

REVIEWING REQUIRED FINANCIAL REPORTING

New Mexico School Boards Association
Board Institute Breakout
Friday, February 22, 2019
David Craig, Director
School Budget and Finance Analysis Bureau
Public Education Department

Introduction

- Overview of the legal requirements for statutorily required financial reporting.
- Discussion of common reports, and presented with some financial tools for analysis of reports.
- Examples will be provided of required reports and members will be provided with approaches to review.
- Emphasis will be on **practical** review from a finance perspective.
- This means we are going to break things down into plain English.
- Attempt to be **informal** yet still cover some advanced topics.

Legal Requirements

6.20.2.13 NMAC 1978G.

- Financial reporting: All school districts shall provide periodic financial information to the local board as prescribed by local board action. Information shall be presented at a regularly scheduled board meeting.

Legal Requirements

22-8-13.2. Financial reporting. (2011)

Statute text

- A. Each local superintendent or person in charge of the fiscal management of a charter school shall provide quarterly reports on the financial position of the school district or charter school, as applicable, to the local school board of the school district or the governing body of the charter school for use in reviewing the financial status of the school district or charter school. The department shall develop the forms to be used for the financial reporting required under this section. The forms shall provide for at least the following:
 - (1) a report on the **budget status** of the local school district or charter school, including the approved operating budget for revenues and expenses compared with year-to-date actual revenue and expenses;
 - (2) a statement of any **budget adjustment requests**;
 - (3) **cash reports**, including revenue, expenses, temporary loans and cash balances for operational, state and federal grants, capital outlay and debt service funds;
 - (4) **voucher reports**, including a list of issued warrants or checks;
 - (5) reports listing **procurement, travel or gas card expenses**; and
 - (6) **investment reports**.
- B. School districts and charter schools **shall post the reports required under Subsection A of this section on the school district's or charter school's web site.**
- C. As used in this section:
 - (1) "charter school" means a school organized as a charter school pursuant to the provisions of the Charter Schools Act [Chapter 22, Article 8B NMSA 1978]; and
 - (2) "governing body" means the governing structure of a charter school as set forth in the school's charter.

Commonly Presented Reports

- Budget Status
- BAR Report
- Cash Report
- Voucher Report
- P-Card Expenses
- Investments

Budget Status

- *What is it?*
- Point in time (monthly) report to show you how school district (actual) spending matches planned (budgeted) spending.
- *What is it telling me?*
- Generally, burn rates on your resources; how fast you are going through your funds.
- *Why do I care?*
- No dinero es no bueno. If you are burning through your funds set aside for specific line items you are going to have to move some money around (via a BAR).

Budget Status

- *Why do I care (continued)?*
- Also, because I/we/PED care.
- State law requires you to have budget authority before spending (i.e. authorizing, or creating a commitment for, an expenditure item) (6.20.2.10 NMAC 1978).
- If you all have spent more than your budget authority you have violated the law.
- Ultimately, designed to prevent you all from going into the red in any given year.
- Going into the red is also prevented by the State Constitution (Article IX, Section 11). Amounts by which a school district can issue debt in New Mexico are governed by this section and the use of borrowing money for current operations is prohibited (which is what you have done if you have spent money you don't have).

Budget Status Report

- *Overview*
- Most if not all Budget Status Reports will tell you at least a couple things:
 - 1.) Adopted/Approved/Adjusted budget
 - 2.) Year-to-date (YTD) Expenditure or revenue
 - 3.) Encumbrance (promises or commitments to pay that haven't hit the books)
 - 4.) Balance/Budget Balance/Percent Remaining
- *What Do I Need to be Reviewing?*
- Recommended to focus on over-encumbrances and budget balances.

Budget Status Report Examples

- What can we tell from this Budget Status report for this fund?
- 1.) We can see that we expected to spend \$34,000 and have spend \$44,612.28 to date
- 2.) We can see we are \$12,273.22 over budget (or 36.10%)
- 3.) We can tell this is a direct federal grant from the Fund series 25xxx

Expenditure Budget Balance Report

Fiscal Year: 2018-2019

Summary Only

From Date: 7/1/2018

To Date: 12/31/2018

Budget Balance

Account Number / Description

Budget

Range To Date

YTD

Balance

Encumbrance

% Remaining Bud

Account Number / Description	Budget	Range To Date	YTD	Balance	Encumbrance	% Remaining Bud
Fund: 25184 Indian Education (Title VII) EASIE Grant						31.92%
Fund 25184 Total:	\$34,000.00	\$44,612.28	\$44,612.28	(\$10,612.28)	\$1,660.94	(\$12,273.22) -36.10%

Budget Status Report Examples

- What might some good follow-up questions be (here's what I came up with for possible answers too)?
- Why are we spending more than we budgeted?
 - We got an increase in our award and it hasn't been reflected in the system.
 - We have a federal grant requirement to spend more than we received.
 - We have a pending BAR that hasn't hit the system yet because that darn PED won't get in there and approve it because they're out training School Board members or something.
- Can we expect to see a BAR?
- Is this balance from the current year?
- How is this impacting the Operational fund if it is covering this amount?

Budget Status Examples

- Other Financial Analysis (Moderate/Advanced)
- Fund by Function Analysis – Sum up the totals of all function level revenues and expenditures to determine if it ties to budget. Helps determine if budget maintenance is performed timely.
- Encumbrance analysis – Sum encumbrances across a fund or function to determine how much your entity has committed to spend in the future in certain areas.
- Budget Balance Analysis – Determine where available budget authority is that you may not be able to use (identify vacancy savings).

BAR Report

- *What is it?*
- A summary of where your entity has moved money around (and where it is proposing to move money around) in your spending plan.
- *What is it telling me?*
- What items had excess money to take from and where your entity put it for unanticipated new monies coming in or expenditures.
- *Why do I care?*
- Maybe you agree the line we took from had an excess and maybe you don't.
- If you have money being moved to cover expenses in one area then you don't have money for other expenses.
- If you have unplanned revenues you may want determine if they are one-time or if you need to plan for them next year.
- Necessary to maintain budgetary control (not spend more than you have).

BAR Report

- *Overview*
- Everyone has BAR's – because you need a BAR does not mean you did something wrong in developing your Operating Budget.
- At Operating Budget development, we do not have perfect information on what revenues are going to come in at any level.
- At most we have estimates – best guesses.
- When amounts come in lower or higher, folks have to accordingly adjust their spending plan, and therefore ability to spend.

BAR Report

- Roll-up functions are the demarcation line for rules of engagement.
 - Within the roll-up functions are the maintenance (or “intra-budget transfer” BAR) that school districts can do without PED approval.
 - When you transfer funds across functions (or “inter-budget transfer” BAR), request an increase or Decrease BAR, or develop an initial BAR (for say a mid-year grant award) – then you must seek PED approval.
 - You must get approval before you spend!!!
- Failure to perform timely budget maintenance (move monies around with a BAR) can result in lack of budgetary control.
- In plain English, without timely BAR’s you are spending money you don’t have.

BAR Report

- *What Do I Need to be Reviewing?*
- It is recommended that you look at:
 - The type of BAR;
 - Where you are moving money from; and
 - Where you are moving money to.
- This will help tell you how the school district is planning to cover the revenue shortfall or spend the increase.
- It will also tell you whether or not they are moving money at all or if this is just an overall increase or and overall decrease.

BAR Report

- Overview of the **Five Types of BARS**
 - **Increase BAR** - Increases budget authority upon receipt of revenue related to an appropriation, special project or program [REQUIRES BOARD/PED APPROVAL].
 - **Initial BAR** – A type of Increase BAR that establishes budget authority for a fund for which prior budget authority does not exist [REQUIRES BOARD/PED APPROVAL]
 - **Decrease BAR** – Decreases budget authority if anticipated revenue is not recognized [REQUIRES BOARD/PED APPROVAL].
 - **Intra-Budget (“Maintenance”) Transfer BAR** – Transfers budget authority between object codes within a function [REQUIRES ONLY BOARD APPROVAL].
 - **Inter-Budget (Functional) Transfer BAR** – Transfers authority across function codes [REQUIRES BOARD/PED APPROVAL].
- Some administrations will just provide the actual BAR reports. This is fine. As long as it shows what type of BAR, where the money is being moved from and to, what is being requested and the status it is acceptable. And these forms do so. We will look at them in a bit.

BAR Report

- *What Do I Need to be Reviewing?*
- Does where you are moving the money to and from make sense? Examples:
 - If you are moving it from a position you couldn't get hired that may make some sense.
 - If you are moving it from Board travel and training – then you all may have some questions.
- Are we maintaining budgetary control and ensuring we have budget before we commit to spend monies?
- Look at the funds that need adjustments. Is it the same fund every time? If so, what can we do better to predict revenues/expenditures?

BAR Report Examples (Initial)

Must submit backup for all BARs, except transfers of funds for SEG or direct grants

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
 300 Don Gaspar Santa Fe, NM 87501-2786
Budget Adjustment Request

Doc. ID: 065-000-1-1000-1000
 Fund Type: Flowthrough

Adjustment Type: Initial Budget

Fiscal Year: 2018-2019

Entity Name: [Redacted]
 Contact: Bryan Ruyhan, E... Manager
 Phone: [Redacted]
 Email: [Redacted]

Adjustment Changes Intent/Scope of Program Yes or No?: No

Total Approved Budget (Flowthrough):

FLOWTHROUGH ONLY
Budget Period: 07/01/2018 To: 06/30/2019
A. Approved Carryover:
B. Total Current Year Allocation: 18,032
D. Total Funding Available: 18,032

Revenue 24115.0000.44500 \$18,032

Fund	Function	Object	Program	Job Class	Present Budget	Adj Amt Exp	Adj Budget	ADD'L FTE
24115 IDEA – Private Schools Share	1000 Instruction	56118 General Supplies and Materials	2000 Special Programs	0000 No Job Class		\$10,000	\$10,000	
24115 IDEA – Private Schools Share	2100 Support Services-Students	53212 Speech Therapists - Contracted	2000 Special Programs	0000 No Job Class		\$8,032	\$8,032	
Sub Total						\$18,032		

BAR Example (Transfer/Maintenance)

Must submit backup for all BARs, except transfers of funds for SEG or direct grants

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
 300 Don Gaspar Santa Fe, NM 87501-2786
Budget Adjustment Request

Doc. ID: [REDACTED]

Fund Type: Flowthrough

Adjustment Type: Maintenance

Fiscal Year: 2018-2019

Entity Name: Espanola

Adjustment Changes Intent/Scope of Program Yes or No?: No

Contact: [REDACTED]

Total Approved Budget (Flowthrough):

Phone: [REDACTED]

Email: [REDACTED]

FLOWTHROUGH ONLY	Budget Period: 07/01/2018	To: 06/30/2019
A. Approved Carryover:		
B. Total Current Year Allocation:		
D. Total Funding Available:		

Fund	Function	Object	Program	Job Class	Present Budget	Adj Amt Exp	Adj Budget	ADD'L FTE
24101 Title I - ESEA	2100 Support Services-Students	55818 Other Travel - Non-Employees	0000 No Program	0000 No Job Class	\$20,645	(\$13,000)	\$7,645	
24101 Title I - ESEA	2100 Support Services-Students	51300 Additional Compensation	0000 No Program	1211 Coordinator/Su bject Matter Specialist		\$13,000	\$13,000	
Sub Total						\$0		
Indirect Cost								
DOC. TOTAL						\$0		

Justification:

Maintenance BAR to allocate more funds for Additional Comp from Parent Travel in Function 2100.- [REDACTED]

Cash Report

- *What is it?*
- Tells you your cash position by fund after all of the revenue and expenses are taken into account.
- *Why do I care?*
- Monitoring your cash position is important because you can have budget and planned revenues and expenses that don't come in and cause cash flows issues (things get tight).
- I personally believe that a lack of monitoring of cash reports is a big part of why school districts and charter schools get in trouble.
- *What is it telling me?*
- Where you may have cash flows issues (be tight on cash).
- You can quickly look at a cash report and see where the Operational fund is loaning out funds and where RfR's still need to be filed.
- Together with the budget report you can also determine what revenues and major expenses still need to hit fund balance.

Cash Report

- Overview
 - Get the PED submitted **cash report quarterly** (or monthly by reporting status).
 - Need to see **cash reconciliation** piece **monthly**
- *What Do I Need to be Reviewing?*
- Cash reconciliation ties money in the bank (in hand) to money in the General Ledger (on the books).
- This report shows that you don't have a variance between money in the bank and what is on your books.
- The cash report shows you where there is interfund activity in outstanding loans.
- This is where your cash is tied up waiting on RfR's.

Voucher Report

- *What is it?*
- A list of all payroll expenditures and payables made during the period (month/quarter).
- *Why do I care?*
- Tells you the nature of spending habits of the entity in more detail.
- *What is it telling me?*
- Who got paid what and when.
- For example, if a constituent is calling you telling you they didn't get paid or a contractor is complaining about timely payment, this will help you answer those types of questions.

Voucher Report

- *Overview*
- Probably the piece that folks spend the most time on.
- This is a list of everything getting paid.
- There are probably 180 plus ways this is presented.
- Most folks are giving the school boards a payroll report and an Accounts Payable (A/P) Report.
- *What Do I Need to be Reviewing?*
- Review vendors names and ensure they reflect your understanding of the relationships the district/school has.
- Perhaps you have views on local versus outside vendor spending
- Look for trends – are we always having to contract out for ancillary? Why is that approach better or worse than hiring a special education teacher long term that can provide those services? Can you even find a special education teacher that can provide those services?
- Look for possibilities to discuss cost savings versus quality of service.

P-Card Report

- *What is it?*
- Who spent what on the p-card; usually gas/travel.
- *Why do I care?*
- Though not a credit card – it can be used like one. And we all know how
- *What is it telling me?*
- Who used the P-card and for what purpose.
- *Overview*
- Not going to spend a lot of time on this other than to say you should take a look at it if you are not; it looks like a credit card statement in most instances.
- Obviously, Board members want to monitor usage to ensure there is no *appearance* of impropriety.

P-Card Report

- *What Do I Need to be Reviewing?*
- We recommend Board members skim it for anything that looks out of place.
- Things that could include are: repeated and frequent usage by the same school district personnel, frequent purchases at the same vendor, or something really egregious.
- If you see things related to these common risk areas, you may want to look at management's controls over the purchase card to ensure safeguarding of assets is occurring.
- If you see something, ask something – most times administration will have an answer.
- There are very legitimate reasons why the same staff member may be purchasing or a vendor only accepts a P-Card. But you won't know if you do not ask.

Investments

- *What is it?*
- A list of short-term and long-term investments. Many times folks get this at the end of the year, or only when there has been a change in the investment structure.
- *Why do I care?*
- It's all the entity's money.
- *What is it telling me?*
- What your investments are in (certificates of deposit or local government investment pool), whether they are short term (invested for less than a year) or long term (greater than one year), who the investment is with and sometimes an investment strategy.

Investments

- *Overview*
- Having short term and long-term investments is a good way for school districts and charter schools to build wealth with funds that are not in use. However, the use of investments is limited to the availability of funds.
- *What Do I Need to be Reviewing?*
- Allocation by fund – are we investing classroom or capital outlay dollars?
- You don't need to be the Wolf of Wall Street to oversee investments.
- Questions to consider are:
 - Are the funds needed to be deployed before the target investment expiration date?
 - What could cause these funds to need to be liquidated?
 - Is the investment conservative and prudent?
 - Is the investment provider reputable?
 - What are other prudent investment strategies through which these funds could be deployed?

Summary

- Function over Form!
 - Try not to get hung up if your administration officials are presenting the information in a manner that is different than the examples – it is likely the information is in what is presented to you.
 - PED has always taken the position that the form of the report can vary as long as it contains the information in the handouts.
 - DO ask where you can find information from what we spoke about today in your reports.
- Your Reports!
 - Remember when I highlighted and underscored as prescribed by local board action?
 - You can and should get what you and your fellow Board members think is appropriate given the minimum requirements in law.
 - This can be more and go further than what is the legal minimum and/or you can have summary reports provided to you.

Summary

- **Contracts and Payables are Important – But so is Budget!**
 - Many school board members are concerned over spending patterns at the school district (who got what).
 - Paying your bills on time is important – I won't deny that.
 - But so is ensuring that you are working within your Board approved spending plan by taking a closer look at the Budget status, BAR and cash reports.
 - We need to be ensuring that our school district is within the law and isn't running into cash flows problems later on.
 - You can ensure that everyone in the world is getting paid and the contracts are all on the up and up and still spend way too much money, blow budget, end up in the red and without money or spending money that was set aside for other things.

Summary

- **THERE IS NO MONEY FAERIE!**
 - School boards and school district administrations have to have tough conversations about expenditures if revenues don't materialize.
 - School districts and charter schools cannot simply spend into the red to avoid tough conversations regarding reductions in force, school closures or program realignment in any given fiscal year.
 - PED may be doing due process (including launching investigations into school district and charter school Superintendents/Head Administrators or licensed school business officials) of school districts that close in the red in the Operational fund of any given year.
 - If you think this is a problem for you – you need to reach out and start working to correct it.
 - Problems in one year will never disappear the next, no matter how much additional money comes in the door, as most of that money has strings attached to it too.

Summary

- There is No Problem We Can't Handle Together!
 - If you encounter issues with your administration have them reach out so we can work on cleaning up your books.
 - Here is a list of some of the issues we are currently working through with districts/charters:
 - Theft of funds
 - Bank to book variances
 - Inability to determine fund balances
 - Failure to account for inter-fund activity over 15 years
 - Improper governance by school boards
 - Lack of cash basis accounting and reporting
 - Loss of general ledger information
 - The point here is there is nothing you are encountering that we haven't helped out on before.

Summary

- Remember the Duties and Obligations of the School Board (HB 212)
 - The purpose of financial oversight is to hold the administration (Superintendent) accountable for the affairs of the school district.
 - It is not designed to direct personnel decisions or steer contracts.
 - It **IS** designed to ensure that the school district personnel are overseeing finances of the school district in a prudent and sound manner.
- Remember you may be Liable for Financial Mismanagement
 - If the IRS comes knocking for failure to pay withholding they can come knock on your door at home.
 - What can you do about that?
 - Well there are always insurance products like O&E or Directors and Officers – but probably the best safeguard is to not be afraid to ask questions about the financial packet of information and dig into it.

Questions/Discussion

- Please feel free to ask any questions or discuss any issues you may have.