Fundamentals of Fiscal Oversight, the Budget & Audit Training

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Who am I?

- Educator for 28 Years
- Former Board Member
- Alaska Administrator for 10 years
- Instructor at UCA
- Current Superintendent @ Wonderview School District
Today we will talk about:

- Budgeting
- The numbers to which you need to pay attention
- The annual audit
The Budget
Approval and Submission

- Budget is due to the ADE September 30.

- Prior to that submission, it must be approved by the local Board.

- The format of the budget presented to the board is optional.

- The format of the budget submitted to ADE is not.
Remember:

- Resources are always scarce for schools.
- The public has placed its trust in us to use them wisely.
- We have to be able to meet the needs of our students!
- Board members have a duty to understand and oversee school district finances.
Opportunities to Lead--Financially

- Know—basic information about school finance
- Keep informed—about changes which will affect school funding
- Communicate—to community information which affects school funding
Budgeting

- A budget is a financial plan.
- It is virtually impossible for your ending statements to agree with the beginning budget—it will change.
- A budget reflects the values and culture of the organization.
- There is not an infinite amount of money out there.
What is the purpose of a budget?

- To keep an organization relatively on track.
- To satisfy requirements of state, local and federal governments.
- Meet requirements imposed by state law.
Budgeting

- If you have a budget at home, then you have budget experience.

- If you don’t have a budget of some kind, how will you know when to stop spending money?

- School budgets can be reduced to two simple components:
  - Revenue
  - Expenditures
School Budgets are NOT simple!
What Budget?

- The official budget is the “Operating Budget.” It includes:
  - Funds 1, 2 & 4

- One should also budget
  - Federal funds
  - Building funds
  - Cafeteria funds
  - Many pieces to the “budget puzzle.”
School Funds/Revenue Include

- Local-Funds collected within the school district – property taxes based on millage rate
- State-Funds distributed by the state from general revenue provide a “foundation” of school support
  - Base Student Allocation 18-19 -$6781 per student
- Federal-Funds appropriated by Congress and distributed based on certain criteria
Funds Are Based Primarily On: 

**STUDENTS**

Foundation Aid is defined by the Average Daily Membership (ADM) for the first three quarters of the prior year. Growing Districts receive aid based on quarterly comparison of current year with prior year. 

More students = more money
Key Expenditures in the Budgeting Process

- Expenditure - Set vs. variable expenditures
  - Set
    - Debt Service
    - Salaries and Benefits - 75% of the budget
    - Utilities
  - Variable
    - Supplies
    - Equipment
    - Buses
    - Maintenance Projects
Questions you might want to consider asking about your district’s budget

- How did we do last year?
  - Did we spend more than we expected?
  - Did we receive less than expected?

- What type of property tax growth/decline have we seen in our district over the last several years? Is that trend data used to project this year’s revenue?
Questions you might want to consider asking about your district’s budget

- What is the district’s trend related to the legal ending balance?
- What are our personnel requirements?

Avoid over staffing!
Monthly Reports

- You should be receiving a report each month from the Superintendent or Business Manager that gives you a good look at the district’s current financial position.

- Don’t be as concerned (yet) with the details but do be concerned about the big numbers and the big trends.
What numbers to pay attention to?

A number in isolation is meaningless.
Trend data is the most important
What numbers matter?

THE number 1 most important number you need to look at is:

**Unrestricted legal ending balance**

All other numbers lead to this one and every number impacts this number.

How does your district compare to other districts of your size?
What numbers matter?

- Student ADM
  - Growing district – Student Growth Money
  - Losing district – Declining Student Enrollment Money

- Personnel
  - # of staff members vs. Standards
  - Pupil/Teacher Ratio
  - Teacher Fair Dismissal Act / RIF Policy

- Assessed Value
  - Growing or steady?
  - How much is it growing?
  - How much is it declining?
The Annual Audit
Audit Training Requirement

- Annotated Code 6-13-629
- Audit training must be received within the first 15 months of service as a board member
- There is no hourly requirement
- There is no requirement after the initial training

NOTE: ASBA strongly suggests subsequent training in this area in order to keep abreast of auditing changes and to sustain continued growth of knowledge.
What is an audit?

An audit is the process by which an independent accountant reviews your financial records and procedures in order to express an opinion of the fair presentation of your financial statements.

- An audit is not designed to detect fraud.
- An audit is not designed to make your life miserable.
What do auditors do?

- Plan the Audit
- Test the Accounting Records
- Verify the Account Balances
- Prepare the Audit Report
Why do we have an audit?

- Required by state law.
- Required by federal law.
- Required by debt agreements.
- Required by bonding companies.
- Citizens like them.
- Evaluation of the performance of management.
The Audit Report

- Independent Auditor’s Report
- Report on Internal Control
- Report on Compliance
- Management Letter
- Balance Sheet
- Statement of Revenues and Expenditures
- Budget to Actual
- Notes to Financial Statements
- Supplemental Information – Capital Assets, Federal Expenditure Schedule, Schedule of Findings, Federal Programs, Selected Information
Report on Internal Control

- What is Internal Control?
- NOT an opinion on Internal Control
- Findings of material weaknesses in Internal Control over financial matters are referenced in this letter
- References Financial Items
Management Letter

- You may or may not have a Management Letter attached to your audit report.
- Not having a Management Letter is a good thing.
- This letter is intended for use by Legislative Audit Committee, local School Board, District Management, ADE and Federal Regulatory Agencies.
- Details any violations of Federal or State laws.
- Is still a part of the public audit report.
Things to Remember

- Audit Deadline: The audit report is due no later than nine months after the close of the fiscal year (end of March)

- Audit Reports have to be reviewed by the Board of Directors at the first regular board meeting after the audit report is received and appropriate action must be taken.

- Annotated Code § 6-1-101. Audit Review
Things to Remember

Section 80.26(b)(3) of the U.S. Education Department General Administration Regulations (EDGAR) requires the Arkansas Department of Education (ADE) to ensure that…

when a public school district, open-enrollment charter school, or education service cooperative has an audit finding regarding an instance of noncompliance with federal laws or regulations, that an appropriate Corrective Action Plan (CAP) is implemented within six months after receipt of the audit report.
Audit Reports

To obtain current and prior years’ audit reports of your school district, you can go to the Arkansas Legislative Audit Division’s website and download copies.

Financial Warning Signs

Identified by local school leaders or through the mandated audit process.
A Dozen Danger Signs

- Internal Control Problems
- Salary Schedule Beyond Resources
- Excessive Numbers of Personnel
- Spending Beyond Budgeted Levels
A Dozen Danger Signs

- Expenditures above Revenues
- Cost Overruns on Building Projects
- Audit Findings
- Declining Legal Fund Balance
A Dozen Danger Signs

- Short-Term Debt
- Bidding, Spending and Inventory Control
- Travel Reimbursements
- Loss of Students—Declines in Average Daily Membership (ADM)—TRENDS
Select qualified people to perform financial tasks!

Superintendent
Assistant Superintendent
Business Manager
Arkansas school district leaders—board members and superintendents—must conduct the financial business of each school district so as to earn the trust and support of an increasingly cynical public. During this process, we must not lose sight of what is most important—

STUDENTS!
DISCUSSION AND QUESTIONS