

TOWN OF CHELMSFORD
AGREED-UPON PROCEDURES REPORT
OF THE CHELMSFORD PUBLIC SCHOOLS

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Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

December 29, 2014

Paul E. Cohen
Town Manager
Town of Chelmsford
50 Billerica Road
Chelmsford, MA 01824

Dear Mr. Cohen

We are pleased present our report on Agreed-Upon-Procedures for the Town of Chelmsford.

We applied procedures to the records and accounts of the Chelmsford Public Schools as outlined below. These procedures were applied for the purpose of reporting our findings in regards to the results of the procedures performed. The procedures we performed have been agreed to by the Town of Chelmsford and the Chelmsford Public Schools (School Department). The agreed-upon procedures are based on findings that various fiscal 2014 invoices were held and presented for payment in fiscal 2015, and that purchase orders encumbered in fiscal 2014 were voided and re-entered as fiscal 2015 transactions.

Agreed-Upon-Procedures:

1. We prepared a budget-to-actual trend analysis for fiscal years 2012, 2013, 2014 and 2015 year-to-date with projections for full year costs. Unusual trends or variances were analyzed to determine the cause and impact on future budgets.
2. Performed a walk through analyzing the following transaction cycles for the purpose of evaluating the effectiveness of internal controls:
 - a. Vendor Disbursements
 - b. Payroll Processing
 - c. Purchasing
 - d. Financial Reporting and Monitoring
3. A detailed analysis was made of activity in Special Education accounts to identify trends in costs and placements.

4. Activity in Grant and Revolving Funds were analyzed to determine trends and the extent to which additional funds are available to support educational programs.

Our engagement was conducted in accordance with attestation standards for agreed-upon procedures engagements of the American Institute of Certified Public Accountants. Management of the Town of Chelmsford and the School Department is solely responsible for the sufficiency of the agreed-upon procedures. Therefore, we make no representations as to the sufficiency of the procedures as described in the preceding paragraph or for any other purpose. The agreed-upon procedures are not designed to constitute an audit of the financial statements of the School Department in accordance with Generally Accepted Auditing Standards. Therefore, we do not express reasonable or limited assurance on the School Department's financial statements.

Our procedures were also not designed to detect error or fraud that is immaterial to the records and accounts of the School Department. Our responsibility is limited to the period covered by our procedures and does not extend to matters that might arise during any later periods for which we are not engaged.

The following report presents our findings and recommendations. This report is intended for use by the management and governing body of the Town of Chelmsford and School Department. However, the report is a public document and distribution is not limited.

We are also submitting our trend analysis as a separate document.

Melanson Heath

Melanson Heath

EXECUTIVE SUMMARY

Our analysis shows that the School Department over-expended the general fund budget in fiscal 2014 by approximately \$850,000. However, that information was not known to the Town, Superintendent and School Committee as the School Business Manager sent a June 30, 2014 financial report to the School Committee and posted the report on the School Department's website, which shows a surplus for the year of \$3.

Under the direction of the School Business Manager, the School Department liquidated \$573,188 in purchase orders which were on the School Department's accounting system and processed fiscal 2014 bills after the deadline for submitting fiscal 2014 bills resulting in the bills being charged against the School Department's 2015 appropriation. Processing fiscal 2014 bills in fiscal 2015 because there is inadequate appropriation available to pay the bills is a violation of Massachusetts General Laws (MGL). The School Department continued to submit prior year bills to the Town which were held for authorization by Town Meeting vote as required by the MGL.

We also determined that the fiscal 2015 appropriation was inadequate to cover the expected 2015 costs. Our trend analysis projected that fiscal 2015 would be in deficit by \$588,750 discounting the roll-over and unpaid bills from 2014.

Our assessment of the cause of the deficits is an escalation of special education costs not anticipated in the development of the budget and failure of the budgets to address accounts that historically had been under-funded in previous years.

The deficits could have and should have been detected earlier in the year so that available funding could be identified and made available prior to the end of the fiscal year. The report details how records maintained in the Special Education Office were not reconciled to the Business Office and that purchase orders entered onto the Special Education Office records were not updated when it became known that costs exceeded the purchase order amount. The Special Education Office was not able to process invoices timely and the proper encumbrance of committed costs would have mitigated that problem.

The report also details a pattern numerous budget adjustments without Superintendent or School Committee authorization, of allocating employees to the wrong accounts, budgeting in one account and paying bills from a different account and changing allocations among general fund and special revenue fund accounts which confuses the monitoring of the budget status during the year.

We have made recommendations throughout the report which include continuing the process used in the trend analysis to project costs through year-end, changing the account structure to include responsibility centers and merging the Town and School Department MUNIS systems.

BACKGROUND

On July 7, 2014 the School Department presented a list of purchase orders to the Town Accountant for a total of \$462,140 to encumber on the Town's books at the June 30, 2014 fiscal year end. The Town Accountant informed the School Business Manager that there were insufficient funds in the School Department's appropriation to encumber the purchase orders. The School Department liquidated a total of \$573,188 in purchase orders from the School Department's books on July 11, 2014, reinstated purchase orders for various tuitions and then on July 15, 2014 sent a revised list of purchase orders to the Town in the amount of \$108,177. The Town had sufficient School Department appropriation to cover these purchase orders and encumbered them on the Town's books for the year ended June 30, 2014.

In September of 2014 the Town Accountant discovered that certain invoices being processed in the fiscal year 2015 warrants were for goods and services related to fiscal 2014. The Town Accountant pulled the fiscal 2014 bills from the warrants and held them as unpaid bills. Further examination of earlier fiscal year 2015 warrants that had already been paid revealed that additional fiscal 2014 bills had been paid and charged to fiscal 2015 general fund appropriations. The Town Accountant then asked the Town's independent audit firm to audit the 2015 warrants and determine the fiscal 2014 bills improperly charged to fiscal 2015.

The Town accumulated \$114,593 of fiscal 2014 bills presented for payment in 2015 as unpaid "prior year" bills and the auditor's identified \$878,340 in fiscal 2014 bills that were presented and paid in in fiscal 2015. The Town also had a concern that purchase orders liquidated at the end of fiscal 2014 would be reinstated in fiscal 2015 having a negative impact on the fiscal 2015 operating budget resulting in a potential deficit in fiscal 2015.

The Finance Director and Town Accountant also expressed concerns that the School Department and Towns MUNIS systems were not being reconciled and did not have the same balances. There was discussion in previous years regarding merging the two systems but the Finance Director and Town Accountant were reluctant to merge systems due to the errors in School Department's records over the last several years. The Finance Director also indicated that there were numerous payroll checks needing to be voided causing a substantial amount of work making the corrections and recovery of overpayments.

Based on the circumstances described above we established a work plan that would identify the amount of 2014 over-expenditures, provide information to the Tri-Board group looking to address the funding challenges, project the impact on fiscal 2015, identify budget problems that could result in a fiscal 2015 deficit, determine the cause of the fiscal 2014 over-expenditures and identify deficien-

cies in the control structure and financial reporting system. The detail of that process is included in the following report.

We have also issued our trend analysis as a separate document.

LIQUIDATED PURCHASE ORDERS, UNPAID BILLS AND FISCAL 2014 BILLS PAID OUT OF THE FISCAL 2015 APPROPRIATION

Liquidated Purchase Orders

As previously described, the School Department liquidated \$573,188 in fiscal 2014 purchase orders on July 11, 2014. Of that amount \$108,177 was reinstated on July 15, 2014 and encumbered on the Town's books for fiscal 2014. Questions have been raised over whether the liquidated purchase orders were created again in fiscal 2015 causing a potential over-expenditure in fiscal 2015. We have investigated the major purchase orders liquidated and determined which ones were established again in 2015.

Tuitions \$111,198 – These tuitions were the purchase orders that were reinstated and are the basis for the \$108,177 appropriately carried over as fiscal 2014 encumbrances.

Long-Term Subs \$77,553 – The purchase order was created as a blanket purchase order for \$120,000 which amounted to the total budget for that account. Blanket purchase orders are created for a series of purchases made throughout the year where the amount of any one purchase is not known. The intent of the blanket purchase order is to encumber funds in the account.

In this case \$42,275 had been expended in fiscal 2014 with only an additional \$862 of 2014 bills carried over and paid fiscal 2015. An additional \$120,000 was appropriated again in 2015 and \$100,000 was encumbered through a new blanket purchase order. We do not believe the fiscal 2015 budget is impacted by the liquidation of the remaining 2014 purchase order.

Custodial Contractual Services - \$74,347 of the account custodial contractual services came from a blanket purchase order in the amount of \$892,252 created at the beginning of the year. During the year a total of \$817,903 was paid against that purchase order leaving a balance of \$74,347 which was subsequently liquidated. The \$74,347 was paid on August 1, 2014 on warrant number 15-05 as a fiscal 2014 bill paid in fiscal 2015 and paid without reference to a purchase order as the purchase order was liquidated and not reinstated again in fiscal 2015.

Textbooks - \$48,879 for textbooks was liquidated. There were two purchase orders created in fiscal 2015 replacing two of the purchase orders liquidated in the amount of \$14,229. These textbooks are the only liquidated purchase orders that we found that were paid out of the fiscal 2015 budget and not categorized as 2014 bills paid out of the 2015 budget. The remaining \$34,650 was paid in late August through Warrant # 15-09 without reference to a purchase order as the purchase order was not reinstated in fiscal 2015.

The numerous smaller invoices that were liquidated were either paid as 2014 bills paid in 2015 or were liquidated without further action in 2015.

Unpaid Bills

Massachusetts General Laws prohibit a Town from spending in excess of their appropriation. Any bill which cannot be paid due to insufficient appropriation must be approved at a Town Meeting based on a majority or super-majority vote depending on the nature of the bill.

The Town Accountant identified \$114,593 of prior year bills that were submitted for payment during fiscal 2015. The list of bills presented to us identified special revenue accounts including; athletics, food service, circuit breaker and miscellaneous donations. The request to charge the bills to these special revenue accounts was an attempt to pay them without charging them to the fiscal 2015 general fund appropriation and thereby eliminate the need to present them at a Town Meeting.

However, the bills included \$79,935 of charges from a Special Education Collaborative which were dated in September of 2013. The bills were targeted to be paid out of circuit breaker funds. Circuit breaker funds are reimbursements for special education costs incurred in the prior year and can be used to fund special education costs in the current year. The Town Accountant reports discussing the propriety of charging the bills to the circuit breaker account with the Department of Revenue and reported their position was that due to the late processing of the bills, they should be included with the other bills as prior year bills requiring Town Meeting vote.

It is unclear why the \$79,935 of September Collaborative bills was over-looked and when they were discovered. The Special Education Office indicates that they were originally pulled aside for further examination and seem to have been misplaced. It is also a period of time where the accounts payable clerk in the Business Office was out on leave. More will be discussed on this in the trend analysis where special education costs are analyzed in more detail.

An additional \$22,252 of prior year bills related to temporary staffing services and the requested use of the miscellaneous donations account to cover these bills does not appear appropriate. The remaining bills were chargeable to Food Services which in our opinion would be appropriate.

Subsequent to the original list of unpaid invoices, the School Department provided us with an updated list that totaled \$141,246. The increase was attributed to bills from another Collaborative. The additional Collaborative bills in the amount of \$22,158 represent the months of November through December of 2013 and January through June of 2014 for costs of classroom aids the Collaborative claims had been previously billed.

These bills were not received until after year end as the Collaborative called looking for payment but the Special Education Office did not have them. The Collaborative subsequently rebilled them.

A purchase order for services to this Collaborative was entered into the Special Education Office spreadsheet and into the accounting system for \$34,320. There was \$51,830 paid against that purchase order during the school year so there was no money available to cover the late bills received after year end. More is discussed in the section of Accounting for Special Education Costs regarding bills coming in that were not encumbered because the costs exceeded the purchase orders.

Fiscal 2014 Bills Paid Out of The 2015 General Fund Appropriation

The payment of \$878,340 in fiscal 2014 bills out of the fiscal 2015 general fund appropriation is the most serious of actions committed by the School Department. Not only is it a violation of Massachusetts General Laws and Generally Accepted Accounting Principles but also puts the School Department's 2015 operating budget in jeopardy.

We will look at the nature of the bills processed as fiscal 2014 bills processed in fiscal 2015. The bills were processed during July and August of 2014 in the following warrants:

		<u>Total Warrant</u>	<u>2014 Bills</u>
7/18/14	Warrant # 15-03	\$ 690,647	\$231,990
8/1/14	Warrant # 15-05	\$1,180,060	\$576,736
8/15/04	Warrant # 15-07	\$ 538,515	\$ 26,019
8/29/14	Warrant # 15-09	\$ 496,337	<u>\$ 43,595</u>
			<u>\$878,340</u>

Warrant # 15-03 bills related to 2014 included; \$37,131 of February bills, \$37,541 of March bills and \$12,150 of April bills for a total of \$86,822 from a Special Education Collaborative. Bills from another Collaborative included \$25,495 for May services and there was an additional \$36,595 for June utility bills.

Warrant # 15-05 includes \$31,069 of May tuition bills for the same Collaborative as above and, \$71,414 for May and \$95,207 for June special education transportation services payable to another vendor, \$43,916 for June services to an additional Collaborative, \$75,879 for regular education transportation services, \$74,355 for custodial services previously mentioned and \$19,690 in contractual substitute services.

Warrant # 15-05 contains \$54,999 of bills for classroom books not related to the liquidated purchase orders reported above. An agreement was made with a

vendor to purchase the books in fiscal 2014 and pay half in fiscal 2014 and half in fiscal 2015. An argument can be made that the second half paid in fiscal 2015 could be considered a fiscal 2015 expense. However, purchasing and receiving goods in one fiscal year and paying for them in a subsequent fiscal year constitutes a financing agreement that we believe requires Town Meeting authorization. Accordingly, in our opinion the second half payment of \$54,999 is a fiscal 2014 transaction as no financing authorization was sought.

Warrant # 15-07 did not include significant bills from any one vendor but included 2014 bills from many vendors at small amounts.

Warrant # 15-09 included bills from one particular vendor for the period December 31, 2013 to June 27, 2014.

It is clear that about two-thirds of the 2014 bills processed in 2015 represent Special Education Collaboratives. The analysis above also shows that the majority of unpaid bills also relate to Special Education Collaboratives.

The Special Education Office deals with four different Collaboratives and multiple private placements and has experienced difficulty getting and processing bills timely. The Special Education Office has the responsibility to encumber through purchase orders an adequate amount to cover the tuitions and contractual services committed. If all the costs were encumbered through purchase orders, receiving or processing bills late does not result in an unknown deficit. More is discussed on this topic in the section on Accounting For Special Education Costs.

It should be noted that the circuit breaker account had some \$665,404 available as the balance in the account plus the fourth quarter payment received in early July which was available to cover a substantial amount of these costs. Much of this deficit could have been covered by the circuit breaker fund. If the Business Office and Special Education Office had worked together to get the commitments posted and identified the balance in circuit breaker fund they could have been encumbered properly in fiscal 2014 rather than applying them to the 2015 operating budget.

Recommendation

The Town has had a Special Town Meeting and submitted a budget proposal to cover the fiscal 2014 bills paid in 2015, the unpaid fiscal 2014 bills and to cover the projected deficit in fiscal 2015.

FOUR YEAR TREND ANALYSIS

We created the four year trend spreadsheet by obtaining excel downloads from the School Department's MUNIS system. Accordingly, the analysis reflects the information in the School Department's system which in some cases differs from the Town's numbers.

We have provided the trend analysis to the Town and School Department separate from this report.

The trend analysis compares the original appropriation to the amounts encumbered and expended for each year except fiscal 2015 in which we used the adjusted budget. Numerous budget adjustments are made during the course of the year. We used the original appropriations for comparison to establish how accurate the original appropriations voted by the School Committee are compared to actuals. That way we could identify accounts that are historically underfunded.

In fiscal 2015 the Special Education Office changed the allocation of costs in the SPED 94-142 grant from salaries to transportation costs. That programming change was not reflected in the original appropriation so that there was a \$1 million surplus in the SPED transportation account and numerous deficits in various payroll accounts. In order to create a more meaningful analysis we used the revised budget for 2015 rather than the original appropriation.

The School Department encumbers amounts in contracts, blanket purchase orders, specific purchases and payroll. The amounts carried forward at the top of the trend analysis in fiscal years 2012 through 2014 represent the remaining encumbrances at year end that are carried forward to the next year. The encumbrances in the 2015 column represent all open purchase orders at the date we downloaded the data.

Our amounts expended in the trend analysis have been adjusted to put the 2014 costs charged to 2015 back into 2014 and we removed those costs from 2015. This calculation is clearly labeled in the spreadsheet. That procedure allowed us to evaluate the adequacy of the 2015 budget against actual, encumbered and projected costs for fiscal 2015 as well as to evaluate the reasons for the deficits in fiscal 2014.

The next step was to project the remainder of fiscal 2015. We evaluated historical data, current spending levels as well as met with the Management Team to go over detail by line item to determine how much was needed to complete fiscal year 2015. The School Department identified areas of spending cuts during that process.

We provided the trend analysis to the School Department, Town and Finance Committee for a Tri-Board meeting. We were projecting a \$350,000 deficit for fiscal 2015 at that time. At that meeting there was additional discussion

regarding the utilities accounts and cuts that were made to those budget accounts in fiscal 2015. After doing further work we adjusted our projection of the fiscal 2015 deficit to \$588,750. The following areas were identified in the trend analysis as causes for the fiscal 2014 and fiscal 2015 deficits.

Special Education

Special education costs in Chelmsford, like many other Massachusetts Communities, have risen disproportionate to other school costs. Special education costs are also difficult to track because they are accounted for in the general fund in both district-wide accounts and distributed to accounts within the various schools. In addition, costs are paid for out of both the SPED allocation grant and the circuit breaker special revenue fund mentioned earlier.

Changes in allocating costs to these accounts also make trending analysis more difficult. For example, the trend analysis shows costs increasing in the SPED contractual services line item from \$163,746 in fiscal 2012 to \$884,376 in fiscal 2013 to \$1,482,243 in fiscal 2014 (after adjusting for the fiscal 2014 costs paid in fiscal 2015). The huge increases result from increases in costs but also from re-classifying SPED home services from the SPED tuition account to the contractual services account. In addition, the amount and nature of the costs charged to the circuit breaker account impacts the costs in the general fund contractual services and tuition accounts. In order to track the increases in contractual services and tuition accounts we added in circuit breaker expenditures to get a more accurate trend.

	FY 2012	FY 2013	FY2014	FY 2015
Tuitions	\$6,726,093.00	\$ 6,069,054.00	\$6,101,654.81	\$ 6,786,174.00
Contractual	\$163,746.00	\$ 884,376.00	\$1,482,243.00	\$1,209,773.00
	<u>\$6,889,839.00</u>	<u>\$ 6,953,430.00</u>	<u>\$7,583,897.81</u>	<u>\$ 7,995,947.00</u>
Increase		\$ 63,591.00	\$630,467.81	\$ 412,049.19

The above table shows the trend for tuitions and contractual services paid out of both the general fund and circuit breaker fund. There is a small amount of contractual services paid out of the SPED allocation grant but the amount and nature of those costs have remained consistent through these years and are not included above.

Special education transportation costs have not increased in the same way that tuitions and contractual services have. There was a budget surplus in all years for the SPED transportation accounts.

The SPED paraprofessionals account is difficult to trend because a substantial amount of the costs were charged to the SPED allocation grant in previous years. The paraprofessional costs charged to the grant in fiscal 2012 was \$563,515, in fiscal 2013 \$642,460 and in fiscal 2014 \$695,000. In fiscal 2015 the allocations to the grant changed from paraprofessional to transportation. About

\$1,000,000 was re-allocated from the general fund transportation budget to budgets in other general fund accounts to reflect the change in allocation to the grant. However, the SPED paraprofessional line items in the general fund were not increased commensurate with the transportation savings.

The general fund paraprofessional budget went from \$2,615,941 (\$2,722,205 actual) in fiscal 2014 to a fiscal 2015 adjusted budget of \$2,680,302, an increase of \$64,361 to cover approximately \$700,000 of paraprofessional costs being moved from the grant into the general fund. In addition to the re-allocation costs from the grant, the total costs of paraprofessionals have increased each year. Adding the paraprofessional costs charged to both the grant and the general fund shows the trend in a more understandable way.

	FY 2012	FY 2013	FY2014	FY 2015
General Fund	\$2,402,476.00	\$2,624,239.00	\$2,722,205.00	\$3,535,518.00
Grant	\$563,515.00	\$642,460.00	\$695,000.00	\$0.00
	<u>\$2,965,991.00</u>	<u>\$3,266,699.00</u>	<u>\$3,417,205.00</u>	<u>\$3,535,518.00</u>
Increase		\$300,708.00	\$150,506.00	\$118,313.00

See also the report section on payroll processing for errors in allocating paraprofessional costs to the individual schools. That problem has been fixed in the trend analysis.

There were also teacher specialist professional salaries charged to the grant in prior years that were re-allocated to the general fund in fiscal 2015. Professional salaries have increased like other SPED costs and are best reviewed looking at both the general fund and the grant.

General Fund	\$3,431,473.00	\$3,734,601.00	\$4,039,661.00	\$4,575,405.00
Grant	\$303,096.00	\$216,664.00	\$165,000.00	\$0.00
	<u>\$3,734,569.00</u>	<u>\$3,951,265.00</u>	<u>\$4,204,661.00</u>	<u>\$4,575,405.00</u>
Increase		\$216,696.00	\$253,396.00	\$370,744.00

The general fund budget for SPED teacher specialists was over-expended in fiscal years 2012, 2013 and 2014. The budget for fiscal 2015 has been increased by \$829,975 which accounts for where most of the \$1M transportation savings discussed above was allocated. We are projecting a surplus balance in the 2015 SPED teacher specialist accounts in the general fund by about \$200,000.

As reported above, the cost of special education services has increased substantially over the past several years. In fact a large portion of the annual increase in the School Department's total general fund appropriation has been needed to fund special education tuitions, contractual services, paraprofessional salaries

and teacher specialists. Comparing the increase in special education costs by year to the total School Department budget increase by year calculates to 40% from 2012 to 2013, 63% from 2013 to 2014 and 120% from 2014 to 2015 meaning that Special Education costs have increased in 2015 by more than the additional budget appropriated to the School Department for that year. The reason for the large increase in fiscal 2015 is in part from one time credits in tuition. See further discussion in the section on Accounting For Special Education Costs.

Technology Salaries

The fiscal 2012 budget for technology salaries was \$111,000 but the actual came in at \$205,782 for a deficit of \$94,782. The fiscal 2013 budget was increased to \$211,236 but the actual increased to \$299,789 for a deficit of \$88,553. The fiscal 2014 budget decreased to \$73,855 but the actual increased to \$399,181 for a deficit of \$326,026. In fiscal 2015 the adjusted budget has been increased to \$418,141. We believe that amount will be sufficient to cover 2015 costs. The inconsistency is caused by budgeting positions in one account and paying them against a different account. This practice is a consistent pattern which is discussed in other sections of the report.

Technology Equipment

The trend analysis indicates that the budget for technology equipment has been substantially below actual costs in prior years and the budget was increased in fiscal 2014 to get closer to actual. There was a \$20,000 budget in fiscal 2012 with an actual of \$259,000 for a deficit of \$239,000. Fiscal 2012 was the first year for the incoming Technology Director and the Business Manager permitted additional purchases as requested to replace outdated equipment funded by money projected to be left over at the end of the year. In fiscal 2013 the budget was increased to \$30,000 but the actual was \$298,856 for a deficit of \$268,856. The additional expenditures were for IPAD's for the ELA program again to be funded with surplus money. The budget was increased to \$239,040 in fiscal 2014 but the actual increased to \$284,000 for a deficit of \$44,960 which was supposed to be covered by surplus balances in other accounts. In fiscal 2015 the budget has remained at \$239,040 and the Technology Department will have to be diligent in new purchases to meet that level of spending.

Classroom Teachers

In general the budget for Classroom Teachers has been sufficient to cover actual costs in prior years. The adjusted budget for Classroom Teachers decreased from \$1,434,893 in fiscal 2014 to an adjusted budget of \$1,236,315 in fiscal 2015 due to a surplus in that account in 2014. The amounts expended and encumbered for fiscal 2015 indicates that there will be a deficit of \$118,330 in that account resulting in an overall deficit for Classroom Teachers for the year.

Teacher Specialists

The budgets for teacher specialists in both regular and special education have been over-expended in prior years by \$106,670 in fiscal 2012, \$226,454 in 2013 and \$336,320 in 2014. The adjusted budget for fiscal 2015 has been increased by over \$1M including the re-allocation from the SPED grant and appears to be sufficient to cover deficits and increased costs in those accounts.

Athletics

The general fund budget for athletics has been stable with the exception of fiscal 2014 when the salaries account was over-expended by \$111,112. The report section on revolving funds goes into the co-mingling of athletics, activities and transportation accounts and deficits in those accounts.

Utilities

The utilities accounts were over-expended by small amounts in fiscal 2012 and 2013. The budget in fiscal 2014 was reduced from \$743,104 to \$688,825. Actual costs increased in that period resulting in a 2014 deficit of \$235,181.

The budget was reduced again in fiscal 2015 to \$452,124 due to solar panels installed on school buildings resulting in credits to offset electricity costs. We analyzed the electric bills and verified that in fact there have been substantial credits reducing the electrical costs in 2014 but not yet to the level that the budget has been reduced.

In addition, the utilities budget category includes telephone costs budgeted in the central office which have escalated in recent years. The budget in fiscal 2012 was \$20,000 but actual was \$51,688 for a deficit of \$31,688. The budget increased in 2013 to \$33,486 but actual costs came in at \$95,551 for a deficit of \$62,065. The budget in 2014 increased to \$42,460 but actual costs were \$121,869 for a deficit of \$79,409. The 2015 adjusted budget has been raised to \$45,568 which is minimally higher than the 2014 budget but way below the 2014 actual costs. We are projecting a deficit in the 2015 telephone budget for the central office of \$110,465 and an overall deficit in the 2015 utilities category of \$267,149.

Variances in the telephone account include costs that should be allocated to budget accounts in the various schools or in the Technology Department and on purchasing equipment which was not in the budget.

Summary

There are several key issues identified in the trend analysis which should be considered.

1. The fiscal 2014 budget was over-expended by about \$850,000 which was covered by running 2014 bills through 2015 general fund appropriations.

About \$600,000 of these bills could have been charged off to the circuit breaker fund which would have left a much smaller deficit to deal with.

2. The increase in special education costs, the failure to identify, encumber and project them timely enough to process them appropriately, or request further funding to cover them, is the primary reason for deficits in 2014 and projected for 2015.
3. Budget reports made to the Administration and School Committee did not inform the appropriate officials of the 2014 and 2015 deficits. The June 2014 report to the School Committee showed that the year would end at a \$3 surplus. These deficits were well known by the Business Office and should have been disclosed accordingly.
4. There are several problems with developing the annual operating budget leaving accounts that have been traditionally over-expended to be under-funded in subsequent budgets. There were over 200 budget lines changed in the fiscal 2015 budget after it was adopted without vote or approval of the Superintendent or School Committee.

Recommendation

The trend analysis presented as part of this report should be used as a foundation for development of future budgets. Restructuring the budget into responsibility centers and holding those responsible for their budgets will help control deficits. (See next section on Chart of Accounts and Reporting)

The Business Office should continue preparing a detailed financial report that has a projection column so that any potential unexpected deficits can be dealt with before the end of the year.

ACCOUNTING SYSTEM AND FINANCIAL REPORTING

School and Town MUNIS Records

The School Department maintains a MUNIS database that is separate from the Town's MUNIS database. Transactions entered for accounts payable and payroll are transmitted from the School Department's system to the Town to be uploaded, reviewed, approved and posted.

The School Department maintains a much more detailed chart of accounts in their MUNIS system that is needed for budget reporting and monitoring as well as completing the School Department's End-Of-Year Report to the Massachusetts Department of Elementary and Secondary Education (DESE). See below for more information on the chart of accounts.

The School Department encumbers budget accounts based on purchase orders and payroll encumbrances from the School Department's payroll system. These encumbrances are not entered into the Town's system except at year end when open purchase orders are carried into the next fiscal year.

The School Department also makes journal entries into their system mostly related to activity between the general fund, grant accounts and revolving funds. The Town does not receive these entries directly from the School Department's MUNIS system. They are manually sent over to the Town for posting. If the Town Accountant agrees with the entry it is posted on the Town's books. If not, the School Department has to reverse or correct the entry on the School Department's system.

Variance between the School Department's version of MUNIS and the Town's most often occurs when journal entries are made on one side and not the other. It is necessary to reconcile the two sets of records as the Town's records are the official record and any differences in the School Department's records result in inaccurate reports.

Recommendation

The Town and School Department should renew their discussion of merging transactions into one data base. The revision of the chart of accounts separately noted could be integrated into that process. The Town and School Department also need to expand the discussion to include the impact of the School Department's encumbrance practices to determine any undue burden on Town employees.

Chart of Accounts and Reporting

The quality of financial reporting and retrieval of information is based on the design of the chart of accounts. The School Department's chart of accounts has various segments which define characteristics for reporting purpose. The first three digit segment defines the fund. The general fund is designated a 010 for

regular education and 076 for special education. All other grant and revolving funds use the three digit segment to identify the grant or revolving fund.

The second segment is four digits based on the DESE function codes and include functions such as School Committee, District Wide, MIS Technology and Classroom Teachers.

The next two digit set is for school location. That segment is not used to further identify attributes that relate to costs that are not allocated to a school as all other remaining costs are "00" in that segment.

The next two digit segment identifies departments and contains classifications such as Department Heads, Curriculum Coordinators and Principals.

The last two digit segment is for grade which has been set up as 1 for Elementary, 2 for Middle and 3 for the High School.

The final three digit segment is for object codes which include accounts such as salaries, supplies and contractual services.

When we set up the trend analysis we parsed the account structure into a column for each segment which allowed us to filter and sort by segment to easily prepare reports and analysis. MUNIS can do the same but is more complex because the reports require multiple definitions in the development of the report which can be time consuming and susceptible to error. We found that there were very few pre-defined reports set up by the School Business Manager within the MUNIS system.

The School Committee received reports that were summarized by function code. We found those reports to be so summarized as to be of limited use in managing and controlling financial activities of the School Department. The Superintendent and Management Team also received monthly reports which were at such a summarized level as to have limited value.

The MUNIS system has the capacity to run reports based on the chart of accounts segments described above. Those reports are generated using definitions assigned in creating the reports. That process is useful in creating reports for specific purposes such as a Department Head or the Special Education office. The reports can include detail of all accounts and can include budgets or detailed transactions depending on how the report is defined. The School Accountant ran numerous reports for us during our fieldwork that helped in our analysis.

The School Department also has a report writer program (Content Manager) that allows for pre-defined reports to be developed so that standard reports can be run monthly without the need of defining the parameters every time the report is run. We did not find evidence that the School Business Manager used the Content Manager program to develop standard reports for the School Committee, Superintendent, Management Team or Department Heads.

In addition to the lack of quality standard monthly reports for management, we found that the MUNIS system was not able to create reports for efficiently completing the End-Of-Year Report for DESE due to the design of the chart of accounts and related reporting limitations.

There are multiple ways to manage school budgets but in our opinion the most effective is to establish responsibility centers and hold those who manage the responsibility center to operate within their budget limitations. The responsibility center could be a department or a function or a combination but the chart of accounts needs to be able to easily report all the accounts within that responsibility center. The current chart of accounts contains responsibility centers in both the function and department codes. In addition many costs related to responsibility centers outside of the schools are allocated to district-wide rather than responsibility center.

As an example; creating a report for costs associated with the Business & Finance Office which is function code 1410 and department code 98 only brings up Professional and Clerical Salaries. All other costs of running that department such as supplies, software, contractual services, telephone, travel, postage, equipment, conferences and dues, as examples, are not assigned to either the function or department code for that office.

It is not our intent to imply that the over-expenditures or roll-over of bills were caused by deficiencies in either the MUNIS system or chart of accounts. More detailed and comprehensive reports could have been generated from the existing system and existing chart of accounts and provided to Department Heads and the Management Team in a way that could have foretold the impending deficit much earlier than it was discovered.

Recommendation

We recommend that the account structure be reviewed for DESE compliance and for more comprehensive budget monitoring based on responsibility centers. See also the recommendation related to merging the Town MUNIS system with the School Department's and consolidating data bases.

Budget Entries

Our trend analysis covered fiscal 2012 through 2015. We compared the original appropriations against the amount expended and encumbered for each year. In that process we noted that there were numerous adjustments that were made throughout the year and that frequently the amounts appropriated were out-of-line with the previous years expended and encumbered. Examples of amounts appropriated being out-of-line with prior year actuals are provided in the trend analysis section of this report.

We found that the budget was adjusted frequently and that numerous line-items were being adjusted. It appears the budget was often adjusted so that the

balance in the account would come out to zero. We found that the Superintendent or the School Committee did not approve or otherwise vote on the budget adjustments.

We understand that one way to determine which accounts have a surplus to be used and applied against other accounts that are in deficit is to go through the exercise of periodically zeroing out accounts. However, that process loses track of the original budget and to what extent the original budget is adequate to cover the various line items.

Recommendation

We recommend that the budget be adjusted only when material programmatic changes take place. In those cases, the School Committee should authorize the program change as well as voting on the funding sources to cover the additional costs.

Use of Blanket Purchase Orders

In evaluating amounts encumbered in fiscal 2015 we noted that some accounts were partially encumbered. We found that the School Department creates blanket purchase orders for accounts such as utilities where there is no set contractual amount and bills are received monthly for goods and services rendered during that month.

The use of blanket purchase orders is effective in encumbering estimated expenditures in certain accounts so that availability of remaining appropriation can be determined. We found that the blanket purchase orders did not equal the estimate for what was to be spent for the whole year but an estimate for a part of the year. Once the blanket purchase order was expended the School Department continues to make adjustments to the purchase order each month to cover the invoice for that month.

This practice does not facilitate the monthly review of amounts expended and encumbered compared to the appropriation.

Recommendation

Blanket purchase orders should match the amount expected to be expended by a certain vendor for the year. The blanket purchase order can be adjusted when circumstances become clear that the original amount is either too high or too low. That way the remaining balance in the appropriation is more accurate and can be used to determine availability for other costs or purposes.

ACCOUNTING FOR SPECIAL EDUCATION COSTS

Much has already been discussed about Special Education costs and the impact of the increasing costs on deficits and the roll-over of bills. Some of the challenge in controlling costs has to do with the complexity of dealing with four Collaboratives, multiple private placements, multiple programs within placements and many students participating. Billings often come in large groups and have to be reviewed for each student and are sometimes disputed. Substantial credits went through the billings in fiscal years 2013 and included \$269,245 of credits in fiscal 2014 from a Collaborative compensating for problems at the Collaborative in prior years. Credits were no longer available in fiscal 2015 yet the adjusted budget for 2015 SPED contractual services and tuitions was established less than the fiscal 2014 budgets when the credits were available to reduce tuition costs.

The Special Education Office maintains a spreadsheet which lists each student receiving services through private placements and Collaboratives. The spreadsheet lists the type of placement, the placement, the student, grade, number of days, when placed and leaving placement. There are columns for budget and adjusted budget but the data entered into those columns is for the purchase order entered for each student and placement rather than a budget. The adjusted budget column was substantially the same as the budget column indicating that the purchase orders were not being increased despite the fact that many of the purchase orders were substantially over-expended. We were told by the Special Education Office that the purchase orders could not be increased because there was insufficient appropriation available according to the Business Office. The spreadsheet also contains a column for every month where payments are posted which can be compared to the purchase orders in the budget and adjusted budget columns.

Comparing the budget column in the spreadsheet to the general fund appropriation is complex because tuitions are allocated to both the general fund and the circuit breaker fund. The Special Education Office was notified when a circuit breaker quarterly receipt was posted and they could then post tuitions to the circuit breaker account until spent. Then they would return to posting tuitions to the general fund. We did see that postings to circuit breaker happened after each quarter at times but we also found a \$1M transfer of costs from the general fund to circuit breaker in April of 2014 indicating that a consistent methodology was not used.

We also found that the bills coming in from the Collaboratives were not always processed and paid timely. One Collaborative represented about 30% of the total tuition costs in fiscal 2014. The Special Education Office processed 92% of the bills to that Collaborative after February of 2014, 27% were processed in June 2014 and an additional 10% were processed as unpaid bills or 2014 bills paid in 2015.

As stated earlier, if these costs had been properly encumbered when the placement was known and the encumbrance increased when costs were exceeding encumbered amounts then late payment of the bills would not be an issue.

The Tuitions spreadsheet maintained at the Special Education Office is a crucial tool for monitoring and projecting Special Education costs. Without reconciling the budget column to the general fund appropriations and circuit breaker award, and by not adjusting the purchase orders when it is known that they will be over-expended, results in a spreadsheet that has little value in predicting tuition costs for the year. Having accurate purchase orders on the spreadsheet compensates for the late receipt of bills in monitoring the sufficiency of the available funds.

The annual circuit breaker award is posted on the DESE website and is available early in the School year so that the general fund appropriation and total circuit breaker award is known in time to project a surplus or deficit for the year based on the tuitions spreadsheet.

Recommendation

The budget column in the Special Education Office spreadsheet should be reconciled to the financial records which include the general fund and the circuit breaker fund. Purchase orders should be increased on the spreadsheet and in the accounting records when additional costs are identified. The School Department is required by federal and state laws to provide necessary SPED services whether there is appropriation available or not. The increase in purchase orders notifies all that additional funding is needed.

Discussions should continue with Collaboratives to send billings timelier and to inform the Special Education Office where additional services are being provided so they can update purchase orders for costs above those authorized in the original purchase order.

GRANTS AND REVOLVING FUNDS

The major grant and revolving funds include school lunch, circuit breaker, school choice, SPED 94-142 allocation grant, transportation, athletics, student activity fees, adult education and child care. There are numerous other grant and revolving funds which are not included in this report due to their minimal size or ending balance.

The analysis of grant and revolving funds has been made based on the School Department's records. As noted previously in the report the School Department's records do not always agree to the Town's. Where there have been material differences we have included both balances in our analysis.

School Lunch

The school lunch (Café) fund activity has increased annually in both revenue and expenditures. There had been a balance in the fund during fiscal 2012 of about \$85,000. The fund would have ended fiscal 2013 in a deficit if transfers from other funds had not been used to cover the deficit. The fund would have again been in deficit in fiscal 2014 but costs were transferred to the general fund to eliminate the deficit.

There is also a small appropriation in the general fund of \$30,000 each year through fiscal 2014 for maintenance of equipment. The account in the general fund indicated \$87,001 in expenditures against a \$30,000 budget in fiscal 2014. The budget in fiscal 2015 was increased to \$75,000.

Recommendation

The School Business Manager and School Lunch Director should be monitoring costs in the fund and take corrective action so that the fund does not continue running a deficit.

Circuit Breaker

The circuit breaker account has been discussed throughout the report. The circuit breaker award is calculated annually based on a percentage of eligible costs reported for the previous year. The percent reimbursement is voted by the legislature each year.

The fourth quarter distribution has been received in the first few days of July for most of the years included in this study. In previous years the School Department expended funds against the fourth quarter payment as is permitted and customary. In fiscal 2014 the School Department did not. Most of the annual circuit breaker funds have been expended by the end of the year with the

exception of fiscal 2014. The fourth quarter payment of \$578,090 resulted in an available balance of \$665,404 at the end of fiscal 2014.

Circuit breaker receipts since fiscal 2012 including the fourth quarter are:

2012 Payment based on 68.71% Reimbursement	\$1,962,712
2013 Payment based on 74.5% Reimbursement	\$1,757,111
2014 Payment based on 75% Reimbursement	\$2,230,364
2015 Payment based on 72% Reimbursement	\$2,373,157 (Preliminary)

School Choice

School choice has been received annually based on students opting to attend Chelmsford Public Schools from Town's that participate in the program with Chelmsford. The School Department has not expended school choice receipts in recent years. The annual collections are as follows:

Balance carried into fiscal 2012	\$ 76,304
Receipts fiscal 2012	\$135,978
Receipts fiscal 2013	\$164,870
Receipts fiscal 2014	<u>\$196,046</u>
Balance June 30, 2014	<u>\$573,198</u>

SPED Allocation Grant 94-142

The SPED allocation grant has been around \$1.2 Million per year since fiscal 2012. The grant has been spent on paraprofessional salaries and some contractual services during fiscal 2012 through 2014. In fiscal 2015 the School Department revised the spending plan to allocate SPED transportation costs budgeted at \$1M and continue to charge the remainder for contractual services. There have not been significant carry-over balances in previous years.

Transportation, Athletics and Student Activity Fees

Transportation fees are charged and accounted for in a revolving fund to be used to pay related transportation costs without need for a Town Meeting appropriation.

Athletic fees are a combination of participation fees and gate receipts. These fees are not sufficient to cover the total costs of providing athletic programs. The fees deposited into the revolving fund can be spent on related costs without appropriation. The Athletics' spending plan has to take into consideration available funds in both the general fund appropriation and the balance in the revolving fund.

Student activity fees are fees charged for participation in other School Department activities. Stipends are paid out of these accounts for faculty who

supervise the activities. The fees charged by the School Department should not be confused with other Student activity accounts which are funds raised by students and paid out on their behalf. These are accounted for in a separate agency account in accordance with Massachusetts General Laws and Guidelines issued by DESE.

These accounts have been comingled on the School Department's books and to a certain extent on the Town's books. The School Department accounts for these through fund 502. Revenues for the three are segregated but expenditures and balance are not. In addition, the School Department had a \$172,186 balance in the account at June 30, 2013 but adjusted the balance to the Town's balance of \$19,264 for the beginning of fiscal 2014. However, the Town's balance was for Athletics only so the adjustment was incorrect to be made to all School Department funds included in fund 502.

The Town segregated activity for the athletics and transportation accounts but never set up an account for the student activity fees. Over time the student activity fees have been alternately deposited to the athletics account or the student activity agency account based on account coding on turnovers sent over from the School Business Office. Stipends paid related to the activities have been paid out of the athletics account causing deficits in that account at times. In fiscal 2013 a transfer was made from the transportation account to the athletics account to cover a deficit confusing the composition of the balance even further.

Receipts for Athletics have been a little over \$400,000 per year, Transportation \$450,000 to \$500,000 per year and Student Fees \$85,000 to \$95,000 per year.

Adult Education

Fees are charged for various adult education programs. The receipts are accounted for in Fund 506 and have been around \$300,000 to \$350,000 per year. Expenses include salaries, contractual services and supplies. There has been no substantial balance accumulated over the years.

Child Care Fund

Child care programs have been accounted for in Fund 507. Revenues in the Fund have been increasing over the years as has the balance.

Fiscal 2012: Revenue	\$1,736,883	Ending Balance	\$ 998,818
Fiscal 2013: Revenue	\$1,828,224	Ending Balance	\$1,090,790
Fiscal 2014: Revenue	\$1,881,042	Ending Balance	\$1,099,575

Expenditures in the fund are primarily salaries and supplies. The School Department has charged minimal overhead costs to the fund for utilities and fuel. Additional costs could be charged against the fund for maintaining the facilities

and administrative costs related to administering the program. The balance in the account is not available to be used for other purposes unrelated to the program.

Recommendation

The transportation, athletics and student activities accounts need to be segregated on both the School Department and Town books. The Business Office should be reconciling with the Athletic Director on a periodic basis so that he knows exactly how much is in both the revolving fund and the appropriation.

STAFF IN BUSINESS OFFICE –TRANSACTIONS PROCESSING

Staff in the Business Office includes the Business Manager, Accountant, Accounts Payable and Payroll. Separate from the items previously reported the major issues identified in the Business Office relate to downsizing and turnover.

At one time there was two full time staff processing transactions in Accounts Payable and other departments processing invoices and 1.5 full time equivalents in Payroll. Over time, departures and staff cuts in Accounts Payable reduced staff to one and staff in Payroll was also reduced to one.

Staff reductions were accompanied by turnover in key positions. The Business Manager started in March of 2010 replacing a long-standing Business Manager.

The Accountant left in December of 2010, replaced in March of 2011 who left in September of 2013 and was replaced by a person in payroll who then left in November of 2013. The current Accountant started in December of 2013.

The staff person in Accounts Payable has been in that position since 2012 and has been at the School Department since 2009 rotating from Accounts Payable to Payroll and back to Accounts payable.

The Payroll position has had the most substantial turnover. One staff held the position from January of 1999 until May of 2013. The next person in that position started at the end of May 2013 and left in July of 2013. The next person started in July of 2013 but transferred to the Accountant's position in August of 2013 where she stayed only two months. The current payroll staff started in August of 2013.

The downsizing and turnover of the Business Office staff has placed a strain on the Business Office but is not, in our opinion, the cause or major contributory factor in the deficits and roll-over of fiscal 2014 bills. As reported previously we believe the cause to be escalating special education costs, failure to project the deficit early enough to take corrective action, late processing of Collaborative tuitions and lack of communication and reconciliation between the Business Office and the Special Education Office.

Notwithstanding the emphasis we place on the causes stated above, there are revisions needed to the Business office to achieve greater efficiency and to establish systems and procedures to prevent the same conditions from happening again.

Business Manager

The Business Manager is responsible for assisting in developing the annual budget, developing and maintaining a financial management system and

supervising staff that work in the Business Office. The Business Manager is also the liaison between the Business Office and the School Committee, Management Team and Department Heads. The Business Manager keeps all parties informed of the status of the School Department's appropriations, grants and revolving accounts.

The Business Manager also needs to have a thorough understanding of Massachusetts General Laws as related to school financial issues.

Recommendations

The Business Manager needs to have a more in-depth knowledge of the MUNIS operating system in order to generate more comprehensive reports to the School Committee and Management Team as well as to provide support to the staff in the Business Office who do not have a comprehensive MUNIS background.

The Business Manager should have a more thorough understanding of Massachusetts General Laws especially related to the process of charging costs to fiscal years and to the proper fund.

The Business Manager also needs to have the expertise to initiate new initiatives including combining the Town and School Department MUNIS systems, upgrading the Chart of Accounts and developing responsibility center based budgeting and reporting.

A closer working relationship needs to be developed between the Business Manager and the Town, Business Office staff, the Management Team and Department Heads.

The School currently has an Interim Business Manager who has substantial experience in these matters and is in a position to help implement the recommended changes.

Accountant

The Accountant performs numerous tasks including entering all receipts into the MUNIS system, posting journal entries authorized by the Business Manager, MUNIS system Administrator, grant reporting to funding agencies, requests for grant drawdowns, Medicaid reporting and submissions, monthly reports to department heads, other reports as requested, summarized report to School Committee, reconciling School Department records with the Town and providing other reports or projects as called upon. The present Accountant has many years of experience and adds value to the Business Office. However, that experience is not on a MUNIS system or in Massachusetts governmental accounting.

Recommendations

The Accountant position needs to have a more thorough knowledge of the MUNIS system and training in Massachusetts School accounting principles and requirements. The Accountant also needs to have resources available to help attain direction on complex and unique transactions and issues that sometimes come up.

The demands on the Accountant's position has been substantial as current activity needs to be kept up-to-date while having to go back and evaluate prior activity, support the new Interim Business Manager and various professionals looking at fiscal 2014 issues and new initiatives.

Accounts Payable

The Accounts Payable staff also performs accounts receivable duties. Purchase requisitions and purchase orders are processed by the various schools and authorized by the Business Manager. When goods and services are delivered a signed copy of the purchase order goes to accounts payable where it is matched with the invoice for entry into the MUNIS system. The Business Manager signs off on all invoices that are not authorized for payment through the schools and the Superintendent's Office authorizes all transportation bills. The one staff in accounts payable processes all invoices for payment.

Recommendations

The staff in Accounts Payable has been with the School Department for a period of time and has knowledge of the MUNIS system sufficient to fulfill her responsibilities. However, she would benefit from more comprehensive training in MUNIS to facilitate extraction and analysis of transactions.

Some of the accounts are complex such as electricity which has charges and credits which need to be tracked and monitored. Also monitoring balances in purchase orders and encumbrances should be more comprehensive.

We are concerned that with the staff downsizing in this position there is adequate time to process, monitor and control costs that run through accounts payable. At one time there was different staff processing transactions for transportation, utilities, specialty and supplies and other categories. All of that is currently being done by one person.

Payroll

Payroll is the position that is most concerning. Over 70% of the School Committee appropriation is payroll. There is a history going back to fiscal 2013 of errors in processing and accounting for payroll. Between the period from

March of 2013 to July of 2014 errors in payroll checks amounted to \$42,840. Problems have only escalated with the implementation of the Kronos time capturing system in September of 2014.

In response to the 2013 Management Recommendation Letter that cited the payroll problems, the Business Manager stated that the School Department was going to implement the new Kronos system by January of 2013 with assistance from an outside CPA firm. That did not happen as Kronos was not implemented until September of 2014.

There have been numerous cases where the calculation of the pay is wrong due to the incorrect time being entered into the payroll system. Prior to the implementation of Kronos the time information came from secretaries at the schools. The schools maintain a scheduling system which is integrated into school needs. The secretaries enter into that system and use it to fill in substitutes and classroom needs. That system produces absentee information which is fed to the payroll office for time reporting used to calculate the payroll. If there is an error coming from the schools then the payroll is also calculated in error.

The Kronos system was implemented to tighten up time reporting and accountability for teachers who work other than full time salaried positions. The Kronos system is a comprehensive and widely-used time gathering and reporting system. However, it needs to be set up commensurate with the methodologies that deal with multiple schedule and contractual scenarios. For example the PSP's work a contractual 62.5 hours per two week cycle. The 62.5 hours are classroom hours so if a PSP comes in early and prepares for the class then time gets added into the Kronos system higher than what is contracted for. The problem is made worse if the time recording device is located a distance away from the classroom as more time is added and the employee is paid more than the contractual time. There are ways to get around that but it then causes recorded time to be different from time paid which creates additional problems.

Another payroll problem is classifying the employee to the proper account in the accounting records. The payroll system has position classification but also has to be assigned an account which is used to prepare the entry for posting into the accounting system. When an employee is re-assigned to another position at another school both the position designation and the assigned account number have to be changed. In addition there are employees who are assigned to multiple accounts. The assignment is made based on percentages such as 40% to one account and 60% to another. This can also cause misclassifications because the percentage can change but the account linked to the percentage change could still be incorrect.

An example of this occurred when the PSP's were re-assigned to the general fund from the SPED allocation grant. There were numerous employees assigned to incorrect schools which did not get fixed until identified during our trend

analysis. This was because the percent changed from 100% grant to 100% general fund but the school assigned to the 100% was incorrect.

Errors were also found when verifying amounts encumbered in the MUNIS system. Different positions are on different pay cycles such as 21 pay periods, 24 pay periods or other cycles. We found that there were errors in encumbrances caused by the wrong pay period assigned for that employee.

As of April 2014 the payroll staff took over employee master file maintenance from Human Resources staff. This was done to eliminate the errors in assigning employees to the proper position and account number. This change helped reduce the number of errors but did not eliminate them. In addition, proper internal accounting controls call for a segregation of duties between the processing of payroll and the master file maintenance. The internal control principle is that no one person should be in a position to either perpetrate or conceal errors or irregularities. The control is not meant to reflect on any one individual but to point out that there is a set of checks and balances that exists when the two functions are segregated.

The staffing in payroll already was reduced from two to one in the 2012 downsizing. The one payroll staff taking on master file maintenance places too much burden on that one position.

Recommendations

After the school year begins, reports of active employees should be sent to each responsibility center (see discussion above) and verified for proper allocation. Communication needs to be better between the departments and the payroll office to assure allocations are correct.

The School Department should consider re-assigning some of the duties in payroll. There needs to be improved edits for quality control and segregation between processing, approving and master file maintenance.