the superintendent should determine which staff should be cross-trained on which processes. The assignments should be discussed with staff and their progress monitored to help ensure the cross-training is progressing in a timely manner. An effective cross-training program for business services staff should ensure that all essential job

responsibilities are properly carried out in the absence of an employee who is assigned the primary responsibilities.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING 3-15

Implementing a formal policy for rotating and competitively soliciting external auditors is not a common procedure among many districts. Rotating audit firms usually provides a district with better coverage by having a different individual reviewing data, sometimes from a different perspective.

Districts retain an external auditor to conduct an annual financial audit and prepare the annual estimate of needs. However, in multiple interviews across several districts, staff stated that they were not aware of any attempt to competitively bid for audit services. Routinely soliciting proposals and qualifications from external auditing firms through a competitive process enables districts to obtain and review the qualifications from interested firms and to select the one that offers the best qualifications at the lowest reasonable price. Rotation of audit services helps ensure that district financial practices and internal controls are reviewed from a fresh prospective.

According to the GFOA recommended audit procurement practices, “Governmental entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors”. While Oklahoma school districts may not enter into multiyear contracts, many do enter into such agreements with the mutual understanding that the district must reapprove it every fiscal year. At the conclusion of that multiyear contract, GFOA recommends that “Governmental entities should undertake a full-scale competitive process for the selection of independent auditors”. GFOA also recommends that governments choosing an external auditor actively seek the participation of all qualified audit firms including the current one, assuming its past performance was satisfactory.

Although Oklahoma law requires that an auditor must be selected from an approved list compiled by the State Department of Education, it does not require competitive selection for auditing services. The cost is not the sole determining factor when contracting for professional services; however, sound business practices and standards of independence indicate that periodic evaluation is prudent. Many school districts have established policies requiring periodic use of a competitive process for the procurement of external audit services.

RECOMMENDATION

Develop a policy requiring competitive proposals for professional independent auditing services at a designated interval of at least every five years.

The superintendent should draft a policy requiring a competitive solicitation of audit services at least every five years. He should then submit it to the school board for review and approval.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING 3-16

A web link to the district’s most recent financial statement audit is included on the website but is hard to locate. The link redirects to the Oklahoma State Department of Education where one must then search for the report.

Including an electronic copy of the current year audit report in an easy-to-read format, such as an Adobe PDF, would provide greater transparency into district finances for all stakeholders. Posting such information demonstrates the district’s willingness to share all financial data and generates trust with stakeholders. It also provides an opportunity for the public to become more informed regarding the overall district financial situation.

RECOMMENDATION

Include an electronic copy of the audited financial statements on the district website directly so that the public can find information more easily.

The district should post a copy of the approved audit report from the auditor on its website annually. The superintendent could also include a memo highlighting the overall financial health of the district and any major changes noted in the financial statements.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING 3-17

Formal procedures manuals describing daily, weekly, monthly, and annual duties for functions in accounting, payroll, student activity, and accounts payable that are specific to the campus and administrative level of some districts are nonexistent. Without written procedures, districts cannot assure consistency in duties and/or the application of procedures or provide effective training for new employees.

Procedures manuals are vital to the organization for purposes of continuing critical functions in the event of staff absences. Written procedures manuals also provide a basis for periodic evaluations of processes and practices for purposes of improvement, which establishes greater control of various functions.

RECOMMENDATION

Develop a written financial procedures manual that includes accounting, payroll, student activity, and accounts payable.

Districts should adopt additional procedures specific to a district that are not addressed in the accounting procedures manual published by the SDE. Districts without these procedural manuals should obtain copies of procedures manuals used by other schools or contact OSSBA or the Cooperative Council for Oklahoma School Administration (CCOSA) for the names of business officials who have developed manuals for use in their districts. Another option would be to search individual district websites to retrieve their published accounting policies.

Initially, the formal financial procedures can be documented in a series of memos, and districts can then develop the financial procedures manual with the input of all business office employees. These procedures should follow board policy and should be readily available on the district website. In addition, the treasurer should provide training two to three times per year for all clerical employees on the appropriate accounting procedures contained in the manual.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING 3-18

Many districts do not bid their banking services often and most have not done so in several years. Districts may be reluctant to do so because of benefits offered to the district by the bank such as not charging any fees for their banking services. However, an evaluation of banking service options will help to ensure that districts are indeed receiving the best services and highest rate of return.

RECOMMENDATION

Establish a policy that requires the district to bid banking services at least every two years.

First districts should issue a Request for Proposal (RFP) for banking services. The superintendent should review submitted proposals and make a formal recommendation to the board of education for approval. Once a proposal is approved, the superintendent should direct the implementation of the banking services contract.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING 3-19

Districts do not have a competitive procurement process. Competitive procurement practices can save the district money, especially in the areas where the district spends substantial funds.

Bidding procedures that establish thresholds could further help the district receive more competitive pricing and value. A sample of another district's purchasing procedure is shown in **Exhibit 3-17**.

Exhibit 3-17
Sample Purchasing Guidelines

Purchase Threshold	Process
\$499 or less	Request purchase from prime vendor or unit price vendor. If none, use best vendor (price/quality/availability).
\$500 - \$1,499	Obtain three telephone quotes unless sole source (documented) or emergency
\$1,500 - \$24,999	Obtain three written quotes unless sole source
\$25,000 or More	Formal quotation per policy (Do not split orders to avoid this.)

Source: OEQA Archived Exhibit

RECOMMENDATION

Establish thresholds for competitive purchases.

Below is a list of possible implementation strategies districts should consider when establishing thresholds for competitive purchases:

- The superintendent surveys area schools for thresholds on competitive purchases.
- The superintendent incorporates the establishment of thresholds on competitive purchases into district procedures.
- The superintendent reviews the establishment of thresholds on competitive purchases with the district's external auditor.
- The superintendent incorporates any suggestions from the external auditor into the district's purchasing procedures.
- The superintendent enforces use of thresholds on all competitive purchases.

FISCAL IMPACT

This recommendation can be implemented with existing resources.