CHAPTER 7 – FINANCIAL MANAGEMENT

BACKGROUND

Sound financial management enables school districts to meet the challenge of satisfying the dual demands of educating America's children while balancing limited financial resources. Sound financial management ensures that school districts receive and secure all available revenues; make sound financial decisions; develop and monitor budgets; establish strong internal controls; issue timely, accurate, and relevant financial reports; and comply with internal policies and procedures as well as external laws and regulations.

An independent school district's financial management function administers a district's financial resources and plans for its priorities. Administration may include budget preparation, accounting and payroll, administrative technology, tax appraisal and collection, and auditing. Planning may include developing a long-range strategy, aligning spending priorities with the strategies, identifying and allocating resources, assigning tasks and establishing schedules with milestones.

Lamar Consolidated Independent School District's (LCISD) financial management functions include budgeting, accounting, payroll, accounts payable and receivable, cash and investment management, purchasing, asset and risk management, bond planning, debt management, and external auditing activities. The risk management function resides in the Human Resources Department; however, the chief financial officer (CFO) participates in the management of the self-insured health insurance plan.

Budget development and monitoring include all activities necessary for the district to meet statutory requirements to balance its resources with its obligations through a spending plan authorized by the governing board and executed by staff.

Managing accounting, accounts payable, and payroll includes developing internal controls and safeguards, reporting account balances, and scheduling disbursements to maximize funds. Management of this area includes segregation of duties, use of financial software systems, and providing staff training.

> ### CHAPTER HIGHLIGHTS
>
> - LCISD participates in the Alliance for Excellence in School Budgeting (the Alliance), an initiative that will enable the district to enhance its budget process.
> - LCISD uses an innovative approach to selling surplus property online, using a web-based auction service similar to eBay.
> - Linking spending priorities to board initiatives or to a long-range strategic plan would enable the district to better plan for and manage limited resources.
> - Formal, comprehensive policies and procedures in the Business Department would strengthen internal controls and preserve institutional knowledge by describing how critical financial and accounting related tasks are to be performed.
> - Leveraging technology and the existing capabilities of the financial system would make the accounts payable process, capital assets inventory, and textbook inventory more efficient and less manually intensive.
> - Better control over approximately $2 million in student and campus activity funds would reduce the risk of fraud and mismanagement of these funds.

Texas state law requires all school districts to have an external auditor review the district's compliance with established standards and practices. The audit provides an annual financial and compliance report, an examination of the expenditure of federal funds, and a report to management on internal accounting controls.

An independent school district's asset and risk management function controls costs by ensuring that the district is protected against significant losses with the lowest possible insurance premiums. This protection includes the identification of risks and methods to minimize their impact. Risks can include investments, liabilities, capital assets, and insurance. Managing investments includes identifying those with maximum interest-earning potential while safeguarding funds and ensuring liquidity to meet fluctuating cash flow demands.

Forecasting and managing revenue includes efficient tax collections to allow a district to meet its cash flow needs, earn the highest possible interest, and estimate state and federal funding. Capital asset management should

identify a district's property (e.g., buildings, vehicles, equipment) and protect it from theft and obsolescence. Insurance programs cover employees' health, workers' compensation, and district liability.

School districts in Texas are required to follow federal and state laws and procedures applicable to purchasing. The purpose of competitive bidding requirements found in the Texas Education Code (TEC), Section 44.031, is to stimulate competition, prevent favoritism, and secure the best goods and services needed for district operations at the lowest possible price. The Texas Education Agency (TEA) developed a comprehensive purchasing module in the Financial Accountability System Resource Guide (FASRG), which is available as a resource for district purchasing.

An independent school district's purchasing function is responsible for providing quality materials, supplies, and equipment in a timely, cost-effective manner. Purchasing includes identification and purchase of supplies, equipment, and services needed by the district, as well as the ordering, storage, and distribution of goods including textbooks and other instructional materials.

LAMAR CONSOLIDATED ISD AND PEER DISTRICT BUDGETS

Lamar Consolidated ISD (LCISD) receives financial resources from state, federal, and local sources. Sixty percent of LCISD's revenue is from local sources, 98 percent of which constitutes property taxes. In comparison to the peer districts, local sources, as a percentage of total revenue, is 40 percent for Spring ISD and 64 percent for Clear Creek ISD. LCISD receives 39 percent of its revenue from state sources compared to 58 percent and 33 percent for Spring ISD and Clear Creek ISD, respectively. **Exhibit 7-1** summarizes Fiscal Year 2017 budgeted revenues for LCISD and the peer districts.

Exhibit 7-1
Fiscal Year 2017 Budgeted Revenue
LCISD and Peer Districts (In Thousands)

Source	LCISD	LCISD %	Spring	Spring %	Clear Creek	Clear Creek %
Local	$147,768	60%	$118,235	40%	$208,505	64%
State	97,669	39%	175,410	58%	110,170	33%
Federal	1,725	1%	5,500	2%	5,135	2%
Other	0	0%	0	0%	2,050	1%
Total Revenue	**$247,162**	**100%**	**$299,145**	**100%**	**$325,860**	**100%**

Source: LCISD and Peer Fiscal Year 2017 Budgets, February 2017.

LCISD spends 62 percent of its budget on instruction compared to 62 percent and 63 percent for Spring ISD and Clear Creek, respectively. Plant maintenance and operations comprises 12 percent of LCISD's budget and is the second highest expenditure. Plant maintenance and operations is also the second highest peer expenditure for Spring and Clear Creek comprising 9 percent for both districts. General administration comprises 2 percent of total expenditures for LCISD and Clear Creek and 5 percent for Spring ISD. **Exhibit 7-2** summarizes Fiscal Year 2017 budgeted expenditures by function for LCISD and the peer districts. Function describes the purpose of the expenditure.

Exhibit 7-2
Fiscal Year 2017 Budgeted Expenditures by Function
LCISD and Peer Districts (In Thousands)

Function	LCISD	LCISD %	Spring	Spring %	Clear Creek	Clear Creek %
Instructional	$153,872	62%	$186,280	62%	$203,777	63%
Instructional Resources & Media Services	1,383	1%	2,839	1%	4,177	2%
Curriculum/Staff Development	2,696	1%	3,291	1%	6,420	2%
Instructional Leadership	1,950	1%	5,497	2%	2,958	1%

Function	LCISD	LCISD %	Spring	Spring %	Clear Creek	Clear Creek %
School Leadership	15,018	6%	18,241	6%	20,249	6%
Guidance and Counseling	8,356	3%	10,462	3%	11,271	3%
Social Work Services	394	0%	341	0%	716	0%
Health Services	3,000	1%	2,830	1%	3,197	1%
Student (Pupil) Transportation	10,510	4%	12,878	4%	11,141	3%
Food Service	66	0%	0	0%	298	0%
Co-Curricular Activities	6,555	3%	4,977	2%	7,363	2%
General Administration	5,949	2%	12,879	5%	6,877	2%
Plant Maintenance & Operations	28,764	12%	27,089	9%	29,294	9%
Security & Monitoring Services	2,465	1%	5,474	2%	3,473	1%
Data Processing Services	4,578	2%	3,675	1%	7,226	2%
Community Services	283	0%	467	0%	109	0%
Facilities Acquisition & Construction	0	0%	151	0%	0	0%
Fiscal Agent/Shared Services Arrangement	0	0%	50	0%	651	0%
Alternative Education	0	0%	75	0%	0	0%
Payment to Tax Increment Zone	0	0%	450	0%	$0	0%
Intergovernmental Charges	1,323	1%	1,200	1%	2,225	1%
Other Uses/Non-Operating Expenditures	$0	0%	$0	0%	4,400	2%
Total Expenditures	**$247,162**	**100%**	**$299,146**	**100%**	**$325,822**	**100%**

Source: LCISD and Peer Fiscal Year 2017 Budgets, February 2017.

When comparing LCISD and peer costs by object, payroll costs represent the highest expenditure for LCISD and the peer districts. Payroll costs comprise 84 percent of LCISD's total budgeted expenditures for Fiscal Year 2017, while Spring ISD's and Clear Creek ISD's payroll costs comprise 87 percent of their total budgeted expenditures. Payroll costs are the most significant component of a school district's budget comprising 80-90 percent of the total. LCISD and its peers are within this range. **Exhibit 7-3** summarizes Fiscal Year 2017 budgeted expenditures by object for LCISD and the peer districts. Object describes the type of expenditure.

Exhibit 7-3
Fiscal Year 2017 Budgeted Expenses by Object
**LCISD and Peer Districts (In Thousands)**

Object	LCISD	LCISD %	Spring	Spring %	Clear Creek	Clear Creek %
Payroll Costs	$207,709	84%	$260,632	87%	$280,044	87%
Contracted Services	23,095	9%	23,076	8%	22,734	7%
Supplies and Materials	10,653	5%	9,867	3%	12,191	4%
Other Operating Costs	4,865	2%	5,222	2%	6,388	2%
Capital Outlay	841	0%	348	0%	64	0%
Total Expenditures	**$247,163**	**100%**	**$299,145**	**100%**	**$321,421**	**100%**

Source: LCISD and Peer Fiscal Year 2017 Budgets, February 2017.

## ORGANIZATION CHART OF FUNCTIONS AND STAFFING

LCISD's financial management functions are in the Business Department under the direction of the CFO who reports to the superintendent. In addition to financial management, purchasing, and warehousing functions, the CFO also oversees food service and student accounting. Financial management functions under the CFO's oversight include budgeting and financial reporting, payroll, accounts payable, grants accounting, student activity funds, cash management, and investments. The CFO also has a role in bond planning, debt management, and supports management of the self-funded health plan. The Finance and Budget & Treasury Departments also assist in monitoring and operating the plan.

With respect to financial management functions, the CFO has an administrative assistant and three finance-related direct reports. **Exhibits 7-4** and **7-5** present the organization of the Business Department. The organization charts only show financial management functions. **Exhibit 7-4** presents the Finance organization; **Exhibit 7-5** presents the Purchasing and Budget & Treasury organization. Exhibit 7-5.1 presents the food services and student accounting organization, which are also under the supervision of the CFO. However, in Chapter 1 of this report a recommendation is being made to move Food Services to Operations. Neither of the organization charts below include risk management functions or property casualty and worker's compensation insurance. These functions, although considered financial management functions for purposes of this review, are under the Human Resources Department organization.
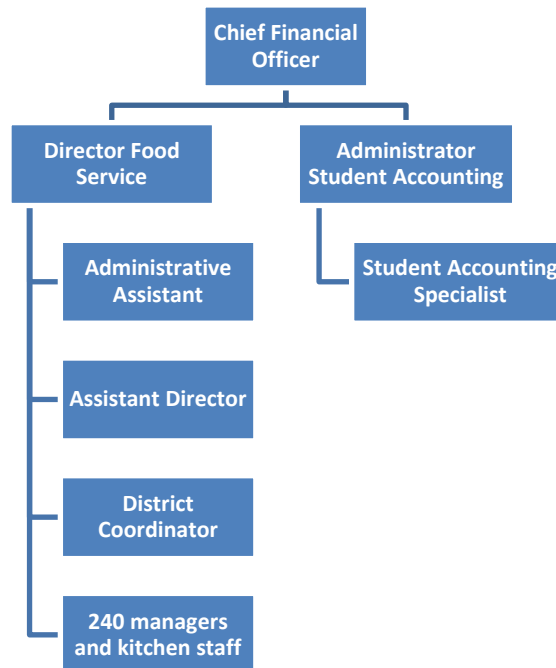
Exhibit 7-4
Financial Management Organization
Finance
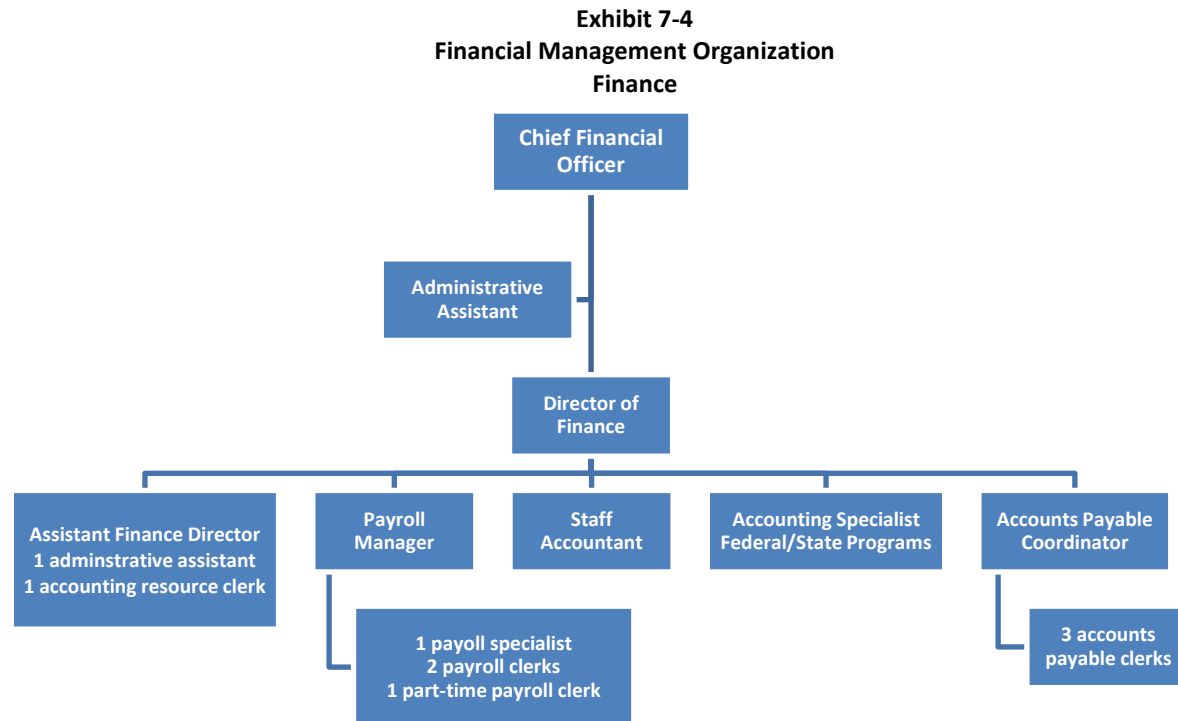
Source: LCISD Administration, February 2017.

Exhibit 7-5
Purchasing/Budget & Treasury Organization
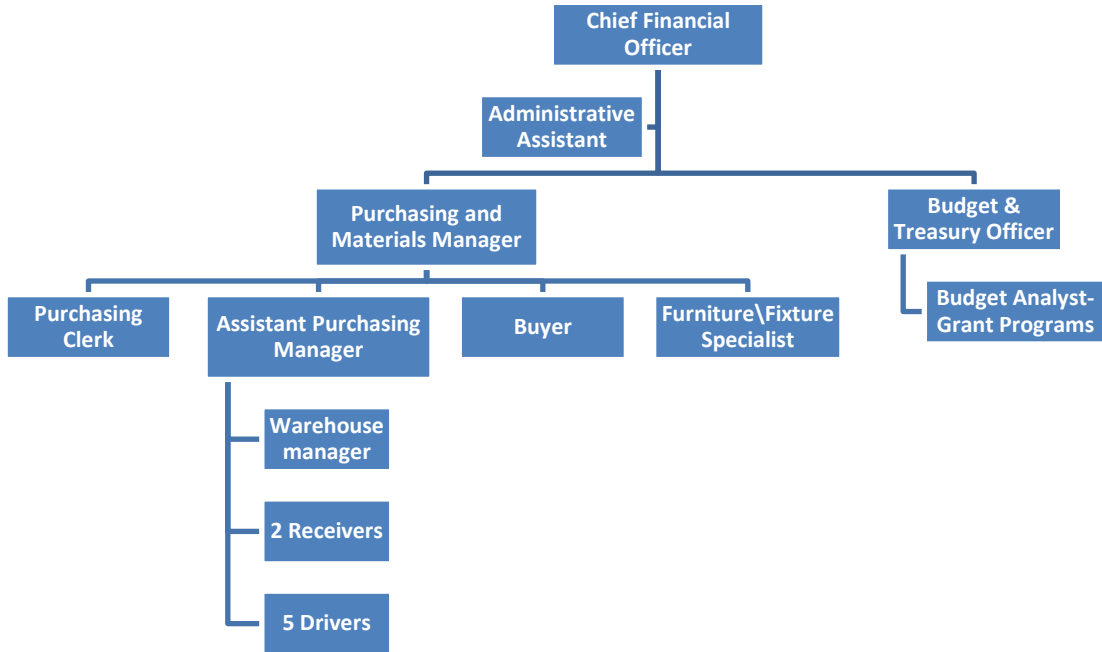
Source: LCISD Administration, February 2017.

Exhibit 7-5.1
Food Service and Student Accounting Organization

Source: LCISD Administration, February 2017.

The Business Department has 31.5 full-time equivalent staff and a Fiscal Year 2017 Budget of approximately $2.4 million as shown in **Exhibit 7-6.**

Exhibit 7-6
Fiscal Year 2017 Business Department Budget & Staff

Description	CFO	Budget & Treasury	Purchasing	Finance & Payroll	Warehouse & Property Management	Total
FY 2017 Budget	$373,934	$159,943	$414,194	$1,033,626	$383,934	$2,365,631
ORGANIZATION CHART STAFF COUNT						
Chief Financial Officer (CFO)	1					1
CFO Administrative Assistant	1					1
Director Finance				1		1
Administrative Assistant-Finance				1		1
Assistant Director-Finance				1		1
Payroll Manager				1		1
Payroll Specialist				1		1
Payroll Clerks				2.5		2.5
Staff Accountant				1		1
AP Coordinator				1		1
Accounts Payable Clerks				3		3
Accounting Specialist				1		1
Accounting Resource Clerk				1		1
Purchasing & Material Manager			1			1
Purchasing Clerk			1			1
Assistant Purchasing Manager			1			1
Warehouse Manager					1	1
Receivers					2	2
Drivers					5	5
Buyer			1			1
Furniture Fixtures & Equipment Specialist			1			1
Budget & Treasury Officer		1				1
Budget Analyst		1				1
Total Staff	**2**	**2**	**5**	**14.5**	**8.0**	**31.5**

Source: LCISD FY 2017 Budget and Business Department Organization Chart, February 2017.

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

BEST PRACTICES

Best practices are methods, techniques, or tools that have consistently shown positive results, and can be replicated by other organizations as a standard way of executing work-related activities and processes to create and sustain high performing organizations. When comparing best practices, similarity of entities or organizations is not as critical as it is with benchmarking. In fact, many best practices transcend organizational characteristics.

McConnell & Jones LLP (or the review team) identified **23** best practices against which to evaluate the financial management functions of LCISD. **Exhibit 7-7** provides a summary of these best practices. Best practices that LCISD did not meet resulted in observations, which are discussed in the chapter. However, all observations in the chapter are not necessarily related to a specific best practice.

Exhibit 7-7
Summary of Best Practices – Financial Management

Best Practice Number	Description of Best Practice	Met	Not Met	Explanation
1.	Use a website as a means of communicating financial information to citizens and other interested parties.	X		LCISD's website at: http://www.lcisd.org/departments/business-office/budget-and-treasury-office provides purchasing, budget, debt, and tax information.
2.	Establish a budgeting process that provides principals the flexibility and discretion to allocate resources (people, time, and money) according to their school's needs.	X		Campus staff enter their own budgets in the Munis system and can review and monitor them. Campuses manage their budget line items and can initiate budget transfers with central office approval and oversite.
3.	Link budgeted spending priorities to a long-range strategic plan that defines goals, objectives, and initiatives established by the governing board.		X	LCISD does not link spending priorities to board initiatives or a long-range strategic plan. Currently the budget process builds on the previous year's budget with some flexibility for making adjustments within established parameters. **See Observation 7-1**
4.	Prepare a budget document that achieves goals established by the Government Finance Officers Association; incorporates a long-term perspective; links to organizational goals established by the governing board; focuses decisions on results and outcomes; and serves as a communications device and source of information about the district's inner workings.		X	The district's budget document does not provide information about how the budget was developed, the inner workings of the district, or how the budget fits into the district's long- and short-term strategic objectives. **See Observation 7-2**
5.	Distribute a budget calendar and written budget instructions that provide an overview of the budget process as well as budget preparation tools such as templates and specific line-item instructions for certain budget items.	X		At the beginning of each calendar year, the CFO issues budget preparation materials to campuses and departments. The packet contains: (1) General Tips for Budgeting; (2) Budget Planning Calendar; (3) Tips for Account Coding; (4) Funding Allocations; (5) Procedures for Munis Budget Entry; and (6) Budget Planning Worksheets available in Munis.

Best Practice Number	Description of Best Practice	Met	Not Met	Explanation
6.	Document accounting policies and procedures. Advances in technology have made available more effective methods than a hard copy manual. The policies and procedures should be updated periodically. Periodic reviews should be updated in the documentation promptly as they occur.		X	LCISD's Business Department's documented policies and procedures are fragmented and inconsistent. The department lacks a formal, comprehensive policies and procedures manual that describe how all critical financial and accounting related tasks are to be performed and that have process for keeping the policies and procedures updated. **See Observation 7-3**
7.	Use performance measures to manage the accounts payable function through metrics such as payment efficiency and discounts taken.		X	Accounts Payable staff do not use performance measures to manage the accounts payable function. Activities and tasks are transaction based with no strategic focus on efficiency or process improvement. **See Observation 7-4**
8.	Convert paper invoices to electronic format via scanning as soon as they arrive in the Accounts Payable Department. Once scanned, enter the invoices into automated workflow so that paper invoices are reduced or eliminated.		X	The accounting resource clerk date stamps invoices upon arrival in the Accounts Payable Department and distributes them to the responsible accounts payable clerk. Accounts payable clerks send the original stamped, marked-up invoice to the user for approval. **See Observation 7-4**
9	Student and campus activity funds should be subject to strong internal control procedures using a financial accounting system that facilitates transaction recording, reporting, and analysis.		X	Although LCISD's student activity accounting system provides basic accounting functionality such as cash receipts and disbursements, general ledger, and rudimentary reporting, it lacks the functionality of modern accounting and bookkeeping applications. Moreover, school secretaries handle more than $2 million in campus and student activity funds with little oversight or internal control. **See Observations 7-5** and **7-6**
10.	Strive to pay 100 percent of employees electronically.		X	The district does not have a plan encouraging 100 percent direct payroll deposit participation. Although 96 percent of LCISD's employees receive their pay through direct deposit, the district does not have a plan to require all employees to use direct deposit. **See Observation 7-7**
11	Use innovative banking technology to optimize cash flow, maximize investment returns, and streamline cash management.		X	LCISD does not use remote deposit capture technology to streamline bank deposits and improve cash management through faster check cashing. **See Observation 7-8**

Best Practice Number	Description of Best Practice	Met	Not Met	Explanation
12.	Streamline the payroll process by using electronic devices to capture time worked and integrated systems to account for employee leave accrued and taken.		X	Employees either clock in and out using time clocks strategically placed at their work location or they can log into the system from their desktop and enter their time for the day. However, LCISD's process for identifying and tracking employee leave and absences is manually intensive, and the district's timekeeping system requires upgrades to strengthen internal controls and eliminate the need for manual data entry. **See Observation 7-9**
13.	Procedures exist to ensure timely collection of outstanding accounts receivable and to minimize uncollectible accounts and write-offs.		X	The district had $331,343 employee and facility rental accounts receivable outstanding as of January 31, 2017 due to poor processes and controls. The district has not hired a collection agency to recover the receivables. **See Observation 7-10**
14.	Establish processes for inventorying capital assets and textbooks on a periodic basis, and ensure that such assets are properly accounted for and safeguarded.		X	LCISD does not have an effective capital assets management process to tag and inventory fixed and controllable assets. In addition, the district does not use the full capabilities of its automated textbook inventory system. **See Observations 7-11** and **7-15**
15.	Implement a district-wide safety program to reduce worker's compensation costs.		X	LCISD does not have a district-wide safety awareness and training program to minimize worker's compensation claims. **See Observation 7-12**
16.	Centralize the procurement of goods and services to ensure consistent application of policies and increase cost effectiveness.	X		LCISD's procurement process is centralized. Users submit requisitions, which are approved through workflow. The purchasing manager provides the final approval and converts the requisition to a purchase order. The buyer determines the best procurement method, works with users to develop specifications, and facilitates the bid process.
17.	Establish a contract management program requiring a minimum threshold at which a contract must be prepared, legal review of contracts to mitigate shortcomings or risks to which the entity may be subjected, contract list, and periodic contractor performance evaluation.		X	The district does not have an effective contracts management process to monitor contract compliance and evaluate vendor performance. **See Observation 7-13**
18.	Use commodity codes to classify goods to facilitate procurement of materials and supplies and to promote compliance with aggregate purchasing laws.		X	The district does not use commodity codes to track expenditures or to distribute responsibilities for approving purchasing orders for select categories of goods and services. **See Observation 7-14**

Best Practice Number	Description of Best Practice	Met	Not Met	Explanation
19.	Utilize an entity-wide electronic purchasing module to capture and route purchase requisitions along a pre-defined approval pathway to issue authorized purchase orders. Electronic workflow system provides users and purchasing staff real-time information regarding the requests, authorizations, and processing time.	X		Users submit requisitions, which are approved through workflow. The purchasing manager provides the final approval and converts the requisition to a purchase order.
20.	Utilize cooperative agreements and purchasing consortiums to maximize purchasing power and efficiencies.	X		LCISD participates in a number of purchasing cooperatives including the following examples, which are not all inclusive: – Region 4, 6, and 20 Education Service Centers – Buyboard – Harris County Department of Education – Department of Information Resources – Houston Galveston Area Council – National Cooperative Purchasing Alliance
21.	Establish thresholds at which purchasing staff is required to obtain competitive bids and quotes in order to receive the best value. Retain evidence of bidding results. Require purchasing manager approval for items above a specific pre-determined dollar amount.	X		LCISD has established purchasing thresholds, which are documented in the purchasing procedures manual as follows: – Up to $1,000-most expeditious manner possible – $1,001-$5,000-at least one written quotation – $5,001-$49,999-three written quotes – $50,000 and above-requires Purchasing Department involvement
22.	Utilize the Purchasing Department to centrally manage the bid process for goods and services that are competitively bid. Involve the department user group to evaluate the bid proposals received against the pre-defined bid criteria. Tabulate results and recommend award to highest scoring vendor.	X		Purchasing Department staff facilitate the procurement of goods and services legally and efficiently at the best price by helping campuses and departments develop specifications, researching to find the best procurement method, facilitating the bid letting and tabulation process, all with the goal of keeping the district in compliance with procurement laws. Although user department staff may assist with developing bid specifications, provide technical guidance, and participate on the bid evaluation team, they do not receive, open, or tabulate bids. These activities are the exclusive domain of the Purchasing Department.

Best Practice Number	Description of Best Practice	Met	Not Met	Explanation
23.	Procedures exist for collecting, staging, and disposing of surplus property in a manner that maximizes the financial benefit to the district.	X		The district uses an online auctioneer service, similar to eBay, to sell surplus property. Whenever campuses have surplus property of which they wish to dispose, the assistant purchasing manager schedules a time for warehouse drivers to pick up the material from the campus and take it to the district's warehouse

Source: McConnell & Jones' Review Team.

ACCOMPLISHMENTS

Excellence in Budgeting Initiative

ACCOMPLISHMENT 7-A

LCISD participates in the Alliance for Excellence in School Budgeting (the Alliance), an initiative that will enable the district to enhance its budget process.

The Alliance is a group of school districts from across the United States that will be working together to implement best practices in school district budgeting developed by the Government Finance Officer's Association (GFOA). GFOA is a national organization based in Chicago, Illinois that is committed to improving the financial practices of governmental organizations. GFOA has developed a series of best practices in school district budgeting that outlies steps to developing a budget that aligns resources with student achievement goals. In 2017, GFOA organized the second cohort of school district participants, and LCISD is in the second cohort. The two cohorts of the Alliance for Excellence in School Budgeting include a diverse set of 71 school districts from 27 states.

The main two requirements for a school district to become part of the Alliance are a desire to refresh its budget process and the ability for active collaboration between the academic and finance functions. LCISD attended an initial meeting in Chicago on November 3-4, 2016. LCISD will use material developed by GFOA and will work together with GFOA during Fiscal Year 2018 with the goal to improve its budget process. GFOA makes small grants to participants to support particular portions of the work. For example, GFOA pays for travel expenses to meetings in Chicago and provides a voucher for free access to GFOA's new eLearning technology and modules germane to school budgeting. The GFOA requires that both the finance director and the academic officer participate in the group. Examples of benefits that other school district participants received from the program include the following:

Lake County Schools (Florida) – 41,000 students

- Strategic financial plan integrated with district-wide goals/strategies
- Strategic financial plan used to overcome multi-million dollar budget gap
- Strategies/goals developed collaboratively and are resourced

Wylie Independent School District (Texas) – 13,000 students

- Entire leadership team developed a budget aligned with district goals
- Board far more engaged
- Resources used strategically
- Budget process described as a 'beautiful thing' by head of academics

DeSoto Parish School Board (Louisiana) – 5,000 students

- Budget transformed from not just a financial and legal document to mission-based, living plan to maximize student learning gains
- Quality of budget conversation has improved
- Bond rating has also improved due in part to the new budgeting method

Online Surplus Property Sales

ACCOMPLISHMENT 7-B

LCISD sells surplus property online using a web-based auction service similar to eBay.

The district uses an online auctioneer service to sell surplus property. Whenever campuses have surplus property of which they wish to dispose, the assistant purchasing manager schedules a time for warehouse drivers to pick up the material from the campus and take it to the district's warehouse at 1441-1/3 Band Road. The district uses this warehouse to store and stage surplus property for sale or disposal. The district uses the main warehouse at 4907 Ave I as a distribution center for various equipment and supplies, including textbooks.

When the district is ready to conduct a surplus sale, warehouse staff organize the items by placing them neatly in rows, wrapping them as appropriate, and palletizing them. Once the district completes this task, the auctioneer takes pictures, assigns a unique identifier to the items, and posts them on a website for the public to view and purchase. In addition, the items are available to any school that wishes to purchase them.

Once items are sold, the online auction company sends a copy of the paid invoice to the assistant purchasing manager. The invoice is evidence that the items were purchased and can be picked up by the customer. The online auction company marks each lot of sold items with a designated number. The assistant purchasing manager groups the items so when the customer arrives, the items have been prepared, staged, and easy for the customer to take possession.

The auctioneer sends the district a Bidder Summary, which lists the buyer, items purchased, price, and invoice number. When the buyer takes possession of the items, they sign the Bidder Summary to indicate that the items have been picked up. **Exhibit 7-8** shows an excerpt from the Bidder Summary.

Exhibit 7-8
Excerpt from Bidder Summary

Source: LCISD Purchasing Department, February 2016.

Customers pay the online auction company, which sends the district a check for the items sold less commission. The district's most recent auction occurred between October 27, 2016 and November 1, 2016. **Exhibit 7-9** presents the November 2016 Online Auction Settlement statement and indicates proceeds to the district of $7,774.30. The name of the online auction company is redacted.

Exhibit 7-9
Online Auction Settlement Statement

Online Auction Settlement

Settlement: November 15, 2016

To: Lamar Consolidated Independent School District
Michele Leach
4701 Ave I
Rosenberg TX 77471

Regarding: Lamar Consolidated Independent School District - Rosenberg, Texas

Total Surplus Sold:	9,825.00
Less % Commission	(1,768.50)
Net Inventory Adjustments	
Net Seller Adjustments	(282.20)
Commission + Adjustments	**(2,050.70)**
Sales Tax - Commissions	
Sales Tax - Inventory Adjustments	
Sales Tax - Seler Adjustments	
Total Sales Tax	
Payments	
Net Balance	**7,774.30**

Source: LCISD Purchasing Department, February 2016.

Many school districts around the country use live auctions to sell surplus property. However, the online auction system used by LCISD represents a novel, 21st Century approach to the sale of school property. This system makes the experience easy and efficient for both the district and the buyer. It is similar to eBay, a popular online auction marketplace that brings millions of people together to buy and sell goods and services.

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

DETAILED OBSERVATIONS

Link Budget to Strategy

OBSERVATION 7-1

LCISD does not link spending priorities to board initiatives or to a long-range strategic plan. In fact, the district does not have a strategic plan.

Currently the budget process builds on the previous year's budget with some flexibility for making adjustments within established parameters.

Budget development begins in January with developing and publishing the budget calendar, which is presented in **Exhibit 7-10** on the following page for Fiscal Year 2017-2018.

Exhibit 7-10
Budget Calendar

JANUARY	JUNE
• Develop budget calendar • Review and file 2015-2016 Annual Financial Report (AFR) through Texas Student Data System (TSDS) • Review and file 2016-2017 adopted budget through TSDS • Review position control • Begin accumulating data for special allocations • Provide budget calendar for 2017-2018 to board for information	• Refine budgets as necessary • Review district/campus plans and alignment with preliminary expenditure budgets • Refine salary/benefit cost projections • Receive revised property values from Fort Bend County Appraisal District (FBCAD) • Conduct board workshop for budget-Session #1
FEBRUARY	**JULY**
• Update and distribute budget materials to principals and budget managers • Follow up with budget meetings with principals and executive directors	• Board workshop for budget-Session #2 • Receive certified property tax values from FBCAD • Refine revenue/expenditure budgets (all) • Calculate estimated actual and rollback tax rates
MARCH	**AUGUST**
• Refine budget assumptions • Prepare salary studies and cost projections • Develop initial revenue and expenditure projections • Assess current year budgetary status • Enter budgets into MUNIS by campuses/departments • Central Office review and evaluation of data entered by campuses/departments • Superintendent/CFO (and other designated individuals) meet with principals/department heads to discuss budgets and instructional processes	• Final revenue/expenditure budget adjustments • Refine all tax rate calculations • Board workshop for budget (Session #3) • Board workshop for budget (Session #4, if needed) • Budget notice/hearing/adoption (board of trustees) • Tax rate notice/hearing/adoption (board of trustees)

APRIL	
• Refine budget assumptions • Prepare salary studies and cost projections • Develop initial revenue and expenditure projections • Assess current year budgetary status • Enter budgets into MUNIS by campuses/departments • Central Office review and evaluation of data entered by campuses/departments • Superintendent/CFO (and other designated individuals) meet with principals/department heads to discuss budgets and instructional processes	

Source: Budget &Treasury Department, February 2017.

Once the board adopts the budget and tax rate, the final budget is posted on the district's website. After adoption the district's budget, it is made available to campuses and departments for spending.

The district needs a strategic plan as well as a means of linking spending priorities to the long-range strategic plan. A well-planned strategy-driven budget process can offer an efficient and effective means for the district to allocate resources on a cost-benefit basis.

Galena Park ISD integrates its site-based decision-making processes with long-term enrollment and facility planning to drive budget and decision-making. In a 2000 Inc. Magazine article about budgeting best practices, a now defunct multi-national accounting firm provided insights into how to create budget-to-corporate strategy links. The firm found that *"companies that apply best practices find that communication plays an important role. Top management must take the lead in developing and communicating strategic goals.… Because the budget expresses how resources will be allocated and what measures will be used to evaluate progress, budget development is more effective when linked to overall corporate strategy.*

LCISD should develop a long-range strategic plan that involves all stakeholders and communicate the plan throughout the district so that all employees understand and buy into the district's future direction. Each budget development period, the district should link its spending priorities back to the strategic plan so that it is clear how the district allocates resources to achieve strategic objectives.

RECOMMENDATION 7-1

Link the annual budget to long-term strategic planning initiatives once the district prepares such a plan.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

ANTICIPATING TOMORROW

Developing a long-range strategic plan is critical to the district being able to manage future growth effectively. Linking spending priorities to the strategic plan will enable the district to anticipate and prepare for the financial pressures that are sure to arise in a fast-growth district. Planning is an activity the district must master over the coming years. Incorporating financial considerations into the planning process is essential to the district's future success.

Budget Presentation

OBSERVATION 7-2

The district does not prepare a budget document that is useful as a communications tool and an enhanced financial plan.

Although the district participates in GFOA's Alliance for Excellence in School Budgeting, which will enable it to improve its budget process, the district could enhance its budget presentation to provide additional information about how the budget was developed, the inner workings of the district, and how the budget fits into the district's long- and short-term strategic objectives. Although the published budget the district posts on its website meets basic legal requirements, it is not sufficient as a communications tool to educate and provide the public with deeper insight into the district's operations and priorities.

A budget can be more than just a financial plan. A budget can have additional purposes such as a communications device, a policy document, and a financial plan. In fact, budgets are most useful and effective when used as a means for both the district staff and the community at-large to understand the inner workings of the district. The district has an opportunity to "tell its story" when the budget communicates what is behind and beyond the numbers.

Since 1906, the GFOA has existed to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices and promoting their use through education, training, facilitation of member networking, and leadership. The GFOA offers several awards for excellence in financial reporting.

The Association of School Business Officials (ASBO) is another organization that promotes excellence in the form, content, and presentation of budget documents through budget award programs. While the district has been awarded ASBO's Certificate of Excellence in Financial Reporting by the Association of School Business Officials (ASBO) International for the 16 straight years, it has never applied for either GFOA's or ASBO's budget awards.

The primary difference between the ASBO and the GFOA programs is that ASBO designed its program specifically for school districts, whereas GFOA designed its program for any governmental entity. These programs establish a number of criteria for exemplary budget documents and provide certification awards to governmental entities whose budget documents meet the criteria. Many school districts across the country use the criteria to apply for the award, but some use it merely to improve their budget document's content, format, and presentation. **Exhibit 7-11** presents selected samples of criteria from ASBO's meritorious budget awards program.

Exhibit 7-11
ASBO's Meritorious Budget Awards Program Criteria

INTRODUCTORY SECTION
• Contains an Executive Summary that tells the budget story in narrative, numeric, and graphic form.
• Includes a listing of board members and first-level administrative personnel.
ORGANIZATIONAL SECTION
• Provides detailed demographic information about the district including, level of education provided, geographic area served, and number of schools and students.
• Presents an organizational chart, mission statement, and goals and objectives.
• Provides a discussion of forces that drive the budget process, such as policies and regulations.
FINANCIAL SECTION
• Describes extent to which capital spending affects current and future operating budgets.
• Includes data on current debt obligations and describes the relationship between current debt levels and legal debt limits.
INFORMATION SECTION
• Explains underlying assumptions for each major revenue estimate.
• Discusses significant trends in major revenue categories.
• Presents assessed and market property values.
• Presents property tax and collection rates.
• Provides performance measures for three years.
• Presents student enrollment and personnel information.

Source: ASBO's Meritorious Budget Awards Program Criteria Location Checklist.
http://asbointl.org/asbo/media/documents/learning/Awards/MBA/MBA-Checklist-v-2.pdf

Sections 44.002 through 44.006 of the Texas Education Code establish the legal basis for budget development in school districts. In addition, the Texas Education Agency has developed requirements for school district budgets. The following are the minimum requirements related to budget presentation:

- A summary of the proposed and adopted budgets must be posted on the district's website.
- The website must prominently display the electronic link to the adopted budget for three years after adoption.

- The budget summary must include a comparison to the previous year's actual spending and information relating to per-student spending.
- The budget should present expenditures by the following functions: Instruction, Instructional Support, Central Administration, District Operations, Debt Service, and Other.
- Budgets for the General, Food Service, and Debt Service funds must be included in the official district budget.

Many Texas school districts recognize the benefits of a comprehensive budget presentation, have consistently applied for, and received ASBO's Meritorious Budget Award. According to ASBO's website, 19 Texas School districts received its budget award for Fiscal Year 2015-2016.

RECOMMENDATION 7-2

Produce an award winning budget document for Fiscal Year 2019 and beyond thereby demonstrating a commitment to financial accountability, transparency, and stewardship, and apply for the GFOA and\or ASBO budget awards. If the awards are granted, publish them on the district's website.

FISCAL IMPACT

ASBO's application fees are based on a sliding scale according to a district's revenue. LCISD's revenue from all funds is between $200 million to $1 billion. Since LCISD is a member of ASBO and GFOA, the application fee for ASBO's Meritorious Budget Award would be $1,110 per year while fee for GFOA's Distinguished Budget Presentation Award would be $550 per year. If the district applied for Fiscal Year 2019, the annual cost would be $1,660 ($1,110 + $550). Application fees would be required each time the district submits a budget for review, which the recommendation assumes would be at the beginning of Fiscal Year 2018. Therefore, the four-year fiscal impact would be $6,640 ($1,660 x 4). There are no travel costs associated with this achieving this award. All requirements can be satisfied locally.

ANTICIPATING TOMORROW

As the district grows, its finances will become more complex and difficult to understand by the average reader. A budget document that serves not only as a financial plan but also as a communications tool can be useful to help students, parents, and community members understand the district and its administration and operations. Establishing a goal to receive GFOA and/or ASBO budget awards every year will ensure that the district's budget document is of high quality and useful for communicating the inner workings of the districts and educating the district's stakeholders on the district's spending priorities and financial direction.

Financial Management Policies & Procedures

OBSERVATION 7-3

LCISD's Business Department lacks a formal, comprehensive policies and procedures manual that describes how to perform critical financial and accounting related tasks and that is kept updated as procedures change.

LCISD's Business Department consists of several functions including the CFO's Office (referred to as the Business Office), Finance Department, Purchasing & Warehouse, Budget & Treasury, Food Service, and Student Accounting. The review team did not consider Food Service and Student Accounting for purposes of this observation because they are addressed in another chapter of this report. Each of these areas perform critical financial management activities on behalf of the district. Therefore, it is critical that the district document key procedures, tasks, and routines related to these functions to preserve institutional knowledge.

Updated policies and procedures are critical components of a strong system of internal controls. Without a formal system of policies and procedures, district employees may not know or understand how to process a given transaction or what district policy applies in a given situation. This lack of knowledge could lead to noncompliance

with district policy, violations of state and federal law, and confusion and inconsistency in how transactions are to be processed.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five private sector organizations in the auditing and accounting industry. COSO provides guidance and thought leadership to businesses in all sectors of the economy through developing frameworks and guidance on enterprise risk management, internal control, and fraud deterrence. In a May 2013 publication entitled, "Internal Control-Integrated Framework", COSO states the following with respect to the role of policies and procedures in internal control:

"Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out…." The organization deploys control activities *thorough policies that establish what is expected and procedures that put policies into action."*

Some functions within the Business Department have developed general procedures; however, as a whole, documented procedures are informal and fragmented as demonstrated in **Exhibit 7-12**.

Exhibit 7-12
Overview of Business Department Policies and Procedures

Area	Existing Policies & Procedures
Business Office	• This is the office of the CFO that handles financial activities not done by the other departments under the CFO such as the miscellaneous activity fund, employee travel, insufficient fund correspondence, and contracts. The CFO also advises the board and superintendent on various matters, provides guidance and support to other departments, and has long-term financial planning, forecasting, bond planning, and debt management responsibilities. Procedures governing activities performed out of the Business Office are fragmented.
Accounts Payable	• No written procedures other than fragmented informal documentation of the payables process and the Munis financial system manual.
Payroll	• Informal desk-level procedures exist that were compiled by one of the payroll clerks related to the position's job duties.
Accounting (cash and investments, student activity funds, financial reporting)	• Informal documents exist on donation policies, administrative regulations on travel, and petty cash. • A student activity fund manual exists to administer student activity funds.
Purchasing & Warehousing	• A comprehensive purchasing manual exists that was last updated September 2015. • P-Card procedures exist. • Textbook manuals exist covering district and campus textbook management and inventory procedures. • There is a warehouse manual, but it does not reflect what the warehouse currently does and is primarily a series of Munis screenshots. Topics include how to add an inventory item, how to create pick tickets, and how to make adjustments to inventory items, but the warehouse no longer stocks inventory but now serves more as a staging area and delivery hub.

Budget & Treasury	• Memorandum of Budget Preparation Materials-Provides overview of current-year budget process and lists the budget preparation materials below.
	  – Budget Calendar shows critical dates and budget activities.
	  – Tips for Account Coding provides instructions for coding budget amounts.

Area	Existing Policies & Procedures
	– General Tips for Budgeting provides budget allocations for various costs not included in the per pupil allocation such as maintenance fees, piano tuning, leased copiers, and band instrument repair.
	– Per Pupil Funding Allocations.
	– Procedures for Munis Budget Entry.

Source: Interviews and Initial Data Request.

Without a formal, uniform system of policies and procedures and a process for keeping them updated, LCISD lacks an effective tool to preserve institutional knowledge and to train and cross-train staff. Moreover, if knowledgeable, long-tenured employees leave the school district or are unable to perform their duties, institutional knowledge of how to perform critical tasks could be lost.

The Texas Association of School Business Officials (TASBO) is an independent, not for profit professional association. It supports K-12 schools and their business and operations professionals by creating a forum for exchanging ideas and sharing information about Texas school business operations. TASBO has produced a template for the development of school district policies and procedures. The template provides sample language for various processes such as account codes, budget adoption, budget transfers and amendments, cash management, fundraising activities, payroll procedures, and a host of other finance-related topics.

The TASBO template, coupled with the fragmented procedures that already exist, could be used as a starting point for the district to develop a formal, comprehensive policies and procedures manual and management system. Effective policy and procedures manuals provide detailed steps, screen shots, and specific instructions on how critical tasks are done. Not every discreet task in a function can be illustrated to the most granular level of detail. However, it is essential that the critical processing steps for the most important areas are enumerated and explained in detail. Moreover, effective policy and procedures management requires a methodology for keeping the policies and procedures manual current.

RECOMMENDATION 7-3

Use the TASBO policies and procedures template as a starting point to develop a formal, comprehensive policies and procedures manual that describes how critical financial and accounting related tasks are to be performed, and implement a process to keep the manual updated.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

ANTICIPATING TOMORROW

Over the next 10 years, as employees age, long-tenured employees will leave the district through resignation, involuntary departure, retirement, or death. Institutional knowledge resident in these employees will be lost if it is not organized, documented, and codified in a useful manner. As the district grows, financial management processes will become more critical and complicated. Developing and maintaining comprehensive policies and procedures is necessary to document policies, procedures, and practices, but it will also provide a foundation for training future employees who will be taking the place of those who leave the district.

Accounts Payable Process

OBSERVATION 7-4

LCISD'S accounts payable process is manually intensive and inefficient.

The accounts payable process generates large volumes of paper because LCISD has not maximized the capabilities of its accounts payable system or implemented best practices such as electronic presentment of vendor invoices, direct deposit, electronic document management, paperless electronic workflow, and electronic three-way match. Staff who use the district's Munis accounting system require intensive training to give them the confidence to rely on the system rather than on paper-based systems, processes, and methods.

The accounts payable staff consists of a coordinator and three accounts payable clerks. The accounts payable coordinator has been with the district for 17.5 years spending 8.5 years as accounts payable coordinator. Before becoming coordinator, the individual was an accounts payable clerk. The three clerks have been with the district in their current positions for nine, nine and one-half, and 11 years.

Between Fiscal Years 2014-2016, these individuals processed an average of approximately 42,500 invoices per year. During Fiscal Year 2017, through December 2016, they had processed 27,109 invoices. **Exhibit 7-13** presents invoices processed and their value for Fiscal Years 2014-2016 and Fiscal Year 2017 through December 2016.

Exhibit 7-13
Invoices Processed
Fiscal Years 2014-2017 through December 2016

Fiscal Year	Number of Invoices	Amount
2014	39,705	$117,376,019
2015	41,599	$197,557,733
2016	46,326	$177,884,411
*2017	27,109	$104,259,114
Total	**154,739**	**$597,077,277**
Average per Year 2014-2016	**42,543**	**$164,272,721**

Source: LCISD Business Office, February 2017.
*Through December 2016.

Exhibit 7-14 provides a summary of key accounts payable processing procedures and evaluates the efficiency of each procedure.

Exhibit 7-14
Accounts Payable Process

Processing Step	Inefficient Procedure?	Evaluation
1. User has a need.	No	
2. User enters requisition into Munis system.	No	
3. System routes requisition through electronic workflow for approvals.	No	
4. Purchasing manager approves the requisition and converts it to a purchase order.	No	
5. Purchasing clerk prints and distributes purchase order as follows: a. *user (via interoffice mail and email)* b. *accounts payable (via interoffice mail)* c. *warehouse (hand delivered, same location as Purchasing Department)* d. *vendor (either faxed, emailed, or sent by the user depending on specific circumstances)*	Yes	Printing the purchase order is a reversion to paper-based, manually intensive processes while the advantages and efficiencies of electronic workflow are abandoned.

Processing Step	Inefficient Procedure?	Evaluation
6. Accounting resource clerk date stamps the purchase orders upon arrival in the Accounts Payable Department and distributes them to the responsible accounts payable clerk.	Yes	Date stamping and distributing paper purchase orders already in the system in electronic form is unnecessary, inefficient, and a reversion to paper-based, manually intensive processes.
7. Accounts payable clerks file paper copy of purchase order in file to await the invoice.	Yes	Maintaining paper files of purchase orders already in the system in electronic form is unnecessary and inefficient.
8. Vendor delivers goods or performs services and sends paper invoice to accounts payable.	Yes	Mailing rather than emailing invoices to accounts payable creates unnecessary paper, slows the payment process, and risks lost invoices.
9. Accounting resource clerk date stamps the invoices upon arrival in the department and distributes them to the responsible accounts payable clerk.	Yes	Stamping and distributing paper invoices mailed to accounts payable is wasted effort. Emailed invoices could be date stamped and routed to the assigned accounts payable clerk automatically.
10. Accounts payable clerks make a copy of the invoice and attach it to the purchase order in the file.	Yes	Relying on the purchase order in the system and using emailed invoices would make this inefficient step unnecessary.
11. Accounts payable clerks stamp the invoice copy with a stamp that says, "Hold for Approval", along with the current date.	Yes	Using emailed invoices and not sending original invoices to users for approval would make this inefficient step unnecessary.
12. Accounts payable clerks stamp the original invoice with a stamp that says, "If OK to Pay, Please Approve."	Yes	Using emailed invoices and eliminating sending original invoices to users for approval would make this inefficient step unnecessary.
13. Accounts payable clerks perform the following on the original invoice: *a. Highlight the purchase order number* *b. Circle the remit address* *c. Circle the invoice number and invoice date* *d. Stamp a signature line on the invoice*	Yes	Accounts payable clerks perform these steps because the original invoice is sent to the user for approval. Allowing users to approve and provide evidence of receipt of goods and services through the system would render these steps unnecessary.
14. Accounts payable clerks send the original stamped, marked-up invoice to the user for approval.	Yes	Sending the invoice to the user is a reversion to paper-based, manually intensive processes while the advantages and efficiencies of electronic workflow are abandoned. This step also increases the risk of lost invoices and late payments.
15. Accounts payable clerks attach a large colored paper clip to the copy of the invoice and the purchase order and place the documents in their tickler file to await the original invoice that was sent to the user for approval.	Yes	Sending the invoice to the user is a reversion to paper-based, manually intensive processes while the advantages and efficiencies of electronic workflow are abandoned.

Processing Step	Inefficient Procedure?	Evaluation
16. User receives the goods and\or services, approves the original invoice, and returns it to Accounts Payable.	Yes	Approving the original invoice as evidence of receipt is a reversion to paper-based, manually intensive processes while the advantages and efficiencies of marking items as received in the system are abandoned.
17. Accounting resource clerk receives approved invoice from user, date stamps it, and distributes it to the responsible accounts payable clerk.	Yes	Receiving the approved invoice from the user through interoffice mail is a reversion to paper-based, manually intensive processes that slows the payment process and abandons the advantages and efficiencies of electronic workflow.
18. Accounts payable clerks match the approved original invoice with the copy of the invoice attached to the purchase order with the large colored paper clip.	Yes	Matching copies of the invoice with the original invoice generates unnecessary paper and wasted effort, which ignores system features that are designed to make invoice payment processing more efficient and less paper intensive.
19. Accounts payable clerks remove the colored paper clip, discard the copy of the invoice, and attach the original, approved invoice to the purchase order with a large silver paper clip indicating that the invoice is ready to be processed for payment.	Yes	Manually matching the approved invoice to the purchase order is inefficient and does not use the system's features to produce the three-way match of invoice to purchase order to evidence of receipt.
20. Accounts payable clerks write on the purchase order the following: a. partial or full payment b. invoice number c. invoice date d. date invoice received back in Accounts Payable Department e. amount being paid f. balance of purchase order if a partial payment g. date check will be issued and clerk's initials h. check off payment of individual line items i. price differences, if any	Yes	These procedures are redundant and inefficient. The system provides most of this information, but since its features are underused, these manual workaround procedures must be performed.
21. Accounts payable clerks compile 50 to 100 invoices in a batch and enter the batches into the system by batch number.	No	
22. After checking each other's work, if it was a partial payment, the purchase order will be filed back in the tickler file. A large colored paper clip will remain affixed to the purchase order if there are still original approved invoices that have not been received.	Yes	These procedures are redundant and inefficient. The system shows how much money is remaining on a purchase order. However, since the system's features are underutilized, these manual workaround procedures are performed.
23. Accounts payable clerks hand write the number of invoices and total dollar amount in each batch on a batch control sheet.	Yes	This step is redundant with Step #26

Processing Step	Inefficient Procedure?	Evaluation
24. Accounts payable clerks print a summary screen for each batch, which shows the batch number, effective date, year and period, warrant date, total invoices in the batch, and the total dollar amount of the invoices entered into the system.	No	
25. Accounts payable clerks print a detailed batch report, which shows the vendor number and name, purchase order number, invoice number, invoice date, description, remit address, dollar amount and budget code for each invoice in the batch.	No	
26. Accounts payable clerks run an adding machine tape of all invoices in each batch and compare the tape total to the total invoice count and total dollar amount shown on the batch summary screen.	Yes	Listing the invoices on an Excel spreadsheet would be more useful and efficient than running an adding machine tape. It would also eliminate the need for Step #23.
27. Accounts payable clerks tape the adding machine tape to the back of the batch summary screen and staple the adding machine tape on top of the detailed batch report.	Yes	Listing the invoices on an Excel spreadsheet would be more useful and efficient than running an adding machine tape.
28. Accounts payable clerks manually calculate available discounts on an adding machine and affix the adding machine tape to the back of the invoice.	Yes	Calculating discounts manually is unnecessary and inefficient since the system calculates discounts.
29. Accounts payable clerks place their respective batches in a cart, which is a basket on wheels. Then they sort the batches in alphabetical order by vendor and then for each vendor they sort the purchase order numbers from least to greatest. If there are multiple purchase orders to one vendor then an adding machine tape must be run on the total amount being paid on each purchase order and the tape clipped on top of the group of purchase orders holding them together.	No	This procedure is designed to stage the invoices for batching and verification. The spreadsheet in Step# 26 would facilitate this step. However, if the full features of the accounts payable system were used, this procedure could be reengineered to leverage such features for better efficiency.
30. The accounts payable coordinator prints an Invoice Entry Proof List report of all batches entered in alphabetical order by vendor then divides the report according to each accounts payable clerk's alphabetical assignment (A-D, E-L and M-Z)	Yes	Dividing the report manually is inefficient. These reports should be generated from standard or user-defined system reports if available in the system. If not, the system's reporting capabilities should be upgraded.
31. Each accounts payable clerk physically draws a line on the Invoice Entry Proof List report to show the division between each vendor. If a vendor has more than one invoice, the accounts payable clerk adds the invoices together on an adding machine and writes the total on the Invoice Entry Proof List report. The adding machine tape can be taped to the back of the Invoice Entry Proof List report or just held until the Invoice Entry Proof List report has been verified. If no questions arise, the adding machine tape is discarded.		Manipulating a system generated reports in this manner is inefficient and time consuming. System generated reports should useful without manual intervention. For example, the report should provide subtotals for each vendor. The need to draw lines on reports to separate groups of transactions and run adding machine tapes to derive subtotals underscores deficiencies in system reports that need to be resolved.

Processing Step	Inefficient Procedure?	Evaluation
32. Accounts payable clerks exchange carts once all lines have been drawn on the Invoice Entry Proof List report and invoice totals for each vendor written on the report.	Yes	If the full features of the accounts payable system were used, this procedure could be reengineered to leverage such features for better efficiency.
33. Accounts payable clerks perform the following procedures on one another's batches: a. *Matches vendor name on the invoice and the purchase order.* b. *Matches balance written on the purchase order to the balance on the Invoice Entry Proof List report.* c. *Matches the adding machine tape balance attached to multiple purchase orders to the total purchase order totals on the Invoice Entry Proof List report.* d. *Verifies that the invoice has all the proper approvals.* e. *Verifies that the invoice number, invoice date, and dollar amount have been enter correctly.* f. *Verifies that the description is spelled correctly.* g. *Verifies the budget code.* h. *Sets errors aside for further processing.* i. *Returns the verified cart to the accounts payable clerk to whom the vendors are assigned with any errors or discrepancies flagged.*	Yes	If the full features of the accounts payable system were used, this procedure could be reengineered to leverage such features for better efficiency.
34. Accounts payable clerks go through their batches to identify and correct errors after which the following procedures are performed: a. *Run an adding machine tape on the **invoice count** of each batch and write the count total on the bottom of the batch sheet and attach the adding machine tape to the back of the batch sheet.* b. *Run an adding machine tape on the invoice amount of each batch and write the total amount on the bottom of the batch sheet and attach the adding machine tape to the back of the batch shee.t* c. *The accounts payable clerks give the accounts payable coordinator their totaled batch sheets along with any flagged invoices and Invoice Entry Proof List report information.*	Yes	If the full features of the accounts payable system were used, this procedure could be reengineered to leverage such features for better efficiency.
35. The accounts payable coordinator runs another Invoice Entry Proof List report once all corrections have been made.	No	
36. The accounts payable coordinator compares the first Invoice Entry Proof List report to the second Invoice Entry Proof List report to verify that all corrections were made.	No	
37. The accounts payable coordinator also reconciles the first version of the Invoice Entry Proof List report to the second version using an adding machine tape, which is attached to the report.	No	

Processing Step	Inefficient Procedure?	Evaluation
38. The accounts payable coordinator creates the Batch Verification Report, which is a listing of batch totals by accounts payable clerk and reconciles the totals of this report to the check register.	No	
39. The checks are printed and released.	No	

Source: Interviews with Accounts Payable Staff, February 2017.

Exhibit 7-15 provides an example of a partially completed purchase order. Images of two paper clips can be seen as well as handwritten notations of invoices paid against the purchase order showing invoice number, invoice date, date invoice received back in accounts payable, amount, balance of the purchase order, date check will be issued, and the accounts payable clerk's initials.

Exhibit 7-15
Partially Completed Purchase Order

Source: LCISD Accounts Payable Department, February 2017.

Exhibit 7-16 provides an example of the Invoice Entry Proof List. It shows lines physically drawn to separate vendors and handwritten totals derived by adding machine.

Exhibit 7-16
Invoice Entry Proof List

Source: LCISD Accounts Payable Department, February 2017.

Exhibit 7-17 provides an example of the second Invoice Entry Proof List and shows an adding machine tape attached to the report, which reconciles the first Invoice Entry Proof List totals to the second Invoice Entry Proof List. The first list total was $1,438,942.25 while the total after adjustments was $1,479,493.12.

Exhibit 7-17
Invoice Entry Proof List with Adding Machine Tape

Source: LCISD Accounts Payable Department, February 2017.

Exhibit 7-18 provides an example of the Batch Verification Report, which shows batch totals by accounts payable clerk. The total amount of $1,636,230.33 agrees with the check register.

Exhibit 7-18
Batch Verification Report

Source: LCISD Accounts Payable Department, February 2017.

Exhibits 7-14 through **7-18** demonstrate that the accounts payable process includes many inefficient, non-value added steps. The inefficiencies exist because accounts payable procedures were not designed to take advantage of the system's capabilities. To be most effective, processing procedures should be designed around the functionality and capabilities of a computer system rather than working around the system's capabilities using legacy procedures.

Examples of LCISD not leveraging the system's capabilities include avoiding the system's full workflow capabilities such as approving original invoices instead of requiring users to evidence receipt of goods and services within the system. Another example is not implementing a Munis product known as Tyler Content Manager (TCM). TCM allows state and local governments and school districts to capture, deliver, manage, and archive electronic information. It is a product developed by the same company that developed Munis, the district's ERP system. TCM is designed to manage content to save valuable time, energy, and money.

In addition, LCISD has not implemented accounts payable best practices such as tracking accounts payable metrics, receiving vendor invoices via email or a website, paying vendors via electronic funds transfer (EFT), and exploring electronic data interchange and supplier portal technologies. With respect to EFT, LCISD's peers have implemented the practice. Spring ISD pays 20 percent of its vendors via EFT while Clear Creek ISD pays 2-3 percent of its vendors via EFT and is expanding the practice.

RECOMMENDATION 7-4

Reengineer accounts payable processes and procedures to leverage the functionality and capabilities of the automated accounts payable system, and work with the ERP vendor to implement any necessary updates to maximize the system's benefits, and adopt accounts payable best practices.

FISCAL IMPACT

The fiscal impact of this recommendation cannot be calculated without information about upgrades and system modifications that might be required to make the accounts payable process more efficient.

ANTICIPATING TOMORROW

As the district continues to grow, streamlining and automating the accounts payable process will be critical. More students, employees, buildings, and infrastructure equate to more goods and services. If the current situation continues, and the process remains inefficient, the district will need to hire more accounts payable clerks, which will place additional strain on the district's budget. In addition, the tediousness of the current process could have a negative effect on employee moral as they work harder and harder to keep up with an ever-increasing workload. Moreover, with increased volume of paper in the form of purchase orders, invoices, supporting documents, and reports, the need for storage space will increase resulting in additional time and costs to process, file, and store paper documents.

In addition to the peer survey, MJ conducted a survey of several districts that are larger than LCISD. The purpose of the survey was to obtain information on how large districts operate their financial functions. As of May 2017, Conroe ISD has 59,500 students and 60 schools. Conroe ISD responded to the survey and provided the following information about its accounts payable best practices. LCISD should consider implementing these best practices as it continues to grow:

- Implementation of Vendor Access Center:
  - allows real time access for vendors to information regarding purchase orders, payment status, and other payment-related information
  - allows for electronic delivery of invoices and option for vendors to choose electronic funds transfer as a payment option
- Implemented electronic storage of all vendor invoices and payment backup to allow easy access from a desktop.

Student Activity Fund Controls

OBSERVATION 7-5

Campus secretaries handle more than $2 million in campus and student activity funds with little oversight or internal control.

In Texas, two types of activity funds are commonly recognized—student activity funds and district or campus activity funds. Student activity funds belong to students and are used to support student organizations and clubs. District or campus activity funds belong to the school district and are used to support district or campus programs.

All funds collected by school district personnel from students are defined as activity funds and must be handled through one of these two types of activity funds accounts.

District or campus activity funds support co-curricular and extracurricular activities and are controlled by school administrators or the school board. Examples include money collected from athletic events and book fairs or funds received for field trips. District or campus activity funds are comprised of monies raised and collected by the district or campus through fund-raising efforts or donations.

District or campus activity funds are considered part of the General Fund. That is, district or campus activity funds contain proceeds from various sources that must be spent according to rules/regulations applied to all General Fund. Approval to spend money from a district or campus activity fund rests with administrators or the board of trustees, not students.

Student Activity Funds are agency funds and expenditures must adhere to the student group's constitution and bylaws and be approved by the respective student group's membership.

The Financial Accountability System Resource Guide (FASRG) is the Texas Education Agency's (TEA) official publication that describes the rules of financial accounting for school districts. FASRG Module 1: Financial Accounting and Reporting, provides helpful information related to the proper accounting code structure for the different types of activity funds, and Module 5: Site-based Decision Making provides detailed best practices for activity fund accounting.

The FASRG describes two common methods for administering activity fund accounting—"centralized" where funds are controlled and disbursed through the central office's accounting department and "decentralized" where funds are accounted for and controlled at the various campuses. The FASRG cites some of the advantages and disadvantages of accounting for activity funds on a centralized basis. These include the following:

Advantages

- Better internal controls since all receipts and disbursements flow through one central accounting system rather than systems and methods that can vary from school site to school site.

- Easier access for performing internal and external audits.

- Consistency in the manner in which repetitive matters are handled.

- Better control of cash management operations including assurance that proper collateralization of cash and investment balances is occurring.

- More consistency in applying district policies and procedures.

- Lessened requirements to perform an audit of funds if the school principal and/or finance clerk is replaced.

Disadvantages

- Less control at the school site.

- Possible delay in information and reporting to the school site.

As of April 2017, LCISD's activity funds totaled approximately $2.4 million. In addition, the CFO, with the assistance of an administrative assistant oversees administration of what is known as the miscellaneous activity fund. The administrative assistant is the bookkeeper for this fund and brings questionable items to CFO to be addressed with the superintendent and/or the administrator in charge of the funds such as the athletics director for the concession operation or the Food Service Director for the banquet/catering operation. This fund receives and expends money for events that benefit all schools such as catering, concessions, fine arts, and marching contests. In addition, the miscellaneous activity fund provides monies for small scholarships through donations from Fort

Bend Forward, a philanthropic organization. The miscellaneous activity fund totaled approximately $412,889 as of November 30, 2017, which represents 17 percent of the total.

Exhibit 7-19 provides an overview of activity fund amounts for Fiscal Year 2016 and Fiscal Year 2017 through April 2017. The amounts for Fiscal Year 2016 do not include Lamar High School due to potential fraudulent activity that the district is currently investigating. This situation resulted in the district closing the bank account and auditing the fund. See **Exhibit 7-20** for more details.

Exhibit 7-19
Analysis of Student Activity Funds

Description	Campus and Student Activity Funds	District Activity Fund	Total
Balance at 9/1/2015	$ 1,428,327.14	$ 259,574.00	$ 1,687,901.14
Receipts	4,367,736.98	688,775.03	5,056,512.01
Disbursements	(4,104,925.65)	(662,730.32)	(4,767,655.97)
Balance at 8/31/2016	$ 1,691,138.47	$ 285,618.71	$ 1,976,757.18
Receipts	3,013,064.56	278,715.62	3,291,780.18
Disbursements	(2,733,353.79)	(151,445.11)	(2,884,798.90)
*Error Adjustments	408.42	0.00	408.42
Balance at 4/30/2017	$ 1,971,257.66	$ 412,889.22	$ 2,384,146.88

Source: Business Office Analysis, April 2017.
* Errors made by district staff when compiling the analysis.

The FASRAG recommends that regardless of whether a school district uses a centralized or decentralized method of accounting for activity funds, every school district should have formally adopted policies and procedures for activity fund accounting. Moreover, it suggests that schools have their activity funds audited at least annually. Many school districts require an audit when a change in principals or financial clerks occurs. An internal auditor commonly performs activity fund audits if the school district has one or the district's external auditors perform activity fund audits on a test basis.

LCISD has not updated its activity fund manual since 2001. In addition, LCISD's external auditors review a sample of student activity funds during the district's annual audit. Despite these internal controls, LCISD has had issues with activity funds. **Exhibit 7-20** presents these issues.

Exhibit 7-20
Student Activity Fund Issues

School	Date	Issue
Huggins Elementary	January 2016	After noticing red flags, business department personnel obtained student activity fund records for review. Although money was suspected to be missing, the claim could not be substantiated due to staff turnover and the absence of supervisory oversight.
Beasley Elementary	May 2016	When the principal raised concerns, the Business Office took over the records, closed a bank account that was not with LCISD's depository, and audited the financial records. When fraud and altering of bank statements was discovered, the case was turned over to the Rosenberg Police Department. Since the district turned the case over to the police department, the Finance Department did not complete a formal report of the

School	Date	Issue
		incident to share with the board. The district's practice, when an instance of student activity fraud was suspected recently, was that the Finance Director notified the CFO who notified the superintendent, chief human resources officer, and the appropriate executive director. The district turned the case over to the Rosenberg Police Department for investigation. The CFO indicated that the Finance department did not prepare a formal report or notify the board because the case was turned over to the police department for investigation. The employee was terminated, prosecuted, and is paying restitution according to information the review team received from the CFO.
Lamar High School	Summer 2016	The administrative assistant left and, although the activity fund was depleted, the campus continued to spend. The director of Finance closed the existing account and opened a new one so the records could be audited. This case was pending as of February 2017.
• Leaman Jr. High • Long Elementary • Wessendorff Middle School • Pink Elementary • Arredondo Elementary	Various	Although instances of fraud were not reported from these campuses as of February 2017, they are very slow to turn in their monthly financial records to the Finance Department for review.

Source: Finance Department Summary.

RECOMMENDATION 7-5

Consider adopting a centralized model of accounting for student activity funds, and/or hire an internal auditor to audit student activity funds on a continuous basis as well as perform internal audits of other areas of the district.

In addition, since even one instance of fraud could cause damage to the district's image and reputation, the board should be notified when cases of suspected fraud occur and are turned over to law enforcement for investigation.

The district should consider centralizing managing student activity funds or hire an internal auditor to audit the funds each year on a cyclical basis in coordination with the external auditors so that each fund is audited at least every other year. A centralized model would allow student activity fund bookkeepers to report to the director of Finance with respect to their duties. If the decentralized model is maintained, the Business Office and Finance Department should have input into the job description of secretaries that will handle money and explain accounting duties to the secretary at an annual beginning of the year mandatory training. In addition, each secretary should be given a brief test to assess their money management and bookkeeping skills.

FISCAL IMPACT

The fiscal impact for the addition of this position is captured in **Recommendation 1-8** that shows that LCISD's central office is understaffed.

ANTICIPATING TOMORROW

Not only must LCISD modernize its activity fund accounting system, it must also safeguard activity fund cash that will grow as the district grows. As more schools come online in the coming years, having strong internal controls over activity funds should be a top priority for the district. One incident of fraud could erode public trust and seriously damage the district's reputation. To avoid what could be an embarrassing situation for the district, it must take steps to safeguard activity funds that will be even more decentralized and larger as the district grows.

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

In addition to the peer survey, MJ conducted a survey of several districts that are larger than LCISD. The purpose of the survey was to obtain information on how large districts operate their financial functions. Conroe ISD has 59,500 students and 60 schools. Conroe ISD responded to the survey and provided the following information about its student activity funds.

> *"Implemented online school webstores for our secondary campuses. Parents have the ability to pay for student fees and purchase items with credit cards through the online stores. Cash collections have decreased tremendously giving school secretaries more time to focus on other duties."*

In January of 2017, LCISD implemented GoFan, an innovative, digital ticketing solution for K-12 educational institutions. With the GoFan app, sporting event attendees can purchase tickets via the web or their smartphone. This platform significantly reduces the amount of cash collected at the campus during events. It also allows athletic directors to manage all aspects of sporting events, including selling tickets, redeeming tickets, and reporting at the end of the event. In addition to GoFan, LCISD should explore Conroe ISD's webstore technology to improve cash collection processes for student activity funds.

Student Activity Fund System

OBSERVATION 7-6

LCISD uses an antiquated DOS-based system to account for student activity funds.

The district uses version 7.5 of its student activity financial accounting program, and according to the Manatee Accounting Software Manual, it was copyrighted between 1984-1997. Although the system provides basic accounting functionality such as cash receipts and disbursements, general ledger, and rudimentary reporting, it lacks the functionality of modern accounting and bookkeeping applications. This includes the district's financial accounting system, Munis, which has a student activity fund module that the district is not using. **Exhibit 7-21** presents the title screen for the Manatee System with the DOS era interface

Exhibit 7-21
Student Activity Fund System Interface
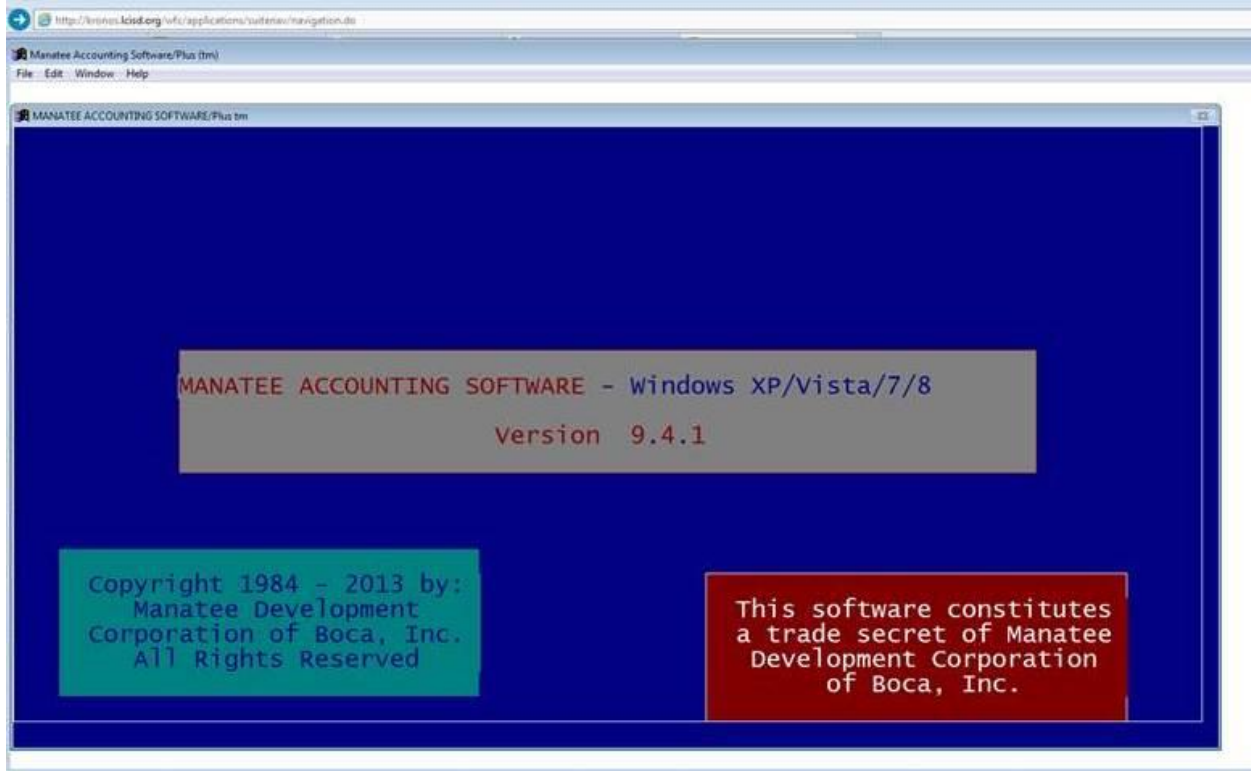
Source: Manatee System Screen Interface.

Student activity funds accumulate from the collection of student fees and various approved fund raising activities. These funds are agency funds accounted for separately and apart from general funds. The accounting for student activity funds is the responsibility of each individual campus and are typically administered by the principal's secretary.

The student activity fund system lacks the features of modern accounting systems. Moreover, some school secretaries keep "shadow" records outside of the system because of its limitations. For example, some school secretaries maintain paper-based ledgers and Excel spreadsheets of student activity fund transactions despite the fact that the system, although antiquated, provides this information in readily available format on the screen or through printed reports. The system can also print checks, but some secretaries continue to write checks by hand. Also, club sponsors cannot view their accounts online but must rely on the secretary to provide information via paper reports.

The system's reporting capabilities are limited to receipts and expenditure reports. The system is incapable of downloading transactions into electronic spreadsheets for further analysis. Moreover, all reports must be printed in hardcopy. Modern accounting systems have the following features:

- User friendly interface with point and click functionality
- Ability to drill down to source transactions and documents
- Ability to download transactions into a spreadsheet for further analysis
- Various standard and user-defined reports that can be distributed manually or electronically
- Graphics to enhance reporting
- Ability to process transactions remotely
- Interfaces with the bank
- Integrates with other programs, such as Microsoft Word

RECOMMENDATION 7-6

Upgrade to a modern financial accounting system for student activity funds, or implement the student activity fund module of the Munis system.

FISCAL IMPACT

The fiscal impact of this recommendation cannot be determined until a specific system is selected. However, the Munis module can be implemented with existing resources.

ANTICIPATING TOMORROW

As the district grows, the amount and volume of campus and student activity fund transactions will increase. In such an environment, where financial visibility and transparency will be paramount, the current student activity financial system will be unsustainable. DOS-based systems have been obsolete for years. Because technology advances so quickly, even today's web and cloud–based systems will certainly mature in the coming years. Therefore, it is important for the district to modernize its activity fund accounting system to keep abreast of accounting system technology as it advances.

Direct Deposit Participation

Observation 7-7

The district does not have a plan encouraging 100 percent employee participation in direct payroll deposit.

Ninety-six percent of LCISD employees receive their pay through direct deposit. This percentage matches that in a survey conducted by the American Payroll Association, which found that 96 percent of U.S. employees receive their paycheck via direct deposit. Although its direct deposit participation is high, LCISD does not have a plan requiring all employees to use direct deposit.

Direct deposit is a benefit to the employee and the employer. Employee's benefit by saving time, eliminating trips to the bank, being paid even if absent from work, eliminating potential paycheck fraud, and avoiding the high cost of check cashing fees. Many organizations use payroll direct deposit as a means of cutting costs, expediting the payroll process, and providing a convenience to employees.

Employees do not participate in direct deposit for a variety of reasons. Employees may not understand the benefits of direct deposit or trust the process. Some districts use surveys as an effective tool in helping the district understand why employees do not favor direct deposit. Using survey results, the districts then focus marketing efforts toward specific employee attitudes and populations. For example, if survey results show that most employees do not use direct deposit because they do not trust the process, then the security of electronic transactions is emphasized in promotional materials.

According to Section 61.016 and 61.017 of the Texas Labor Code:

> *An employer may elect to pay wages to an employee who maintains at a financial institution an account that qualifies for electronic funds transfer through a direct deposit plan that uses electronic funds transfer to deposit the wages in the employee's account. An employer who desires to pay wages through a direct deposit plan shall: (1) notify each affected employee in writing, at least 60 days before the date on which the direct deposit payroll system is scheduled to begin, that the employer is adopting a direct deposit payroll system; (2) obtain from the employee any information required by the financial institution in which the employee maintains the account that is necessary to implement the electronic funds transfer.*

Some employers offer a payroll debit card system as a direct deposit option. Debit cards can be used just like cash. In Texas, employees can be paid by debit card only if they sign a written agreement to accept their compensation in this manner. Instead of a bank account, employees use payroll debit cards at an automatic teller machine to obtain their cash directly, or they use it like a debit card.

When compared to its peer districts, LCISD has a lower direct deposit participation rate. Clear Creek ISD has a 99 percent participation rate and direct deposit is mandatory. Spring ISD has a 100 percent participation rate, and direct deposit is also mandatory.

A variation of the debit card allows the employer to establish a central funds pool; the employee is set up with an individual account number upon enrollment; the employer funds the account each pay period and the employee uses the payroll debit card to retrieve payroll funds from the central funds pool. Employer benefits include reduced paper handling and printing costs, lower stop payment fees for lost or stolen checks, fewer manual checks, and enhanced efficiency within the Payroll Department. Best practices throughout industry have shown that electronic processing is more cost effective than manual paper processing.

To increase direct deposit participation to even higher levels before making it mandatory for new employees, LCISD should organize a campaign to promote the benefits of direct deposit to the remaining employees who are not on the program. Promotion efforts might include paycheck stuffers, newsletters, campus flyers, and a direct deposit week. During this week, employees who have direct deposit and understand its benefits would be asked to wear badges that read "Ask Me About Direct Deposit" or "Ask Me Why I Use Direct Deposit." Flyers promoting the benefits of the program should be posted at strategic locations on campuses and other district facilities. Areas could be set up where refreshments are served and where employees could sign up for direct deposit or obtain

more information about the program. LCISD also should post information on its website, including the advantages of direct deposit, requesting direct deposit, changing direct deposit, and stopping direct deposit. Moreover, employees should be able to sign up for direct deposit on the district's intranet site.

The district could also develop a policy that offers an option to use payroll debit cards for new employees and those employees without a checking account. The Payroll Department should work with Human Resources to develop and implement strategies to promote direct deposit among new hires. In addition, the district should research the feasibility of incorporating payroll debit cards as a payroll payment option.

RECOMMENDATION 7-7

Develop a strategy to increase payroll direct deposit participation to 100 percent, and make direct deposit mandatory for new employees.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

ANTICIPATING TOMORROW

LCISD must introduce technology into all of its business processes. As the district grows, it will need to leverage technology to increase efficiency in all areas where manual processing has been the norm. For example, many school districts are reluctant to make direct deposit mandatory for its employees because some employees do not have bank accounts. As has been the case historically, the irresistible momentum of technological advancement forces change. In just the past 10 years for example, technology has changed the way people live, learn, and communicate. As technological innovation continues over the next 10 years, its impact will become ever more pervasive and will upend familiar behavior patterns and practices. Rather than follow technological change, the district should get ahead of it by embracing the technological revolution that will continue to shape how society lives and works.

In addition to the peer survey, MJ conducted a survey of several districts that are larger than LCISD. The purpose of the survey was to obtain information on how large districts operate their financial functions. Conroe ISD has 59,500 students and 60 schools. Conroe ISD responded to the survey and indicated that direct deposit is mandatory for all of its employees. As a growing district, LCISD should consider following Conroe ISD's example.

Cash Management Technology

OBSERVATION 7-8

LCISD does not use remote deposit capture technology to streamline bank deposits and improve cash management through faster check cashing.

Each day, cash handlers throughout the district take checks to the bank for deposit. Checks are processed from a variety of sources for deposit into the district's bank account. The district uses traditional bank deposit slips to make deposits from a variety of sources such as fundraisers, facility rentals, field trips, athletics, food service, petty cash reimbursements, travel advance deposits, deposits from student activities, and other sources.

Remote deposit capture technology allows organizations to scan and deposit checks upon receipt without needing to prepare a deposit slip or make a trip to the bank. By not using remote deposit capture technology, LCISD is missing an opportunity to make cashier operations more efficient.

When the Check Clearing for the 21st Century Act (Check 21) became effective in 2004, it opened the door to innovative deposit processing. The legislation allows image replacement documents created from check images to carry the same standing as original paper checks, so deposits no longer need to be carried physically to financial institutions. Accordingly, check deposits can be made remotely and therefore more efficiently. Checks can be

scanned and processed electronically, allowing them to clear faster, thereby expediting cash handling, improving cash flow, reducing the risk of loss, and eliminating deposit-based fraud. Specific benefits of remote deposit capture include the following:

- reduced costs associated with manual efforts;

- convenience of a later deposit cutoff time;

- elimination of posting errors;

- saves time by eliminating trips to the bank to deposit checks;

- reduced errors because deposits are validated and balanced when documents are scanned;

- streamlines deposit preparation and delivery;

- ease of use virtually eliminates training time and effort;

- enables cashier to spend more time taking care of customers, and

- delivers deposits through a secure electronic connection.

A MICR check character reader or check imager/scanner, similar to the one shown in **Exhibit 7-22**, is used to convert paper checks to an electronic payment transaction or paperless deposit. These devices connect either to an Internet-connected computer or countertop credit card terminal.

Exhibit 7-22
Check Scanner

Source: Internet, May 2016.

The director of Finance should contact LCISD's banking representative to discuss LCISD's needs; ensure that the district's cash management operations can support the technical requirements of remote deposit capture; enroll in the bank's remote capture program; and acquire and set up the check scanner. Cash handlers should learn the online check deposit process and begin depositing checks remotely. Training time for cash handlers to learn to use the technology is minimal.

The district's bank offers a product know as Desktop Deposit that allows the customer to deposit checks directly from their office to the bank. LCISD's bank provides information about its remote capture product at: **http://demo.wellsfargotreasury.com/?elqPURLPage=97.**

Although the district has not implemented desktop deposit, in January of 2017 it implemented GoFan at its campuses. This product allows events to be purchased on line and will reduce significantly the need for collecting cash at campuses for specific events.

RECOMMENDATION 7-8

Adopt remote check capture technology to streamline check processing and deposits.

FISCAL IMPACT

The technology is easy and convenient to use. The district explored this service with both its current and previous depository and determined that it would require an installation of the product at every district location that

collects checks. The bank would also charge a monthly service charge per account and location. The fiscal impact cannot be determined at this time without the actual number of locations where checks are collected in the district. However, actual costs would at least be partially offset by efficiency and fuel savings from fewer trips to the bank.

ANTICIPATING TOMORROW

The district must leverage technology in all of its business processes. Technology will continue to advance and as the district grows, it will need to embrace technological changes to maximize effectiveness and efficiency in its business processes.

Leave Accounting & Timesheets

OBSERVATION 7-9

LCISD's process for identifying and tracking employee absences is manually intensive, and the district's timekeeping system requires upgrades to strengthen internal controls and eliminate the need for manual data entry.

Campus secretaries, Human Resources, and Payroll staff coordinate to process the district's payroll including the tracking of employee leave balances. Late submission of employee absences by some campus secretaries causes inefficiencies for central office Payroll Department staff, who must enter employee absences into the timekeeping and payroll systems manually. The district uses a substitute caller system, but it is not integrated with the district's timekeeping system. As a result, manual reconciliations of absences must be performed each pay period, which is inefficient and time-consuming.

Three systems are involved in the payroll process. First, employees use the Kronos timekeeping system to record their time. Each day, employees either clock in and out using time clocks strategically placed at their work location or they can log into the system from their desktop and enter their time for the day. The Kronos System generates an electronic timecard. An example of a time card is shown in **Exhibit 7-23** with the employee's name redacted.

Exhibit 7-23
Kronos Timecard Example

Source: LCISD Payroll Department, February 2017.

The second system, known as eSchool is web based and is the district's substitute caller system. Teachers log onto this system to record their absences. The system records the absence and automatically calls a substitute teacher from a predefined list. The eSchool system and the Kronos System are not integrated. Either campus secretaries or central office payroll staff must enter absences from the eSchool system to the Kronos System manually. An example of a time card is shown in **Exhibit 7-24.**

Exhibit 7-24
eSchool Substitute Caller System Interface

Source: LCISD Payroll Department, February 2017.

The third system involved in the payroll process is known as the Munis ERP system. LCISD uses the payroll module of this system to process payroll and track employee leave information.

Employees are responsible for reporting their absences through the eSchool System and recording them on their timesheet in Kronos. Secretaries are responsible for ensuring such absences are recorded in eSchool and Kronos. Each week, the payroll clerk receives a report from the Human Resources Department showing absences from the eSchool System. Because eSchool and Kronos are not integrated, the campus secretaries and central office payroll clerks must manually enter into Kronos any absences shown on the eSchool system that were not entered by the employee.

For most classes of employees, payroll information such as leave taken is automatically fed from the Kronos timekeeping system to the Munis payroll system. Although the district has been using the Kronos timekeeping system for the past four years, it is not integrated with Munis for substitute and tutor hours. Therefore, hours for these employee must be entered from Kronos timesheets into Munis manually.

The payroll process is slowed not only by manual data entry, but also by campus secretaries not checking to ensure that employees entered leave on their timesheets correctly. In such instances, the campus secretary will notify the central office payroll clerk to enter or correct the leave. This request results in additional time and slows the payroll process. Every Tuesday, the payroll clerk sends campus secretaries a reminder that timesheets are due by noon the next day. Late timesheets and reminders also consume payroll processing time. **Exhibit 7-25** provides a summary of corrections made for the February 28, 2017 payroll.

Exhibit 7-25
Leave Balance Corrections
February 28, 2017 Payroll

Description	Number
Employees Affected	128
Pay Periods Affected	32
Hours Corrected	170

Source: LCISD Payroll Department, February 2017.

The review team obtained a list of schools with frequent late time sheet issues. **Exhibit 7-26** provides a summary by type of school and shows that more than half of LCISD's schools have issues with late submission of timesheets

Exhibit 7-26
LCISD Schools with Late Timesheet Submission Issues

Description	Number with Late Timesheet Submission Issues	Total Schools	Percentage
Elementary Schools	15	28	53.6%
High Schools	4	7	57.1%
Jr High Schools	3	7	42.9%
Middle Schools	3	5	60.0%
Special Sites	7	9	77.8%
Total	**32**	**56**	**57.1%**

Source: LCISD Payroll Department, February 2017.

RECOMMENDATION 7-9

Complete the integration of the eSchool and Kronos systems to eliminate manual data entry, retrain school secretaries on the importance of verifying leave balances and submitting employee timesheets on time, and hold secretaries accountable by tracking and reporting chronic late timesheet submission to the school principal and the CFO.

FISCAL IMPACT

The fiscal impact of completing the integration of the eSchool and Kronos system cannot be calculated at this time without additional information on integration costs; however, the remainder of this recommendation can be implemented with existing resources.

ANTICIPATING TOMORROW

The district must leverage technology in all of its business processes. Technology will continue to advance and as the district grows, it will need to embrace technological changes to maximize effectiveness and efficiency in its business processes.

Facility Rental Receivables

OBSERVATION 7-10

The district has a significant amount of employee and facility rental accounts receivable outstanding due to poor processes and controls and does not use a collection agency.

Board policy GKD Legal and CKD Local authorize the use of LCISD's facilities by members of the community for non-school events. GKD Legal prohibits discrimination in the use of school facilities as follows:

> *An officer or employee of the District who is acting or purporting to act in an official capacity may not, because of a person's race, religion, color, sex, or national origin:*
>
> 1. *Refuse to permit the person to use facilities open to the public and owned, operated, or managed by or on behalf of the District;*
>
> 2. *Refuse to permit the person to participate in a program owned, operated, or managed by or on behalf of the District;*
>
> 3. *Refuse to grant a benefit to the person; or*
>
> 4. *Impose an unreasonable burden on the person.*

GKD Local sets the broad scope of the use of LCISD school facilities as follows:

> *The District shall permit nonschool use of designated District facilities for educational, recreational, civic, or social activities when these activities do not conflict with school use or with this policy.*

The local policy grants the principal the authority to give initial approval for use of school facilities. The athletic director is authorized to give initial approval for use of district athletic facilities while the administrator for operations is authorized to give final approval for use of all district facilities.

Any organization or individual approved for nonschool use of district facilities must complete a facilities rental agreement by going on the district's website to complete the form. Once completed the form is routed through electronic workflow for approval. The administrator of operations checks the facility's schedule to ensure that it is available for nonschool use. Ultimately, the school principal must approve the facility rental agreement.

The person or organization renting the facility must acknowledge receipt and understanding of the facility rental policy and any applicable administrative regulations and acknowledge that the district will not be liable for any personal injury or damages to personal property related to the nonschool use. All groups using school facilities are responsible for the cost of repairing any damages incurred during use and are required to indemnify the district for the cost of any such repairs.

The district charges a fee for nonschool usage of school facilities. Fees include the period of time the facility is being used and includes set-up and takedown time if there is additional cost to the district. The board sets and publishes the fee schedule based on the cost of the physical operation of the facilities as well as any applicable personnel costs for supervision, custodial services, food services, security, and technology services.

Although the fee schedule requires all fees to be paid in advance, this requirement is not enforced. As a result, the district has accumulated outstanding facility rental receivables of $331,343 as of January 31, 2017. Of the total, 78 percent are more than 120 days old and date back to 2009.

There is no monitoring of the accounts receivable report to deny future rentals to organizations with an unpaid balance. Moreover, the district has not engaged in any significant efforts to collect outstanding receivable including hiring a collection agency. **Exhibit 7-27** presents an aging of outstanding facility receivables as of January 31, 2017. These receivable are uncollected from community organizations that use the district's facilities for various purposes. Examples of these organizations include Resurrection Fellowship Church, Southwest Juniors, Power House Sports Camps, Heart of Worship, Free 2 Succeed Church, and the T.W. Davis YMCA.

Exhibit 7-27
Outstanding Facility Receivables
As of January 31, 2017

Year	1 to 30	31 to 60	61 to 90	91 to 120	Over 120	Total Outstanding as of 1/31/2017
2009	$0	$0	$0	$0	$5,936	$5,936
2010	$0	$0	$0	$0	$16,575	$16,575
2011	$0	$0	$0	$0	$33,230	$33,230
2012	$0	$0	$0	$0	$31,260	$31,260
2013	$0	$0	$0	$0	$6,842	$6,842
2014	$0	$0	$0	$0	$29,143	$29,143
2015	$0	$0	$0	$0	$60,951	$60,951
2016	$0	$0	$0	$0	$70,167	$70,167
2017	$13,629	$25,874	$30,618	$3,799	$3,620	$77,540
Grand Total	**$13,629**	**$25,874**	**$30,618**	**$3,799**	**$257,724**	**$331,644**
Percentage	**4%**	**8%**	**9%**	**1%**	**78%**	**100%**

Source: Administrator of Operations, February 2017.

RECOMMENDATION 7-10

Intensify efforts to collect outstanding facility receivables, and enforce the district's policy to require users of school facilities for non-school events to pay upfront before the facilities are used.

FISCAL IMPACT

The total amount outstanding for Fiscal Years 2015 through 2017 is $208,658. If the districts could collect 50 percent of this amount, the fiscal impact would be a one-time cash infusion of $104,329, or nearly 31.5 percent of the total outstanding balance of $331,643 as of January 31, 2017.

ANTICIPATING TOMORROW

Growth for LCISD will mean that more buildings will be required to accommodate increased student enrollment. More school buildings will expand facility rental opportunities for the district. Consequently, the district must strengthen current facility rental policies and collect outstanding facility rentals. Otherwise, facility rental losses will continue to occur and increase as the district grows.

Fixed Asset Management and Inventory

OBSERVATION 7-11

LCISD does not have an effective capital assets inventory process to account for and safeguard fixed and controllable assets.

As of August 31, 2016, the district had approximately $599.5 million in net capital assets. Capital assets, also known as fixed assets have a cost of $5,000 or more and a useful life greater than one year. Controllable assets cost less than $5,000 but are desirable for ownership and must be safeguarded from theft and misuse. Such assets include technology and communication equipment such as cell phones, iPads, and other technological equipment.

Of the total net capital assets outstanding as of August 31, 2016, approximately $49.3 million, or 8 percent, consisted of furniture and equipment. **Exhibit 7-28** provides a summary of the district's capital assets as of August 31, 2016.

Exhibit 7-28
Summary of Capital Assets
Fiscal Year 2016

Description	Balance 09/01/2015	Additions	Retirements	Balance 08/31/2016
Land	$ 28,144,204	$ 2,935,855	$ 0	$ 31,080,059
Construction in Progress	78,363,727	51,662,698	(115,321,597)	14,704,828
Building & Improvements (B&I)	626,616,097	5,514,541	116,539,959	748,670,597
Furniture & Equipment (F&E)	46,066,949	4,539,807	(1,264,803)	49,341,953
Accumulated Depreciation (B&I)	(192,716,281)	(17,948,705)	0	(210,664,986)
Accumulated Depreciation (F&E)	(30,214,794)	(3,425,996)	0	(33,640,790)
Net Capital Assets	$ 556,259,902	$ 43,278,200	$ (46,441)	$ 599,491,661

Source: Fiscal Year 2016 Audited Financial Statements.

The assistant purchasing manager has responsibility for property management in the district and coordinates identifying, tagging, and taking inventory of fixed assets district-wide. The assistant purchasing manager's property management duties, as described in the position's job description, include the following:

- Provide the assistant director of Finance and the purchasing manager with information concerning the property management affairs of the district.

- Assist district personnel in taking an annual inventory of all capital assets of the district and prepare written reports.

- Ensure that appropriate reports are provided to property management from ancillary departments of items that are not classified as capital assets but are deemed attractive items.

- Coordinate the physical inventory of capital and controllable assets annually.

- Ensure that all district property is adequately identified using identification tags when applicable.

- Supervise and coordinate the intra district transfer of general capital assets inventories.

- Develop reports to ensure all district inventory items are on the district's insurance policy and scheduled property floater.

- Work in cooperation with Purchasing Department and other district personnel in the disposal of surplus property.

- Coordinate the district's auction and assist auctioneers with the auction.

- Prepare written operating standards and procedures for acquiring, controlling, inventorying, and disposing of capital assets and attractive items in inventory under the direction of the purchasing manager.

To identify capital and controllable assets, the assistant purchasing manager identifies all purchase orders coded to object code 66XX. These codes indicate that the item is a capital asset subject to control and inventory. The assistant purchasing manager receives the warehouse copy of all purchase orders then separates the purchase orders into two categories: (1) capital items purchased with federal funds; and (2) nonfederal assets with a cost in excess of $5,000.

McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

If the item comes directly to the warehouse, the assistant purchasing manager affixes a barcode tag to the item. If the vendor will be delivering the items directly to the campus, the assistant property manager sends barcode tag to the campus accompanied by a barcode form with instructions for placing the tag on the asset. This procedure depends on campus personnel to perform the task properly and timely, and requires the assistant purchasing manager to keep track of outstanding bar codes.

Exhibit 7-29 provides an example of the barcode request form used.

Exhibit 7-29
Barcode Request Form

Source: Property Manager, February 2017.

To track outstanding barcodes, the assistant purchasing manager maintains a spreadsheet of barcode tags sent to the campuses. Campuses that have not returned the barcode form for the assets they are responsible for tagging are highlighted on the spreadsheet. The review team obtained a copy of the barcode tracking spreadsheet as of February 10, 2017.

Exhibit 7-30 summarizes the status of outstanding barcode tags for federal and nonfederal assets. **Exhibit 7-31** provides an aging of outstanding federal and nonfederal barcode tags as of February 10, 2017. These analyses demonstrate that while assets purchased with federal funds are tagged timely, nonfederal assets are not tagged timely and adequate follow-up is not occurring.

Exhibit 7-30
Status of Asset Barcode Tags
As of February 2017

Status	Federal	Percent	Non-Federal	Percent
Outstanding Forms	10	1%	127	69%
Forms Received	842	99%	58	31%
Total Forms	**852**	**100%**	**185**	**100%**

Source: Property Manager, February 2017.

Exhibit 7-31
Aging of Outstanding Asset Barcode Tags
As of February 2017

Days Outstanding	Federal Assets	Non Federal Assets
0-30	7	1
91-120	2	11
Over 120	1	113
Not dated	–	2
Total Assets	**10**	**127**

Source: Property Manager Barcode Tags Issued Spreadsheet, February 2017.

Once campuses and departments complete and return the barcode forms to the assistant purchasing manager, the assistant purchasing manager writes the barcode number on the purchase order and sends the purchase order to the assistant director of Finance who is responsible for entering assets into the Munis capital assets module.

School districts are required to conduct a periodic inventory of capital assets. Section 1.2.4.8 Inventories of Capital Assets of the Texas Education Agency's (TEA) Finance Accountability System Resource Guide (FASRG), states the following:

"Certain capital assets, such as furniture and equipment, should be inventoried on a periodic basis. Annual inventories taken usually at the end of the school term before the staff members leave are recommended. Discrepancies between the capital asset/inventory list and what is on hand should be settled. Missing items should be listed and written off in accordance with established policy."

As of July 2017, LCISD's assistant purchasing manager was in the process of conducting the capital assets inventory. It began in April 2017, and the assistant purchasing manager expects to complete it by the end of Summer 2017. The assistant purchasing manager's goal is to conduct the inventory of capital assets in conjunction with the annual textbook inventory, which began in April and was completed in June 2017. The assistant director of Finance sends the assistant purchasing manager a listing of capital assets by school and department. The listing for the inventory that began April 2017 contained assets through December 31, 2016. The listing contained 2,177 assets of which 2,150 assets were attached to 71 locations, and 27 assets were undistributed. Undistributed assets are district-wide assets that are not tied to a specific location. Examples include the Kronos timekeeping system, Munis financial system, and software licenses.

To conduct the inventory currently underway, the assistant purchasing manager sent each school and department the asset listing for their location along with an Inventory Verification Form. No other instructions or guidance on how to conduct the inventory were provided. Without such guidance and support, there is limited assurance that campus and department staff will perform the inventory diligently and conscientiously to ensure accuracy.

Once the inventory is completed, an inventory verification form is completed and sent to the assistant purchasing manager and the assistant director of Finance who makes any necessary corrections in the capital asset system. **Exhibits 7-32** and **7-33** provide an example of an inventory verification form and the associated capital asset listing with checkmarks notated. Signatures are redacted.

Exhibit 7-32
Capital Asset Inventory Verification Form
Meyer Elementary

Source: Assistant Director of Finance, July 2017.

Exhibit 7-33
Capital Asset Listing
Meyer Elementary

ASSET	DESCRIPTION	SERIAL/PARCEL	CLASS CD	SUBCLASS	LOCATION	LOCATION DESC	ROOM	DATE ACQ	ACQ COST	MAKE	MODEL	LIC/REG #
FF&E												
202969	AUDIO SYSTEM COMPONENT ✓	8500094101	10	01	112	MEYER ELEMENTARY	STAGE	03/01/07	6,187.67	CROWN	180MA	
202676	ENCODER/DECODER (V-BRICK UNIT) X		12	54	112	MEYER ELEMENTARY		12/16/05	5,245.81		MPEG-4	
230006	PROMETHEAN ACTIVBOARD ✓	B0811140801	13	11	112	MEYER ELEMENTARY	F5	02/01/09	5,190.87	PROMETHEAN		
230007	PROMETHEAN ACTIVBOARD ✓	B0810280710	13	11	112	MEYER ELEMENTARY	H3	02/01/09	5,190.87	PROMETHEAN		
202105	NETWORK ELECTRONICS		20	60	112	MEYER ELEMENTARY	LIB.	07/08/05	22,053.95	MICRO INTEGRATION		
204722	WIRELESS INFRASTRUCTURE SWITCH ✓	FOC1229Y2AA	20	60	112	MEYER ELEMENTARY		11/01/08	6,857.40	CISCO	WS-C3750G-24PS-E	
230057	CISCO CATALYST 3750 SWITCH		20	60	112	MEYER ELEMENTARY		06/01/09	7,847.50	CISCO	WS-C3750G-48PS-S	
230058	CISCO CATALYST 3750 SWITCH		20	60	112	MEYER ELEMENTARY		06/01/09	6,045.00	CISCO	WS-C3750G-24PS-S	
230166	CISCO 2851 SWITCH		20	60	112	MEYER ELEMENTARY		08/01/09	5,197.50	CISCO	2851	
041421	RED/WHITE/BLUE ✓		23	01	112	MEYER ELEMENTARY		06/07/01	5,500.00	MAY RECREATION		
202420	PLAYGROUND EQUIPMENT ✓		23	01	112	MEYER ELEMENTARY		06/01/07	7,539.00			
230745	PLAYGROUND EQUIPMENT ✓		23	01	112	MEYER ELEMENTARY		03/31/15	65,000.00	MAY RECREATION		
230192	SMART TABLE 230I ✓	B012BK05C0369	32	08	112	MEYER ELEMENTARY	X P3	02/08/10	6,133.15	SMART TABLE	230I	
230217	SMART TABLE 230I ✓	B012BK05C0367	32	08	112	MEYER ELEMENTARY	X P3	02/08/10	6,133.15	SMART TABLE	230I	
230259	TANDBERG 1700MXP ✓	39B30790	32	08	112	MEYER ELEMENTARY	J5	02/19/10	11,344.14	TANDBERG	TANDBERG	
230526	WATERFORD DISTRICT WIDE LICENSE ✓		37	01	112	MEYER ELEMENTARY		09/19/12	6,630.00	WATERFORD		
018457	FREEZER/COOLER ✓	BX85087701	51	03	112	MEYER ELEMENTARY	CAF.	09/01/85	8,483.50	BALLY	3478-2-W	
018458	COOLER/FREEZER ✓	DX74087701	51	03	112	MEYER ELEMENTARY	CAF.	09/01/85	8,483.50	BALLY	3478-2-W	
018454	DISHWASHER-COMMERCIAL ✓ X	12095882EF	51	05	112	MEYER ELEMENTARY	CAF.	09/01/85	6,834.00	HOBART	C44	
230546	HOBART CL44E-10 DISHWASHER ✓		51	05	112	MEYER ELEMENTARY		11/01/13	21,830.00	HOBART	CL44-10	
018466	MIXER-FOOD ✓	11352339	51	06	112	MEYER ELEMENTARY	CAF.	09/01/85	6,468.00	HOBART	H600	
018470	CONVECTION STEAM KETTLE ✓	43375D18	51	07	112	MEYER ELEMENTARY	CAF.	09/01/85	10,897.00	CLEVELAND	6-CEM-48	
018460	W/S WELLS/COUNTER-STEAM TABLE ✓		51	09	112	MEYER ELEMENTARY	CAF.	09/01/85	7,825.00	IMC		
018471	OVER RANGE-CAFETERIA HOOD ✓		52	30	112	MEYER ELEMENTARY	CAF	09/01/85	6,756.00	IMC		
018456	DISHTABLE/WASHER ✓		52	91	112	MEYER ELEMENTARY	CAF	09/01/85	7,861.00	IMC		
									263,534.01			
PORTABLE BUILDINGS												
1120071	PORTABLE BUILDING # 22-D MOVING EXPENSE ✓		71	00	112	MEYER ELEMENTARY		08/01/07	9,435.24	TEXAS CLASSRM SYSTEM		
120009	24X32 PORTABLE BUILDING #9 ✓		71	00	112	MEYER ELEMENTARY		06/20/89	21,745.00	MORGAN BLDG SYS	24X32	
120048	24X32 PORTABLE BUILDING # 53 ✓		71	00	112	MEYER ELEMENTARY		08/01/04	25,878.00	ILCOR	24X32	
120071	PORTABLE BUILDING # 22-D ✓		71	00	112	MEYER ELEMENTARY		08/31/05	87,955.00	TEXAS CLASSRM SYSTEM		
2120071	PORTABLE BUILDING # 22-D MOVING EXPENSE ✓		71	00	112	MEYER ELEMENTARY		12/01/07	3,312.07			
									148,325.31			
									411,859.32			

Source: Assistant Director of Finance, July 2017.

The assistant purchasing manager has no control over how effectively campus and department staff perform inventory for their location. The process for tagging, tracking, and taking inventory of fixed and controllable assets such as computer, communications, and cafeteria equipment relies too heavily on manual data entry and on campuses and departments tagging their own assets without strong oversight and accountability. Failure to use technology, such as scanning barcodes to automate asset management makes tracking and inventorying capital assets more difficult.

Manually locating and documenting assets using paper forms increases the probability of errors and oversights. In addition, the bar codes the district uses are easily damaged and can fade over time. Moreover, district personnel do not use scan guns to scan asset and location codes during inventory. Not only should assets be tagged but, where possible, location codes should be used to identify the room and/or workstation where the assets are located. This approach would facilitate the inventory and reduce human errors. Finally, the district does not assign custodianship for assets to specific individuals. This practice would fix accountability for specific assets and increase the likelihood that they would be safeguarded and located during inventory.

If assets are not tagged and inventoried timely and accurately, the district risks assets being lost, stolen, or retired without accountability. This risk also extends to controllable assets. The lack of a an effective process for barcoding capital assets upon receipt makes it difficult to track and monitor technology and other equipment throughout the district.

The Munis Fixed Assets module has features to enable the district to more effectively manage its capital assets, but the district is not fully using the capabilities of the system. For example, barcodes are not scanned upon asset receipt but entered manually by the assistant director of Finance. Such capabilities include the following:

- manage record-keeping of all fixed assets such as land, buildings, machinery and equipment, construction in progress and infrastructure;

- tie an unlimited number of individual assets to master assets and simplifying record maintenance and reporting;

- create asset records from purchase orders or directly from invoices;

- track depreciable and non-depreciable assets;

- automate journal entries to the general ledger for asset transactions;

- generate standard reports such as asset list by location; assets due for replacement; insured value report; and lists of retirements, transfers, additions, and adjustments; and,

- integrate with barcode tracking systems for automated updates and counts.

By not fully using the fixed assets module of its ERP system, the district is failing to leverage its investment in the system. It is also missing an opportunity to use the system's capabilities to support a comprehensive, automated capital assets management solution.

The Texas Comptroller of Public Accounts established fixed asset best practices to assist local governments with setting up an effective and efficient capital assets management system. These best practices represent a comprehensive solution for capital assets management systems and include suggested steps to develop and maintain an effective system. **Exhibit 7-34** presents these best practices.

Exhibit 7-34
Capital Asset Best Practices

Preliminary Steps	• Identify individuals in the district who will have key fixed asset responsibilities and establish the nature of such responsibilities. • Devise policies and procedures governing capitalization thresholds, inventory, accounting, employee accountability, transfers, disposals, surplus and obsolescence, and asset sale and disposition. • Determine district fixed asset information needs and constraints. • Determine the hardware and software necessary to effectively manage the system.
Creating the Fixed Asset Management System	• Adopt a proposal setting up the fixed asset system including adoption of formal policies and procedures. • Create positions and job descriptions for those with fixed asset responsibilities. • Determine the design of the fixed asset inventory database and develop standard forms to match the format of computerized records. • Provide training as necessary. • Identify specific assets below the capitalization threshold that should be tracked for information purposes and safeguarding. • Budget the amount necessary to operate the fixed assets management system adequately.
Implementing the Fixed Asset Management System	• Inform all departments of the requirements, policies, and procedures of the fixed assets system. • Ensure that assets to be tracked on the system have been identified and tagged. • Enter information into the fixed assets database. • Assign appropriate values to the assets in the database. • Establish location codes and custodial responsibility for fixed assets.

Maintaining the Fixed Asset Management System	• Enter all inventory information into the automated fixed asset system as fixed assets are received. • Assign tag numbers, location codes, and responsibility to assets as they are received. • Monitor the movement of all fixed assets using appropriate forms approved by designated district personnel. • Conduct periodic inventories and determine the condition of all assets. • Generate appropriate reports noting any change in status of assets including changes in condition, location, and deletions. • Reconcile the physical inventory to the accounting records, account for discrepancies, and adjust inventory records. • Use information from the system to support insurance coverage, budget requests, and asset replacements and upgrades.

Source: *"Getting a Fix on Fixed Assets", City and County Financial Management, May 1999 Vol. 15 Issue 2, Publication of the Texas Comptroller of Public Accounts.*

RECOMMENDATION 7-11

Develop a comprehensive fixed assets management system to guide the identification, recording, inventorying, tracking, and disposal of fixed assets, and fully implement the fixed assets module of the financial system with the software vendor providing technical assistance as necessary.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

ANTICIPATING TOMORROW

As the district grows, the number of its fixed assets will increase. These assets will need to be tracked, inventoried, and safeguarded. To avoid the risk of losing control over and accountability for fixed assets, the district should develop a comprehensive fixed asset management system that leverages all available technology and includes training and coordination of all involved in the annual inventory.

Worker's Compensation Safety Program

OBSERVATION 7-12

The district does not have a comprehensive safety awareness and training program to control and reduce worker's compensation costs.

LCISD does not have a district-wide safety awareness and training program designed to minimize worker's compensation claims. There is no district-wide, coordinated safety program designed to prevent accidents and avoid worker's compensation claims that uses the services of the district's third-party administrator to address safety and worker's compensation losses.

The district is self-insured for worker's compensation purposes and accounts for its worker's compensation program in an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the district's various funds and functions. Internal service funds benefit the governmental entity and its employees. For example, the district also uses an internal service fund to account for its self-funded health insurance program. **Exhibit 7-35** presents financial results for LCISD's worker's compensation internal service fund for Fiscal Years 2014 through 2016. Unrestricted Net Position represents excess reserves, which are similar to a savings account.

Exhibit 7-35
Worker's Compensation Internal Service Fund
Fiscal Years 2014 through 2016

Description	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Revenues	$ 466,167	$ 470,298	$ 474,016
Expenses	208,343	437,366	$632,453
Net Revenue/(Expenses)	**$ 257,824**	**$ 32,932**	**$ (158,437)**
Unrestricted Net Positon	$ 933,397	$ 966,329	$ 807,892

Source: Audited Financial Statements for Applicable Year.

The initial term of the district's third-party administrator agreement to provide claims adjusting and administration services was from September 1, 2009 through August 31, 2010 with an option to extend two additional years upon the agreement of both parties. Human Resources staff indicated that the agreement was not updated because the district was not required to go out for bid each year. This situation is discussed further in **Observation 7-13**. The TPA performs the following services for the district:

- Receive, examine, and service all reported claims.

- Investigate, adjust, settle, or deny claims.

- Engage the services of persons or firms in connection with investigations and adjustment of claims.

- Reserve for and code each claim.

- Make timely payments of valid claims out of funds provided by LCISD.

- Maintain claim files on each reported claim.

- Provide all forms necessary for efficient claims administration.

- Prepare and timely file all legally required forms and reports with the appropriate state and federal agencies.

- Provide licensed claims adjusters and perform all services in good faith and in accordance with applicable laws and regulations.

- Protect and pursue subrogation rights of LCISD and notify LCISD of any subrogation rights available to the district.

- Perform all administrative and clerical work in connection with reported claims.

- Respond to inquiries, complaints, and requests from relevant parties.

- Report all cases involving suspected fraud to the appropriate state mandated agency.

- Provide first notice and status reports to excess insurers in accordance with the criteria and reporting format dictated by that excess carrier.

The agreement does not require the TPA to provide safety training or provide any other services designed to reduce injury claims. Such programs have been shown to reduce or avoid workers' compensation costs. The lack of a safety awareness and training program creates an environment in which preventable work-related accidents could occur and increase workers' compensation claims and costs.

An effective safety awareness and training program uses worker's compensation loss reports to target training initiatives. The district's TPA generates loss reports that have a wealth of information the district could use to support a comprehensive safety awareness and training program. The report shows the employee, their occupation, age, years of service, how they were injured, type of injury, and body part. If analyzed appropriately, particular groups of employees, injuries, and body parts could be targeted for training to reduce worker's compensation claims.

When compared to Clear Creek and Spring ISD, peer districts that responded to the peer survey, LCISD has the second highest number of claims per employee and the second highest costs per employee. **Exhibit 7-36** presents worker's compensation costs for Fiscal Years 2014 through 2016 for LCISD and the peer districts.

Exhibit 7-36
Worker's Compensation Internal Service Fund
Fiscal Years 2014 through 2016

Year	Number	Costs Incurred	# Employees	Claims/Emp.	Costs/Emp.
LCISD					
2014	130	$375,403	3,012	0.043	$124.64
2015	150	$437,470	3,186	0.047	$137.31
2016	142	$414,544	3,376	0.042	$122.79
Total	**422**	**$1,227,417**	**9,574**		
Average	**141**	**$409,139**	**3,191**	**0.044**	**$128.25**
Clear Creek ISD					
2014	177	$639,019	4,918	0.036	$129.93
2015	188	$444,932	4,978	0.038	$89.38
2016	215	$637,906	5,033	0.043	$126.74
Total	**580**	**$1,721,857**	**14,929**		
Average	**193**	**$573,952**	**4,976**	**0.039**	**$115.35**
Spring ISD					
2014	191	$519,737	5,000	0.038	$103.95
2015	316	$722,857	5,000	0.063	$144.57
2016	272	$1,052,230	5,000	0.054	$210.45
Total	**779**	**$2,294,824**	**15,000**		
Average	**260**	**$764,941**	**5,000**	**0.052**	**$152.99**

Source: Worker's Compensation Loss Reports Fiscal Years 2014-2016.

A comprehensive safety awareness and training program would include a number of strategies to reduce worker's compensation claims including the following:

- Safety training for teachers, maintenance employees, and food service workers
- "Shoes for Crews"-free non-slip shoes and boots for maintenance and food service workers
- Employee wellness program and activities
- Return to work programs
- Online safety training for instructional personnel
- Monthly safety meetings in various manual trades
- Safety incentives
- Safety awareness campaigns throughout the year
- Monthly meetings with supervisors to review and discuss claims
- Investigation and follow-up repairs of facility-caused injuries
- Monthly safety bulletins sent to all employees
- Targeted safety training to specific groups

A comprehensive safety awareness and training program could help the district avoid a catastrophic claim that could significantly increase workers' compensation costs. TPAs typically provide assistance in developing such a

McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

program at no extra cost. Such a program could pay huge dividends if costly accidents are prevented due to district employees being more safety conscious and aware of how to avoid costly injuries.

RECOMMENDATION 7-12

Develop a comprehensive worker's compensation safety awareness and training program that uses claims data to target training initiatives to specific groups of employee, injuries, and body parts, and execute an updated agreement with the TPA.

FISCAL IMPACT

LCISD should establish a goal to reduce worker's compensation claims by at least 20 percent. Using the past three–year average as a base, the achievement of this goal would have an annual fiscal impact of approximately $82,000.

This amount was determined as 20 percent of the three-year average of worker's compensation costs from Exhibit 7-36 ($409,139 x .20 = $81,828, or $82,000). Assuming that it would take at least half the year for training initiatives to take effect, only $41,000 of savings would occur the first year of implementation (Fiscal Year 2018). The five-year savings is $369,000 ($41,000 + ($82,000 x4)).

ANTICIPATING TOMORROW

More employees, facilities, equipment, and activity will increase the risk of employee injury. To mitigate such risk, LCISD must be proactive in implementing programs and initiatives to prevent accidents and reduce their financial impact. Today, the district uses a third-party administrator to process worker's compensation claims. As LCISD grows, this focus should change from processing claims to preventing them.

Contract Management

OBSERVATION 7-13

The district does not have an effective contracts management process to monitor contract compliance and evaluate vendor performance.

Effective contract management is critical to the success of any organization. An ineffective contract management process results in various inefficiencies and risks to the district. Users of contracted services have no standard district-wide processes and guidance for contracting with vendors or ensuring contract compliance. Each user relies on their personal practices and methods. Consequently, the district lacks a repeatable process for consistent contract and solicitation development, which prevents the district from benefiting from lessons learned and contract management best practices. In addition, statutorily mandated terms and conditions may not be present when contracts are not administered and monitored effectively, and staff responsible for managing and monitoring contracts may not have adequate training.

LCISD's contract process starts and finishes with the end user. After initiation, contracts are routed through a manual, paper-driven signatory/approval process. Once a contract has been completed and executed, the original is forwarded to accounting prior to payment against a purchase order. The signature of the end user on the invoice serves as acceptance and completion of the work performed under the contract.

There is no single database of contracts that can be used to track renewal dates, monitor contract volume, track vendor performance, or conduct trend analysis of contract expenditures. Since individual users monitor and evaluate vendor performance, there is no formal sharing of information or formal procedures for barring unsatisfactory vendors from performing future services for the district.

An example of ineffective contact management is discussed in **Observation 7-12**. The district did not provide MJ with a current version of the TPA contract. The original term was September 1, 2009 through August 31, 2010. Human Resources staff indicated that the TPA is updating an agreement for the new plan year, which begins

September 1, 2017. The reason provided for not renewing the contract is that the district was not required to bid the service. However, this explanation is inadequate considering that although not required to rebid the service, it is good business practice to take advantage of better pricing and services. Moreover, not having a current written contract in place exposes the district to various legal, financial, and reputational risks.

A whitepaper written by a developer of contract lifecycle management solutions suggests the following four core components of effective contract management:

- Centralization
- Accessibility
- Visibility
- Automation

LCISD's contract management process does not fulfill any of these components. Contract management is decentralized in that users initiate and monitor contracts. It is inaccessible and invisible in that there is no systematic way for the Purchasing Department to determine where any given contract is in the district. Finally, LCISD's contract management process in not automated since contracts are paper based. **Exhibit 7-37** depicts a typical contract management process.

Exhibit 7-37
Typical Contract Process
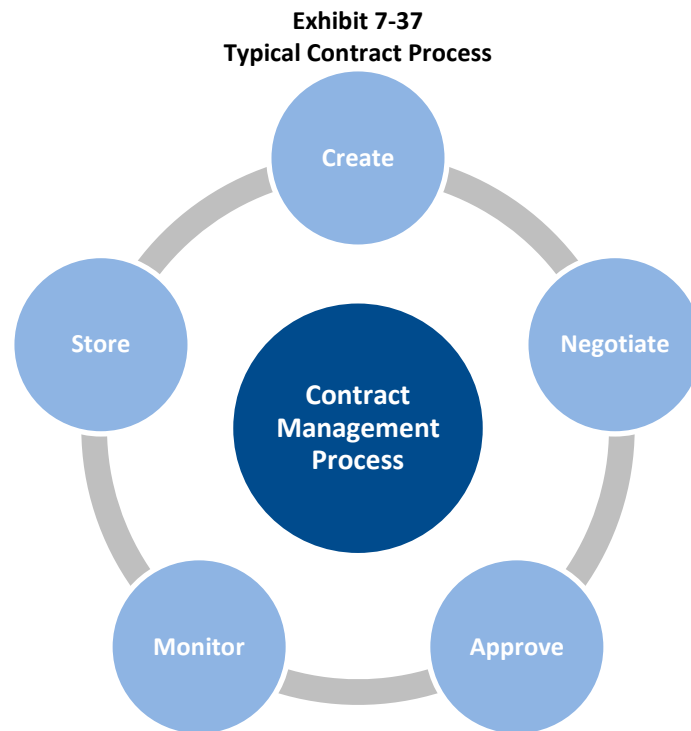
Source: MJ Review Team.

The following are best practices for contracts management:

- Establish a central depository for contracts to make them easy to track, manage, and secure.
- Create a contracts template library with standard language, terms, and clauses.
- Set up automatic alerts to avoid critical milestones and renewals.
- Use a web-enabled solution to give authorized users access to contract information anywhere, anytime.
- Automate the approval process to eliminate bottlenecks and enhance productivity.
- Establish a central contracts repository.

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

- Integrate systems to allow for seamless contract management from start to finish.
- Encourage collaboration among stakeholders to ensure transparency, accuracy, and compliance.
- Create custom reports so that information can be found easily and quickly.

In January 2017, the district was in the process of implementing fully a workflow solution that would allow district staff to automate aspects of contract development and approval and track contracts across the district. This software can be used for contracts as well as other documents that can be subjected to workflow such as travel expense reports. While this initiative is a good start, it is not a comprehensive contract management solution.

RECOMMENDATION 7-13

Implement the contracts management workflow solution, and develop a comprehensive process that incorporates all the elements of contract management best practices.

FISCAL IMPACT

This recommendation can be implemented with existing resources unless the district chooses to automate the contracts management process. The cost of such an approach cannot be estimated without more information about alternative solutions

ANTICIPATING TOMORROW

As LCISD grows, the volume and complexity of contracts will increase. It will be critical for the district to better manage its contracts, monitor contract provisions and terms, and evaluate vendor performance. Moreover, the district must leverage technology in all of its business processes. Technology will continue to advance and as the district grows, it will need to embrace technological changes to maximize effectiveness and efficiency in its business processes.

In addition to the peer survey, MJ conducted a survey of several districts that are larger than LCISD. The purpose of the survey was to obtain information on how large districts operate their financial functions. Conroe ISD has 59,500 students and 60 schools. Conroe ISD responded to the survey and provided the following information about its purchasing and contracts management function. LCISD should consider implementing these best practices as it continues to grow:

- Use of Jumptrack system for warehouse, which is a proof-of-delivery application that facilitates the tracking of deliveries and improves the productivity of delivery fleets.
- Use of a shared drive to store bid information, vendor profiles, and bid calendars.
- Use of Outlook 365 for meeting information and task assignments.
- Use of E-bidding system, which provides online bidding, contract management, vendor registration, and future reverse auction capability. A reverse auction is a tool used in business-to-business procurement. In this process, the role of the buyer and seller is reversed, with the primary objective to compete purchase prices downwards. In an ordinary auction (also known as a forward auction), buyers compete to obtain a product or service. In a reverse auction, sellers compete to obtain business.

Commodity Codes

OBSERVATION 7-14

The district does not use commodity codes extensively in all commodity areas to track expenditures or to distribute responsibilities for approving purchasing orders for select categories of goods and services.

Chapter 44 of the Texas Education Code (TEC) requires that all school district contracts valued at $50,000 or more in the aggregate for any 12-month period be procured using one of the following methods. Exceptions, as explained in the law, exist for produce, fuel, cooperative purchase programs, professional services, sole source procurements, emergencies, school buses, leases, and rentals:

- Competitive Bidding
- Competitive Sealed Proposals, for services other than Construction Services
- A Request for Proposals, for services other than Construction Services
- An Interlocal Contract
- A method as provided by Chapter 2269, Government Code, for Construction Services
- A reverse auction Procedure Defined in Government Code, Section 2155.062
- The Formation of a Political Subdivision Corporation under Local Government Code, Section 304.001

The Texas Education Agency's Financial Accountability System Resource Guide provides categories of commodities for which aggregate expenditures must be tracked. These commodities include, but are not limited to, the following:

- Athletic Supplies
- Awards and Incentives
- Curriculum and Instructional Materials
- Fleet Vehicle Parts and Supplies
- Furniture
- General Merchandise
- Instrument Repair
- Maintenance Parts and Supplies

LCISD's Purchasing Department uses these groupings to determine the level of expenditures so that contracts for the purchases of these items can be awarded in a competitively awarded process in compliance with the TEC. The district maintains a complete listing of all commodity groupings and current procurement contracts on its website.

Although the district groups commodities and executes competitively bid contracts for these items, it has not assigned commodity codes to the groupings. Commodity codes are standard classification codes for products and services used to detail where money is spent within an organization. The codes facilitate the monitoring of expenditure levels to ensure the district stays in compliance with the law. Commodity codes also would allow the district to analyze expenditures among its campuses and departments and to compare such expenditures with peer districts. At the macro level, the district could ask questions like: "are we paying the same price as our peers? Are they getting a better rate? If so, why?"

Under current practice, the district knows intuitively which commodities will exceed the $50,000 threshold and makes sure that bids are let on these items. However, as the district continues to grow a more formalized and structured method will become necessary. In addition, requiring the use of commodity codes will enable the district to track expenditures made through student activity funds. Currently, schools are encouraged to use vendors that are on the district's official bid list. However, commodity codes would provide a greater degree of control over the decentralized spending of student activity funds.

Another benefit of commodity codes is that they allow for allocation of responsibilities among the purchasing staff. For purchases of $5,000 or more, CFO approval is required. CFO approval is also required for all bond-funded transactions. However, the purchasing manager provides the final approval for all purchase orders. This is a considerable responsibility with the purchasing manager sometimes approving and average of 120 purchase orders per day. **Exhibit 7-38** provides the volume of purchase orders generated over the past four fiscal years and through January 24, 2017.

Exhibit 7-38
Number of Purchase Orders
Fiscal Years 2013-2016 and through January 24, 2017

Fiscal Year	Number of Purchase Orders
2017 (as of 1/24/2017)	4,759
2016	10,395
2015	8,745
2014	7,681
2013	7,480

Source: LCISD Purchasing Department, January 2017.

Although a buyer is on the Purchasing Department staff, and the assistant purchasing manager was a buyer before becoming assistant purchasing manager and is cross trained to do the job, these individuals do not approve purchase orders. The buyer's current responsibilities include the following:

- Conducting research to find the best procurement method.
- Facilitating the bid letting and tabulation process.
- Working with schools and departments to develop specifications.
- Maintaining bid files.
- Maintaining the purchasing intranet, internal web site.

The assistant purchasing manager supervises four drivers, two receivers, and one warehouse manager. The position's current responsibilities include the following:

- Maintain textbook inventory
- Maintain capital outlay and fixed assets inventory
- Manage receiving & distribution of materials, supplies, and equipment
- Assist purchasing manager with purchasing-related activities

If the district used commodity codes, the workload for approving purchase orders could be distributed by assigning certain commodity codes to the buyer. This would not only take the burden off the purchasing manager but also provide an opportunity for the buyer to become an expert in the assigned commodity.

RECOMMENDATION 7-14

Assign commodity codes to all goods and services, and redistribute purchase order approval responsibilities based on commodity code groupings.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

ANTICIPATING TOMORROW

As the district grows, it will acquire more goods and services that will need to be classified and tracked. Assigning commodity codes to goods and services will enable the district to maintain better control over its procurement function. Commodity codes will also ensure that the district complies with current aggregation laws. Should these laws change in the coming years, the district will be positioned to comply while at the same time enhancing control over its goods and services.

Textbook Inventory

OBSERVATION 7-15

The district does not use the full capabilities of its automated textbook inventory system to track textbooks, lacks standard procedures for conducting the annual textbook inventory, and does not train textbook coordinators adequately in inventory taking procedures.

Senate Bill 6 from the 82nd Texas Legislature, First Called Session, 2011, created an instructional materials allotment (IMA) for the purchase of instructional materials, technological equipment, and technology-related services.

Each district and open-enrollment charter school is entitled to an IMA. The amount of the IMA is determined biennially by the commissioner and is based on the legislative appropriation. Districts and open-enrollment charter schools have access to their allotment through the educational materials ordering system known as EMAT. **Exhibit 7-39** presents LCISD's allotment for school years 2016 and 2017.

Exhibit 7-39
Instructional Materials Allotment
School Years 2015-2016 and 2016-2017

Description	Number of Purchase Orders
Total Allotment	$2,009,561
Disbursements	($557,941)
Requisitions	($354,539)
Remaining Allotment	**$1,097,081**

Source: LCISD Purchasing Department, February 2017.

The assistant purchasing manager is responsible for managing the district's textbooks and instructional materials. The inventory for the 2017 school year began in April 2017 and concluded in June 2017. There are two types of textbook procurements: new adoptions and standard adoptions. Procurements for new adoptions begin the October before the school year in which the textbooks will be used. The assistant purchasing manager places textbook orders that arrive in the warehouse around June. The assistant purchasing manager separates the textbooks by campus, inventories them, and enters them manually into a textbook system known as TIPWEB. Although TIPWEB has a barcode function, it is not used to enter textbooks into the system upon receipt at the warehouse. Using the barcode system would make the intake process more efficient. Textbooks have an ISBN number and an ascension number. The ISBN number defines the book title whereas the ascension number identifies the specific book. TIPWEB has barcode automation features, but the district is not fully using the system's capabilities. **Exhibit 7-40** on the following page is a picture of the available barcodes.

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Exhibit 7-40
Textbook Barcodes
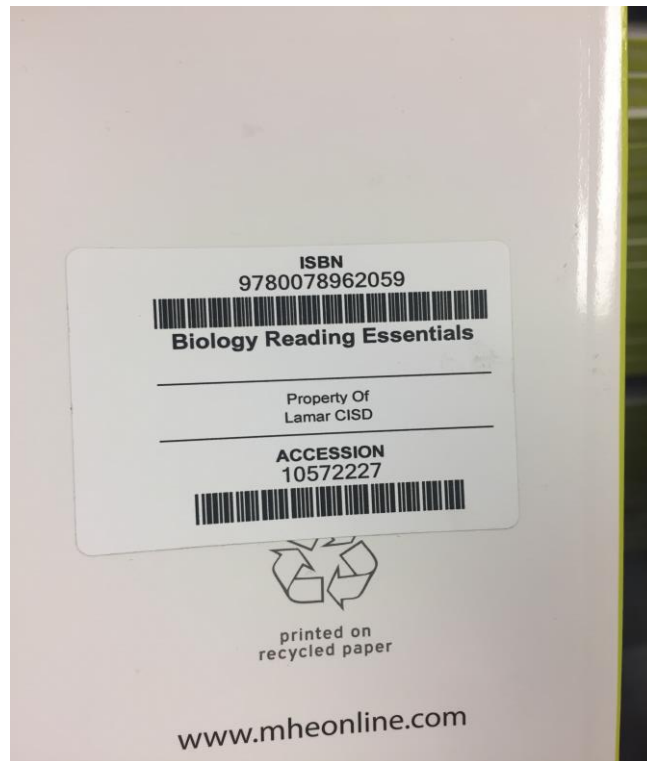
Source: Sample Textbook Observed During Site Visit, February 2017.

Full implementation of the barcode feature would provide more effective textbook control by allowing better tracking of textbooks down to the teacher/student level with tools to control inventory distribution; improve retention with automated receipts and lost letters; and identify replacement needs. During site visits, the review team noted that the use of TIBWEB was inconsistent. Some schools used the system's features while others built additional manual procedures around the system's capabilities. One school told the review team that they were informed by Purchasing Department staff that they were not required to use the system. The review team examined an email sent to elementary schools during the 2014-2015 school year giving them a choice as to whether or not to barcode textbooks. The email stated the following:

> *"We have heard from some of you about the barcoding process. It is our intention to NOT barcode any consumable materials next year. Further, we would like to not barcode the new books as they are only going to be available in class sets. I have attached a voting button to this email, please voice your opinion by voting or by responding to a reply all email. If barcoding is something that is extremely important to the majority, we will certainly continue to perform that service, but if it is not utilized, we would prefer to end the process. We definitely want to hear from all of you on this. '*

Once the books are delivered to the campus, the order is checked by the campus textbook coordinator who checks the textbooks, locates them in the TIPWEB system, and receives them into inventory. All books in the system are dated and described. Assistant principals serve as textbooks coordinators who work with the assistant purchasing manager to maintain the district's textbooks.

Whenever there is a new adoption, warehouse staff pick up the old books from the campuses. Once the books are picked up, they are palletized and wrapped. The district contracts with a recycling company that picks them up for recycle. When the assistant purchasing manager enters new books into the system, old ones are removed.

The assistant purchasing manager indicated that some of the information in TIPWEB needs to be corrected and better organized. The data is not as "clean" as it should be. For example, textbook identification numbers are incorrect and information in the system is not organized efficiently. This situation resulted from poor management of the database over the years by previous custodians of the system. In addition, the district has never implemented naming conventions and data entry controls to standardize and validate the input. As a result, there is a need to address the quality of data in TIPWEB and to "cleanup" the information in the system.

RECOMMENDATION 7-15

Use the barcoding feature of the TIPWEB system to enter new adoptions in the system, "clean up" the data in the system, develop standard data entry procedures, and train textbook coordinators to conduct an effective and accurate textbook inventory.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

ANTICIPATING TOMORROW

As already mentioned, the district must leverage technology in all of its business processes. Technology will continue to advance and as the district grows, it will need to embrace technological changes to maximize effectiveness and efficiency in its business processes.

ANTICIPATING TOMORROW-OTHER TOPICS

The review team's perspectives on the future implications of our observations for LCISD's financial management function were provided after each recommendation in this chapter.

MJ McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

FISCAL IMPACT SUMMARY

	RECOMMENDATION	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	TOTAL 5-YEAR (COSTS) OR SAVINGS	ONE TIME (COSTS) OR SAVINGS
	CHAPTER 7: FINANCIAL MANAGEMENT							
7-1	Link the annual budget to long-term strategic planning initiatives.	$0	$0	$0	$0	$0	$0	$0
7-2	Produce an award winning budget document for Fiscal Year 2019 and beyond thereby demonstrating a commitment to financial accountability, transparency, and stewardship, and apply for the GFOA and\or ASBO budget awards. If the awards are granted, publish them on the district's website.	$0	($1,660)	($1,660)	($1,660)	($1,660)	($6,640)	$0
7-3	Use the TASBO policies and procedures template as a starting point to develop a formal, comprehensive policies and procedures manual that describes how critical financial and accounting related tasks are to be performed, and implement a process to keep the manual updated.	$0	$0	$0	$0	$0	$0	$0

	RECOMMENDATION	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	TOTAL 5-YEAR (COSTS) OR SAVINGS	ONE TIME (COSTS) OR SAVINGS
7-4	Reengineer accounts payable processes and procedures to leverage the functionality and capabilities of the automated accounts payable system, and work with the ERP vendor to implement any necessary updates to maximize the system's benefits, and adopt accounts payable best practices.	$0	$0	$0	$0	$0	$0	$0
7-5	Consider adopting a centralized model of accounting for student activity funds, and/or hire an internal auditor to audit student activity funds on a continuous basis as well as perform internal audits of other areas of the district.	$0	$0	$0	$0	$0	($354,000)	$0
7-6	Upgrade to a modern financial accounting system for student activity funds, or implement the student activity fund module of the Munis system.	$0	$0	$0	$0	$0	$0	$0
7-7	Develop a strategy to increase payroll direct deposit participation to 100 percent, and make direct deposit mandatory for new employees.	$0	$0	$0	$0	$0	$0	$0
7-8	Adopt remote check capture technology to streamline check processing and deposits.	$0	$0	$0	$0	$0	$0	$0

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

	RECOMMENDATION	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	TOTAL 5-YEAR (COSTS) OR SAVINGS	ONE TIME (COSTS) OR SAVINGS
7-9	Complete the integration of the eSchool and Kronos systems to eliminate manual data entry, retrain school secretaries on the importance of verifying leave balances and submitting employee timesheets on time, and hold secretaries accountable by tracking and reporting chronic late timesheet submission to the school principal and the CFO.	$0	$0	$0	$0	$0	$0	$0
7-10	Intensify efforts to collect outstanding facility receivables, and enforce the district's policy to require users of school facilities for non-school events to pay upfront before the facilities are used.	$0	$0	$0	$0	$0	$0	$104,329
7-11	Develop a comprehensive fixed assets management system to guide the identification, recording, inventorying, tracking, and disposal of fixed assets, and fully implement the fixed assets module of the financial system with the software vendor providing technical assistance as necessary.	$0	$0	$0	$0	$0	$0	$0

	RECOMMENDATION	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	TOTAL 5-YEAR (COSTS) OR SAVINGS	ONE TIME (COSTS) OR SAVINGS
7-12	Develop a comprehensive worker's compensation safety awareness and training program that uses claims data to target training initiatives to specific groups of employee, injuries, and body parts, and execute an updated agreement with the TPA.	$41,000	$82,000	$82,000	$82,000	$82,000	$369,000	$0
7-13	Implement the contracts management workflow solution, and develop a comprehensive process that incorporates all the elements of contract management best practices.	$0	$0	$0	$0	$0	$0	$0
7-14	Assign commodity codes to all goods and services, and redistribute purchase order approval responsibilities based on commodity code groupings.	$0	$0	$0	$0	$0	$0	$0
7-15	Use the barcoding feature of the TIPWEB system to enter new adoptions in the system, "clean up" the data in the system, develop standard data entry procedures, and train textbook coordinators to conduct an effective and accurate textbook inventory.	$0	$0	$0	$0	$0	$0	$0
TOTALS–CHAPTER 7		($29,800)	$9,540	$9,540	$9,540	$9,540	$8,360	$104,329

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS