

**4.0 FINANCIAL MANAGEMENT,
BUDGET, AND PURCHASING**

4.0 FINANCIAL MANAGEMENT, BUDGET, AND PURCHASING

This chapter presents findings and recommendations relating to the financial management, budget, and purchasing functions of Bath County Public Schools (BCPS). The major sections of the chapter include:

- 4.1 Introduction
- 4.2 Financial Management
- 4.3 Budget
- 4.4 Purchasing
- 4.5 Activity Funds
- 4.6 Fixed Assets

CHAPTER SUMMARY

BCPS's financial operations are primarily under the direction of a Business Manager who has extensive formal business training and practical experience gained while working for a public accounting firm. He is assisted by a secretary who spends approximately 75 percent of her time on financial matters. However, the budget is developed under the direction of the superintendent with the assistance of the Technology Director and little involvement by the Business Manager. The internal control feature of separation of duties is limited with only two staff members involved in financial functions, but the county has segregated duties effectively in the payroll and accounts payable areas.

Recommendations in this chapter include key suggestions that should assist the division in improving its relationship with the Bath County Board of Supervisors, improving the payment process, and providing schools and departments with better guidance in purchasing and management of activity funds. Major recommendations include the following:

- Develop summary financial reports for the BCPS School Board, the Bath County Board of Supervisors, and the public.
- Delegate payment approval to the superintendent and Business Manager.
- Establish a detailed purchasing policy and develop a written procedures manual that provides standard guidance to employees.
- Develop a budget adjustment policy that provides guidance as to when budget adjustments are to be prepared and document adjustments approved by the BCPS School Board in board minutes.
- Develop a written activity fund operations manual to help ensure funds are administered properly.
- Track fixed assets acquired from division funds and develop fixed asset policies to direct the management of the division's investment in capital items.

4.1 Introduction

BCPS selected six peer divisions for comparison purposes for this efficiency review: Bland, Craig, Mathews, Rappahannock, Richmond, and Surry. Exhibit 4-1 presents the BCPS and peer division local composite indexes for the 2006-08 period. Bath had the highest composite index of all counties with a .8000. Surry was next with a .7842, followed by Rappahannock with a .7463. The composite index for localities is capped at .8000 by state law. No locality is required to fund more than 80 percent of Standards of Quality costs.

**EXHIBIT 4-1
COMPARISON OF LOCAL COMPOSITE INDEXES
BATH COUNTY PUBLIC SCHOOLS AND PEER DIVISIONS
2006-08**

SCHOOL DIVISION	2006-08 COMPOSITE INDEX OF LOCAL ABILITY-TO-PAY
Bath County	.8000
Bland County	.3059
Craig County	.3184
Mathews County	.4701
Rappahannock County	.7463
Richmond County	.3593
Surry County	.7842

Source: Virginia Department of Education Web site, 2006

Exhibit 4-2 presents a comparison of receipts by fund source for Bath and the peer divisions. As shown in the exhibit, Bath funds 71.4 percent of the costs of the division from local revenue, while the peer average is 43.71 percent. In contrast, Bath receives 12.15 percent from state funds compared to the peer division average of 37.93 percent. This is the result of the division's having the highest composite index allowed by state law.

**EXHIBIT 4-2
COMPARISON OF RECEIPTS BY FUND SOURCE
BATH COUNTY PUBLIC SCHOOLS AND PEER DIVISIONS
2004-05**

SCHOOL DIVISION	SALES AND USE TAX	STATE FUNDS	FEDERAL FUNDS	LOCAL FUNDS	OTHER FUNDS	LOANS, BONDS, ETC.
Bath County	6.58%	12.15%	7.99%	71.10%	2.18%	0.00%
Bland County	9.28%	57.08%	8.13%	23.69%	1.29%	0.55%
Craig County	11.13%	50.23%	8.73%	25.03%	4.84%	0.04%
Mathews County	8.90%	36.76%	5.98%	47.90%	0.47%	0.00%
Rappahannock County	9.74%	19.69%	5.56%	58.41%	4.06%	2.53%
Richmond County	8.99%	50.62%	7.12%	33.16%	0.10%	0.00%
Surry County	5.96%	13.21%	6.05%	74.06%	0.73%	0.00%
PEER DIVISION AVERAGE	9.00%	37.93%	6.93%	43.71%	1.92%	0.52%

Source: 2005 Superintendent's Annual Report for Virginia, Virginia Department of Education Web site, 2006.

Exhibit 4-3 compares BCPS cost per pupil for 2004-05 to the peer division average. As shown, BCPS's:

- total disbursement per pupil of \$12,038 was 22.12 percent higher than the peer average of \$9,858;
- disbursements per pupil for instruction was \$1,864 higher than the peer average;
- disbursements per pupil for total cost of operation regular day school is \$2,229 higher than the peer average of \$8,754;
- disbursements for school food services were 96.71 percent higher than the peer average and pupil transportation services were 45.77 percent higher than the peer average;
- disbursements per pupil for administration, summer school, and facilities were all slightly below the peer average; and
- disbursements did not include any costs for adult education, other educational programs, or debt service and transfers.

**EXHIBIT 4-3
COMPARISON OF COST PER PUPIL
BATH COUNTY PUBLIC SCHOOLS AND PEER DIVISIONS
2004-05**

PROGRAM	BATH COUNTY PUBLIC SCHOOLS	PEER DIVISION AVERAGES	BATH COUNTY PUBLIC SCHOOLS PER PUPIL COSTS ABOVE (BELOW) PEER AVERAGE	
			AMOUNT	PERCENT
Administration	\$378.88	\$458.71	(\$79.83)	(17.40%)
Instruction	\$8,543.26	\$6,678.42	\$1,864.84	27.92%
Attendance and Health Services	\$149.51	\$131.62	\$17.89	13.59%
Pupil Transportation Services	\$884.03	\$606.44	\$277.59	45.77%
Operations and Maintenance Services	\$1,428.81	\$879.40	\$549.41	62.48%
Total Cost of Operation Regular Day School	\$11,384.49	\$8,754.59	\$2,629.90	30.04%
School Food Services	\$628.93	\$319.72	\$309.21	96.71%
Summer School	\$27.19	\$28.55	(\$1.36)	(4.77%)
Adult Education	\$0.00	\$6.49	(\$6.49)	N/A
Other Educational Programs	\$0.00	\$1.82	(\$1.82)	N/A
Facilities	\$1.12	\$214.07	(\$212.95)	(99.48%)
Debt Service and Transfers	\$0.00	\$533.26	(\$533.26)	N/A
TOTAL DISBURSEMENTS	\$12,038.73	\$9,858.50	\$2,180.23	22.12%

Source: 2005 Superintendent's Annual Report for Virginia, Virginia Department of Education Web site.

Exhibit 4-4 presents the results of MGT’s survey of BCPS administrators/principals and teachers alongside comparative responses from administrators/principals and teachers in other school divisions. Respondents were asked to indicate their level of agreement with the statement “Funds are managed wisely to support education in this school division.” The exhibit shows that 76 percent of BCPS administrators/principals agreed or strongly agreed that funds are managed wisely compared to 68 percent of administrators/principals in other divisions. Responses from BCPS teachers were very close to that of responses from other divisions’ teachers.

**EXHIBIT 4-4
BATH COUNTY PUBLIC SCHOOLS AND OTHER SCHOOL DIVISIONS
ADMINISTRATORS/PRINCIPALS AND TEACHERS**

FUNDS ARE MANAGED WISELY TO SUPPORT EDUCATION IN THIS DIVISION.	(%A + SA) / (%D + SD) ¹	
	ADMINISTRATORS/ PRINCIPALS	TEACHERS
Bath County Public Schools	76/0	27/39
Other School Divisions	68/17	28/46

Source: Created by MGT of America, Inc., 2006.

¹Percent responding *Agree* or *Strongly Agree*/Percent responding *Disagree* or *Strongly Disagree*. The *neutral* and *don't know* responses are omitted.

Exhibit 4-5 shows the results of the MGT survey of BCPS administrators/principals and teachers alongside the responses of administrators/principals and teachers from other school divisions pertaining to budgeting, financial management, and purchasing functions. A higher percentage of BCPS administrators/principals responded that all three functions were adequate or outstanding than did administrators/principals from the other school divisions. A high percentage (86%) of BCPS teachers responded that the division’s budgeting function needed some or major improvement.

**EXHIBIT 4-5
COMPARISON SURVEY RESPONSES
ADMINISTRATORS/PRINCIPALS AND TEACHERS
BATH COUNTY PUBLIC SCHOOLS AND OTHER SCHOOL DIVISIONS**

SCHOOL DIVISION/PROGRAM FUNCTION	% NEEDS SOME IMPROVEMENT + NEEDS MAJOR IMPROVEMENT		% ADEQUATE ¹ + OUTSTANDING	
	ADMINISTRATORS/ PRINCIPALS		TEACHERS	
	BATH COUNTY PUBLIC SCHOOLS	OTHER SCHOOL DIVISIONS	BATH COUNTY PUBLIC SCHOOLS	OTHER SCHOOL DIVISIONS
Budgeting	50/50	45/51	82/8	65/16
Financial Management and Accounting	13/76	36/58	39/34	49/23
Purchasing	25/63	34/58	33/37	33/30

Source: Created by MGT of America, Inc., 2006.

¹Percent responding *Agree* or *Strongly Agree*/Percent responding *Disagree* or *Strongly Disagree*. The *neutral* and *don't know* responses are omitted.

Bath County provides a number of risk management services for BCPS. All bank accounts except for activity funds are managed centrally by Bath County along with the investment of any idle cash in the accounts. The county is responsible for obtaining banking services through a depository agreement. In addition, the county establishes tax rates and the collection of taxes to fund the county's operations, and provides the county's share of local revenue for the school division.

BCPS insures itself against loss of real and personal property, liability, vehicle loss or damage, and employee crime through a number of insurance policies. The division maintains comprehensive property and casualty policies primarily through the Virginia School Board Association's Property and Casualty Pool at a cost of \$47,902 a year. Auto liability and physical damage coverage is provided through a policy with the Erie Insurance Group at a cost of \$16,000 a year. All premiums are budgeted for and paid with General Fund resources.

BCPS provides health insurance to its employees through the Commonwealth of Virginia's The Local Choice program. The division pays a portion of the premiums for each employee, as detailed in Exhibit 4-6.

**EXHIBIT 4-6
BATH COUNTY PUBLIC SCHOOLS
HEALTH INSURANCE COVERAGES**

PLAN	MONTHLY PREMIUM	SCHOOL DIVISION MONTHLY COST	EMPLOYEE MONTHLY COST
KEY ADVANTAGE 200			
Employee Only	\$468	\$432	\$36
Employee + 1	\$866	\$520	\$346
Family	\$1,264	\$714	\$550
KEY ADVANTAGE 300			
Employee Only	\$432	\$432	\$0
Employee + 1	\$799	\$520	\$279
Family	\$1,166	\$714	\$452

Source: BCPS business office, April 2006.

The financial operations of BCPS are primarily under the direction of the Business Manager, who is assisted by a secretary who spends approximately 75 percent of her time performing financial duties. The Business Manager is responsible for the functions of accounting, payroll, and accounts payable. Purchasing is performed by school principals and department heads who have been delegated the authority to make all purchases for their schools and departments. The division's budget is compiled under the direction of the superintendent, who is assisted by the Technology Director and secretaries in the superintendent's office. Once the budget has been developed, the Business Manager assists the superintendent in administering it and prepares reports for the BCPS School Board and Bath County Board of Supervisors.

4.2 Financial Management

Financial operations in school divisions include the collection, disbursement, and accounting of local, state, and federal funds. Effective fiscal operations establish detailed policies and procedures for processing the division's daily business transactions efficiently while providing accurate, complete, and timely information to members of the BCPS School Board, and Bath County Board of Supervisors, principals, department heads, and the public.

School division operations must practice sound financial management in order to maximize the effectiveness of limited resources and to plan for future needs. Effective financial management in school divisions involves well thought out planning, budgeting and overall management of resources to maximize financial performance. To perform these tasks successfully, a division must establish solid relationships with its employees, vendors, funding agencies, and the local community.

Financial management is most effective when resources are spent based on the division's established priorities in line with its stated goals and objectives. Financial information should be provided in a timely manner and presented in a format that is easily understood by all audiences.

FINDING

The Director of Instruction and Personnel and Business Manager developed *Hiring Authorization* and *Notice of Resignation/Termination* forms to standardize the documentation of approvals for new employees to be added to the payroll and for employees who have terminated to be removed from the payroll. The new forms were developed during the later part of 2005 and placed into operation for 2006. They provide the information needed by the Business Manager to begin paying a new employee or take an employee off the payroll. The forms reference the board meeting date where the new hire was authorized and must be signed by the Director of Instruction and Personnel before the Business Manager can make the change to the payroll.

This new process standardizes the procedure and paperwork necessary before changes can be made to the division's payroll. Internal controls are strengthened and documentation improved from the previous process that did not require specific procedures and approvals.

COMMENDATION

Bath County Public Schools is to be commended for requiring that *Hiring Authorization* and *Notice of Resignation/Termination* forms be prepared and approved by the Director of Instruction and Personnel before an employee can be added or deleted from the payroll.

FINDING

The division does not make management-level reports available to the school board or county board of supervisors. Although detailed financial reports are produced by the division's financial management system and presented to the BCPS School Board and

Financial Management, Budget, and Purchasing

Bath County Board of Supervisors on a monthly basis, it is very difficult to gain an overall understanding of financial operations without a significant amount of review and analysis of the data contained in the detailed reports.

Many comments were provided to the review team concerning the difficult relationship between the BCPS administration and the board of supervisors. This relationship was also identified as an issue in the December 2000 Educational Service Review Study performed by the Virginia Association of School Superintendents. The distrust or lack of understanding of the financial activities pertaining to the disbursement of funds provided to the school division by the board of supervisors was noted as a major contributing factor to this difficult relationship. It is not uncommon for distrust to exist when financial data are not presented in a manner that is user friendly to individuals unaccustomed to deciphering such information.

Each month the Business Manager prepares a Year-to-Date Expenditure report from the financial management system. Referred to as the F9 report. This document is normally about 13 to 14 pages and contains eight columns of information for numerous budgeted amounts. Although it has four other columns for encumbrances and remaining balance, the report provided to the school board and board of supervisors does not include those columns. Exhibit 4-7 presents an example of the information shown in the F9 report for instructional materials that was run on April 20, 2006.

**EXHIBIT 4-7
EXAMPLE OF F9 REPORT
APRIL 20, 2006**

FUNCTION	COST/ CENTER	OBJECT	PROJECT	DESCRIPTION	BUDGET	APRIL ACTUAL	YTD ACTUAL
1100	2101	6030	000	Instructional Materials	\$11,500	\$1,158	\$9,559
1100	2101	6030	404	Silver Expenses Division Wide	-	-	-
1100	2102	6030	000	Instructional Materials	\$14,595		\$7,010
1100	2201	6030	000	Instructional Materials	-	-	-
1100	2201	6030	404	Instructional Materials	-	-	-
1100	2202	6030	000	Instructional Materials	-	-	-
1100	3100	6030	000	Instructional Materials	\$14,165	\$1,900	\$12,866
1100	3200	6030	000	Instructional Materials	-	-	-
1100	3200	6030	404	Instructional Materials	-	-	-
1100	3300	6030	000	Instructional Materials	\$10,999	-	\$10,999
1100	9012	6030	000	Testing Materials	\$4,600	-	\$399
1100	9014	6030	000	Instructional Materials	\$6,000	-	\$1,800
1100	9015	6030	000	Instructional Materials	\$6,379	-	-
1100	9016	6030	401	Instructional Materials	\$3,500	-	\$1,000
1100	9018	6030	000	Instructional Materials	\$1,500	-	-
1100	9019	6030	405	Assistive Technology Grant Div	-	-	-
1100	9020	6030	000	Instructional Materials	\$9,000	-	\$4,278
1100	9021	6030	000	Instructional Materials	\$7,050	\$1,021	\$6,689
1100	9022	6030	000	PT/OT Therapy	\$2,000	-	\$69
1100	9050	6030	000	Silver Expenses	\$18,309	\$821	\$2,134
1100	9050	6030	404	Silver Expenses Division Wide	-	-	-
1100	9200	6030	000	Instructional Materials	\$1,500	\$368	\$368
1100	9201	6030	000	Preschool Title VI-B	\$900	-	-
1100	9411	6030	000	Instructional Materials	\$6,700	-	\$1,011
1100	9500	6030	000	ISAEP	-	-	-
1100	9600	6030	000	Instructional Materials	-	-	-
1100	9710	6030	000	Instructional Materials	-	-	-
1100	9800	6030	000	Instructional Materials	\$2,000	-	\$1,788
6030 Total					\$120,697	\$5,269	\$60,425

Source: Bath County Schools, business office, April 20, 2006.

The F9 report is organized into, and shows totals for, the five categories for which the Bath County Board of Supervisors provides funding: Instruction, Administration, Transportation, Operating and Maintenance, and School Food. Although the report makes a great amount of detail available to the user, for members of the school board, the board of supervisors, or the public who only see the data once a month or on a less regular basis, it is extremely difficult to obtain an understanding of the major components that make up the division's budget. To obtain the status of budgets and expenditures for salaries that make up over 80 percent of the budget, one would have to add up almost 40 different numbers just to determine the amount that has been expended for salaries in the instructional category. Also, for the F9 reports presented to the school board and board of supervisors, the members must subtract the FTD actual expenditure amounts from the budgeted amounts to determine the amount of budgeted funds available.

Many divisions provide useful and easily understood financial information to keep the school board, board of supervisors, and public informed about the division's financial activity and status. In order to provide complicated financial data in an easily understood manner, summarized reports must be compiled from all the detail that is captured in financial management systems.

Reports prepared by school divisions vary depending on the size and organizational structure of the division and the desires and needs of the school board and board of supervisors. Many times reports are broken down by major functional units such as schools and departments and then by major object of expenditures. An example of a report is shown in Exhibit 4-8. Similar reports for revenue budgets are prepared monthly to monitor the receipt of funds during the year. Also, financial managers regularly analyze expenditure and revenue trends and project amounts for the remainder of the year to provide oversight groups with year-end estimated amounts and balances.

**EXHIBIT 4-8
BATH COUNTY SCHOOLS
EXAMPLE OF MANAGEMENT REPORT**

ORGANIZATION/ OBJECT OF EXPENSE	BUDGET	MONTHLY EXPENDITURES	YTD EXPENDITURES	ENCUM- BRANCES	REMAINING BALANCE
BATH HIGH SCHOOL					
Classroom Salaries	\$	\$	\$	\$	\$
Support Salaries	\$	\$	\$	\$	\$
Substitute Salaries	\$	\$	\$	\$	\$
Fringe Benefits	\$	\$	\$	\$	\$
Instructional Materials	\$	\$	\$	\$	\$
Travel	\$	\$	\$	\$	\$
Capital Outlay	\$	\$	\$	\$	\$
Other Expenditures	\$	\$	\$	\$	\$
Total Bath High School	\$	\$	\$	\$	\$
TRANSPORTATION DEPARTMENT					
Salaries	\$	\$	\$	\$	\$
Fringe Benefits	\$	\$	\$	\$	\$
Fuel	\$	\$	\$	\$	\$
Capital Outlay	\$	\$	\$	\$	\$
Other Expenditures	\$	\$	\$	\$	\$
Total Transportation	\$	\$	\$	\$	\$

Source: MGT of America, Inc., April 2006.

The division's financial management system has a report writer function that allows reports to be easily developed from data contained in the system. The Business Manager is experienced in the use of this function and can easily produce reports to meet the information needs of the BCPS School Board, County Board of Supervisors, and public.

RECOMMENDATION

Recommendation 4-1:

Develop summary financial reports for the school board, the board of supervisors, and the public.

Summary reports that present the division's budget data in a more user-friendly manner will make it much easier for members of the board, county board of supervisors, and public to understand how the division is expending its funds and the status of its financial resources. The readers in general become better informed and develop confidence in the data.

FISCAL IMPACT

This recommendation can be implemented with existing resources. The Business Manager will need to spend approximately 40 hours developing summary reports using the financial system's report writer capabilities, and an estimated eight hours each month preparing the reports.

FINDING

Payments to vendors are delayed until the board approves a list of checks ready to be signed. All checks, except for payroll and some fiscal agent checks, have to be approved by the board at its monthly meeting prior to being released to vendors.

The business office and school secretary/bookkeepers spend time discussing with vendors why their payments are delayed. In most cases, the checks are waiting to be approved at the next board meeting. Invoices received a few days prior to a board meeting do not get board approval until the following month, which delays the payment to the vendor for well over a month. Although the division has been successful through verbal discussions with vendors in almost eliminating late payment penalties, it does require employee time to talk to the vendors and explain to them why payments are delayed and when they can expect their checks.

It was reported to the review team that vendors have not refused to continue to provide materials or services to the division because of the delayed payments, but the delays could be increasing the cost of those materials and services. Vendors could very possibly be charging a higher price for their supplies or services to account for the time they are without payment.

Checks presented to the board for approval are for purchases of materials/supplies or services that have already been received by the division. The division is thus legally bound to make a payment to the vendor, and the approval by the BCPS School Board

provides little if any value to the process. Virginia Code 22.122 B. provides for the board to appoint an agent to approve payments, as follows:

A School Board may, in its discretion by resolution, appoint an agent, and a deputy agent to act for the agent in his absence or inability to perform this duty, to examine and approve such claims and, when approved by him or his deputy, to order or authorize the payment thereof. A record of such approval and order or authorization shall be made and kept with the records of the BCPS School Board...

Timely payment of vendors is a very important component of a division's purchasing and payment program. Vendors must know they are going to be paid in a timely manner after they provide materials/supplies and services in compliance with contract and purchase order provisions. This improves business relations and in many instances reduces cost.

RECOMMENDATION

Recommendation 4-2:

Delegate payment approval to the superintendent and Business Manager.

Payments to vendors will be improved by delegating approval of checks to the superintendent and Business Manager as authorized by the Virginia Code. The board can still provide oversight of all checks issued by the division by receiving the list of checks.

Timely payments to vendors will decrease the amount of time that the business office and school secretaries/bookkeepers and department heads spend explaining to vendors why payments are delayed. More timely payments will improve relations with vendors and may also reduce cost because vendors will be without payment for a shorter period of time.

FISCAL IMPACT

This recommendation can be implemented with existing resources. It will save the Business Manager and school and department staff time each month as they will not have to explain to vendors why their payment is delayed. It also has the potential to reduce the cost of purchasing.

FINDING

The division does not provide central oversight of telephone contracts and costs. Schools are allowed to acquire telephone services and develop policies for their use, and do not send invoices to the central office for review and payment.

Each school has separate contracts for telephone service and separate internal policies and procedures for how telephones are to be used and how they are secured. Each of the schools provides a different level of security for the use of telephones. The high school has three lines that require a security code before a call can be made; Valley Elementary has codes for all its phones; and Millboro does not have any of its phones

secured by access codes. In addition, the central offices do not require access codes for the use of any of their phones. Long-distance costs for the division total approximately \$8,000 annually, which is composed of central office costs of approximately \$5,000 and schools' annual costs of approximately \$3,000.

Budgeting for telephones at the schools and the payment of invoices involve an unusual process. Budgets for telephone costs for each of the schools are approved during the budget development and approval process. Checks written from the division's operating funds are deposited into each school's activity fund account. Checks are written to the schools for their telephone budgets upon their request. The payments can be quarterly, semi-annual, or annual. Invoices for telephone service are sent directly to the schools by the provider, and payments are made by the schools from the activity fund account established for that purpose. Invoices don't come to the central office for review and oversight or approval.

Activity for telephone costs at the schools is accounted for in their activity fund accounts. Exhibit 4-9 provides a summary of balances for the accounts at the end of 2004 and 2005 and the amount that is budgeted for 2006. A review of the activity in the telephone accounts as reported in the 2004 audit report shows that only \$3,500 of the \$4,500 that was budgeted for that year was deposited to the Millboro account; however, \$500 was transferred from the school's general activity fund to the telephone account.

**EXHIBIT 4-9
BATH COUNTY PUBLIC SCHOOLS
TELEPHONE ACTIVITY FUND ACCOUNTS**

SCHOOL	BALANCE AT JUNE 30, 2004	BALANCE AT JUNE 30, 2005	BUDGETED 2006
Bath County High School	\$820	\$1,578	\$6,600
Millboro Elementary School	\$727	\$2,839	\$5,100
Valley Elementary School	\$1,344	\$1,322	\$5,500
TOTAL	\$2,891	\$5,739	\$17,200

Source: Activity fund audit reports for 2004 and 2005; BCPS's budget for 2006.

Without standard policies for the acquisition and management of telephone service, the division has no assurance that the most cost-effective contracts are being acquired by the schools and that the usage paid from division funds is for division purposes. The practice of depositing division funds to activity fund accounts and paying invoices from the accounts without any central oversight provides little control over the use of the funds. Also, allowing balances to remain in the accounts at the end of a fiscal year has the effect of allowing division funds that were approved for costs of one fiscal year to be used in the next fiscal year.

Internal controls over budgeted funds dictate that oversight be provided for all disbursement of funds. Effective budget management also requires processes to be in place to ensure funds are expended for costs of the year for which they were budgeted.

RECOMMENDATION

Recommendation 4-3:

Centralize management of telephone contracts, develop use policies, and discontinue the practice of processing school telephone financial transactions through activity funds.

FISCAL IMPACT

The fiscal impact of implementing this recommendation will be a one-time increase in the division's general fund from the return of the accumulated excess amounts in three schools' activity funds, estimated to total approximately \$4,315 which was the average balance at the end of the 2004 and 2005 years. Although there is no specific indication that long distance costs are excessive, by implementing use policies and requiring access security codes for all long-distance calls the division will also decrease long-distance costs by a minimum of \$800 a year. The \$800 estimated saving is based on a 10 percent reduction in long-distance costs.

Recommendation	2006-07	2007-08	2008-09	2009-10	2010-11
Transfer Excess Funds to the Division's General Fund	\$4,315	\$0	\$0	\$0	\$0
Establish Telephone Use Policies and Access Security Codes	\$800	\$800	\$800	\$800	\$800
TOTAL	\$5,115	\$800	\$800	\$800	\$800

4.3 Budget

A division's budget is one of the most important documents a school division prepares because it identifies the funding for programs and how they are to be financed. Effective budgeting provides a division with a solid financial foundation. Costs must be reported accurately and controlled effectively.

Budget preparation and administration are important aspects of an organization's overall operations. Administrators find it challenging to provide adequate resources for progress within the restraints of available funding sources. Accurate planning and budgeting are especially critical for small organizations. The target is smaller, so errors are magnified. Sound budgeting practice benefits the organization by establishing a documented method for budget development, adoption, and administration and also provides controls for expenditures of funds within approved allocations.

Exhibit 4-10 shows the BCPS budget for the five categories for which the Bath County Board of Supervisors provides funding. The division's overall budget increased by 10.38 percent between 2004 and 2006, and the requested amount for 2007 is a 14.76 percent

increase over the 2006 budget. The highest percent increase between 2004 and 2006 was 19.13 percent in the administration category.

**EXHIBIT 4-10
BATH COUNTY PUBLIC SCHOOLS BUDGET
2004-2007**

CATEGORY	BUDGETED				REQUESTED
	2004	2005	2006	PERCENT INCREASE 2004 TO 2006	2007
Instruction	\$6,216,442	\$6,671,756	\$6,853,698	10.25%	\$7,627,690
Administration	\$368,909	\$409,544	\$439,475	19.13%	\$481,564
Transportation	\$688,601	\$688,600	\$722,509	4.92%	\$888,675
Operations and Maintenance	\$1,025,847	\$1,212,429	\$1,173,357	14.38%	\$1,536,244
School Food	\$475,378	\$490,000	\$505,861	6.41%	\$582,564
TOTAL	\$8,775,177	\$9,472,329	\$9,694,900	10.48%	\$11,116,737

Source: BCPS budget reports for 2004-2006 and proposed budget for 2007.

FINDING

The Technology Director developed an interactive budget spreadsheet process that enables board members to anticipate the impact of proposed changes to the budget request. The Technology Director attends budget work sessions and meetings. His laptop computer contains the most current data for the budget request in Excel spreadsheets. Detailed data are linked to summary budget schedules that enable him to calculate what-if scenarios and provide immediate impact statements to board members wishing to consider changes. The Technology Director developed the Excel spreadsheets and over time has improved them to be more interrelated, whereby totals for summary information are derived from the detail in the individual budgets. Before the spreadsheets were interactive, the data for the summary totals were keyed in and many times the totals did not agree with the detail.

COMMENDATION

Bath County Public Schools is to be commended for its use of interrelated spreadsheets in the budget development process, which show board members the immediate impacts of what-if scenarios.

FINDING

The division does not require budget adjustments for costs that exceed line item amounts authorized by the board. Although the board approves detailed line item budgets by object of expense for schools and departments, the budgets are allowed to be exceeded and the balances to go negative. The format of the division's budget document does not completely align with the format required to report expenditures for the annual school report that must be prepared by the division, thus causing some of the budget balances to go negative.

Budgeted amounts approved by the school board are entered into the division's financial management system. Reports are run monthly from the financial management system that shows the expenditures that have been paid from the various line item budgets and the balances remaining for the budgeted amounts. The division routinely allows budget amounts to be exceeded and does not require revisions to be made to document authority from the school board to expend additional amounts in the impacted line item budgets.

The division closely monitors and ensures that the funding provided by the county board of supervisors is not exceeded in these major categories:

- Administration, Attendance, and Health;
- Instruction;
- Pupil Transportation;
- Operations and Maintenance; and
- School Food Services.

As shown in Exhibit 4-11, a number of the amounts approved for the 2005 budget were exceeded during the year, and as of April 20, 2006, expenditures for a number of categories had already exceeded the approved amounts for the 2006 budget.

It must be noted that the negative balances for instruction support-guidance, instruction support-improvements, instruction support-media specialist, instruction support-principal and classroom instruction-support are in part caused by FICA and retirement costs shown as expenditures of those line items when the budgeted amounts are shown in separate line items. Although the Business Manager has made improvements that more closely aligns the budget document with required annual school expenditure reporting, there are still situations that cause budgeted amounts not to be aligned with expenditures.

During the first eight or nine months of the year, the Business Manager reviews purchase orders and verifies budget balances to determine if funds are available, but does not prepare encumbrance entries before forwarding the purchase orders to the superintendent for final approval. During the last three or four months of the year, encumbrances are prepared and entered into the financial management system for purchase orders received from schools and departments. The system automatically checks for available budget before accepting an encumbrance. If budget balances are not available, a warning appears on the screen. The Business Manager normally uses the budget warning to attach a note to the superintendent indicating that funds are not available; however, the system will accept the purchase order and allows a negative budget balance to be recorded for that item.

Monthly reports given to the board can be used to determine when approved budgeted amounts have been exceeded, and the superintendent and/or Business Manager often discuss budgets that have gone negative with board members. This discussion does not identify funding for the budgets that have been exceeded and does not lead to formal approval from the board for the expenditures that exceed the previously approved budgeted amounts.

Although the BCPS School Board Policy DA-R – Management of Funds addresses budget adjustments and states “The superintendent is authorized, based on prior

approval of the School Board, to make line item and/or object code transfers within a category,” adjustments are not made. The only time the original budget is adjusted is when the division receives a supplemental appropriation from the County Board of Supervisors.

**EXHIBIT 4-11
BATH COUNTY PUBLIC SCHOOLS
BUDGETS EXCEEDING APPROVED AMOUNTS
2005 and 2006**

BUDGET YEAR	BUDGET CATEGORY	BUDGET AMOUNT	EXPENDITURES	BALANCE
2005 Budget	Aides' Salaries	\$313,438	\$334,863	(\$21,425)
	Substitute Wages	\$58,858	\$85,607	(\$26,749)
	Workers' Compensation	\$1,450	\$7,639	(\$6,189)
	Materials	\$157,744	\$168,720	(\$10,976)
	Instruction Support – Guidance	\$240,360	\$388,471	(\$148,111)
	Instruction Support – Improvements	\$301,350	\$363,898	(\$62,548)
	Instruction Support – Media Specialist	\$134,687	\$163,623	(\$28,936)
	Instruction Support – Principal	\$352,698	\$437,516	(\$84,818)
	Classroom Instruction – Support	\$228,200	\$307,412	(\$79,212)
2006 Budget	Substitute Wages	\$58,858	\$83,289	(\$24,431)
	Instruction Support – Guidance	\$36,205	\$192,256	(\$156,051)
	Instruction Support – Improvements	\$207,005	\$263,304	(\$56,299)
	Instruction Support – Principal	\$243,587	\$369,664	(\$126,077)

Source: BCPS's Year-to-Date Expenditure Reports, June 30, 2005, and April 20, 2006.

Frequent budget adjustments are not advisable since they defeat the purpose of the budget as a planning and control tool. If budgets are prepared with a reasonable amount of care, few amendments are normally necessary. When officials desire to amend a budget, they should state their case in writing to the board, including:

- what expenditures are to be increased;
- how the increase is to be funded: by a reduction in estimated year-end fund balance; by a reduction in other expenditures, or by an increase in receipts above budgeted amounts;
- justification for the amendment; and
- course of action if the amendment is not approved.

Not requiring budget adjustments and not aligning budgeted amounts with expenditures that allow budget balances to be exceeded limits the value of budgets. Budgets and subsequent expenditures within the budget limits are very important for effective budget management. Not identifying available funds enables expenditures to be incurred for items that have not received board approval and also increases the risk that the total budget will be exceeded.

RECOMMENDATION

Recommendation 4-4:

Develop a policy that provides guidance as to when budget adjustments are to be prepared and complete the process to align the budget document with annual school expenditure reporting requirements.

A budget adjustment policy will ensure that all expenditures receive the approval of the board and help ensure that total budgeted funds are not exceeded. The Business Manager should develop a policy that states when a budget must be adjusted and the process that must be followed to obtain board approval. The policy should also specify what actions the Business Manager is to take if invoices or purchase orders are sent to the business office for processing when authorized budgeted amounts are not available. The Business Manager should present the policy to the school board for approval. The policy should then be distributed to all department heads and school principals. The Business Manager should also ensure expenses are coded to the correct budget.

FISCAL IMPACT

This recommendation can be implemented with existing resources. However, the Business Manager will need to spend an estimated 40 hours developing the policy and approximately eight hours each month providing budget adjustment data to the board and making the adjustments.

FINDING

The division's schedule for budget development includes dates for board budget workshops, special board budget meetings, and two public hearings. However, it does not include the deadlines for staff work to be completed or a tentative date for when the budget is to be presented to the board of supervisors for approval.

Exhibit 4-12 presents the division's budget development calendar for the 2006-07 year. The division's budget process requires input from teachers and various documents from the principals and department heads, but their required involvement and due dates for submitting their input is not included in the calendar.

A school division's budget is a critical tool that ensures that the school division is adequately maintaining and controlling its financial resources. It is most effective when a variety of parties have participated in its development. Without a comprehensive formal budget calendar, important dates may be forgotten and important tasks may be

overlooked or performed out of sequence, endangering the progress of the entire process.

**EXHIBIT 4-12
BATH COUNTY PUBLIC SCHOOLS
SCHOOL BOARD BUDGET DEVELOPMENT CALENDAR
2006-07**

DATE	DAY OF THE WEEK	TIME	DESCRIPTION
December 7, 2005	Wednesday	5:15	Presentations by Principals/Administrators
December 8, 2005	Thursday	5:15	Presentations
January 5, 2006	Thursday	5:30	School Board Budget Work Session
January 19, 2006	Thursday	5:30	School Board Budget Work Session
February 2, 2006	Thursday	5:30	School Board Budget Work Session
February 16, 2006	Thursday	5:30	School Board Budget Work Session
March 7, 2006	Tuesday	7:00	School Board Meeting / Public Hearing on Budget
March 9, 2006	Thursday	5:30	School Board Budget Work Session
March 16, 2006	Thursday	5:30	School Board Budget Work Session
March 23, 2006	Thursday	5:30	School Board Meeting / Public Hearing on Budget

Source: Bath County Public Schools, April 2006.

Developing and publishing a budget calendar helps ensure that the budget is completed on schedule and that all those involved know exactly when their input is required so they can effectively schedule time to complete their required tasks. A publicized calendar also provides information to the general public as to when their input can be provided.

RECOMMENDATION

Recommendation 4-5:

Expand the budget development calendar to include staff deadlines and presentation to the board of supervisors.

A comprehensive budget calendar will help ensure that all parties know when their involvement is required and that the budget will be completed on schedule. The superintendent should develop a budget calendar that includes the dates when division staff are to complete budget development activity and when the budget is tentatively scheduled to be ready for presentation to the board of supervisors for approval. The calendar should be presented to the BCPS School Board for approval and then made available to all interested parties. During the budget development process, the calendar should be followed and when necessary formally amended.

FISCAL IMPACT

This recommendation can be implemented with existing resources and very little staff time.

FINDING

The county has not completed its preparation for converting the division's budget to a modified accrual basis of accounting. The county, at the direction of the external auditor, will be converting its accounting process to the accrual basis, including annual budgets. At the time of the site visit, the county had not yet decided whether the change would be made for the 2006 or the 2007 year.

The modified accrual basis is the general accepted method established by the Governmental Accounting Standards Board (GASB). GASB is a private, nonprofit organization. Similar to the Financial Accounting Standards Board, which sets accounting standards for private companies, GASB oversees the financial reporting of public bodies. GASB issues statements periodically to clarify or change accounting and financial reporting for governmental entities.

Prior to this change, all expenditures charged to school division's budget were on the cash basis, meaning that the budget year that was charged with the expense was the year in which the check was actually written. For example, the annual insurance property insurance premium that is due in early July would be recorded as an expense of the earlier year's budget if the check were written in June but as an expense of later year's budget if the check were written in July. Also, it was reported to the review team that when available budget is not available at the end of a year, checks are just held until the new year starts and the expense is recorded to that year's budget.

Changing to the modified accrual basis of accounting for the budget will require expenditures to be charged to the year that the expense pertains to and not just the year in which the check was written. This change could have a significant impact on the school division's budget and result in budgets being inadvertently exceeded.

When accounting processes are changed, they normally only have a significant impact only for the first year in which the changes are implemented. To alleviate confusion and inadvertent impacts, a thorough understanding of the impacts, planning for the impacts, and informing oversight boards and funding authorities are essential.

RECOMMENDATION

Recommendation 4-6:

Plan for and inform the school board and county board of supervisors of the impact of changing the division's budget to the modified accrual basis of accounting.

Involving the Business Manager, the county treasurer, and the county's external auditor in the planning for the conversion of the division's budget to the modified accrual basis will help identify and make provisions for the impact of the change. Thoroughly informing the BCPS School Board and the Bath County Board of Supervisors about the impact of the change will reduce the confusion and misunderstandings that almost always arise when a change of this nature occurs.

FISCAL IMPACT

This recommendation can be implemented with existing resources. However, the Business Manager will need to spend an estimated 40 hours working with the county treasurer and external auditor to make plans for implementing the new process. The Business Manager will also need to spend an estimated eight hours each month during the last two months and the first two months of a budget year analyzing expenditures to ensure that they are recorded to the appropriate budget year.

FINDING

The Technology Director developed an interrelated Excel spreadsheet system that provides good support for the budget development process; however, procedures or guidelines for its use are not documented. Also, no other staff in the division are familiar enough with the system to be able to complete the process in his absence.

Departments and schools submit budget requests, as directed by the superintendent. Budget requests come to the superintendent's office and are then entered into the Excel spreadsheets maintained by the Technology Director. Requested budgets received from schools and departments are reviewed by the superintendent and discussed with principals and director/supervisors prior to being submitted to the board. The requested amounts are entered into the Excel spreadsheets and presented to the board. The Business Manager is not actively involved in the budget development process, but is frequently consulted and provides current and historical data to include in the budget documents. He is also available at budget work sessions to assist in answering board member questions.

After budget data are received from departments and schools and entered into the Excel spreadsheets, they are used to assist the school board in making changes to the requested amounts. Requested budget amounts are maintained in the budget spreadsheets throughout the review process and are used to arrive at the final budget that is presented to the board of supervisors for funding. The superintendent directs the budget process and is assisted by a number of central office staff in addition to the Technology Director. The major steps followed in compiling data that is included in the Excel spreadsheets is as follows:

- The Technology Director copies the exact data from the previous year's budget into new budget spreadsheets and renames the worksheets for the current year.
- The secretary in the superintendent's office adjusts the amounts in the budget spreadsheets based on requests from principals and department heads.
- The Technology Director, with the assistance of the secretary in the business office, adds new positions that were approved after the previous year's budget was approved and for other staffing changes that occurred.

- The Technology Director or a secretary in the superintendent's office runs reports that are presented to the board that show the requested budgets for the upcoming year.
- The Technology Director makes adjustments to the budget spreadsheets as the school board approves changes.
- The Technology Director or a secretary in the superintendent's office runs final budget reports that are presented to the Bath County Board of Supervisors for funding.

An important internal control feature is to ensure that vital processing such as budget development is documented and more than one individual can complete the process. When only one individual is fully trained and knowledgeable in performing critical functions, the division is left vulnerable if that individual is unavailable or leaves. Effective divisions identify critical processes and cross-train at least one other staff member to ensure that someone knowledgeable is available as backup when primary personnel are unavailable.

RECOMMENDATION

Recommendation 4-7:

Document budget development procedures, increase the Business Manager's involvement in the budget development process, and cross-train the Business Manager in the use of the interrelated Excel spreadsheets used to develop the division's budget request.

Documenting the budget development process and cross-training the Business Manager in the use of the Excel spreadsheets will help ensure that the process can be completed in the absence of the Technology Director. Involving the Business Manager more in the budget development process will provide him with a better understanding of the content of the budget which will help him to better monitor the budget and will also give the board greater access to his expertise.

Also, at some point in the future the division might want to consider evaluating commercial budget development software packages to determine if they meet the needs of division.

FISCAL IMPACT

This recommendation can be implemented with existing resources. The Business Manager and Technology Director will have to spend an estimated 40 hours each in cross-training activities, and the Business Manager's involvement in the budget development process will require many hours of his time each year.

4.4 Purchasing

Effective purchasing processes ensure that high-quality supplies, equipment, and services are purchased at the best price, in the right quantity, from the right source, and in accordance with local and state purchasing guidelines, without sacrificing quality and timeliness. Policies should clearly establish purchasing authority, what methods are required for each type of purchase, and provisions for conflicts of interest and penalties for violating purchasing laws and policies. Purchasing procedures implement policies by documenting the steps to be taken by user departments and purchasing staff to procure goods or services.

FINDING

BCPS has not provided schools and departments with written purchasing guidelines. Principals and department heads have been informally delegated the authority to make purchases and are not required to obtain competitive quotes for materials/supplies or services for orders under \$30,000. Although division administrative staff state that it is standard practice to receive quotes from multiple vendors or to utilize state contracts, normally pricing information is obtained from a single vendor from which materials/supplies or services are to be obtained.

The division does periodically procure items through the Department of General Services, Division of Purchasing and Supplies' (DGS/DPS) electronic procurement system titled eVA. Although the opportunity is available to obtain a large variety of items through eVA, the division normally takes advantage only of purchases of custodial items and vehicles. Upon request, DGS/DPS may procure nontechnical materials, equipment, supplies, or services for local governments.

The BCPS School Board Policy DJ – Small Purchasing states in part:

The acquisition of property or services, the estimated cost which is less than \$30,000 may, at the discretion of the superintendent, or his/her designee, be on the basis of "Open Market" or informal bid procedures under which the requirement for an advertised invitation to bid need not be observed. Such purchases shall be in accordance with written procedures of the school division and shall provide for competition whenever practicable. Specific procedures for purchases under this section shall be published as an administrative regulation.

The BCPS School Board Policy DJA – Purchasing Authority further states:

All personnel in the division who desire to purchase equipment and supplies shall follow the established procurement procedures within their departments or schools for the issuance of a requisition or purchase order. All purchase orders must be forwarded to the superintendent or his/her designee, for approval and processing.

Many divisions establish purchasing guidelines for the acquisition of materials/supplies and services based on the amount and type of purchase. Also, many divisions delegate authority to schools and departments to make purchases that do not exceed a certain amount, such as \$250, without having to obtain prior approval from the central office.

Exhibit 4-13 presents an example of a purchasing policy that establishes guidelines for different types of purchases.

Not providing written guidelines for staff who have been delegated purchasing authority places an unnecessary burden on them and leaves them at risk of unknowingly violating the unwritten purchasing procedures of the division. In April 2006, the superintendent wrote a letter to school principals informing them that a significant number of purchase orders had been received in the central office after supplies and materials had been purchased, violating the policy that requires purchase orders to be prepared and approved for all purchases prior to the purchase being made. The letter further stated that many of the purchases had been made without using the tax exempt status of the division, so the vendors had charged sales tax. Also, in August of 2005 an employee entered into a contract for the purchase of uniforms with the understanding that verbal approval had been provided. The contract was ultimately cancelled and the employee had to personally pay for cost incurred prior to the canceling of the contract.

**EXHIBIT 4-13
PURCHASING POLICY
2004-05**

TYPE OF PURCHASE	REQUIREMENTS
Contract exceeding \$50,000	Competitive bids or competitive negotiations will be required for the purchase or lease of goods, or for the purchase of services, insurance, or construction. Must have board approval.
Commodity procurements between \$15,000 and \$50,000	Purchasing Office will obtain required pricing.
Commodity procurements between \$7,000 and \$15,000	Three written quotes are required.
Commodity procurements between \$1,000 and \$5,000	Three verbal quotes are required.
Commodity procurements below \$1,000	One quote. Prior approval for purchases between \$250 and \$1,000.
Unique services not exceeding \$7,000	One written or telephone quote with prior approval from Department Head and Purchasing Agent.
Sole Source	Must have prior approval from the Purchasing Agent.

Source: Williamsburg-James City County Public Schools, Purchasing Policy, 2005.

Unwritten policies and verbal approvals place both employees and the division in a position where purchases and contracts can be made in a manner that is not acceptable to BCPS. Purchasing in the division is decentralized, with all principals and department heads being delegated the authority to make purchases. BCPS does not have a detailed written purchasing policy; however, the practice is for all purchases, regardless of the dollar amount, to be initiated by completing a purchase order that is signed by the principal/department head, approved by the Business Manager after he has verified that funding is available, and awarded final approval by the superintendent.

Divisions with successful purchasing programs in place normally have written purchasing manuals that accomplish the following:

- Establish a set of purchasing policies that clearly state purchasing processes for various types and amounts of purchases that follow applicable laws and guidelines.
- Set administrative procedures for implementing policies that reflect step-by-step purchasing guidelines for central office staff and school administrators that outline the procedures and forms to be used for competitive bidding, requests for proposals and competitive sealed proposals, and purchase orders.
- Clearly communicate purchasing policies to division staff, potential vendors, and the general public, and are followed without deviation.

RECOMMENDATION

Recommendation 4-8:

Establish a detailed purchasing policy and develop a written procedures manual that provides standard guidance to employees.

By establishing a detailed purchasing policy, the board will establish the standard guidelines for the division's purchasing activity. A written purchasing manual will document the procedures that must be followed to comply with the purchasing policy. Developing procedures will promote consistent purchasing practices, provide a reference tool for user training, reduce frustrations and inefficiencies in the purchasing process, and ensure the appropriate purchasing processes are followed. Including provisions in the procedures for the use of the Commonwealth's eVA purchasing system will increase the opportunity for the division to obtain items at a more competitive price,

FISCAL IMPACT

This recommendation can be implemented with existing resources. However, the Business Manager will need to spend an estimated 60 hours developing the policy and procedures and training division staff.

4.5 Activity Funds

BCPS has a fiduciary responsibility to properly administer student activity funds, which are comprised of school, club, or campus funds. According to the regulations of the school board, school activity funds are defined as "All funds received from extracurricular school activities, such as entertainment, athletic contests, cafeteria, club dues, etc., and from any and all activities of the school involving personnel, students, or property..."

School boards are responsible for administering the regulations established by the State Board of Education. School activity fund revenues may be generated from a number of sources, including athletics, concessions, publications, club activities, gifts, and fund-raising drives. Activity funds for BCPS comprise amounts relating to various extracurricular school activities, programs, and groups existing in the schools for the benefit of the schools, the students, and the faculty. The principal of each school is responsible for managing the funds and maintaining the records.

Each school maintains financial records of its activity funds on the EPES accounting software. Exhibit 4-14 shows the activity for the three accounts during 2004.

**EXHIBIT 4-14
BATH COUNTY PUBLIC SCHOOLS
ACTIVITY FUNDS
2004**

SCHOOL	BALANCE AT JUNE 30, 2003	RECEIPTS	DISBURSE- MENTS	BALANCE AT JUNE 30, 2004
Bath County High School and Mertz Vocational Center	\$158,212	\$348,827	\$334,615	\$172,424
Millboro Elementary School	\$12,128	\$46,052	\$39,158	\$19,022
Valley Elementary School	\$34,187	\$71,511	\$70,015	\$35,683
TOTAL	\$204,527	\$466,390	\$443,788	\$227,129

Source: BCPS Activity Fund Audited Annual Report, June 2005.

FINDING

Schools have not been provided with a local standard operating procedures manual for the management of activity funds. The Business Manager has however conducted training for school secretaries and the Department of Education's School Activity Fund Manual is available for general guidance. Each school uses an automated financial system called EPES School Accounting. This system provides for the recording of revenues and disbursements by account title and generates a monthly report that shows the beginning balance for each account, monthly revenues and expenditures, and the ending balance.

Each principal's secretary/bookkeeper assists him or her in managing activity funds. Although the schools use the same automated system, and the processes are similar at each of the schools, they are not standardized. One of the elementary schools requires that a requisition be completed for all expenditures, showing the teacher/sponsor who requested the purchase, a description of the supplies or services to be acquired, the cost, the vendor, and the date. The school also requires the principal's approval prior to the purchase being made. Although the high school uses requisitions, they are not always completed prior to the purchase, and the principal often provides verbal authorization for the transaction and approves the purchases by way of signing the requisition and check at time of payment.

The EPES system prepares a cash receipt form for cash/checks received. Schools are inconsistent in the manner in which they use this form. The cash receipt form has three sections, the first of which is usually given to the teacher/sponsor. The middle section may be given to a student when funds are received directly from the student, and the bottom section is attached to the bank deposit. Sometimes the entire form with all three sections is attached to the deposit, and at other times the top portion is provided to the teacher/sponsor after the funds are released to the secretary/bookkeeper.

BCPS's activity funds are audited each year by an outside firm engaged by the division. In addition to reviewing the accuracy of financial data, the audit reports contain a section

for management letter points intended to improve management of the funds. The audits for 2004 and 2005 contained the issues shown in Exhibit 4-15.

There is no standard procedures manual that provides formal guidance to principals, teachers/sponsors, or secretaries/bookkeepers on the proper process to follow in order to adequately document transactions or what constitutes acceptable expenditures. After the audit of the division's activity funds for the 2004 year, the Business Manager conducted training for the school's secretaries/bookkeeper and addressed the inappropriate actions noted in the audit report as shown in Exhibit 4-15. The training was successful in limiting the inappropriate actions noted during the 2005 audit. Periodic training is useful in reminding employees of specific issues but is not a substitute for a formal manual that documents policy and the approved standard procedures that are to be consistently followed.

Without an activity fund manual that establishes policy and provides guidance on how to manage the funds, the division is at risk of not fulfilling its responsibility to properly administer student activity funds. Manuals normally include guidance on what constitute acceptable expenditures, how transactions are to be documented, when to take actions such as following up on outstanding checks, and how to provide backup to the systems. Most of these matters have been discussed by the outside auditor in his management letter points.

**EXHIBIT 4-15
BATH COUNTY PUBLIC SCHOOLS
ACTIVITY FUND MANAGEMENT LETTER POINTS
2004 and 2005**

Year	School	Management Letter Points
2004	Valley Elementary School	Non-sufficient fund account had a deficit balance of \$17.85 as the result of a check not clearing bank in October 2001. Repeat of a 2003 year audit finding.
	Millboro Elementary School	Untimely deposit. Receipt was held for 21 days before being deposited.
	Valley Elementary School	Untimely deposit of eight receipts. Receipts were held between seven and 17 days before being deposited.
	Bath County High School	Transfers were used to correct errors between two accounts which overstated receipts and disbursements. Corrections should have been made with an adjusting entry to the original transactions.
2005	Bath County High School	Purchase order for \$6,232 was not approved by the principal.
	Millboro Elementary School	Manual reconciliation of account was performed and outstanding check list could not be found. Should have used automated process performed by the system.
	Valley Elementary School	Two checks were outstanding for over a year. Should have researched and taken appropriate action.
	All Schools	Back up procedures could not be verified as adequate.

Source: Activity Fund Audit Reports, 2004 and 2005.

RECOMMENDATION

Recommendation 4-9:

Develop a local written activity fund operations manual to help ensure funds are administered properly.

Developing an operations manual for schools to use that clearly states how activity funds are to be administered will assist principals, secretaries/bookkeepers, and sponsors to fulfill their responsibilities. A written manual will provide a good reference for new principals, secretaries/bookkeepers, and sponsors. It also will assist a staff person who is asked to fill in when a secretary/bookkeeper or sponsor is absent for an extended prior of time.

The Business Manager should chair a group composed of the three secretaries/bookkeepers that would create the operations manual. The secretary/bookkeeper at Bath County High School has a manual from another school division that can be used as a starting point for developing the division's procedures manual.

FISCAL IMPACT

This recommendation can be implemented with existing resources. The Business Manager and school secretaries will need to spend an estimated 20 hours each on implementing the recommendation.

4.6 Fixed Assets

An effective fixed asset management system accounts for division property accurately and safeguards it against theft and obsolescence. Planning and control of fixed asset transactions are crucial to the long-range financial plan of the division. Fixed-asset records should designate who is responsible for the custody and maintenance of individual items and assist the division in estimating future requirements. School divisions generally acquire fixed assets through a well-defined authorization procedure. Separate accountability for fixed assets is a specific legal requirement of many federal programs. An appropriate fixed asset system also provides data for financial reports and ensures adequate insurance coverage.

The most important reasons for keeping and maintaining accurate accounting records of fixed assets are:

- to furnish taxpayers with information about their investments in the division for operations;
- to provide the basis for adequate insurance coverage;
- to allow the division to assess the need for repair, maintenance, or replacement of assets;
- to establish a system of accountability for custody of individual items;

- to determine future budgeting requirements; and
- to identify lost or stolen items so that insurance claims can be filed, additional controls instituted, and accounting records adjusted to reflect the losses.

FINDING

BCPS does not track its investment in fixed assets and does not complete physical inventories to determine if fixed asset items are still in its custody. The division also does not have any formal policies or guidelines to direct the management of its investment in fixed assets. The procedure is for the county treasurer's office to have the responsibility for tracking all county assets, including school division fixed assets.

BCPS relies on the county to record and track fixed assets acquired with school division funds. The county reports the school division's fixed assets in its comprehensive annual financial report. For 2005 the division had net assets valued at \$4,457,962, which increased by \$239,787 during the year as presented in Exhibit 4-16.

**EXHIBIT 4-16
BATH COUNTY PUBLIC SCHOOLS
SUMMARY OF FIXED ASSETS
2005**

	BALANCE JULY 1, 2004	INCREASES	DECREASES	BALANCE JUNE 30, 2005
Capital assets not being depreciated:				
Land and land improvements	\$238,282	-	-	\$238,282
Total capital assets not being depreciated	\$238,282	-	-	\$238,282
Capital assets being depreciated:				
Buildings and improvements	\$6,443,622	\$280,850	-	\$6,724,472
Machinery and Equipment	\$6,167,785	\$235,801	-	\$6,403,586
Total capital assets being depreciated	\$12,611,47	\$516,651	-	\$13,128,058
Less: Accumulated depreciation for:				
Buildings and improvements	\$2,999,438	\$157,276	-	\$3,156,714
Machinery and Equipment	\$5,632,076	\$119,588	-	\$5,751,664
Total accumulated depreciation	\$8,631,514	\$276,864	-	\$8,908,378
Capital assets being depreciated, net	\$3,979,893	\$239,787	-	\$4,219,680
Net capital assets	\$4,218,175	\$239,787	-	\$4,457,962

Source: Bath County Comprehensive Annual Report, June 30, 2005.

The external auditor states in the comprehensive annual report that capital assets include property, plant, equipment, and infrastructure. Capital assets are defined as items with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Fixed asset transactions are not identified and tracked during the year. BCPS does not have a complete list of its fixed assets where additions and deletions are made as they occur. Once a year, the division sends a letter to the county showing fixed asset items that were acquired during the year and those that should be deleted from the list maintained by the county. To determine what items were acquired during the year, the Business Manager reviews a list of purchase orders and attempts to identify items that qualify as fixed assets. The letter to the county provides a description of those items found, the date of purchase, the purchase price, and the estimated asset life. This process makes it very likely that all items that should be capitalized are overlooked and never placed on the fixed asset listing. To determine what items to take off the division's fixed asset list, the superintendent reviews a partial list of fixed assets provided by the county and simply crosses out items without providing any explanation as to why they are being deleted.

BCPS does not have a complete list of the fixed assets acquired from school division funds, nor does it have a policy requiring that a physical inventory be conducted. The division also does not have a policy that addresses individual accountability for fixed assets. There are no guidelines that require reimbursement for items lost due to negligence or provide proper procedures for recording lost or stolen items, such as obtaining a police report or employee affidavit. Conducting a physical inventory will identify what fixed assets the county has at that specific time but without policies pertaining to accountability there will be no assurance that the items are properly cared for.

Fixed asset policies normally address many issues that pertain to an entity's investment in fixed assets. Policies include guidelines for all fixed assets and regularly address:

- who is responsible for accounting for the division's investment in fixed assets and the system that is to be used for the accounting;
- responsibility and accountability for the property and equipment owned;
- the need for annual physical inventories;
- capitalization thresholds for property, equipment, land, and infrastructure;
- depreciation methods, salvage value, and a schedule of estimated useful lives;
- the difference between capitalized improvements and maintenance expenses;

- procedures for reporting junked, stolen, or missing property and what approvals are required to delete items from the inventory;
- procedures for receiving donated property; and
- procedures for transferring assets between division schools and departments.

To protect their investment in fixed assets, divisions track their assets and have policies that provide direction on how the assets are to be managed. As items are acquired they are immediately added to the list, and when the division disposes of an item through normal processes it is taken off the list. When an item cannot be found, the situation is examined and appropriate action taken. Normally all deletions must be approved by the School Board.

RECOMMENDATION

Recommendation 4-10:

Track fixed assets acquired from BCPS funds and develop fixed asset policies to direct the management of the division's investment in capital items.

A system to track fixed assets and a set of fixed asset policies will help ensure that the division's investment in fixed assets is being managed as desired by the board and will protect the investment by assigning accountability and holding principals and department heads responsible for the proper care and protection of the assets.

The Business Manager should review the county's current practices for fixed assets and develop a comprehensive set of policies. The Business Manager should require an annual physical inventory and give consideration not only to policies covering capitalization and depreciation but also to policies covering accountability.

Once the Business Manager develops policies directing the management of the division's fixed assets, the policies should be presented to the school board for approval. The Business Manager should obtain a complete list of the division's fixed assets from the county and make changes as assets are acquired and deleted. For control and accountability purposes, the division may want to track some capital assets costing less than the \$5,000 threshold for capitalization purposes that have high incidences of theft, such as computers, audiovisual equipment, and weapons. This may require establishing two lists, one for capitalized items for which depreciation will have to be calculated and recorded, and another for items that were not capitalized but which the county still wants to maintain control over and include in its physical inventory.

FISCAL IMPACT

This recommendation can be implemented with existing resources, although the Business Manager will be required to spend an estimated 10 to 15 hours completing the process. An annual inventory should not take more than 10 to 12 to complete.