

School Financial Investigation Report

Ways and Means, School Subcommittee, January 15, 2019

Background

In FY18, the Town of Burlington had a \$132M operating budget. The school department's portion of that budget was \$59.2M (45%). The school operating budget was further divided into a \$49.6M regular operating budget and \$9.6M accommodated account. The accommodated account is intended to include expenses which may vary significantly year-to-year and are generally less controllable by the school department. In particular, this account includes most special education expenses.

For at least six years prior to FY18, the school's regular operating expenses were within budget (see historical data in 'Appendix A' [page 11]). However, in FY18 regular operating expenses exceeded budget by \$700K (1.2%). Furthermore, this deficit was not discovered until after the close of the fiscal year. The school department, assisted by the town's external auditors, determined the source of the overspending was primarily in the payroll and settlement accounts.

As part of its normal operation, Ways and Means (W&M), through its school subcommittee, investigates areas of financial concern such as this within the school department. Additionally, at the September 2018 session of Town Meeting, Warrant Article 21 was considered. This Article was to approve funding to audit specific items within the FY18 school department budget. Town Meeting did not pass the article. However, there was an accompanying petition signed by over 100 Burlington citizens. This petition obligates W&M to "investigate the books, accounts, records, and management pertaining to the finances" of the school department (see bylaw in 'Appendix B – Burlington General Bylaw 2.1.2' [page 11]). It is up to W&M to determine what this investigation entails. This report describes the resulting investigation's scope, procedures, results, and related recommendations.

Scope

The investigation focused on the school department's regular operating budget and expenditures. Attention was given to both the deficit spending amount and the accounts identified by the school department as the source of the overspending. The investigation also probed the procedures used in generating both the FY18 and FY19 budgets.

The school accommodated account was not part of this investigation as its expenditures do not affect the operating budget deficit. Revolving accounts are part of a continuing audit being conducted by Powers and Sullivan and are therefore excluded from this investigation.

It should be noted that this investigation is specifically not an 'audit'. Data was sourced by the school administration and Town Accountant. While numbers were viewed critically and checked for consistency, they were not independently validated. Independent validation and audit work is done by the Town's external auditors, Powers and Sullivan, as part of the Town's annual audit.

Procedures

The Ways and Means school subcommittee developed a set of questions and requests to the school department to gain insight into specific procedures, history, and details related to various line items. As the school department responded to this list through documents and in meetings, the list was expanded to further related topics. Additionally, there were several face-to-face meetings with the school business manager to go over responses and dive into more detail on related topics.

Account information was reviewed for the substitute, tutors, settlements, and various payroll accrual accounts. Discussion included policies and procedures related to these accounts. Employee contracts were also reviewed to better understand the challenges of forecasting the year-end payroll.

This report's investigation period ran from September 2018 through January 2019. During this period, the W&M school subcommittee led or participated in a large number of meetings related to the investigation, including:

Powers & Sullivan with W&M school subcommittee representatives: Sep 17, 2018

W&M school subcommittee: Sep 04, 05, 17, Oct 24, Nov 08, Dec 03, 12, 2018

Board of Selectman with W&M representatives: Nov 26, 2018

W&M full committee: Dec 12, 2018

School Committee with W&M school subcommittee: Sep 11, 25, Oct 23, Nov 20, Dec 11, 2018

Results

This section summarizes data received during the investigation. Unless otherwise noted, all data was sourced by the school administration or Town Accountant. Analysis of this data appears in the following 'Discussion' section.

Summary of actual expenses vs. regular operating budget

Table 1 - Differences between actual and budgeted FY18 spending

Salaries	\$160K	spread across all departments
Substitutes	\$247K	see Table 2 (page 3) for detail
Tutors	\$321K	see Table 3 (page 3) for detail
Settlements	\$299K	see Table 4 (page 3) for detail
<u>Buyouts</u>	<u>\$92K</u>	see Table 6 (page 4) for detail
Overspend	\$1,119K	
Underspends	(\$415K)	see Table 7 (page 4) for detail
<u>Miscellaneous</u>	<u>(\$4K)</u>	
Net	\$700K	Net overspend (=deficit)

Table 2 - Historical spending on substitutes due to maternity/paternity/medical leaves

	FY16	FY17	FY18	FY19
Number of leaves	54	51	56	
Number of paid days	1,834	1,613	1,628	
Substitutes budgeted	\$407,290	\$415,436	\$423,736	586,492
Substitutes budget expended	\$665,329	\$644,795	\$670,322	
Deficit budgeted substitutes	\$(258,039)	\$(229,359)	\$(246,586)	

Table 3 - Historical detail of spending on tutors

	FY16	FY17	FY18	FY19
Tutor hours used	33,655	35,917	37,045	
Tutors budgeted	\$350,500	\$357,500	\$366,438	505,231
Tutors budget expended	\$665,705	\$797,259	\$687,780	
Deficit budgeted tutors	\$(315,205)	\$(439,759)	\$(321,342)	

Table 4 - Settlements (validated against agreements)

Nassif	\$127K
<u>D'Amato</u>	<u>\$172K</u>
Total	\$299K

Buyouts and buybacks

Table 5 – Sick and personal days

Employee category	Sick days per year	Sick accrual days limit	Personal days per year
Administrators	18	none	2
Teachers	15	none	3
Cafeteria	10	none	2
Clerical			
52-week	15	none	3
46-week	13	none	2
46-week (20 hrs/week)	13 (4 hr days)	none	2 (4 hr days)
46-week: cafe, health recs	10 (4 hr days)	none	1 (4 hr days)
Instructional assistants	15	185	3
Custodial	15		3

Table 6 – Buyouts and buybacks

	FY18 actual	FY19 budget
Sick time buyback	\$0	\$0
Retirement buyout	\$62,440	\$38,000
Vacation buyout	\$29,414	\$0

Table 7 - Underspent accounts

	FY18 budget	FY18 spent	FY18 surplus
SPED op contracted services	\$258,812	\$119,096	\$139,716
HS utilities	\$817,191	\$636,210	\$180,981
Vision & hearing supplies	\$80,800	\$0	\$80,800
Elementary computer supplies	\$54,968	\$41,907	\$13,061
Total			\$414,558

Budget development

The budget development process for aspects of both FY18 and FY19 were explored.

1. FY19 stipends: In general, stipends for longevity, club support, etc. are paid in the year-end payroll. School administration confirms that these amounts are included in the FY19 budget and forecasted expenditures reported each month. Table 8 shows the effect that stipends have on the year end payroll.

Table 8 - Year end payroll

FY18 June payroll with stipends	\$2,149,120
FY18 June payroll without stipends	\$1,634,090
Difference	\$515,030

2. FY19 substitute budget: Budget was based on previous two years' substitute hours required and converted to dollars.
3. FY19 tutor budget: Initial budget was significantly lower than previous years. This has been increased based on input from principals and is being tracked every payroll.
4. FY19 salaries: The salary budget was created by reviewing employee contracts and accounting for anticipated step increases. The budget reflects actual anticipated salaries for each employee, and in particular was not just a blanket average increase applied to FY18.

Procedures

1. Tracking of position changes (e.g. resignations): If a teacher resigns, the school business office is notified. A Personnel Action Form is completed (paper). Payroll also sends a monthly change report to the school business office (with employee names, amounts, and account numbers). The employee is marked in-active in Munis, with date of their resignation, and removed from payroll once payment has been issued for all days of work.
2. Substitute request/authorization: Instructional staff call the absence line before 6:30am if they will be out that day and leave a message with their name, school, position, date of absence, and reason. The absence line is checked by a secretary each morning. Coverage is assigned from the list of pre-determined building based substitutes. A copy of the list of calls to the absence line is sent to payroll each pay period to verify against the attendance record submitted to each school to verify that:
 - a) Employees that called out, were in-fact marked as absent by their school, and thus, they are correctly docked the day from their accrued leave, or in the event that they have no leave accrued, they are unpaid for that day of work.
 - b) For each substitute that is being paid to work, the teacher was in-fact absent that day. Long-term Subs are usually planned in advance, and hired by the principals to cover extended absences such as maternity leaves. For all other employee absences there is a different protocol:
 - a) Cafeteria: Absence calls are handled by the Food Service Director, who assigns substitutes. These are all recorded on the bi-weekly payroll submitted for cafeteria (i.e. an absence would be shown for the same date which a substitute is being paid).
 - b) Custodians: Absence calls are handled by the Director of Operations' secretary, who calls and assigns substitutes to buildings as needed. These too are all recorded on the bi-weekly payroll submitted for custodians (i.e. an absence would be shown for the same date which a substitute is being paid).

School website

Contracts for all categories of school department employees may be found on the school website via the following steps:

<http://www.burlington.org>,
"burlington public schools" tab,
"faculty" pulldown, select "employee contracts"

School department policies may be found on the school website via the following steps:

<http://www.burlington.org>,

“burlington public schools” tab,

“district” pulldown, select “district policies”

“fiscal management” link to multiple policies

Discussion

The school administration and school committee have been both supportive and helpful during the investigation. The school business manager in particular sourced much of the data in the ‘Results’ section. In reviewing the data, the W&M school subcommittee drew several conclusions.

1. Substitutes (leave): The FY18 leave budget was inadequate. Table 2 (page 3) shows that leaves were overspent by an average of \$244K in FY16 and FY17. However, the FY18 budget was only increased by \$8K and the account was again overspent in FY18 by \$247K. If the account had been budgeted based on the average of the two previous years’ experience, the FY18 overspend would have been reduced to \$16K. FY18 leave expenditures were not unusual relative to the previous two years.
2. Tutors: The FY18 tutor budget was inadequate. Table 3 (page 3) shows that tutors were overspent by an average of \$377K in FY16 and FY17. However, the FY18 budget was only increased by \$9K and the account was again overspent in FY18 by \$321K. If the account had been budgeted based on the average of the two previous years’ experience, FY18 would have been \$44K underbudget. FY18 tutor expenditures were not unusual relative to the previous two years.
3. Settlements: Table 4 (page 3) shows two large settlements. The timing and amounts of these settlements was difficult to predict, so it is understandable that these both occurring in the same year created a budget issue. Creating large budget line items for settlements would be undesirable from a negotiating point-of-view.
4. Buyouts: Table 6 (page 4) details past experience and budgeting for various benefit buyouts/buybacks. The FY18 budget for buyouts was \$0K, which was obviously inadequate. This has been reasonably but lightly budgeted for FY19. Table 5 (page 4) gives a summary of various related benefits to show some of the information that goes into predicting liabilities in this area.
5. FY18 deficit: Table 1 (page 3) summarizes the sources of the FY18 net operating deficit. The three largest deficit contributor accounts were: substitutes, tutors, and settlements. As noted above, if the tutor and substitute accounts were budgeted based on previous years’ actual expenditures, the deficit could have been reduced by \$596K. Table 7 (page 4) shows how the deficit was reduced due to surpluses in various accounts. This is due to a combination of discretionary spending (e.g. supplies) and less controllable expenses (e.g. utilities) coming under budget.
6. FY19 budget process: The ‘Budget development’ results give confidence that the FY19 budget numbers for substitutes, tutors, and stipends are reasonable and that actual spending should much more closely track the budget.
7. Personnel spending: The ‘Procedures’ results indicate that good processes are in place to double-check that spending on regular and substitute personnel is correct and appropriate.

8. **Website:** The ‘School website’ result shows how to access school related policies and contracts. This transparency will help government committees and other citizens in their own research and understanding.

The preceding paragraphs describe some of the particulars of the FY18 regular operating deficit. In order to develop recommendations for improvement, it is important to understand the underlying mechanisms that allowed the deficit to occur.

1. **Purchase order (PO) process:** In a model enterprise, no financial obligation is ever incurred without a properly authorized PO. No vendor would be paid without an authorized PO. Authorization level would generally increase with the PO amount. All PO’s would appear in the business office no later than the final authorization. In FY18, the entire PO process was paper based. There was no definitive list of authorizers and their limits. Consequently, liabilities were incurred with vendors without the business office’s knowledge, since the office did not always receive the POs in a timely fashion. Some PO’s were submitted simultaneously with an invoice. Accurate expense forecasting in such an environment is impossible.
2. **Budget manager transition:** The previous budget manager (Director of Finance and Operations, Craig Robinson) retired from the school system June 30, 2017. The new Director of Facilities, Finance, and Technology (Bob Cunha, now Director of Operations) started July 1, 2017. The current budget manager (Nichole Coscia, Business Manager) also started July 1, 2017. Because of the lack of overlap, most of the institutional knowledge in the budget office was lost. In particular, historical knowledge allowed the past budget manager to predict likely expenses that might show up despite the lack of a PO. Similarly, typical allocations for a fairly complex year-end stipend system were based on undocumented experience. Across the board, the host of assumptions of how budget numbers were derived, and how things ‘typically go’ was lost. This lack of information led to faulty expense forecasting.
3. **Budget process:** The logic underlying several of the FY18 budget accounts (e.g. tutors, substitutes) is difficult to understand and led to substantially underbudgeted expenses. It appears that historically inaccurate numbers were repeated. If this approach was used on many accounts, there may have been a belief that accounts would average out to a balanced budget, as in the past. Unfortunately this approach does not lead to accuracy in understanding particular accounts, and does not transfer well to a new manager.
4. **Expense visibility:** The aforementioned items led to a lack of data for accurate expense forecasting. However, even if accurate forecasting was made, there was a lack of visibility outside of, and apparently within, the school administration. In particular, the school committee did not receive a monthly report of actual and forecasted expenses vs. budget. Without such a report one could not see the pending deficit until it was too late (i.e. only after the fiscal year end). It can only be surmised that past year budget surpluses reduced the perceived need for monthly expense forecast reports.

Recommendations

In order to address issues noted in this report and improve the school department's fiscal operations, Ways and Means recommends the following changes be made. Note that a number of these ideas originated within the school department and are reiterated here to highlight and support these initiatives. All of these recommendations should be implemented as quickly as possible.

1. Update school fiscal policies and procedures as per recommendations submitted by the W&M school subcommittee to the School Committee September 14, 2018 (see Appendix C [page 11]). These recommendations will help formalize policies in the following areas:
 - a. Documentation of spending and transfer authority, and approvals required
 - b. Spending only with a purchase order
 - c. Cash handling procedures
 - d. Revolving accounts
 - e. Financial reporting
2. When transitioning between school budget managers in the future, strive to have the new manager's tenure overlap the previous manager's by at least two months. This will help transfer institutional knowledge as to assumptions and how things 'actually work'.
3. On a monthly basis, school administration should present actual and forecasted expenses vs. budget to the school committee for review. There have been three such presentations (October, November, December 2018) thus far. It is essential that these presentations continue on a monthly basis, even when it appears operations are running smoothly, as the very act of creating such reports helps encourage proper review by all parties.
4. When developing and presenting future budgets, major line items should include backup materials with a three year history (unless this requires years prior to FY19) of budgeted and actual numbers. This will help rationalize budget numbers.
5. All school sub-departments should be transitioned from paper to the electronic purchase order system within Munis. This will help ensure that purchase orders are not created without proper authorization and that the school business office is aware of all purchase orders so that spending forecasts reflect all committed spending. As of November 20, 2018, the following have been transitioned: special education, athletics, and information technology.
6. Fill the open financial analyst position within the school budget office. This will help offload the business manager and allow for more focus on 'big picture' concerns.

Conclusion

The investigation generally confirmed suspected sources of FY18 overspending. Issues with budgeting processes, reporting, and oversight, which likely led to the overspending, were identified. Implementing the recommendations described herein will significantly improve school financial operations and oversight. Timely and consistent implementation of these recommendations is critical to avoid repeating past mistakes.

Appendix A

Table 9 shows the seven year history of school budget to actual variances. Unspent budget amounts were returned to the general fund at the fiscal year end.

Table 9 - Historical school budget and results

	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Unspent budget							
Accommodated	\$318K	\$880K	\$567K	-	-	-	-
Operating	\$7K	-	-	-	\$170K	\$321K	-
Additional funds requested							
Accommodated	-	-	-	-	* \$170K	* \$321K	\$870K
Operating	-	-	-	-	-	-	\$700K

* FY16, FY17 Accommodated deficits were funded from Operating surpluses

Appendix B – Burlington General Bylaw 2.1.2

The [Ways and Means] Committee may, for just cause, investigate the books, accounts, records, and management pertaining to the finances of any office, department, committee or board of the Town. The Committee is obligated to conduct such investigation upon petition of 100 voters and subsequent to the approval of the Selectmen. The Committee may employ such assistance as it may deem advisable for that purpose but shall not incur any expense payable by the Town without authority granted by the Selectmen.

Appendix C – Recommended school fiscal policy/procedure updates

The following recommendations were submitted to school administration September 14, 2018. Some of these have been incorporated into already updated school policies which are posted on the school website. The remainder are planned to be discussed in the context of updating school fiscal procedures. Minor edits since the original submission are enclosed in [brackets].

Edits to: DBJ - Budget Transfers

I recommend rewriting this entire section to be more explicit in describing responsibilities and limits of authorities for spending, transfers, and oversight of various parts of the budget.

Here is a suggested replacement section DBJ.

Replace entire section: DBJ - Budget Authority, Spending, and Transfers

Budget Components

The School Committee and Administration manages spending composed of the following elements.

1. Accommodated Accounts. These are difficult to predict expenditures that may vary significantly from year-to-year, which the School Department has limited ability to control. Accommodated Accounts are further divided into Salary and Non-Salary line items.
2. Restricted Accounts [official name?]. These are line items that must only be spent for specific purposes which may, for example, be defined in grants or Town Warrant articles.
3. Revolving Accounts. Each Revolving Account is a separately budgeted [should be 'authorized'] item with a specified income source and allowed expenses that may be charged to that account. Revolving Accounts must not have a negative balance.
4. Regular Operating Budget. This includes all lines items not covered by previous budget components. The Regular Operating Budget is further divided into Salary and Non-Salary line items.

Approval Hierarchy

Approvals for fiscal activities are performed at several levels. These levels are listed below in decreasing order. Any final approval that is specified to be done at a certain level may be done at any higher level also.

1. School Committee
2. Superintendent of Schools
3. Business manager - oversees budget and spending for the entire school department
4. Budget manager - oversees budget and spending for a specific subset of the school budget

Approval Requirements

The following overriding requirements apply (in order) to financial operations, notwithstanding the Approval Chart described in the next section, which may further restrict activities. Note that spending from one account or line item to cover expenses for another account or line item shall be considered a 'transfer' for purposes of this policy. Restrictions on transfers described below apply to transfers in either direction between the accounts.

1. Restricted Account budgets may only be spent for their specified purpose. All transfers between these and any other account requires approval by the Town Accountant at a minimum and other authorities and bodies (such as Town Meeting) as may be required by law.
2. All transfers between revolving accounts and any other account/line item requires School Committee approval. Additionally, both the Town Accountant and Ways and Means shall be consulted [notified].
3. All transfers between the Regular Operating Budget and an Accommodated Account must have School Committee approval. Additionally, both the Town Accountant and Ways and Means shall be consulted [notified].
4. All transfers between Salary and Non-Salary accounts greater than \$25,000 must have School Committee approval. If a delay in responding to a request will have a significant

negative impact on the school system, or cause noncompliance with other financial rules or regulations, the School Committee Chair may tentatively approve such transfers at the request of the Superintendent, subject to the School Committee confirmation at its next scheduled meeting.

5. All transfers between line items within Salary or Non-Salary accounts greater than \$25,000 require business manager approval
6. All other transfers and expenditures are authorized by the Budget Manager responsible for the related budget line item

Budget Managers must inform the Business Manager of all transfers between any line items to facilitate proper accounting.

Approval/Authorization Chart

The Business Manager shall maintain and enforce a chart describing the authority of various individuals to approve various activities. This chart shall serve to specify tighter restrictions on behavior than those already described in the “Approval Requirements” section. The chart need not be an explicit chart if an automated system is programmed with equivalent information. The chart shall include the following information.

1. Name of person (or persons if an aggregated class of people (e.g. elementary school principal)).
2. Role/position.
3. Budget line(s) authorized to spend against.
4. Maximum purchase order amount that person is authorized to approve without requiring higher approval.
5. Maximum transfer between salary and non-salary accounts that person is authorized to approve without requiring higher approval.
6. Maximum transfer within salary and non-salary accounts that person is authorized to approve without requiring higher approval.

Anyone not on the Approval Chart must submit an expense [or advance?] report to their Budget Manager in order to spend school funds. Budget Managers will set appropriate spending limits not to be exceeded by those submitting expense reports to them.

[Is there any provision for advances? If so, need to add description of process/approval limits.]

Spending Process

Spending must follow these requirements.

1. Liabilities for current or future spending (e.g. placing an order with a vendor) may only be created after a purchase order has been properly approved.
2. All purchase orders must be approved by the responsible Budget Manager (and higher as per Approval Requirements and Chart).

3. All disbursements must be made through the Town Treasurer's office as per policy section DK 'Payments'. [Do we need a carveout with \$ limit for activities such as teacher collecting money for pizza and ordering for class?]

Cash

Handling of cash (which includes any cash equivalents such as checks) is subject to the following restrictions.

1. No one in the School Department nor Committee, nor any group thereof acting in concert, may hold cash totaling more than \$100 for more than 5 business days before turning it over to the Town Treasurer's office.
2. No one in the School Department nor Committee may maintain any amount of School funds with any financial institution. All accounts must be maintained through the Town Treasurer's office.

Edits to: DI - Fiscal Accounting and Reporting

In last paragraph, change first sentence to (keep last sentence as is):

"From October [September] through June, the School Committee will receive monthly financial statements from the Superintendent or designee showing the financial condition of the school department. Financial statements shall, at a minimum, include actual amounts expended vs. budget for both the month and year-to-date along with a forecast of expected spending for the remainder of the year."

Edits to: DIE – Audits

Replace "every annually" with "annually".

Replace final sentence with:

"The School Committee will receive copies of all audit reports issued by audit firms engaged by the School Department." (This covers any purpose and type of account.)

Edits to: DK - Payment Procedures

"School building administrators" is an undefined term. I suspect this is a specific instance of a "Budget manager" and should be replaced with "Budget Manager".

Edits to: DKC - Expense Reimbursement

Replace "will generally be made at the rate" with "will be made at the rate"

If a new rate class is required, then the School Committee should create that.

Replace 5. with:

"5. Any out-of-state travel requires prior School Committee approval. If circumstances prevent prior approval by the School Committee, the Superintendent or responsible Budget Manager may seek prior approval from the School Committee Chair to be followed up with the School Committee at its next regular meeting."