Understanding the Fiscal Black Hole

What School Site Leaders Need to Know

Dawnalyn Murakawa-Leopard, Ed.D.
Deputy Superintendent
Manhattan Beach Unified School District
dmurakawa@mbusd.org

Sheldon K. Smith, Ed.D., CBOE
Assistant Superintendent, Business Services
San Luis Obispo County Office of Education
ssmith@slocoe.org

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What’s Comin’

Five parts

1. SACS – District Budget
2. Fiscal Directors World
3. Auditors
4. MYP
5. Staying in your Box

Our Intent

- Understand the Business Office
- How your site can run better with the Business Office’s help
- No one in the Business Services world knows everything
- The Business Services world collaborates

“When we go into districts, we don’t find a whole lot of illegal, but we do find a whole lot of stupid...”

- Joel Montero, Exec Director Emeritus,
  Fiscal Crisis Management Assistance Team (FCMAT)
The district budget

- District Budget = the district’s educational program expressed in dollars.
- Money (most often) drives policy – so the budget is a policy document that reflects the district’s core mission and values.
- The district’s budget is essentially a plan for revenues and expenditures in a given fiscal year (including staffing).
- It serves as a roadmap for administrative and operational decisions.
- The budget is not intended to be static – it’s revised three times over the year.
Standardized Account Code Structure (SACS)

Fund

The fund that is receiving the revenue or expenditure:
- 01 – General Fund
- 11 - Adult Ed
- 13 – Cafeteria
- 14 – Deferred Maintenance
- 15 – Pupil Transportation Equipment
- 17 – Special Reserve Fund for other than Capital Outlay Projects
- 25 – Capital Facilities Fund (aka Developer Fees)
- 40 – Special Reserve Fund for Capital Outlay Projects

Resource

Used to identify the project:
- 0000 – General Fund
- 3010 – Title I
- 3012 – NCLB
- 3310 – Special Education
- 5310 – Child Nutrition

Restricted to expenditures within the resource / budget

Optional
**Project Year**

Used to identify project year (one-digit):
- 0 – Current year

Everyone just puts in "0"

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**Goal**

Provides framework for charging instructional expenses (4-digits):
- 1110 – Regular Education
- 3100 – Alternative Schools
- 3200 – Continuation Schools
- 3550 – Community Day Schools

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**Function**

Describes activities or services to complete a goal
- 1000 – 1999: Instruction
- 2000 – 2999: Instruction Related Services
- 4000 – 4999: Ancillary Service
- 5000 – 5999: Community Service
- 7000 – 7999: General administration functions
- 8000 – 8999: Maintenance / Plant Services

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**Object**

Classifies expenditures according to the types of items/services purchased:
- 1000 – 1999: Certificated Personnel
- 2000 – 2999: Classified Personnel
- 3000 – 3999: Employee Benefits
- 4000 – 4999: Books & Supplies
- 5000 – 5999: Services
- 6000 – 6999: Capital Outlay
- 7000 – 7999: Other Outgo
The Fiscal Director's World

Fiscal Directors are your friends...

Whew...
The Business Division Renders Stewardship

- All activities must be above board and ethical in appearance and fact.
- All actions defensible and clearly in the best interest of students & the district.
- Financial transactions and accounting must be auditable and appropriate.
- Effective expenditure plans must be developed
  - Saving money by not spending can be accomplished by a fool.

**District Budget Calendar**

- **July – August**: Revenue revision after State Budget Passage
- **September**: Financial Bonding / Construction
- **October**: First Interim Report Compilation
- **November**: First Interim Report to the Board/SBCEO (12/15);
  Multi-Year Projection Updated
- **December**: Second Interim Report to the Board/SBCEO (12/15);
  Multi-Year Projection Updated
- **January**: Governor's Budget Released
- **February**: Inform Groups of Draft 15-16 LCAP
- **March**: Second Interim Report to the Board (3/15)
- **April**: Enrollment Projections Update to Board
- **May**: Final Layoff Notices to Certificated (5/15)
- **June**: Public Hearing for 15-16 Budget

**Typical Budget Timeline**

- **April 15**: Governor’s Budget Released
- **May 15**: Governor’s Budget May Revise
- **June 15**: Budget First Reading
- **July 15**: Budget Approval
- **July 30**: Finalized LCAP
- **August 1**: Part I Consolidated Application Deadline

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**Adm Grace Hopper**
How the Fiscal Director Allocates your Site Budget

Auditors & The Audit

...it aint that bad if you are prepared. Oh, and the district pays for this scrutiny...

The Audit

- Audit—an detailed study (Knezevich & Fowlkes)
  - all books and accounts
  - subsidiary records and supporting documents
  - determines legality, mathematical accuracy, complete accountability, and application of accounting principles

- Other kinds of audits
  - special audits
  - pre-audits
  - continuous audits

The Audit

Goal: Ensure Generally Accepted Auditing Standards

Different Mindsets:

- **Substantive Audit**: Beating up the balance sheet, based on paper, numbers, forms, schedules, analysis, statutes.

- **Risk-Based Approach**: Target key areas, omit areas with low risk/impact, focuses on reasonableness & risk, typically more efficient to perform.
## Purpose

- Efficiency
- Sound practices
- Transparency
- Compliance with policies and procedures
- Categorical restrictions
- Limited exposure to theft/fraud

## Findings

<table>
<thead>
<tr>
<th>Finding</th>
<th>Action</th>
<th>Who</th>
<th>When</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.1 Fixed Asset Tracking</td>
<td>Re-establish procedures for tracking fixed assets. Re-establish tagging procedures. Perform physical inventory; continue every other year as per federal regulation.</td>
<td>Purchasing, Warehouse, I.T., Accounting</td>
<td>Process: March, Inventory: Spring-Summer</td>
</tr>
<tr>
<td>11.2 Carryover of unexpended ASB funds</td>
<td>Determine the use of the CD and bring into district accounting.</td>
<td>Accounting / Business Services, High School</td>
<td>Spring</td>
</tr>
<tr>
<td>11.3 ASB Cash Receipts</td>
<td>Reinforce proper cash handling practices, especially during large events. Will meet with all ASB clerks to reinforce practices at all sites.</td>
<td>Accounting / ASB</td>
<td>Winter / Spring</td>
</tr>
</tbody>
</table>

## Implications

- The audit report reflects on reputation of the district, the school, and the school administrator
- School administrators must protect school funds
- Efficiency and effectiveness require sound systems of accounting
**Signs of Fiscal Jeopardy (from the Auditor’s perspective)**

- Risk exposure
- Deficit spending
- Unresolved salary and benefit negotiations
- Declining enrollment
- Special education and other categorical encroachment
- Inadequate reserves

**The Multi-Year Projection (MYP)**

The district will be able to meet its financial obligations for the current & subsequent two fiscal years

Positive Certification

**AB1200 / AB 2756 - The Certifications - MYP**

- **Positive**
  - The district will be able to meet its financial obligations for the current & subsequent two fiscal years
- **Qualified**
  - The district **will not** be able to meet its financial obligations for the current & subsequent two fiscal years
- **Negative**
  - The district will be unable to meet its financial obligations for the remainder of the year and the subsequent fiscal year

**Ending Fund Balance**

- Year 1
- Year 2
- Year 3

© School Services of California
Which of the three are being honest?

- **Positive**: The district will be able to meet its financial obligations for the current & subsequent two fiscal years.
- **Qualified**: The district may not be able to meet its financial obligations for the current & subsequent two fiscal years.
- **Negative**: The district will be unable to meet its financial obligations for the remainder of the year and the subsequent fiscal year.

Why the Multi Year Projection?

It’s the bad decisions made in good times that bite us in bad times. There are no bad decisions made in bad times.

- Joel Montero, FCMAT Chief Executive Officer Emeritus
## Multiyear Effect of Expense Decisions

<table>
<thead>
<tr>
<th>Year</th>
<th>Beginning Balance</th>
<th>Revenues</th>
<th>Expenditures</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0</td>
<td>+10</td>
<td>-9</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>+10</td>
<td>-9</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>+10</td>
<td>-12</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
<td>+10</td>
<td>-12</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>+10</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td>-3</td>
</tr>
</tbody>
</table>

### Multi-Year Assumptions

**2017 – 2018**
- County Operations ADA 33,223.42
- Student Programs ADA 160.68
- Certificated / Classified Step & Column
- STRS/PERS Increase
- Adjust staffing ratios per enrollment
- Reduced contributions

**2018 – 2019**
- County Operations ADA 33,223.42
- Student Programs ADA 160.68
- Certificated / Classified Step & Column
- STRS/PERS Increase
- Reduce contributions
### Interim/Multi-Year Projections - Unrestricted

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues</th>
<th>Expenditures</th>
<th>Net Increase/Decrease</th>
<th>Beginning Balance</th>
<th>Fund Balance</th>
<th>Designated Reserve %</th>
<th>Minimum Reserve 3%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>11.9</td>
<td>12.7</td>
<td>-0.80</td>
<td>3.7</td>
<td>2.9</td>
<td>3.27%</td>
<td>0.080M</td>
</tr>
<tr>
<td>2016-17</td>
<td>11.8</td>
<td>12.0</td>
<td>-0.20</td>
<td>2.9</td>
<td>2.7</td>
<td>3.07%</td>
<td>0.080M</td>
</tr>
<tr>
<td>2017-18</td>
<td>12.0</td>
<td>12.1</td>
<td>-0.17</td>
<td>2.7</td>
<td>2.5</td>
<td>3.15%</td>
<td>0.073M</td>
</tr>
</tbody>
</table>

*Does NOT include Current Year Excess Property Taxes Reservation

### MYP Second Interim

<table>
<thead>
<tr>
<th>Year</th>
<th>Beginning Balance</th>
<th>Audit adjustment - LCFF</th>
<th>Revenues</th>
<th>Expenditures</th>
<th>Increase/Decrease</th>
<th>Ending Balance</th>
<th>Revolving Cash/Rest.Bal</th>
<th>Unappropriated Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>38.58</td>
<td>1.87</td>
<td>202.22</td>
<td>214.00</td>
<td>-11.78</td>
<td>24.93</td>
<td>12.30</td>
<td>6.27</td>
</tr>
<tr>
<td>2015-16</td>
<td>24.93</td>
<td>1.87</td>
<td>197.58</td>
<td>204.58</td>
<td>-7.00</td>
<td>17.93</td>
<td>10.88</td>
<td>6.08</td>
</tr>
<tr>
<td>2016-17</td>
<td>17.93</td>
<td>1.87</td>
<td>199.44</td>
<td>211.55</td>
<td>-12.11</td>
<td>5.82</td>
<td>10.02</td>
<td>6.31</td>
</tr>
</tbody>
</table>

**What is potentially wrong with this picture?**

- Identify three possible problems for this district.
- What action should the board and district take at this time?
Staying in your Box

Know the Big Picture

- What are the top three fiscal challenges facing your district right now? And why?
- What are your district’s top three spending priorities?
- What are your site’s top three spending priorities?

Work with the District Team

The responsibilities of the business office are huge:
- Accounting
- Budgeting
- Purchasing
- Technology
- Facilities
- Maintenance, operations, and grounds
- Food services
- Transportation
- Risk management and safety
- And any other operational, technical, or administrative matter

- Get to know the business office staff
- Keep in mind that they are not always educators – they often will speak and think differently than instructional folks
- Learn to speak their language!

Work with the District Team

A different language is a different vision of life.
- Federico Fellini
The Secret to School Site Budgeting?

As site leader, you may oversee several types of budgets.

The type of funds will depend on district protocols and fiscal practice:
- Site personnel, operations and administration
- Books and supplies
- Site discretionary funds
- Associated Student Body (ASB) funds
- Federal grants – Title I, Title II
- Clubs, parent groups, donations

Understand the rules of each – what you can, and what you can’t do.

You should be able to describe the basics of your site / program budget to your staff, parents, board members, and superintendent – what you spend, and why you spend it.

See your friendly neighborhood Fiscal Director / CBO

- Understand the CBO’s philosophy on site budgeting
- Ask about carry overs
- Ask about the dollars you control
- Reveal your special projects
- Ask about class size
- Bring your Admin Assistant

And . . . keep a checkbook register

The Secret to School Site Budgeting?

- Develop a budget process – determine a timeline, a team, and communication protocols
- Remember that the site plan must align with the District LCAP and the District budget
- Memorize your actions – text explanations should accompany your budgets to explain what you did, why, and when you did it
- Communicate proactively with your business office. If your plans change, make budget revisions to reflect the change
- Spend your most restricted and your most time-sensitive funds first
- Good balances are prudent – but remember that the money is meant for students, so spend it appropriately and in a timely fashion

The Secret to School Site Budgeting?

- Establish procedures to track expenditures and income.
- If you have a staff member acting as bookkeeper, be sure to monitor them.
- The administrator is ultimately responsible
- Follow district and board-adopted procedures. Know the fiscal and HR processes.
- Be careful with cash management and collection.
- Provide monthly reports to stakeholders and establish expectations for account reconciliation.
The Secret to School Site Budgeting?

- A great instructional leader should be a passionate advocate for their school and/or program.
- It’s ok to have a “push the envelope” mentality.
- But respect the fiscal process – understand how far the envelope goes. Timelines and procedures are there because they are required to be and because they protect you as an individual and the district as a whole.
- You don’t need to be a budget expert, but you do need to have a baseline competency and an understanding of budget concepts and technical practices.

Always keep in mind:
- Developing and implementing budgets is a critical skill for all site leaders.
- Your budget should align with your vision and goals and should help you tell your story.
- Knowing your budget and budgeting well increases your chances for success in all areas – student achievement, site management, instructional leadership.
- It can be a career ender if you don’t pay attention and get sloppy.

Business Services – It’s never dull

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