

OFFICE OF THE INSPECTOR GENERAL
MONTGOMERY COUNTY MARYLAND

Evaluation of Budget and Financial Information Provided by
Montgomery County Public Schools

Finding 1:

Monthly Financial Reports provided by MCPS to the BOE, Executive, and Council display differences between amounts budgeted and estimates in revenues and expenditures but should present more complete revenue and expenditure data for analysis.

Criteria: Periodic reports providing information sufficient to:

- Monitor compliance with legal requirements (budgets)
- Evaluate performance and future financial plans

My discussion of the First finding is the most significant so most of this discussion will focus on it. Discussion of all other findings will be shorter.

The criteria are the generally accepted standards for our reporting.

The monthly financial reports provided by MCPS consist primarily of estimates of revenues and expenditures developed by MCPS staff.

To the extent each report represents MCPS's best estimates of the resources to be received and expended, the format and content of the report satisfies the purpose of monitoring MCPS compliance with the dollar amounts appropriated by the Council in each state category.

However, the reports provide little if any data for analysis by staff analysts.

The sample tables in the following slides illustrate Our concern.

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Montgomery County Public Schools: Monthly Financial Report and Year-end Projections
As of September 30, 2009

REVENUE

| Source | FY 2010 Original Budget | Revised Budget | Projection | | Current Report Variance Over (Under) Revised Budget |
|---------|-------------------------------|-------------------|--------------------|-------|--|
| | | | As of 9/30/2009 | As of | |
| REVENUE | \$2,020,078,263 | \$2,024,966,129 | \$2,025,366,129 | \$- | \$400,000 |

In order to fit the tables to the slides, in most cases I've used only the column headings and totals as they appeared in one of the actual reports sent to the Board of education and to you by MCPS

As you can see in this representation of the Revenue table from September, 2009, the amounts displayed represent only estimated amounts.

The column entitled "revised budget" displays amounts expected and is modified as changes in the amounts expected from the state and other sources are known.

Since revenue from the County and State account for over 98% of the total and are reasonably predictable based on actions taken by the county and state, there is less of a need for "actual" revenue data.

For that reason, our report focused on the expenditure presentation.

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Montgomery County Public Schools: Monthly Financial Report and Year-end Projections
As of September 30, 2009

EXPENDITURES

| | Authorized Expenditures | Expenditures and Encumbrances 9/30/2009 | Projected Expenditures 6/30/2009 | Current Report Projected Year-end Balance | Prior Report Projected Year-end Balance | Variance Over (Under) |
|---------------------------|----------------------------|--|--|--|--|--------------------------|
| Expenditures Current Fund | \$2,024,966,129 | \$1,476,885,661 | \$538,180,468 | \$9,900,000 | \$0 | \$9,900,000 |

This table presents, the column headings and totals presented in the September, 2009 Expenditure table of the monthly financial report.

Note that the only column that contains any actual data is the “expenditures and encumbrances” column. Based upon this presentation, the user could logically conclude that over 70% of the budget had been expended. In fact, as you will see on a following sample table, only about 15% of the budget had been expended as of September 2009

Encumbrances are normally used in government accounting to “set aside” and protect funds from future use, but are estimates of anticipated expenditures which in many cases are never realized.

Since the table contains columns for “projected expenditures” and “projected year end balance, the “encumbrances” are really not relevant to this presentation. They may simply create confusion.

I noted that in at least one case , I believe in FY 2010, the “projected expenditures” column showed significant negative encumbrances projected in one category.

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Montgomery County Public Schools: Monthly Statement Revenues and Expenses

| | FY 2010 Actual | FY 2011 Approved Budget | FY 2010 Actual as of 4/30/2010 | FY 2011 Actual as of 4/30/2011 | Projected thru 6/30/2011 | Projected FY11 Surplus or (shortfall) |
|---------------------------|-------------------|-------------------------------|--------------------------------------|--------------------------------------|--------------------------------|---|
| REVENUES | | | | | | |
| Current Fund | | \$1,908,436,137 | \$2,002,963,999 | \$1,908,136,137 | \$1,908,136,137 | (\$300,000) |
| Enterprise Funds | | \$56,058,126 | \$56,659,104 | \$56,058,126 | \$56,058,126 | \$0 |
| Supported Projects | | \$159,531,704 | \$135,912,550 | \$159,531,704 | \$159,531,704 | \$0 |
| Total Revenues | \$0 | \$2,124,025,967 | \$2,195,535,653 | \$2,123,725,967 | \$2,123,725,967 | (\$300,000) |
| EXPENDITURES | | | | | | |
| Current Fund | | \$1,908,436,137 | \$1,842,277,519 | \$1,792,048,707 | \$1,891,436,137 | \$17,000,000 |
| Enterprise Funds | | \$56,058,126 | \$46,362,549 | \$47,850,396 | \$56,058,126 | \$0 |
| Supported Projects | | \$159,531,704 | \$105,058,489 | \$116,414,797 | \$159,531,704 | \$0 |
| Total Expenditures | \$0 | \$2,124,025,967 | \$1,993,698,557 | \$1,956,313,900 | \$2,107,025,967 | \$17,000,000 |

By way of contrast, the next slide presents the MCPS data in the Monthly report format you already receive from another County funded agency, the WSSC.

Using this format, if actual expenditures were presented without encumbrances, the encumbrances would still not be needed. The "Projected" column would provide the MCPS estimate through the end of the year along with the projected short-fall or surplus.

The advantage of this format is the comparison of current year to date data to the similar data from the previous year which is simple and informative.

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Department Expenditures: Detail by Dept / Fund
 Thru FY12 Period 8 – On-Going

| Account | PY | Original | Latest | Current | YTD | YTD | Total | Remaining | |
|-------------|--------------|----------|--------|---------|--------|-------|-------|-----------|-------|
| Description | Carryforward | Budget | Budget | Mo | Encumb | Total | Exp | Balance | Rem % |
| <hr/> | | | | | | | | | |
| <hr/> | | | | | | | | | |

For further comparison, displayed here, without numbers, are the column headings the county government. This is provided to each office and used for financial control purposes. It is available on-line. We have on-line access to our own information as well as that of every other MCG department and summary data.

For this purpose, it is useful to know amounts encumbered. Note that in this presentation, expenditures and encumbrances are displayed separately.

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Recommendation 1

The Superintendent work with the BOE, Executive and Council to ensure that each has the information needed to provide adequate oversight, and ensure that meaningful status reports are available to the public including:

- Monthly Reports that separately display revenues and expenditures.
- More complete narrative explanations of any revenue and expenditure variances.
- A Monthly Financial Report at fiscal year-end providing actual results compared to the budget-- issued on or before the CAFR release date.
- The “Budget-Funds Available” report produced by MCPS, to be provided to the Executive and Council on a monthly or quarterly basis.

Our recommendations for finding 1 are displayed above.

They address two issues that I have not yet mentioned.

First, that no year-end result are provided in the monthly reports data. The report provided using April 30 data as the basis is the last report provided for the fiscal year. A report based on June 30 data should be provided so that you are informed of the final expenditures that are directly comparable to the data you had been given during the year.

Second, the level of detail in the report may be sufficient for top leaders, but staff could benefit from more detail. We obtained the “budget –funds available report from MCPS that contains such detail by state category and found it to be much more useful.

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Montgomery County Public Schools: Monthly Expenditure Report & Projections
As of September 30, 2009

| Current Fund | Authorized Expenditures | Expenditures | Encumbrances | Funds Available | Projected Surplus or (Shortfall) |
|--------------------|-------------------------|---------------|-----------------|-----------------|----------------------------------|
| Total Current Fund | \$2,024,966,129 | \$310,540,891 | \$1,166,338,813 | \$548,086,425 | \$9,900,000 |

This slide, displays in summary form the summary data that could be readily produced which also appears from that MCPS report. A sample, complete version appears in your packets at circle 9, and the supporting detail for category 1 data appears at circle 10. A complete report would present similar detail for each state category.

This is what we think you should be provided.

Note that the primary difference between this summary report and the report that s currently provided is the separation of expenditures and encumbrances

The MCPS B-FA report already contains these separately stated amounts. They are not combined as on the Monthly financial reports.

We recommended that MCPS provide this BF-A report to you on a monthly or at least quarterly basis.

None of this should require significant additional work for MCPS.

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Finding 2

Some financial information presented in the CAFR differs from that presented in the operating budget.

Criteria:

- reports and budget submissions contain consistent, relevant data;
- differences between the data presented in internal and external reports and budget submissions are explained in footnotes or narrative material
- crosswalks are presented and are sufficient for the readers to understand these differences.

The second finding appears at circle 5 in you packets.

We found the Comprehensive Annual Financial report (CAFR) to be very informative and useful for an understanding of MCPS long-term trends, but hard to relate to information provided during the course of any fiscal year.

That is because of explainable and understandable differences in amounts between the CAFR and the information contained in the operating budget and reported on during the year.

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| | 4/30/11 MFR Est. | 6/30/11 CAFR | FY13 Budget | 6/30/11 BFA |
|---------------|---------------------|------------------|------------------|------------------|
| Current Fund | 1,891,436 | 2,022,130 | 2,015,537 | 1,881,776 |
| Enter. Fund | 56,058 | 0 | 51,407 | 0 |
| Support Proj. | 159,532 | | 141,311 | |
| Total | 2,107,025 | 2,022,130 | 2,066,943 | 2,023,088 |

The table that appears at circle 5 in your packets illustrates the differences between the amounts presented as year end for FY2011 in the monthly financial report, the CAFR, the FY 2011 actual column of the Superintendent's operating budget submitted to the Board of Education, and the year end actual amount presented in the MCPS, Budget-Funds Available report.

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Recommendation 2

The Superintendent should work with the BOE, Executive and Council to ensure that each has the information needed to provide adequate oversight. Changes considered should include:

- **An exhibit in the Budget reconciling the actual revenues and expenditures reported in the CAFR on a budgetary basis to tables appearing in the Operating Budget submission and the BOE Budget**
- **Interim financial information presenting the Statement of Revenues, Expenses, and Changes in Fund Net Assets as of December 31, for the enterprise funds and internal service fund.**

We recommend simply that in addition to providing fiscal-year-end reports that are consistent with the data presented in budget submissions, a simple cross-walk between the budget data and the CAFR be provided along with a narrative explanation of the differences.

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Finding 3

MCPS Budget Requests do not provide information necessary to evaluate the appropriation request by State category

Criteria:
Budget submissions provided are complete, easily understood and consistent with legal requirements

What stuck me in reviewing the operating budget is that the state categories, by which funds are appropriated and managed, barely appear in the budget. Within the 1000 pages of the Superintendent's request, the state categories appear as tables in an appendix near the end of the Superintendent's recommendation to the Board of education and again in the Bard of Educations adopted budget presented to the Council. No narrative explanations are provided and no narrative discussions of the categories appear in any of the documents.

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Recommendation 3

The Superintendent should direct his staff to work with the BOE, the Executive and the Council to agree upon budget narratives and exhibits, to enhance the BOE Budget including:

- Narrative explanations of the relationship between the Budget in Brief, Operating Budget, the Program Budget, and the BOE Budget and the state categories.
- Financial tables providing “crosswalks” between the organization budgets and each state category budget, to include budget and actual data.
- Narrative explanations for differences between the Superintendent’s budget submission and the BOE Budget highlighted in the document.
- Explanations of the costs associated with contributions to the funds from which employee and retiree benefits are paid

The first recommendation is largely a suggestion related to the difficulty in comparing the operating budget to the program budget and a recommendation that their relationship to the state categories be more apparent.

We noted that differences between the superintendent’s recommendation and the Board adopted budget submitted to the Council are not explained and that the adopted budget contains no narrative explanations of the budget.

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Finding 4

Council staff was not provided information regarding lower-than-originally-projected health benefit costs at the time the final Council decision on the MCPS appropriation was made.

Criteria:

Evidence of relevant information provided through formal or informal communications between MCPS staff and Council and /or Executive staff.

The last finding relates to the topic of much discussion last June. We found no reports available during FY 2011 that reflected the status of the MCPS internal service fund.

Further, prior to the date the Council acted on the MCPS budget, other than conflicting oral comments, we found no evidence of formal or informal communications to the Council regarding a projected balance in that fund.

That information was not communicated to the Council staff analysts or the to Executive staff analyst, and consequently, was not available to the Council in making decisions on the MCPS budget..

The recommendation is simply that MCPS ensure that all relevant information needed by decision-makers is documented and consistently communicated.

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Recommendation 4

The Superintendent should work with the BOE staff to ensure:

- That all relevant information needed by decision makers and their key staff members is consistently communicated.
- That all formal and informal communications are documented.

The last finding relates to the topic of much discussion last June. We found no reports available during FY 2011 that reflected the status of the MCPS internal service fund.

Further, prior to the date the Council acted on the MCPS budget, other than conflicting oral comments, we found no evidence of formal or informal communications to the Council regarding a projected balance in that fund.

That information was not communicated to the Council staff analysts or the to Executive staff analyst, and consequently, was not available to the Council in making decisions on the MCPS budget..

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Questions or Comments

This concludes my presentation and if your time permits, welcome any questions or comments.