

TOWN OF LEXINGTON

SCHOOLS FINANCIAL REVIEW COMMITTEE

3RD PROGRESS REPORT

MARCH 22, 2009

EXECUTIVE SUMMARY

The Lexington Public Schools (LPS) have made significant progress in improving financial policies and procedures. The current implementation of Position Control has already begun to show results and change the approach of school managers to the hiring process. The revision of the Chart of Accounts will enable the more timely, accurate and consistent reporting of financial results to managers at all levels, from the School Committee and Superintendent to program managers in individual schools. This will enable the identification of issues so that they can be addressed before they become unmanageable. Other enhancements are also beginning to show results. The Lexington School Finance Review Committee (SFRC) congratulates Mary Ellen Dunn, Assistant Superintendent for Finance and Business, for her efforts and those of her staff, in effectuating these enhancements, and recognizes Superintendent Paul Ash for his support of those efforts.

INTRODUCTION

The Lexington SFRC was formed by the School Committee in January 2007, and has served as a sounding board for Ms. Dunn as she transitioned to LPS. We have primarily reviewed fiscal policies and procedures, and offered comments and feedback from our collective experience. A copy of our original charge is included in Appendix A.

As of March 2009, the membership of our committee is as follows:

- Robert Addelson, Comptroller/Assistant Town Manager for Finance, Town of Lexington;
- Robert E. Boudreau, Jr., CEO (and former CFO) The Winter Wyman Companies;
- Rodney Cole, Vice-Chairman, School Committee;
- Mary Ellen N. Dunn, Assistant Superintendent for Finance and Business, Lexington School Department; and
- Jennifer Kraft Hewitt, Operations Director, Executive Office for Administration and Finance, Commonwealth of Massachusetts.
- There is currently a vacancy for a School Committee member.

- Appropriation Committee members Pam Hoffman and Eric Michelson have served as liaison to this committee and made useful suggestions.

- David G. Kanter, former Comptroller at Hanscom Air Force Base, and Thomas V. Griffiths, former School Committee member, while not members of this committee, played a significant role in discussions and have been active participants since our inception.

UPDATES ON PROGRESS MADE SINCE 2008 REPORT

POSITION CONTROL

The Position Control (PC) feature in MUNIS—the Town’s financial-management system—provides functional control of the number of potential jobs and new hires. It allows the Finance Office to translate budgets for personnel into discrete numbers and

kinds of budgeted positions. Then, it enforces a rule that each new hire has a budgeted position. When a new position is not budgeted, a budget exception must be approved through the Finance Office. Prior to Position Control, positions could be filled and employees begin work with no requirement for confirmation that the position was funded. For example, when a new or revised individual education plan (IEP) requires additional hours of instructional assistant (IA) time, the requirement to deal with a budget exception reported by PC can provoke administrators to weigh whether position creation or bumping hours for an existing IA position will best help control costs but still meet the educational need.

Besides the hiring control just described, PC offers other features:

- the automatic assignment of pre-defined values such as General Ledger Account, Location, or Min/Max salary values when a position is attached to an employee;
- the future automation of the process between Human Resources and Finance for filling vacancies rather than the paper-based system currently used; and
- a budget tool, not scheduled for use until FY11, that ties into the MUNIS Budget Module to pull staffing data and salary projections automatically into a standardized budget report that can be used by budget managers, who currently rely on manually generated reports. This should improve the ability to budget for vacant positions, to review and terminate or keep new positions added during the school year, to review departmental resource allocations, and to review ways to streamline personnel costs by looking at the positions being filled.

PC's ability to provide this kind of personnel support and control is the reason the SFRC takes the position that the implementation of PC should take precedence over a new Chart of Accounts if the latter has temporarily had to give way to the former. A completely integrated PC will significantly improve the systems and controls to help monitor and make timely decisions related to the payroll cost of the Lexington School system, which represents approximately 83.5% of its current budget. The new chart of accounts will augment the schools' reporting capability, but that is a less significant operational need than the ability to provide controls that support hiring aligned to budgeted positions.

While PC is a very powerful tool for implementing and monitoring the personnel budget, we must note that it cannot replace administrative judgment and control:

- It does not prevent hourly employees from being paid over budget allocation, because district practices must conform to US Wage and Hour Laws.
- Even though PC balks at hiring for an unbudgeted position and prompts financial review, it does not absolutely prevent the district from hiring unbudgeted employees, because the district must sometimes do that to satisfy legal or educational requirements.

Status of Position Control Implementation – For the first time, the budget document approved by the School Committee has a front seat in the hiring process.

PC, including the automatic assignment of position parameters, is set up for all units except for LEA Bargaining Unit A (teachers, counselors, nurses, other professionals),

which is underway. The task is consuming much more time than expected, because of problems encountered along the way, mainly in cleaning up data so that fields are used consistently for all current and future employees. One significant challenge was the emergence of a non-bargaining category of employees that grew out of a review of contracts, titles, and recognition clauses. While this does not include many employees, it does point to some of the particular confusion and frustration about how many members of LEA Bargaining Unit C (primarily IAs associated with IEPs) the district had at any one time. Notwithstanding these kinds of problems, people were and are being paid the correct amounts according to the pay tables for their position and function in the organization.

In order to improve the reliability of full-time equivalent (FTE) reporting for the School Department, a full analysis and review is taking place while PC is being implemented. Concurrent with PC implementation, the Finance Department is

- categorizing positions and work year and
- reviewing location and department assignments.

Finance has already applied PC to grant and revolving-fund positions. Not only will this give the system better control of hiring in these areas, it will also facilitate better reporting to granting authorities.

CHART OF ACCOUNTS

As we shared in our two previous reports, the Chart of Accounts (CoA) contains the categories into which spending and revenue are coded when they are entered into MUNIS. There are many benefits to a well-designed CoA, however the most significant is to enable producing timely and meaningful reports more quickly and easily. This will help facilitate the routine production of regular financial reports which will better assist the leadership of the school system with making timely decisions. Further, this will allow for easier reporting to the Department of Elementary and Secondary Education¹ and will help with comparisons with other school districts. Under the current antiquated CoA, reporting is a very laborious task for even the simplest of reporting requests. With a new and properly designed CoA, reporting will be much more streamlined and would require significantly less manual intervention versus downloading, or manually inputting, large amounts of data into an Excel spreadsheet in order to construct the information into a useable and meaningful format.

There are many important steps that need to be taken for a smooth and proper implementation of a new CoA. One of those is developing a cross-walk (mapping) from the old CoA to the new CoA. Also important is realigning historical data into the new CoA for future reporting comparisons. Another significant step is deciding when to make the conversion. After considerable review, Ms. Dunn and Mr. Addelson have determined

¹ [Guidelines for Student and Financial Reporting](#)

that, in order to have the most effective and cleanest implementation, the most opportune time to perform this conversion would be at the beginning of a new fiscal year, which would put the conversion in the July-August timeframe.

Our original hope was to complete the new CoA implementation at the beginning of FY09 (July 2008). However, with the limited resources available (mostly Ms. Dunn's time) and timing there needed to be a prioritization of efforts between the CoA and PC implementations. This led to a decision by Ms. Dunn, which our Committee fully endorses, that the majority of her efforts should be focused on the PC project and to delay the implementation of a new CoA. As described above, the Committee feels the benefits of a fully implemented PC greatly outweighed the CoA advantages.

In addition, one of the side benefits of implementing PC first was that it provided insight into the development of some aspects of the CoA. PC will need to be reviewed again once the CoA has been implemented to confirm that all staff are properly aligned in the new structure. The new chart will provide a sustainable, defined account structure that was not in place previously. Although nothing can be 100% error free, future coding errors should be limited and not due to a lack of documented definitions.

The current goal is to have the implementation of the new CoA occur before the beginning of the next fiscal year – 2010. Ms. Dunn has been and is currently working with a consultant to help meet this goal. The project, currently scheduled to be completed before May 2009, will allow for a final check of accounts against the FY10 budget as approved by School Committee and for scheduling the conversion with MUNIS to occur in late August. This project also needs to be coordinated with the Town's Finance Department in order for the new CoA to be properly integrated into the financial system. Currently, resources are dedicated to support this project. The School Committee may need to approve additional resources during FY10 to complete the project in July and August, and our Committee urges them to make the necessary resources available to meet this goal.

ADDITIONAL PROGRESS UPDATES

While the main focus of this report has been on the status of implementing PC and CoA, several additional items warrant mention. We congratulate Ms. Dunn and her staff on their efforts in these areas and look forward to continued momentum.

FY08 CLOSE – Although FY09 looks as though it will present financial challenges primarily related to out-of-district special education placements, it is worth noting that FY07 and FY08 jointly saw the schools returning approximately \$2 million to the Town with a possibility that the FY08 closeout of encumbrances will add to that amount. This is noteworthy since there were deficits in both FY05 and FY06 which required Town Meeting involvement; led to joint discussions and strategies between the Schools, Town, and Appropriation Committee to manage unpredictable cost increases; and prompted the School Committee and Superintendent to form this review committee. (See the first paragraph of the Charge to this committee, in Appendix A.)

FY08 CARRY FORWARD – Past practice for LPS was to close out open year-end encumbrances (also called a "carry forward") as early as that seemed safe to do. Doing this on faulty information can result in needing to pay legitimate obligations to vendors from a prior year out of current year revenues. Human foibles and disputes can account for small errors in this regard, but the magnitude of the unexpected overrun in FY05 (described in the first paragraph of Appendix A) produced a double hit on the FY06 budget:

- It meant that the FY06 town-wide budget was taxed to pay off unbudgeted FY05 expenses.
- It was probably responsible for a degree of under-budgeting in the FY06 school budget.

One mechanism for dealing with this kind of problem is to provide a special carry forward to reserve funds to cover yet to be identified obligations of the fiscal year. The other is to enforce rules (purchase orders from a single point of origin, vendor warnings, internal training, etc.) about what constitutes a legitimate encumbrance and then keep all carry forwards open until there's certainty about each that it can be closed. The effect of keeping carry forwards open can be a delay in registering surpluses, but the schools have opted to use this tool. We concur that is the responsible approach to take.

Beginning in July 2007, LPS began carrying open encumbrances, and the funding to pay for them, into the following fiscal year. In past reports, this committee has endorsed the practice, and continues to do so. In FY07, that carry-forward amount was \$1,250,512; in FY08, it was \$2,392,576, primarily because of anomalies in closing out FY07 encumbrances, special education projected case settlement amounts, and a later encumbrance deadline (May 17 instead of April 15). The Town should continue to expect that funds will be carried forward in future years.

The Finance Office has used the FY08 carry forwards to identify departments that may need additional attention during FY09. It intends to work with them during the coming months in order to close FY09 more promptly. In addition, the encumbrance deadline is currently planned for April 15, 2009, which should allow more time for deliveries and payments to be processed. Over a number of future years, as the policies and practices implemented by Ms. Dunn are fully adopted, the overall value of the carry forwards will likely diminish, but it is likely to still be a substantial amount—even if a small percentage of the total budget.

The following table summarizes the status in this matter for FY07 and FY08.

SUMMARY – AMOUNTS RETURNED AND CARRIED FORWARD BY FISCAL YEAR

FY	Budget	Balance Released June 30th	Enc. Deadline	June 30th Carried Forward	Carry Forward Released	Total Released to Town
2007	\$64,033,646	\$464,106 0.73% of budget	April 15	\$1,250,512 1.95% of budget	\$531,579 42.5% of carry forward	\$995,685 1.55% of budget
2008	\$68,694,457*	\$1,007,534 1.47% of budget	May 17	\$2,392,576* 3.48% of budget	TBD	TBD

* Includes the amount now under the Department of Public Facilities and carry forward amounts associated with that department.

FY07 shows the results for the complete process: At fiscal-year end, what isn't encumbered is released and, of the amount carried forward, \$531,579 was released to the Town after additional research showed what portion of the open encumbrances were able to be closed out. It should be noted that the amounts were released, as the School Committee pledged would happen. Note also that an, as yet unknown, amount will be released from the FY08 carry forwards.

PURCHASE ORDERS – Ms. Dunn continues to require a purchase order (PO) for all transactions. The School Committee and Dr. Ash have supported her in this effort. This practice allows the School Department to have confidence that encumbrances that are still open at the end of the fiscal year represent real obligations, and that no unencumbered balances remain.

As part of the accounts payable warrant (i.e., a collection of invoices that are being processed for approval by the School Committee to be paid), a separate batch is generated for any invoices whose ordering did not follow the School Committee policy. This allows the School Committee to easily see who is not following their policy, and take that into consideration in making other potentially related decisions.

PERSONAL SERVICES REPORT – Ms. Dunn developed a report as an addendum to the budget document which details the types of positions funded in the budget and the definition of a FTE for each line. This document is very helpful since it 1) establishes clear definitions that will be maintained over time (developed while implementing Position Control), 2) allows for more accurate comparisons of school-level staffing from one year to the next going forward, and 3) allows for more accurate comparisons across school districts, since the definitions adopted in Lexington are those in use by other districts as well.

During the implementation of PC, several areas with extraneous FTEs were identified and corrected. These included areas such as coaches and other stipended positions that were assigned FTE values rather than being coded as additional pay. Further details on each of these areas are included in the Personal Services Report.

One important caveat is that, while the FTE value of specific items can be useful for benchmarking and comparison purposes, it does not indicate the capacity to teach or provide services, because partial FTEs are added together, and work assignments can vary. Rather, the more detailed capacity analysis is done through Position Control reports, which managers use to allocate resources throughout the schools and make decisions about whether an additional staff member is needed for a task or whether it can be accomplished by reallocating available resources, including increasing a current staff member's hours.

DRAFT REPORTS DEVELOPED ON GRANTS AND REVOLVING FUNDS – The LPS operation goes beyond the amounts reflected in the annual operating budget as appropriated by Town Meeting. The full LPS program offerings include those paid for with funding from grants, such as METCO, Title I and Special Education, and Revolving Funds such as the Athletics, Lunch and Transportation. Yet because those special revenue funds are not included in the budget document, understanding their net impact on the operating budget is difficult.

In an effort to address this deficiency, the Finance Office has developed draft reports detailing historical and projected spending for each grant and revolving fund. This committee has been able to review them, and will plan to offer additional formatting and content suggestions prior to publication. Ms. Dunn plans to provide an annual update of the report in conjunction with each budget presentation going forward.

ADMINISTRATIVE SUPPORT GUIDE – The Finance Office is developing an Administrative Support Guide to outline the LPS fiscal policies and procedures for staff, primarily the building secretaries who perform financial duties, to use as a reference. The committee looks forward to reviewing the document with Ms. Dunn, and offering comments and suggestions as needed.

UPCOMING SFRC PLANS

1. Review FTE definitions further to determine if additional changes are needed
2. Review reports developed once CoA is done and suggest possible changes
3. Review Administrative Support Guide

CONCLUSION

Significant, positive, changes continue to take place in the fiscal management of LPS. The implementation of PC and planning for a revised CoA, along with other enhancements, will support a long-lasting change in the culture of LPS. Real progress has been made toward enabling a systemic environment with more adequate staffing—replacing one that, to a great extent in the past, relied too much on the personal “corporate memory” and expertise of persons in fewer positions. We look forward to our continued interaction with Ms. Dunn to build off of the effects of these improvements.

Note that these improvements have not come without costs in the time to bring them about. There will also be additional technology support costs for MUNIS that the Town may need to request to support ongoing efforts to improve reporting and to maximize the capabilities of the financial application. Going forward, the Town may need to request an appropriation for jointly used improvements. Examples for MUNIS include:

- a time clock system for DPW, DPF, and Schools (\$TBD);
- a Project module for DPW, DPF, and Schools (\$32,000 plus annual maintenance);
- a Student Activity Account module (\$TBD);
- training for town and school staff to learn Crystal Reports; and
- the purchase of other new modules and improvements (\$TBD).

Although the full impact of improvements and the evaluation of them by auditors are probably two or more years off, we see the schools making significant gains in financial management today. The future should see these gains solidified with additional gains that result in better control and better reporting. Process and program improvement will come over time as the schools analyze results and gain further experience.

APPENDIX A – CHARGE OF THE SCHOOL FINANCIAL REVIEW COMMITTEE

The Committee Formed Jointly by the Lexington School Committee and the Superintendent to Review Financial Operations and Financial and Statistical Reporting

Adopted January 10, 2007

- 1) **Background**—In July of 2005, the Lexington School Superintendent and School Committee received two pieces of unexpected financial information in rapid sequence: there were approximately \$500K worth of unpaid bills for FY05 and there was a likely budget deficit for FY06 of approximately \$850K (after the Superintendent increased school lunch fees).

The Superintendent and School Committee instituted controls that included monthly financial status reports to the Committee and the first known implementation of formal School Committee votes to authorize transfers between budget lines in excess of \$50,000. The Assistant Superintendent for Finance and Business also instituted tighter internal spending controls.

In concert, these controls were effective: unpaid bills for FY06 were reduced to a net of \$37K and, although there is a large FY07 increase for out-of-district SPED expenses, that possibility had been anticipated before the FY07 budget was set, and appropriate contingency agreements were put in place with the Selectmen and the Appropriation Committee for handling that kind of unpredictable increase.

The Superintendent and the School Committee seek to further the system's ability to do forecasting and control expenses. In addition, they seek more timely access to financial data, student and employee census data, and resource utilization data, by department. They also seek to develop reports that will facilitate year-to-year comparisons and employ uniform definitions of such terms as "FTE."

- 2) **Charge**—The Committee will perform these functions:
- a) Review the schools' "financial operations" (understood here and hereafter to include financial and statistical reporting as well) to gain an understanding of
 - how they function,
 - how they acquire and pass information,
 - how they control expenses,
 - the level of compliance with the state Uniform Massachusetts Accounting System (UMAS), statutes governing the handling of revenue and expenditures for all funds, and state reporting expectations (Division of Local Services and the Department of Education),
 - how well the information they can supply meets the needs and expectations of the Superintendent and School Committee, and
 - other reports/information they can provide.
 - b) Make recommendations concerning the adequacy, appropriateness, and improvement of the schools' financial operations. Items the Committee should consider include
 - i) general financial management including the adequacy of staffing for the required functions and workload;

- ii) the adequacy of the (financial, database, statistical, and other modeling) software used, including its compatibility with regulatory standards and its ability to produce statutory reports and that information required by the Superintendent and School Committee;
 - iii) whether the school system employs and enforces adequate controls to guard against unexpected expenses and whether the system should make some provision for handling system and vendor errors discovered after books are closed for the fiscal year;
 - iv) whether the school system has adequate mechanisms in place for projecting budget needs when budgets are developed and, later, to allow the Superintendent and School Committee to assess expenses, encumbrances, and projected expenses against budgeted amounts on a timely, continuing basis;
 - v) whether communication between the Finance Department and other departments is adequate, and, if not, what additional mechanisms and requirements would make it so; and
 - vi) what kinds of statistical information should be kept on a continuing basis to provide consistent benchmarks for year-to-year comparisons of the schools' financial operations:
 - breakdowns by what categories,
 - whether to use inflation-adjusted data,
 - how to provide data more straightforward and stable than Department of Education reporting,
 - how to define and handle the schools' portions of shared expenses across the changes in the composition of shared expenses that occur from time to time, and
 - how to define "FTE" and break down and report FTEs and headcount.
- 3) **Timeline**—The Committee should complete its work on items iii) and iv) of part b of the charge in late March. If that is not possible, the Committee should notify the School Committee and Superintendent at its earliest convenience.

The Committee should define a schedule for addressing the remaining elements of the Charge and reporting both progress and recommendations to the School Committee and the Superintendent.

- 4) **Composition**—The Committee shall be composed of
- the schools' Assistant Superintendent for Finance and Business,
 - the town's Comptroller/Finance Director,
 - two School Committee members,
 - two Lexington residents with substantial financial management backgrounds, at least one of whom is the Controller (or Comptroller) for a firm with a sizeable operational budget, and
 - a liaison member from the Appropriation Committee.