

**TOWN OF LEXINGTON**

**SCHOOLS FINANCIAL REVIEW COMMITTEE**

**2<sup>ND</sup> PROGRESS REPORT**

MARCH 24, 2008

## ***Executive Summary***

The financial operations of the Lexington Public Schools have improved significantly over the past year. Necessary changes to basic internal financial controls have been implemented, and have begun to change the culture of the organization. We called this in our initial report “Creating a Controlled Environment”. Plans are also underway to implement two major projects within the accounting and payroll system, which will further bolster those financial controls. Those projects will also enable better reporting on both budgetary spending and employee counts, which will be the topics of additional discussion for our committee.

## ***History***

The Lexington Schools Financial Review Committee (SFRC) was formed by the School Committee in January 2007 with a broad charge to review the underlying fiscal framework of the Lexington Public Schools. Our group met frequently in early 2007, and issued an interim report that was presented to the School Committee and at Town Meeting in April 2007. That report confirmed that Mary Ellen Dunn, the Assistant Superintendent for Finance and Business, had a great deal of work ahead of her, but that she was well-qualified and headed in the right direction. In addition to numerous systemic changes to be made, the two main long-term projects identified were to implement position control in the school payroll system, and revise the school system’s chart of accounts in the town accounting system (MUNIS).

## ***Progress***

Since our April 2007 report, good progress has been made on the primary items anticipated for completion this calendar year. As endorsed by this committee, Ms. Dunn has prioritized her work primarily to make the school department function better and strengthen fiscal discipline. While incrementally small, those elements are crucial to the long-term stability of school finances, and what was accomplished was proportional to the time and staff resources available.

There have been considerable staffing changes in the Business office, with 5 of the current 8 staff members being new to their positions and/or to the School Department, as shown in the table in Appendix A. The committee is pleased that a Finance Manager was added to the Staff, which gives an added layer of oversight to the details of payroll and payments that was not previously available. However, it remains to be seen if there are sufficient personnel to do the job of overseeing school finances to the extent expected by the community. Our committee will continue to monitor the work effort and staff responsibilities to determine whether additional resources are needed.

In addition to routine operations and managing staff transitions, the Business office has been involved with various special projects. For example, the Central Administrative offices moved in August, 2007, and while the Director of Facilities was vacant, Ms. Dunn became responsible for managing the Schools Facilities Department. Also, the new bus

fees and routes demanded an extraordinary amount of time from Ms. Dunn and the new Transportation Coordinator hired last August.

### ***Status Report for Key Items***

Our 2007 report noted several areas for attention in addition to Chart of Accounts revisions and Position Control.

Payroll Controls—Action has been taken to ensure that biweekly disbursements are correct. A test case is run in advance and reviewed, discrepancies are addressed prior to disbursement, and the actual payroll is reconciled against the test case. Previously, payroll ran and discrepancies were addressed afterwards.

Improved Communication around Personnel Process—Ms. Dunn meets with her counterparts in Human Resources and Payroll to discuss and resolve issues, and the staff have been communicating regularly about staffing changes that affect payroll. Further enhancements are planned once the Finance Manager is able to fully transition and Position Control has been implemented.

Purchasing—A new policy has been issued and implemented to require that written copies of all contracts and service agreements be submitted to the business office before a requisition is approved. As it is with any new process there has been an adjustment period within the organization. Ms. Dunn has met with department heads, provided additional training, and encouraged staff to plan ahead for purchases.

Documentation of Accounts Payable—Another new policy requires the submittal of packing slips with all invoices or receiving reports prior to paying any vendor invoice. As a corollary, warrant batches are separated for the School Committee by the following categories:

- FY2007 invoices with a purchase order (P.O.)
- FY2007 invoices without a P.O.
- FY2008 invoices with a P.O.
- FY2008 invoices without a P.O. and
- FY2008 invoices dated prior to the P.O.

This informs the School Committee of how their policy is being practiced and monitored. The Committee has the option to sign or not sign any batch in any category, as they deem suitable. It also provides them with the information about which school budget managers are not following their policy consistently.

Training—Ms. Dunn has continued training staff on district-wide professional development days, and has seen a marked improvement in the quality of data in MUNIS as a result. There are approximately four district-wide days available for training. Training of new administrative support staff is done individually on an as needed or requested basis by either the Finance Manager or the Assistant Superintendent.

In addition, Ms. Dunn has continued posting policies and procedures to the Fiscal Management Conference which is part of every employee's First Class (email) Desktop. The Conference contains forms and information to access budget information. Also, notices and updates are sent directly to Budget Managers and MUNIS Users.

### ***Update on FY2007 Close<sup>1</sup>***

When the FY2007 budget closed, over \$460,000 were returned to the Town's general fund as being excess to the department's needs for that year. However, \$1,250,510 in FY2007-funded purchase orders were left open for supplies and services received in FY2007. We note that this is less than 2% of the total operating budget.

Carrying forward this amount of open purchase orders is out of the ordinary for Lexington. Lexington had the practice of closing out all purchase orders at the close of the fiscal year, with limited or low confidence in whether the last invoices had been received. That practice contributed to the history of unpaid bills being presented to Town Meeting by the School Department. Forcing the closing of purchase orders by the end of June or even July is not feasible to do. This is especially true for a school department where the majority of the employees responsible for completing the process of receiving these goods and services do not work more than five days after the last day of school. Thus, packing slips are often not delivered to the Business Office until late September when school has opened and summer mail can be sorted. The priority work for all employees is to open school and retrieve records and information that pertain to students and families from our summer mail load. Ms. Dunn is working on establishing the practice she has used in other school districts whereby the Business Office works with the departments with open purchase orders to have them closed out before the end of October of each year. This practice is currently behind schedule due to the staffing turnover her office has experienced this year. The procedure for FY2007 Open Purchase Orders will not be completed until FY2008 fiscal year end. However, it will be in place for open purchase orders that remain as part of the FY2008 budget.

### ***Chart of Accounts***

The chart of accounts (CoA) contains the categories that spending and revenue are coded with when they are entered into MUNIS. If the chart of accounts is well-designed, reporting is straightforward; if not, it is cumbersome and time-consuming. The Lexington Public Schools' chart of accounts is the latter, and it therefore takes Ms. Dunn and her staff a considerable amount of time and effort to produce even the most seemingly simple reports. A new chart of accounts compliant with the Department of Education reporting requirements is sorely needed and will allow for more reporting options directly from MUNIS than what is available.

The best time to implement a new chart of accounts is at the beginning of a fiscal year. The following steps are currently in process:

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<sup>1</sup> Full document can be seen at <http://lps.lexingtonma.org/FY2007BudgetFinalSummary.pdf>.

1. Develop a cross-walk (mapping) from the old CoA to the new CoA—Ms. Dunn completed the bulk of this in preparing her final report for FY 2007 in March 2008, and is planning to complete the remainder in June.
2. Implement for new fiscal year—Discussions are ongoing with the Town Accountant on the best timeframe. Since the conversion will require that MUNIS will be unavailable for a short period, they are trying to schedule it for a time that would have the least impact.
3. Realign historical data in new CoA—Ms. Dunn plans to hire MUNIS consultants to convert historical data into the new structure. Taking this step will provide the basis for historical reports and proper period-to-period comparisons.

### ***Position Control***

The MUNIS payroll system has a function called position control which details the number and type of positions funded in a budget. Before an employee can be hired, an open position must be identified. Position Control facilitates this process by providing greater assurance that the central office is aware of and has budgeted for a particular position *before* it is filled. Implementing this function will also better enable reports on full-time-equivalent (FTE) personnel levels, including those that are authorized but unfilled. It will also complement the work being done to enhance the CoA.

The following describes what the position-control function can do:

“The Position Control functionality in MUNIS is used to track employment positions by assigning them to a MUNIS Position Code. The Position Codes-

- Identify valid and authorized positions, both filled and vacant
- Restrict the addition of new employees to a valid and authorized job
- Provide a history of employees who have held a certain position, for turnover and analysis
- Identify and allow updates to budget and FTE allocations
- Provide current year budget/actual/projected figures, by position.”<sup>2</sup>

Implementation will take a considerable effort. In February, 2008, Ms. Dunn implemented position control for the 15 members of the Association of Lexington Administrators (ALA) unit in conjunction with their new contract. Over the course of a week, this required that Ms. Dunn devote more than 20 hours just to this one project. Some of that effort was learning about position control, and setting up the particular unit, but much of it was hand-coding the individual employee records. At that rate, it could take several months of a full-time individual to fully implement position control.

This Committee has explored whether alternatives are available to assist Ms. Dunn with the transition to position control. Drawing from her position in another district, she is hesitant to bring in a consultant to do the work as that will still require a large amount of time from her and her staff. Instead, she will try to identify discreet tasks that could be

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<sup>2</sup> MUNIS, Position Control, May 2006

delegated to other staff members or a consultant freeing her time in large blocks to complete the alignment of data elements required. MUNIS does have online and telephone technical support that can accessed and/or scheduled to assist in the task or provide “just-in-time” training at the desktop.

In addition, since implementation is easiest done in conjunction with a new contract settlement, the completion of contract negotiations may play a part in the final timing of position control. At the time that contracts are renewed, contract provisions must be matched with all payroll-related tables in MUNIS. This allows corrections or updates to the position data to happen at the same time. If resources are available before contract negotiations are completed, Ms. Dunn is prepared to implement the position control adjustments independently.

### ***Financial Reporting***

In order to provide meaningful and timely reports, both a revised CoA and position control are needed. In addition, the schools recently acquired Crystal Reports (report-writing software), which will help build the reports more efficiently once the staff has been trained and the reports have been developed. Until then, the staff is producing hand-calculated reports that are extremely time-consuming. In order to produce a meaningful comprehensive report (e.g., quarterly), it takes at least 45 days past the report’s closing date. This time allows the finance staff to not only produce the numbers for the report, but investigate any variances revealed by the numbers and sufficiently explain them in a written report. While the importance of more-timely and accurate reporting, with explanations, is recognized as an important responsibility, the real-world situation is that the Business Office must concurrently address their other, day-to-day responsibilities. A calendar highlighting key financial dates for the Business Office is included in Appendix B.

The Schools Financial Review Committee is still determining the best format for quarterly and other reports to best meet the needs of the School Committee and the community.

### ***Town Meeting Resolution***

At the May 2, 2007, session of the Lexington 2007 Annual Town Meeting, the following resolution was adopted:

Resolved that, for the next three years, the School Committee and/or administration provide certain quarterly actual-to-budget financial data pertaining to Lexington Public Schools. These data will be available to all Town Meeting representatives on the school web site and will include the following:

- Quarterly financial report by line item;
- FTE count;
- SPED variances from budget;

- Energy consumption and cost;
- Facilities maintenance expenditures

The reports from the first and second quarter are available at the school's website: <http://lps.lexingtonma.org/index.html>.

With regard to the reporting elements in the resolution:

Quarterly reporting by line item—The financial reports are being prepared according to a program budget categorization. Reports will continue to be provided on a quarterly basis. No changes to the School Department's reporting structure were deemed necessary as a result of the resolution.

Since the budget is currently prepared with annual values, it is not practical to break most expenses into quarterly budget benchmarks. After the CoA changes, it should be easier to provide a spending trend analysis (e.g., at this point last year, this item had spent 63% of its budget, so 65% this year is not problematic). However, doing so at this point would require significant hand calculations, and is therefore not practical. We recognize that moving to such a report would likely be most helpful for the School Committee and the community, and will work to develop a recommendation for a post-CoA format.

FTE count—Employees are hired based on contractual work hours. A work week may consist of 35, 37.5 or 40 hours per week to be considered full time. In addition, employees could work 10 months, 11 months, or work 184 to 260 days to be considered a full-time-equivalent employee. While reporting of FTE information began with the 2<sup>nd</sup> quarter report, this Committee recognizes that how to define an FTE and report on them needs further investigation—which will be done so that a recommendation can be provided. As noted earlier, this section of the report will be enhanced by the implementation of Position Control, since open positions will be more readily identified and each position will have an FTE value assigned to it.

SPED variances—While Special Education is designated in multiple line items as stated above in Report by Line Item, how best to report on Special Education expenses versus budget will be a focus for this Committee.

Energy consumption and cost—This is currently being provided to the School Department for quarterly financial reports by the new Director of Public Facilities. Note: As the Department of Public Facilities has its own budget, beginning in FY2009, this energy-related information would need to be provided by that Department instead of the School Department.

Facilities maintenance expenditures—Same as above for the energy-related element.

## ***APPENDIX A—Personnel Changes in the Business Office since July 2007***

<b>POSITION</b>	<b>DESCRIPTION</b>	<b>JULY 1, 2007</b>	<b>CURRENT</b>
1. Finance Manager	Supervisor to the Accounting and Payroll staff, responsible for day-to-day financial transactions and execution of legal and proper payment to vendors and employees.	New	Promoted from within, Appointed September 2007
2. Assistant to the Business Office	Administrative Support to the Assistant Superintendent for: <ul style="list-style-type: none"> <li>• Procurement,</li> <li>• Contract Management,</li> <li>• Risk Management,</li> <li>• Free and Reduced Lunch,</li> <li>• Financial Assistance program, and</li> <li>• all other responsibilities that are not accounting or payroll related.</li> </ul>	Restructured Assistant Finance Manager position due to creation of Transportation Coordinator and Finance Manager Position responsibilities	Filled December 2007. Reopened January. Final interviews the week of March 17 <sup>th</sup> ; start date expected April 2008.
3. Assistant Finance Manager	Position Eliminated	Sheryl Mason (retired Nov 15. 2007)	Position eliminated November 2007
4. Accounting Manager	Responsible for the management and reconciliation of all Special Revenue Funds	Employee promoted to Finance Manager in September 2007.	Appointed January 2008
5-6. Accounts Payable	Responsible for processing of purchase order and payment of vendors according to contract terms and confirmation of the receipt of goods and services	Two staff members; one resigned in September 2007	New employee began in October 2007.
7-8. Payroll		Two staff members.	NO CHANGE
9. Transportation Coordinator (.50 FTE)	Manager of regular education bus service to town paid and fee based riders	New	Started August 2007
10. Transportation Secretary (.50 FTE)	Administrative support to the Regular Education school bus services		New Position created for 2008-2009 School Year. Start date projected for July 1, 2008
11. Print Center		One staff member	NO CHANGE
12. Food Service		One staff member	NO CHANGE



POSITION	DESCRIPTION	JULY 1, 2007	CURRENT
13. Director, Department of Public Facilities	Assistant Superintendent responsible for the day to day management and oversight of the department, along with Central Administration's move from the "White House" to the "old Harrington School" while director was vacant.	Director vacant from May 2007 through August 2007.	Pat Goddard appointed August 27, 2007, as the Director of the Town's independent Department of Public Facilities and assumed full responsibility of School Facilities Department.
14. Administrative Assistant, Facilities		Vacant from Nov 2006– September 1, 2007.	Started September 1, 2007
15-17. Facility Managers	Supervised from May through the start date of the new Director.	<ul style="list-style-type: none"> <li>• Assistant Director of Facilities</li> <li>• Assistant Director for Custodial Services</li> <li>• Facilities Manager</li> </ul>	No change in staffing only change in supervisory responsibility.

## ***APPENDIX B—Highlights of Upcoming School Financial Calendar***

### **2008:**

March/April.....	Hire Assistant to the Business Office	September 30 ..	End of 1 <sup>st</sup> quarter in FY2009
	Audit of End-of-Year Report		Dept of Education 2008 End of Year Report Due
	Federal Single Act Audit of Federal Grants		Capital Budget Request Due
March 31 .....	End of 3 <sup>rd</sup> quarter		Superintendent's Budget development begins
May 15 .....	Projected release of 3 <sup>rd</sup> quarter financial report	October.....	Town Audit
June .....	Potential implementation of new Chart of Accounts		Federal Final Grant Reports Due
	Student Activities Audit	November 15..	Projected release of 1 <sup>st</sup> quarter financial report
June 30 .....	End of 4 <sup>th</sup> quarter	December .....	Superintendent's Budget Request to School Committee Due
July 1 .....	New Fiscal Year begins	December 31 ..	End of 2 <sup>nd</sup> quarter in FY2009
July 10.....	Close of FY2008 Accounts Payable period		
July 15.....	Statutory Close of the fiscal year.		
August.....	Planned completion of majority of position control		
	State Final Grant Reports Due	<b><u>2009:</u></b>	January .....
August 31 .....	Projected release of 2008 financial report		School Committee Budget Review and public hearings
		February 15 ....	Projected release of 2 <sup>nd</sup> quarter financial report
		March .....	Annual Town Meeting

NOTE: The calendar does not include:

1. District-wide Early Release days available for professional development of administrative support staff.
2. All other duties and responsibilities of the Assistant Superintendent
  - a. Procurement and Contract Management
  - b. Transportation
  - c. Food Service
  - d. Financial Assistance Program
  - e. Risk Management
  - f. Personnel and Benefits Administration (e.g. 403(b) IRS compliance review due Jan 1, 2009)
  - g. Statutory and Regulatory compliance with Federal, State and Local rules, regulations, guidelines, and by-laws as it pertains to Finances and the above.