



Financial "Wellness"

Session Overview

- Background
- Recent Local Government Financial Dilemmas
- Financial Risk Factors
- Diagnostic Questionnaire
- Q&A and Next Steps

Background

- VDOE – Federal Oversight Obligation of Federal Funds
 - 2 CFR 200 (Super Circular)
 - Federal Audit Clearing House (Now System of Record)
- Requires VDOE to Review Audit Reports
 - Federal *Education* Findings and Corrective Action(s)
- Top Three Federal Programs
 - Title I
 - Special Education
 - School Nutrition



Uniform guidance or “super” circular
Replaces the former OMB A-133

Background

Typical Federal Audit Findings

- Title I, Special Education
 - Not Completing Semi-Annual Time Certifications
 - Unallowable Costs
 - Late Reimbursement Requests (> Quarter)
- School Nutrition Programs
 - Missing Applications
 - Misclassified (Paid, Free, or Reduced)



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Others – occasional audit findings:

Title II - Improving Teacher Quality

21 Century Community Learning Centers (CCLC)

Adult Education

Recent Local Government Financial Dilemmas

- Not Widespread, but Highly Publicized
- Overspending Local Funds
 - Public Angst
 - Emergency Request for Infusion of Cash from Governing Body
 - Forced Resignation of Officials, in Some Cases
 - Involvement by Federal and/or State Law Enforcement Agencies
 - Distraction from the Core Mission of Education
- Common Cause: Officials Did Not Promptly Address Financial Imbalance



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Problems began appearing in media a couple of years ago
media reports of financial mismanagement
“lively” school board meetings

Declining ADM, local revenues, etc.

Political aspect for addressing imbalance – national issue, not just Virginia
Dropping programs, activities, closing schools
Public resistance – “not my kid’s program or my school”
(counter pressure)

Recent Local Government Financial Dilemmas

- Qualitative Review for Overall Fiscal Operations
- Development of Financial Risk Factors
- Auditor Correspondence
 - Required Communication with Those Charged With Governance
 - Management (Suggestion) Letters, If Issued

As a result...

We began a “deep dive” to gain a better picture of fiscal operations.

Goal is to identify and provide support before financial condition becomes unmanageable

Risk factors – more on that up next

About 80% of audits are combined (local government and component units (e.g. schools, EDA, ambulance authority))

Pattern of communication breakdowns (auditor, appropriating body, and schools) -- ask for auditor correspondence, attend audit exit conference if one is scheduled

Financial Risk Factors

- Various Audit Performance Indicators
- Non-compliance with timely audit and/or public meeting on the results of the audit
- Downward Trend in Average Daily Membership
- Local Composite Index of 30 or Less
- Failing to Meet Required Local Effort and/or Sped Maintenance of Effort
- A Rating of “High” for a VDOE Sped Risk Assessment (13 Factors)
- A Local Government Fiscal Stress Rating of “High” by the Commission on Local Government



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(See handout)

List of financial risk factors is evolving...

Factors not yet assigned a weight, formal rubric

Not all factors are controlled by the schools, but important to evaluate due to financial relationship with the county/city

School leaders relocating to Virginia may not be immediately aware: schools cannot directly tax or issue debt

Audit performance – Unmodified opinion, financial statements federal programs, compliance with laws & regs.

some are not directly associated with the schools in combined audits (economic, low risk auditee, audit completion/public meeting)

Stress rating – analysis of **revenue capacity**, **revenue effort**, and **median household income** (104 = High)

Diagnostic Questionnaire

- Intended to Be Strategic in Nature
- Not a “Test”
- Why Not Strictly Financial?
- Several Items are Real World, Some in the Media
- Not Intended to Cover All Situations

Started at a internal control questionnaire
business process level – too lengthy and was 100s of questions

Why financial and admin. – too many areas can have ruinous effect - financial and strategic consequences

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Finance Diagnostic Questionnaire - Topics

1. General Management Environment
2. Strategic Plan Monitoring-Accomplishment of Goals and Objectives
3. Budget Monitoring (Operating and Capital)
4. Annual Audit Performance
5. Grants Accounting and Administration
6. Fraud Awareness and Prevention
7. Business Continuity Plan
8. Information Technology Security
9. Facilities Management
10. Pupil Transportation

Examples in following slides...

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Finance Diagnostic Questionnaire

1. General Management Environment

- Management Including Tone at the Top
- Human Resource Controls
- Broad Financial and Administrative Questions
 - Financial P&P Manual and Training
 - Fiscal Transparency
 - Procurement
 - Virginia Public Records Act
 - Multi-Hazard Crisis Management Plan
 - Insurance/Surety Bonding



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Org. chart, clear objects/communications, occasionally surveying employees, adopt/display code of ethics statement, etc.

HR – Onboarding, off-boarding, performance evaluations, training, turnover trends, etc.

Finance manual, written procedures, training/x-training are critical
Established controls over the proper use of funds

Use technology to provide transparency for reporting, etc.

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Finance Diagnostic Questionnaire

2. Strategic Plan Monitoring

- Formally Adopted and Approved
- Prioritized and Up to Date
- Established Milestones
- Ongoing and Formal Status Reporting
- Frequent or Annual Update

Important: Direct linkage of strategic plan (SP) to funding priorities and budget

Example – State board agenda item cover sheet: SP goal/objective, applicable law, background, action requested, etc.

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Finance Diagnostic Questionnaire

3. Budget Monitoring

- Statutory Deadlines (Development, Public Hearing, Publication, Approval)
- Anticipate Changes (ADM, LCI, Sales Tax, Local Revenues)
- Local Economy Impact on Student Enrollment
- Detail Tracking of Salary and Benefit Costs
- Financial Status – Monthly School Board Agenda Item
- Periodic Joint School Board and Governing Body Meetings (Strategic and Financial Topics)



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Budget development/adoption/execution cycle

Know and track budget drivers – lack of control over some elements

Expenditures cannot exceed approved budget including amendments

Consider financial system capability for transaction processing, reporting, budget control and monitoring – SB system must be reconciled monthly with the city/county's financial system

Local Economy: Consider new and departing employers, major layoffs, new subdivisions, immigration, etc.

Employment – position control (identified funding prior to recruitment)

School board monthly update – complete financial statements, cash balances of all funds; not just a list of cash disbursements for approval

Important relationship city/county officials with SB – improved with ongoing meetings/communication

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Finance Diagnostic Questionnaire

3. Budget Monitoring (Continued)

- Cafeteria Operations – Should be Self-Sustaining
- Review Budget Periodically for Efficiency and Best Practices
- Capital Budget: 5-Year Plan Updated and Adopted
- Document Age/Condition of Facilities
- Funding and Debt Service for Capital Improvements



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Compare cafeteria food orders to menus prior to orders

Periodic review of overtime, stipends, extended contracts, admin. costs

See DPB list of best practices from efficiency reviews

Capital plan: Real property, building, buses, vehicles, cafeteria equipment, technology, textbooks

Funding: Va. Public School Authority (VPSA), Qualified Zone Academy Bonds (QZAB), and Literary Fund

Obtain expert advice if going out in the commercial bond market – watch out for potentially much higher underwriting fees and related costs

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Finance Diagnostic Questionnaire

3. Budget Monitoring (Continued)

- Some End of Year Red Flags:
 - Holding Checks – Goods/Services Not Yet Delivered
 - Prepaying Non-Typical Expenditures
 - Holding Vendor Invoices For Next Fiscal Year (Past Due Date)
 - Moving Payroll Expenditures into Next Fiscal Year (10 Mo. Employees Paid over 12 Months)

Customary prepaid expenditures: dues, subscriptions, insurance -- Not large items yet to be received or services not rendered

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Finance Diagnostic Questionnaire

4. Annual Audit Performance

- Unmodified (“Clean”) Opinion
- Avoid Material Weaknesses, Repeat Findings
- Act Promptly on Auditor Findings and Suggestions
- Actively Monitor School Activity Funds (SAF)
 - High-level of risk for SAF
 - Review Monthly Reports Closely
 - Develop SAF Procedures Manual and Train Staff
 - Senior Management Audit Follow Up on Findings and Suggestion
- Obtain all Relative Audit Correspondence and Attend any Scheduled Audit Exit Conference



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Audits discussed earlier in financial risk factors

SAF risks – cash, decentralized controls, staff assigned (not typically financial), etc.

Criminal cases each year with SAF frauds

Have knowable central office oversight and consider spot inspections/cash counts, etc.

As mentioned earlier...active engagement by school management in the annual audit process is important.

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Finance Diagnostic Questionnaire

5. Grants Accounting and Administration

- Develop Policies and Procedures
- Ensure Ongoing Training for Grant Administrators
- Submit Monthly or Quarterly OMEGA Reimbursements
- Maintain Payroll Certification Reports for Staff Paid by Grant
- File Required Grant Status Reports by Due Dates
- Closely Monitor Grant Balances to Prevent Reversion of Unused Funds



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Things to remember:

OMEGA reimbursements requests must be submitted at least quarterly, most divisions request monthly

Train staff (lots of online resources, webinars, etc.) – VDOE provides technical support

Have staff trained as an **OMEGA backup**

Utilize \$\$\$ - prevent reversion of funds!!!

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Finance Diagnostic Questionnaire

6. Fraud Awareness and Prevention

- Develop/Promote a Fraud, Waste, and Abuse Policy
- Establish an Anonymous Reporting Channel
- Remind Employees of Their Duty to Report
- Implement and Promote an Anti-Retaliation Policy
- Investigate and Act on Sustained Cases



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Most frauds (around 80%) are not detected by an auditor.

Encourage FWA tips reporting within your organization. Folks should feel “safe” to do so.

If no internal audit for schools and/or city/county, consider an other independent person to investigate (H/R director, etc.).

Question: Wouldn't you prefer to uncover and address fraud yourself instead of having it discovered (probably much later) by an outside party? Better to be proactive, make appropriate changes, and be in front of story, instead of reacting to it.

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Finance Diagnostic Questionnaire

7. Business Continuity Plan

- May be a Separate Plan or Part of an All-Hazard Critical Response Plan
- Provide Staff with Plan Information, Roles and Responsibilities
- Maintain Information on the Plan Both On/Off Site
- Update and Test Plan Annually
- Improve the Plan from Lessons Learned During Testing
- Include Continuity of Key IT Systems (Disaster Recovery Plan)



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Critical response plan, DRP, COOP

VDEM Templates and Tools

Importance of identifying key contacts and backup staff w/emergency contact information

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Finance Diagnostic Questionnaire

8. Information Technology Security

- Provide Initial and Ongoing IT Security Training of Staff
- Adopt/Publish an Acceptable Use Policy
- Utilize a Restricted Use Data Agreement Where Appropriate
- Develop an IT Security Breach Plan
- Maintain an Updated List of Controllable Devices
- Ensure Surplus Devices are Wiped Clean of Data Prior to Disposition
- Consider Appropriateness of Purchasing Cyber Breach Insurance



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Security training should be **role-based**, IT staff, student records (FERPA) and medical information (HIPAA)

Threats include a disgruntled employee, social engineering, ransom ware, out of date software, etc.

Mobile media safeguards (e.g., drop box, encryption, etc.) are important. Feds prohibit all uses of mobile media.

Breach of personally identifiable information (PII) notification protocol – *Code of Virginia* requirements (§18.2-186.6)

Expenses include:

- Notification costs
- Phone bank operation
- Credit monitoring services
- Residual damage to reputation

External auditors often suggestion evaluation of breach insurance to pay expensive incident costs.

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Finance Diagnostic Questionnaire

9. Facilities Management

- Maintain a Complete and Up to Date Facilities Inventory
 - Include a Current Assessment of Useful Life and Condition of Major Systems (Roof, HVAC, Plumbing, etc.)
 - Develop an Emergency Backup Plan for Building or System Failure
- Link the Assessment of Facilities to the Capital Budget Plan
- Other: Consider Worker's Comp. Claims Linked to Action on Needed Facility Repairs, Labor and OSHA Compliance, Structured Issuance/Return of Keys, Access Cards, etc.

Facilities needs should be directly tied into the capital budget

HVAC Systems - \$\$\$

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Finance Diagnostic Questionnaire

10. Pupil Transportation

- Adequate Staffing of Bus Drivers and Mechanics
- If Applicable, Effective Use of a Fleet Management System (Multiple Questions)
- Periodic Division Review:
 - Accurate/Complete Daily Pre-Trip Checklists
 - Complete and Up to Date Driver Training Documentation
 - Certifications, DMV License Checks, Physicals, etc.
- Review of Driver Incidents/Accidents
- If Applicable, Review of Bus Driver Data (GPS Enabled), Digital Cameras, Videos, etc.



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Why pupil transportation? High exposure

Children left unattended, crashes, etc. Investigate incidents/make appropriate changes

Question: How many use a fleet mgt. system?

Central office should conduct periodic reviews of relevant documentation

Real story: FOIA request by media on school division driver data – uncovered numerous speeding, reckless driving, instances. The driver data was not monitored by anyone at the division. The story stayed in the paper on/off for weeks.

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Diagnostic Questionnaire **Some Possible Applications**

- Fast Start Assessment By New Superintendent and/or CFO
- Proactive Division Review
- Input for a New or Existing Quality Improvement Program (aka – To Do List)
- Spark Conversation with SB/Governing Body



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School board and city/county leaders – conversation on items that will require formal action or additional funding.

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Questionnaire Reviewers

School Divisions

Mr. Dennis R. Jarrett, Chief Financial Officer
York County Public Schools

Dr. James T. Roberts, Superintendent
Ms. Victoria Lucente, Director of Finance and Budget
Chesapeake City Public Schools

Dr. Eric L. Jones, Superintendent
Mr. Larry Johns, Assistant for Finance and Business Operations
Powhatan County Public Schools

Dr. Aaron C. Spence, Superintendent
Mr. Farrell Hanzaker, Chief Financial Officer
Virginia Beach Public Schools

Ms. Shannon T. Irvin, Assistant Superintendent for Administration
Nelson County Public Schools

Dr. Michael Thornton, Superintendent
Surry County Public Schools

Dr. Amy Griffin, Superintendent
Dr. Chip Jones, Assistant Superintendent of Finance and Operations
Cumberland County Public Schools

Ms. Rachel Yates, Finance Director
Isle of Wight County Public Schools

Mr. Chris Sorenson, Assistant Superintendent for Business and Finance
Chesterfield County Public Schools



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Questionnaire Reviewers

School Divisions (Cont'd)

Dr. Patrick Murphy, Superintendent
Ms. Leslie J. Peterson, Assistant
Superintendent for Finance & Management
Services
Arlington County Public Schools

Virginia Department of Education

Mr. Kent Dicky, Deputy Superintendent for
Finance and Operations
Dr. Steven Constantino,
Chief Academic Officer
Ms. Beverly Rabil, Director of School
Improvement
Ms. Carol Potter, Education Finance
Analyst
Mrs. Tracie Coleman, Special Education
Budget Manager

Other

Ms. Janet Brown, Finance Consultant
(Former Chief Financial Officer,
Poquoson City Public Schools)

Mr. Steve Bateson, Executive Director
Virginia Association of School Business
Officials

Mr. Corbin Stone, CPA, Partner
Robinson, Farmer, Cox and Associates
Blacksburg, Virginia

**Many thanks to all for your
contributions!!!**



Questions?



Contact:

Thomas Broyles

Director of Business & Risk Management

(804) 371-0028

Thomas.Broyles@doe.virginia.gov