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ABSTRACT

A school district's governing board, superintendent, and business manager should work as an effective fiscal policy team with good communication. This self-assessment guide is designed to assist in the overall evaluation of fiscal policy team communication. Four sections (budget development, budget monitoring, financial reporting, and accounting/internal control/auditing) are comprised of introductory statements followed by a standard against which current district practices may be viewed. Results from questions answered independently by each team member are used as a basis for discussion. The annual budget should reflect the philosophy of an organization and be updated as conditions change. A system must exist to adjust the budget to reflect changes. Accurate and timely financial reports should reflect current information to allow midcourse budget corrections. A structure of internal controls must exist to safeguard district assets. (EJS)

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# Budget Development, Budget Monitoring, Accounting, and Financial Reporting

EA 022 867

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A Self-Assessment Guide  
for School District Fiscal Policy Teams

**Budget Development, Budget Monitoring, Accounting,  
and Financial Reporting**

*Prepared under the direction of the*

**Field Services Branch  
California State Department of Education**

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# Directions for Use of the Self-Assessment Guide

The school district's governing board, superintendent, and business manager should work together as the fiscal policy team of the district. To do this effectively, all members of the team must have good communication. In order to assist in the overall evaluation of the financial communication network of your fiscal policy team, you are encouraged to use the Self-Assessment Guide. This document is designed to be used by the fiscal policy team either at a board study session or at a fiscal policy team retreat. It may be advantageous to have the district auditor present for all, or at least part, of the discussions.

The Self-Assessment Guide is divided into four sections:

1. Budget Development
2. Budget Monitoring
3. Financial Reporting
4. Accounting-Internal Control-Auditing

Each section has a number of introductory statements. The introductory statements are immediately followed by a "standard" which serves as a reference point against which your current district practices may be viewed. Following each standard are one or more questions. The questions should be responded to independently by each member of the fiscal policy team according to his or her best judgment of the district's practices and conditions as compared to the standard. On completion of the questions in a section, the team members should compare answers and use the results as a basis for an in-depth discussion of each item in that section. The standard for each question should be used to help guide the discussion.

It is anticipated that the discussion will rely heavily on the chief business official of the district and that he or she will have reviewed the questions well in advance and will have gathered various data and reports for review during the discussion. This information should include not only existing internal reports but also new report formats for consideration by the governing board and the superintendent.

Each section should be completed in its entirety before moving on to the next section. The questions are not meant to grade the overall effectiveness of the district's financial operation. Rather, they are designed to stimulate discussion among members of the fiscal policy team. These discussions are intended to facilitate decisions on the types of information and fiscal practices necessary for the district to achieve its financial and educational objectives.

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# Budget Development

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The annual budget is a significant part of the overall planning process for a school district. The budget is not merely an accounting tool; it is the educational program of the district expressed in dollars and cents. The budget should reflect the philosophy of the organization and its constituents. The governing board, district administration, and staff need to understand the budgeting process and be satisfied that the budget is appropriate as both a financial and an educational plan.

The time when a school district's budget could consist of only the estimated income and anticipated expenditures has long since passed. The school budget must move toward the goal of relating income and expenditures of the district to the achievement of the educational goals of the student.

Each member of the policy team is to respond to the following questions with a "Yes" or "No" in accordance with his or her best judgment.



1. The development of the budget should be made in relation to the goals and objectives of the district as established by the governing board.

Standard: The budget development process includes input from staff, site administrators, district-level administrators, the board, and the public. The budget document should reflect program goals and objectives and district policies.

Yes No

■ Does the district have a budget advisory committee composed of district staff, site administrators, district-level administrators, students, members of the board, and the public who provide input for the budget? \_\_\_\_\_

■ Does the budget reflect district goals and objectives? \_\_\_\_\_

2. Budget policies are written explicitly and are provided to those participating in budget development.

Standard: The board has adopted and periodically reviews and revises policies that address:

- Budget development; roles and responsibilities
- Budget presentation; data to be included and distribution to be made
- Budget administration, responsibilities, authority, reserves, control and budget transfers, etc.
- Staffing formulas and formulas for allocating resources for instructional and support programs

Yes No

■ Are budget policies specific, such as class size, staffing formulas, and formulas for allocating resources for instructional and support programs? \_\_\_\_\_

2. The district prepares a budget calendar that covers all the necessary budgeting activities throughout the year.

Standard: The board annually adopts a budget calendar that meets legal and management requirements. The calendar should include the tasks to be completed, the approximate date each task should begin, the name of the person responsible for completing each task, and the completion date for each task.

Yes No

- Does the district annually adopt a budget calendar that meets legal and management requirements? \_\_\_\_\_

4. The budget is clear and understandable; revenues and expenditures are realistic; and assumptions are adequately documented with supporting information.

Standard: Each individual source of revenue is forecast based on its unique characteristics. Revenue limit income is budgeted on the basis of projected average daily attendance, considering history, graduations, economic development, and demographic factors. Each type of expenditure is budgeted, based on its unique characteristic, and is based on experiences, need, and available funds; and the budget responds to each of the following:

- The number of students projected
- The number of staff members needed
- The school facilities and other capital outlay needed
- Costs of materials and supplies
- Other costs necessary to operate the district

The budget and supporting schedules include narrative descriptions of income and expenditure items and explanations of changes from previous actual expenditures. All significant assumptions used to develop the budget are documented and retained for review. The budget and supporting material are in the hands of board members far enough in advance of meetings so they can be evaluated prior to required deliberation or action.

|   | Yes   | No    |
|---|-------|-------|
| ■ Is each type of income and expenditure budgeted on the basis of its unique characteristics?   | _____ | _____ |
| ■ Is revenue limit income budgeted on the basis of average daily attendance considering history, graduation, economic development, and demographic factors? | _____ | _____ |
| ■ Do the budget and supporting schedules include narrative descriptions of income and expenditure items and explanations of changes from the prior year?    | _____ | _____ |
| ■ Are the assumptions that are used to develop the budget documented and retained for review?   | _____ | _____ |
| ■ Is the budget available to the governing board sufficiently far enough in advance to allow for evaluation prior to board hearings and adoption?           | _____ | _____ |

5. The budget provides a prudent reserve for economic uncertainty.

Standard: The budget includes a prudent financial reserve for economic uncertainty to provide for unforeseen problems and emergencies that might arise during the year. Such a reserve is planned (not left to chance) and is the subject of board policy. (See Fiscal Management Advisory 86-03 dated May 5, 1986, on Budgeting for Economic Uncertainties.)

■ Is it the governing board's policy to establish a prudent financial reserve for economic uncertainty? Yes    No  
\_\_\_\_\_

6. The budget is prepared in an appropriate level of detail.

Standard: The budget is presented in a level of detail that is appropriate to the organizational structure for effective management of resources and reporting requirements. It is prepared for each fund, site, division, department, and program. The budget identifies the following:

- Each source of revenue
- All funds, sites, programs, and services
- Personnel, equipment, and supplies allocated in support of program goals and objectives

■ Are separate budgets prepared for site and program administrators? Yes    No  
\_\_\_\_\_

7. The district budget matches expenditures with sources of revenue of similar duration.

Standard: One-time sources of funds are matched with short-term spending commitments and not ongoing expenditures.

Yes      No

- Are one-time sources of funds matched with expenditures of like duration?      \_\_\_\_\_

8. The budget is communicated and interpreted to the community.

Standard: The district goes beyond the legally required public notice and hearing on the budget and communicates budget information to people other than school personnel to build community understanding and citizen advocacy for the schools.

Yes      No

- Does the district have a plan for communicating its budget and its various programs to the general public or selected groups?      \_\_\_\_\_

9. The district has a position control system that ensures that all positions are budgeted, funded, and identified with the proper program.

Standard: Controls are established to ensure that the number and type of positions created are supported by budget allocations and that changes in assignments or status are reflected in appropriate budget revisions.

- |                          |  |       |       |
|--------------------------|--|-------|-------|
| <input type="checkbox"/> | Are personnel hired only at times when there is an authorized, unfilled position available?  | Yes   | No    |
|                          |  | _____ | _____ |
| <input type="checkbox"/> | When it is necessary to establish additional positions, are formal approval of the positions and corresponding monetary allocations obtained from the governing board? | _____ | _____ |

10. Roles, responsibilities, and procedures for administering the budget are written explicitly and are provided to those participating in administering the budget.

Standard: The fiscal policy team understands the legal and fiscal controls that are used in administering the budget and ensures that the controls are correctly implemented. Resources for appropriate controls include a comprehensive set of board policies, administrative regulations, budget guidelines, and position descriptions.

- |                          |   |       |       |
|--------------------------|---|-------|-------|
| <input type="checkbox"/> | Are policies and procedures for administering the budget written and provided to those participating in administering the budget? | Yes   | No    |
|                          |   | _____ | _____ |

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## **Budget Monitoring**

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The budget is not a one-shot process that comes to a sudden halt on September 15 when the budget is formally adopted. The budget is a year-long plan that needs to be monitored and updated as conditions change. A system must exist to adjust the budget to reflect changes that occur so that there are no surprises at the end of the year.

The trend in districts in recent years has been toward more decentralization, with expenditure authority established at the site and program levels. In these districts the role of the business official is to advise the superintendent, assistant superintendent, and site and program managers of financial conditions that may affect the district.

The business official has the responsibility for projecting revenues and expenditures and must analyze these as the year progresses. Any significant changes in budgeted amounts should be reported to the board and district administrators, and the budget should be revised.

Depending on the management style within a district, the business official may either be an authority figure who directly controls expenditures or an adviser to site and program managers. In either case communication with the board and administration is vital for effective budget monitoring.

Each member of the team is to respond to the following questions with a "Yes" or "No" in accordance with his or her best judgment.

1. Each person who has responsibility for monitoring the budget should understand his or her role, authority, and the procedures for administering the budget. This includes the board and all district administrators.

Standard: The fiscal policy team understands the legal and fiscal controls that are used in administering the budget and ensures that these controls are correctly implemented. Resources for appropriate controls include a comprehensive set of board policies, administrative regulations, budget guidelines, and position descriptions.

- Are roles, responsibilities, and procedures for administering the budget written explicitly and provided to those participating in administering the budget?

Yes No

\_\_\_\_\_

2. The budget, as adopted by the governing board, is the income and expenditure plan for the district. Although the board must legally approve expenditures, it is not practical to do this on a daily basis. Therefore, the board needs to delegate purchasing authority through a purchase order system or a revolving cash fund. The delegation of signature authorization for purchasing is the responsibility of the board.

Standard: Approved purchase orders are used for all purchases with values in excess of an established dollar amount. Purchase orders are reviewed for sufficiency of funds prior to approval, and all disbursement requests are compared with the current budget to ensure that funds are available and budget appropriations are not exceeded.

- Does the board delegate appropriate approval authority for purchase orders and approve all warrants?

Yes No

\_\_\_\_\_



3. The most important income analysis relates to the average daily attendance (a.d.a.) and resultant revenue limit income projections. The revenue limit calculation is the method used to distribute the majority of state revenue to local educational agencies (LEAs). When the LEA's a.d.a. is substantially lower than the budgeted a.d.a., the resulting reduction of income to the district can have serious consequences unless the expenditures are reduced.

Standard: An accurate record of daily attendance is maintained at the site and reconciled monthly with enrollment documentation. District a.d.a. should be calculated monthly and the potential for change in budgeted income reported to the board for appropriate action.

- Is the average daily attendance monitored at least on a monthly basis?

Yes      No

\_\_\_\_\_

4. As was previously discussed, the budget document is not intended to be static throughout the fiscal year. As income and expenditures vary from the adopted budget, the budget must be changed by board action. Expenditures must not exceed the amount budgeted in the major expenditure classifications. However, under certain conditions budget transfers can be made with the approval of the governing board. Some of these transfers are (1) transfers between expenditure classifications; (2) transfers from the appropriation for contingencies; (3) budget transfers at end of year; and (4) interfund transfers.

**Standard:** The budget should be revised before any liability is incurred or when a revised projection of income indicates a material change in the assumptions used to prepare the current budget. Variances between budget and actual should be examined promptly and appropriate action taken. Material change should be defined by the local board on the basis of a dollar amount or a percentage of a line item.

- Are needed changes to the budget made in an organized way and at appropriate times and approved by the board? \_\_\_\_\_

Yes No

5. Budget monitoring should be a shared responsibility among the business official, the board, the superintendent, and the site and program managers. When expenditure authority is decentralized, it is essential that budget information be disseminated to those administrators who have a need to know.

**Standard:** Financial reports that include timely and accurate site, department, and program budget data are prepared monthly and distributed to appropriate personnel to provide the information needed to manage the district.

- Are all personnel who have budgetary responsibilities provided with current information concerning the status of the budget as it pertains to their area of responsibility? \_\_\_\_\_

Yes No

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# Financial Reporting

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Accurate and timely financial reporting is necessary to aid the governing board and the administration in determining whether, and to what degree, the long-range programs of the district are feasible of accomplishment. The reports generated from the accounting system need to be clear, concise, and timely. They should reflect current information that allows the board and administration to make mid-course corrections if the need arises.

Budget status reports should be of the simplest design possible and yet in enough detail to provide information for management decisions. A summary statement highlighting the significant features of the report should be included.

Each member of the policy team should respond to the following questions with a "Yes" or "No" in accordance with his or her best judgment.

1. Interim financial reports should be provided to the board with a comparison between the budgeted financial condition and the projected financial condition of the district in sufficient detail for the board to certify the district's ability to meet future obligations. There is a legal requirement for two financial reports to be submitted to the governing board; however, this is the minimum requirement and is not sufficient for good management decisions. When significant changes in income or expenditures occur, the board and administration should receive monthly reports that include a narrative explanation.

Standard: The superintendent of each school district shall . . . submit two reports during the fiscal year to the governing board. The first report shall cover the financial and budgetary status of the district for the period ending no earlier than October 31 nor later than December 31. The second report shall cover the period ending March 31. Both reports shall be approved by the district governing board no later than 45 days after the close of the period being reported. As part of each report, the superintendent shall identify outstanding obligations of the district (Education Code Section 35035(g)). Reports are to be submitted to the governing board as often as conditions require; for example, when significant changes are made in income or expenditures. Reports are accompanied by a narrative explanation.

- |   | Yes   | No    |
|---|-------|-------|
| ■ Is the board presented with interim reports that clearly state the financial condition of the district? | _____ | _____ |
| ■ Are interim financial reports accompanied by explanatory narratives?                                    | _____ | _____ |

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2. When multiyear contracts are considered, the impact on the current and future year's budgets must be analyzed carefully and all costs included. For instance, a school district contracts with a community agency to provide land and operate a swimming pool that is to be built with funds from the community agency. Consideration must be given to future revenue from use of the pool; and maintenance costs such as chemicals, personnel, and insurance.

Standard: It is essential that the board, when approving a multiyear contract, understand the long-range fiscal commitment.

■ Are major contracts presented to the board for approval and accompanied by an analysis of the long-term financial impact?

Yes      No

\_\_\_\_\_

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# Accounting

## Internal Controls

## Auditing

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As seen from the previous questions and discussions, a school district needs to develop a good budget process, an appropriate means to monitor the budget plan, and accurate and timely interim and year-end financial reports. In addition, the accounting system and the accounting organization must be structured to provide a system of internal controls that will safeguard the assets of the district. Arrangements must also be made to contract for an independent, outside review of the financial records and systems.

The technical aspects of the district's accounting system is the primary responsibility of the business official who should confer with and get concurrence from the superintendent. The governing board is usually composed of members who will not have a background in accounting, and they should be given sufficient information to assure them that adequate controls are being used and legal requirements are being met. A presentation of the accounting system could be made to the board by the district's business official and independent auditor.

Each member of the team is to respond to the following questions with a "Yes" or "No" in accordance with his or her best judgment.

1. Some local educational agencies (LEAs) have a district accounting manual that has been developed for the use of personnel in the business office; however, many LEAs do not have a locally developed accounting manual, and some small districts probably do not need one. However, there are certain accounting procedures that should be discussed by the fiscal policy team and included in either board policies or administrative regulations.

Some of these procedures include (1) identifying who is responsible for student body accounting--the school or the business office; (2) establishing the procedures for handling cash receipts and petty cash; (3) identifying persons who have authority to sign purchase orders, etc.; and (4) establishing rules and procedures for reimbursement of expenses.

Standard: The governing board has adopted policies that give directions to the business official in areas such as handling cash, purchasing, and reimbursement of employee expenses. The responsibility for developing the majority of the accounting system rests with the business official.

|   |       |       |
|---|-------|-------|
| ■ Does the local educational agency have appropriate board policies to help guide the district's accounting function? | Yes   | No    |
|   | _____ | _____ |

2. Establishing an efficient accounting system is obviously important, but the system cannot operate effectively without the proper number of trained staff. It is difficult to establish an adequate number of staff by comparing with other districts. Factors such as staff competency, experience, and the amount and quality of equipment available must be considered when evaluating the adequacy of staffing for the accounting department. The providing of adequate staff and equipment is the responsibility of the governing board after staff recommendations have been considered.

Standard: The accounting office is staffed at a level appropriate to the district's size, resources, and workload. The business staff receives training appropriate to their positions and responsibilities, and continued in-service training is provided. The district provides machines and equipment of the type and capacity that will meet its accounting workload.

- Does the district maintain an appropriate number of staff and adequate equipment to meet its fiscal management responsibilities? Yes No  
\_\_\_\_\_

3. It is not often that district employees engage in illegal activities but such activities do occur. The best safeguard is to eliminate temptation by establishing sound management practices and good internal control. An example of this is in the payroll function. One person should certify the warrant register that is sent to the county, and another person should receive and check the warrants when they are returned to the district. It is the policy team's responsibility to ensure that safeguards are established.

Standard: Accounting duties and functions are segregated to maintain good internal control. Special internal controls (co-signatures, etc.) should be in place in small districts with limited staff.

- Does the organization of accounting activities reflect sound management practices and good internal controls? Yes No  
\_\_\_\_\_



4. Sound management practices dictate that the local educational agency maintain a current inventory of facilities and equipment. This is particularly important for insurance purposes. This activity is often overlooked or given a low priority; therefore, the members of the policy team need to include this as a yearly district priority.

Standard: A physical inventory of fixed assets, including equipment, is taken annually, and perpetual records are adjusted to prior year balances.

■ Does the district maintain a current inventory of facilities and equipment?

Yes No  
\_\_\_\_\_

5. Each year the law requires that the governing board retain an independent auditor to examine the district's books. Occasionally, the role of the auditor is misunderstood. The auditor conducts an examination of documents, records, and accounts for the purpose of (1) determining the propriety of transactions; (2) ascertaining whether all transactions are recorded properly; and (3) determining whether statements drawn from accounts reflect an accurate picture of financial operations and financial status.

Standard: An independent auditor is selected on the basis of knowledgeability of school laws, rules, and regulations; proposed scope of audit; availability of staff time; qualifications of staff; and fee to be charged. The district's auditor engagement agreement includes a statement of scope of work to be done and requirements for a report that conforms to the state audit guidelines, a pre-audit meeting with staff, an exit interview, and a presentation of the audit report at a board meeting.

■ Is the independent auditor selected by considering fees as only one factor?

Yes No  
\_\_\_\_\_

■ Are the independent auditor's role and function clearly understood?

\_\_\_\_\_

6. The board's agreement with the auditor should include a requirement that management recommendations be included in the audit report when appropriate. These recommendations need to be addressed in an organized manner by the district's board and administration.

Standard: The board and administration should discuss its annual audit report at a public board meeting. The district's administration should implement the auditor's recommendations and fully document the reasons for rejecting those recommendations that are not accepted.

■ Has the board established a policy concerning follow-up action on audit recommendations? Yes      No  
\_\_\_\_\_