

**FREDERICK COUNTY  
INTERAGENCY INTERNAL AUDIT AUTHORITY**

**FOLLOW-UP TO  
REVIEW OF FREDERICK COUNTY PUBLIC SCHOOLS  
OPERATING BUDGET CONTROL PROCEDURES FOR  
FISCAL YEAR 2004 - 2005**





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**FOLLOW-UP TO  
REVIEW OF FREDERICK COUNTY PUBLIC SCHOOLS OPERATING BUDGET  
CONTROL PROCEDURES FOR FISCAL YEAR 2004 - 2005**

**December 4, 2006**

# I. Introduction

Frederick County's Interagency Internal Audit Authority (IIAA) Audit Manual, Policy 400 A. states:

Auditees are requested to provide us with documentation of the status of prior report recommendations. Auditors determine the validity of the status reported by examining documentation and performing tests, as considered necessary. The extent of testing is determined by the significance of the condition/recommendation in relation to the audit objectives and should be the minimum necessary to provide assurance that sufficient corrective action has been taken. Recommendations that are found to be not implemented or corrective action found not to be adequate should be disclosed in the audit report.

General Accountability Office (GAO) Auditing Standards state that much of the benefit from audit work is not in the findings reported or the recommendations made, but in their effective resolution. In addition, the Institute of Internal Auditors (IIA) states: "Internal Auditors should follow-up to ascertain that appropriate actions are taken on reported audit findings."

Our assessment primarily consisted of reviewing the written status responses as submitted by the impacted departments. While several of the responses stated that implementation would be completed during FY07 or FY08, we have classified those as partially implemented, even though currently there is no documented evidence that that recommendation has been reviewed and/or implemented as of this date. We also question the long implementation period of three of four years from the original audit date of November 2004. Testing of responses is only conducted if those areas under review are considered critical. The recommendations for this audit do not meet the critical criteria. Therefore, our assessment was limited to reviewing management's response to determine if that response adequately addressed the recommendations noted in the initial report.

It is management's responsibility to decide if action should be taken in response to original reported audit recommendations. However, it is also their responsibility to assume the risk by not correcting a reported condition because of cost or any other considerations.

# II. Background

The original report, **REVIEW OF FREDERICK COUNTY PUBLIC SCHOOLS OPERATING BUDGET CONTROL PROCEDURES FOR FISCAL YEAR 2004 – 2005**, was issued November 22, 2004. That report identified eight conditions containing forty recommendations for improving operating budget control, monitoring, accountability process

and reporting procedures. Our assessment of management’s response indicates that of the forty individual recommendations, one was classified as implemented, thirteen as partially implemented, sixteen as not implemented, and ten as non-responsive.

	Implemented	Partially Implemented	Not Implemented	Not Responsive
I - Budgetary Approach	0	0	4	0
II - Budget Formant	0	1	0	2
III - Budget Monitoring and Accountability	0	1	5	2
IV - Budget Process	0	5	0	0
V - Budget Support	0	1	4	2
VI - Budget Document	0	2	1	1
VII - Management of Budgeted Positions & Associated Costs	0	1	2	3
VIII - Budget Office Function	1	2	0	0
Totals	1	13	16	10

Management has addressed each of the forty recommendations and has provided the current status (See Attached). While we provide no opinion as to the adequacy of the response or management’s decision to or not to implement, Internal Audit stands by its initial report.

## III. Current Status

### Condition I. Budgetary Approach - FCPS’ Budget Approach Should Be Expanded To Enhance Budget Effectiveness

**Recommendation I. a)** Incorporate the cost-justification aspect of the zero-based budgeting approach into the development of the Base Budget.

**Status: Not Implemented.** FCPS originally responded that staff disagrees with the concept of zero-based budgeting for K-12 educational organizations that operate with a site based decision-making model. While the BoE has stated that they thought staff were using a zero based approach, they are not. We stand by our original recommendation.

**Recommendation I. b)** In areas where the zero-based approach is not applied, provide justification for all budget increases by supplementing budget requests with specific detail of adjustments to the Base Budget.

**Status: Not Implemented.** Budget increases are outlined in the Approved Annual Budget Report.

**Recommendation I. c)** In the interim, while striving to implement zero-based budgeting to the extent possible:

1) Test the validity and efficiency of the Base Budget by having each area/operational manager describe the impact in service delivery that would result from a set percentage cut to the budget.

**Status: Not Implemented.** FCPS originally responded that they do not believe that a percentage reduction approach is valid in an organization where 80% of the resources are salaries and associated fringe benefits for determining the efficiency of budget allocations and continue to stand by their original response.

Internal Audit, however, stands by its initial comment which was noted in the summary section of the audit report, we recognized the portion of the budget comprised of salaries and, therefore, reasonably did not intend that salaries would be included in the budget cut projection. To avoid misinterpretation, our report should have specified that the budget cut be applied to non-salary operating costs and we apologize for the lack of clarity.

Given the report clarification above, we continue to support our recommendation for using budget reduction projections as a budget tool for analyzing the non-salary operating cost budgets comprising about 20% of the Operating Budget. This 20% approximates \$60,630,000 and \$64,687,000 for fiscal years 2004 and 2005, respectively. We believe that these resources are significant and should be evaluated to ensure their most effective use in relation to FCPS goals. This is especially important whereas budget constraints in recent years have prohibited the full funding of budget enhancement requests intended to meet FCPS educational goals.

2) Provide incentives for employees and departments to identify cost savings so that budget funds can be re-aligned with budget priorities. Use of a standard form for this process would provide for proper transaction support.

**Status: Not Implemented.** FCPS responded that this will require negotiations with the three bargaining units. Even without incentives departments identify funds for re-alignment. For example in the FY 07 budget \$1million was identified for textbook replacement.

We stand by our initial recommendation which states in part: The goal of this recommendation is to identify areas in the Base Budget where budgeted funds can be re-evaluated and re-aligned in an effort to best achieve FCPS' stated goals.

## **Condition II. Budget Format - Budget Format Should Be Enhanced To Provide Transparency**

**Recommendation II. a)** Supplement the current budget with a program-based budget for decision-making, planning and accountability purposes.

**Status: Partially Implemented.** Have taken steps to align the budget at the cabinet level. The FY 2007 Budget document will provide information in a program budget based format to the extent possible using the current financial software structure. Further improvements will require a significant funding increase for software and staff.

Our initial comment noted the potential need for additional resources; however, we also noted in the audit report definitions, that program budgeting can take many forms and for that reason, several levels of program detail were exemplified in the sample budget schedules provided. We stand by our initial recommendation.

**Recommendation II. b)** Provide a linkage from requested changes to the budget, including both Base Budget changes and budget enhancements, to established school system goals and priorities.

**Status: Non-Responsive.** Strategic Improvements are established by priorities and linked to FCPS goals.

**Recommendation II. a)** Benchmark with other school systems to determine the optimal program format for FCPS.

**Status: Non-Responsive.** Reviewed formats of Harford County and Baltimore County Public Schools.

## **Condition III. Budget Monitoring and Accountability - Improvements Should Be Made In Budget Accountability**

**Recommendation III. a)** Clearly define and communicate budget responsibilities.

**Status: Partially Implemented.** Scheduled for completion by June 30, 2007.

**Recommendation III. b)** Assign budget request and monitoring responsibilities to operational managers in alignment with management responsibilities.

**Status: Not Implemented.** Cabinet member are responsible for budget request and monitoring and they have the ability to delegate these responsibilities within their organizational structure.

The basis of our original audit report recommendation was that during the course of the audit we were informed by Budget that operational managers do not submit written budget requests and that budget monitoring is performed by principals and the Budget and Finance offices, not by all operational managers. We support the clarification of current responsibilities and continue to recommend management's involvement in the budget process.

**Recommendation III. c)** Provide managers with the training and support that they need to properly perform their assigned budget responsibilities and the reports and feedback they need to review their budgetary performance.

**Status: Non-Responsive.** Training is provided during Summer In-Service and managers have the ability to access the financial system for appropriate reports.

During the audit, Budget staff demonstrated how at the beginning of the year they manually compile budgets for managers of some operational areas and stated that those managers do not receive subsequent reports (budget vs. actual) during the year.

**Recommendation III. d)** Modify the account structure in the financial system to allow management reporting by area of responsibility and the implementation of the automated budget control function.

**Status: Not Implemented.** New department codes designating each Cabinet member have been implemented. Current practices are working sufficiently. The costs of implementing automated budget controls outweigh the benefits.

Our initial audit report commented that: Without system modification, the necessary management reports cannot be generated... Also, as included in the audit report, we consulted with FCPS Technology Services staff regarding the account structure of the financial system and the need to utilize the automated budget control feature. The staff indicated that they could perform the needed modifications. However, should a consultant be necessary as included in Budget's response, we believe that the resultant benefits warrant some investment of resources and as such continue to support our audit recommendation.

**Recommendation III. e)** Work with Technology Services to amend budget transfer reports to include budget journal transactions and to develop reports that capture original budget appropriation information.

**Status: Not Implemented.** FCPS staff originally agreed with this recommendation. Their subsequent response stated that the budget journals are used in the initial budget load and that they will refrain from using the budget journals unless operationally necessary. They also stated that the In/Out Report captures original budget appropriations. However, these statements do not adequately address the recommendation.

**Recommendation III. f)** Require managers to prepare budget forecasts for their operational areas on a quarterly basis, providing written explanations and corrective action plans should significant variances be determined. These reports should be reviewed by the Budget Office and should also be presented to the BOE.

**Status: Not Implemented.** Current practices are adequate. .

We support our original audit recommendation for quarterly budget forecasts in order to provide a proactive budget monitoring process instead of the reactive approach.

**Recommendation III. g)** Report monthly to the BOE on the status of the current budget, including reports that reflect both original and amended budget amounts.

**Status: Not Implemented.** After discussions with the BOE, the majority did not deem this to be necessary.

**Recommendation III. h)** Determine a method to identify, track and routinely evaluate the adequacy of the budgets determined for enhancement initiatives.

**Status: Non-Responsive.** FCPS staff originally agreed with this recommendation. Their subsequent response stated that implementation is in process; however, the complexities of measuring compared to expectations make it difficult to determine a completion.

#### **Condition IV. Budget Process - A Documented Budget Process Is Needed**

**Recommendation IV. a)** Develop and publicize detailed written procedures for all aspects of the budget development and planning process.

**Status: Partially Implemented.** Scheduled for completion 12/31/2007

**Recommendation IV. b)** Maintain these procedures online and update as necessary.

**Status – Partially Implemented:** Scheduled for completion 9/30/2008

**Recommendation IV. c)** Expand the budget calendar to outline tasks and assigned responsibilities for those tasks.

**Status: Partially Implemented.** Scheduled for completion 12/31/2007.

**Recommendation IV. d)** Benchmark against other school systems to ensure that better practices are being adopted.

**Status: Partially Implemented.** FCPS staff originally stated that they agreed with this recommendation to the extent that practices in other jurisdictions are compatible with FCPS management theory. Scheduled for completion 9/30/2008.

**Recommendation IV. e)** Include in budget procedures steps to evaluate the budget process itself (i.e., budget vs. actual and budget vs. goal achievement analyses and stakeholder satisfaction surveys or questionnaires).

**Status: Partially Implemented.** Scheduled for completion 12/31/2007.

## **Condition V. Budget Support - Budgetary Support Should Be Increased**

**Recommendation V. a)** Establish a system where all budget adjustments posted to the budget spreadsheets are cross-referenced to supporting documentation. This documentation should completely detail the basis for the adjustment and identify proper authorization.

**Status: Non-Responsive.** Improvements have occurred to cross-referencing spreadsheets

**Recommendation V. b)** Expand the documentation of the MOI budget to clearly support the budget allocations included in the budget preparation worksheets.

**Status: Not Implemented.** There is sufficient supporting documentation for the MOI budgets.

**Recommendation V. c)** Document instructions for preparing manually adjusted reports and train budget staff as back up for the reporting function.

**Status: Non-Responsive.** FCPS staff originally agreed with this recommendation. Staff has fully investigated, made improvements, no documentation warranted.

**Recommendation V. d)** Review the current rate structure for the MOI allocation, analyze historical trends and assess if equally equitable allocations could be obtained through the use of allotments.

**Status: Not Implemented** There are no indications that current formulas are not meeting objectives.

**Recommendation V. e)** Require school principals to complete needs assessment surveys for the proposed budget period for use in the evaluation of the adequacy of the MOI formula.

**Status: Not Implemented.** FCPS staff originally responded that they could not support this recommendation and continues to support their original response. As stated in the original audit, in the past, school principals were tasked to prepare budget requests for their individual schools. Due to lack of funds, very few of these requests were approved in the final budget. To relieve the frustration and tension that resulted in this futile requirement, the Associate Superintendents for Elementary and Secondary Education determine the school based information needed for the budget.

The intent of our original audit recommendation to have principals prepare needs assessment surveys is that they are a tool to evaluate the adequacy of the MOI formulas currently being used by Budget. We recommended that these surveys be used, the content and extent of which should be determined by Budget, unless Budget can determine an alternative means to gather feedback from the schools to be used to adequately evaluate the MOI formulas and we continue to support the recommendation.

**Recommendation V. f)** Analyze all methods and rates repeatedly used in the budget process to assure they are and/or continue to be effective and establish a policy for the frequency of the analyses.

**Status: Not Implemented.** FCPS staff originally agreed with this recommendation. Subsequently, they stated that rates and methods are routinely reviewed; however, the process is not formal or documented.

**Recommendation V. g)** Prepare multi-year budgets to identify inefficiencies and obstacles that would keep FCPS from achieving their goals.

**Status: Partially Implemented.** Scheduled for implementation 6/30/2008.

## **Condition VI. Budget Document - Published Budget Should Be Expanded To Improve Its Functionality**

**Recommendation VI. a)** Revise the format of the FCPS budget document by applying ASBO guidelines for budget document preparation even if they don't choose to participate in the budget award program. These guidelines should be adapted as needed to FCPS' organizational and financial framework with the goal of making the budget document complete and easy to understand.

**Status: Partially Implemented.** FCPS staff originally agreed to the extent that information can be added to more fully describe budget data. Their current response stated that they are in process, changes will occur gradually.

**Recommendation VI. b)** Supplement ASBO requirements with detailed information regarding program operations and budgets, Base Budget changes, budget enhancements, personnel costs, and school budgets.

**Status: Partially Implemented.** In process, changes will occur gradually.

**Recommendation VI. c)** Benchmark their budget document with other counties.

**Status: Non-Responsive.** Reviewing formats of Baltimore and Harford Counties.

**Recommendation VI. d)** Publish the budget document on the FCPS website.

**Status – Not Implemented:** FCPS staff originally agreed with this recommendation; however, they did not report current status of this recommendation. We searched their website and located no such document.

## **Condition VII. Management of Budgeted Positions and Associated Costs - FCPS Should Focus On Improvements In Budgeting Personnel Costs**

**Recommendation VII. a)** Continue working with HR to manage FTE's, assigning primary responsibilities to HR and participating in annual FTE reconciliations.

**Status: Non-Responsive.** FCPS staff originally agreed with this recommendation. They stated in their current response that considerable work with HR occurred during the summer of 2005.

**Recommendation VII. b)** Request that FCPS management formalize the position trade policy to assure its consistent application.

**Status: Not Implemented.** FCPS staff originally agreed with this recommendation. Their current response states that their policy needs to be formalized.

**Recommendation VII. c)** Develop a policy for the annual review of vacant positions, requiring managers to justify the positions or delete the associated costs from the budget.

**Status: Non-Responsive.** FCPS staff originally agreed that a policy should be developed; however, they were unaware of any existing problems. Their response to this audit states that HR has done considerable work with vacant positions.

**Recommendation VII. d)** Perform and document an annual reconciliation of regular salary budgets to the supporting HR position records to substantiate the determination of salary budgets for the subsequent fiscal year.

**Status: Not Implemented.** FCPS staff originally agreed with this recommendation. However, their response to the current audit states that: the determination of salary budgets are supported by the HR position records.

**Recommendation VII. e)** Develop and detail budgets for ancillary wages that are more closely aligned with actual expenditure activity.

**Status: Non-Responsive** Improvements have been made in the ancillary wage budgets.

**Recommendation VII. f)** Determine the cost-effectiveness of developing or purchasing software for salary projections.

**Status: Partially Implemented.** Scheduled for completion 9/30/2008.

## **Condition VIII. Budget Office Function - Efficiency Improvements Should Be Pursued**

**Recommendation VIII. a)** Assign the payroll interface coding functions to the HR department.

**Status: Implemented** Interface coding performed by HR with periodic review by Budget.

**Recommendation VIII. b)** Evaluate and determine the cost-effectiveness of available budget software options.

**Status: Partially Implemented.** Scheduled for completion 9/30/2008.

**Recommendation VIII. c)** Benchmark budget software with other counties.

**Status: Partially Implemented.** Scheduled for completion 9/30/2008.

## IV. Management's Formal Response

Below is management's formal written response.

HAROLD K. KELLER, JR.  
Executive Director of  
Fiscal Services  
hal.keller@fcps.org



33 Thomas Johnson Drive  
Frederick, MD 21702  
Phone: 301-644-5008  
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October 27, 2006  
HKK-07-07

Mr. Martin Standel, Director  
Internal Audit Department  
Frederick County, Maryland  
8 East Second Street, Suite 130  
Frederick, MD 21701

RE: Status of Review of Frederick County Public Schools  
Operating Budget Control Procedures for Fiscal Year 2004 - 2005

Dear Mr. Standel:

Attached please find the status of the Review of Frederick County Public Schools Operating Budget Procedures for Fiscal Year 2004 - 2005.

Please feel free to contact me if you have any questions.

Sincerely,

A handwritten signature in dark ink, appearing to read "Harold K. Keller, Jr.", is written over the typed name and title.

Harold K. Keller, Jr.  
Executive Director of Fiscal Services

cc: Dr. Linda Burgee, Superintendent  
Diane Penn, Budget Officer

## STATUS OF OPERATING BUDGET PROCEDURES REVIEW

- I. Budgetary Approach
  - a. Incorporate the cost-justification aspect of the zero-based budgeting ...  
Status: No change to original response.
  - b. Provide justification for all budget increases  
Status: Budget increases are outlined in the Approved Annual Budget Report
  - c. 1. Test the validity and efficiency of the Base Budget  
Status: No change to original response.  
2. Provide incentives for employees and departments to identify cost savings  
Status: This will require negotiations with the three bargaining units. Even without incentives departments identify funds for re-alignment. For example in the FY 07 budget \$1million was identified for textbook replacement.
  
- II. Budget Format
  - a. Supplement the current budget with a program-based budget ...  
Status: Have taken steps to align the budget at the cabinet level. The FY 2007 Budget document will provide information in a program budget based format to the extent possible using the current financial software structure. Further improvements will require a significant funding increase for software and staff.
  - b. Provide a linkage from requested changes to the budget ... to established school system goals and priorities.  
Status: Strategic Improvements are established by priorities and linked to FCPS goals
  - c. Benchmark with other school systems to determine the optimal program format  
Status: Reviewed formats of Harford County and Baltimore County Public Schools
  
- III. Budget Monitoring and Accountability
  - a. Clearly define and communicate budget responsibilities.  
Status: Scheduled for completion by June 30, 2007
  - b. Assign budget request and monitoring responsibilities to operational managers ...  
Status: Cabinet member are responsible for budget request and monitoring and they have the ability to delegate these responsibilities within their organizational structure.
  - c. Provide managers with the training and support ...  
Status: Training is provided during Summer In-Service and managers have the ability to access the financial system for appropriate reports
  - d. Modify the account structure in the financial system to allow management reporting ...  
Status: New department codes designating each Cabinet member have been implemented. Current practices are working sufficiently. The costs of implementing automated budget controls outweigh the benefits.
  - e. Work with Technology Services to amend budget transfer reports ...  
Status: The budget journals are used in the initial budget load. We will refrain from using the budget journals unless operationally necessary. The In/Out Report captures original budget appropriations.
  - f. Require managers to prepare budget forecast for their operational area ...  
Status: Current practices are adequate.
  - g. Report monthly to the BOE on the status of the current budget ...  
Status: After discussions with the BOE, the majority did not deem this to be necessary.

## STATUS OF OPERATING BUDGET PROCEDURES REVIEW

- h. Determine a method to identify, track and routinely evaluate the adequacy of the budgets determined for enhancement initiatives  
Status: In process; the complexities of measuring compared to expectations make it difficult to determine a completion.
- IV. Budget Process
  - a. Develop and publicize detailed written procedures ...  
Status: Scheduled for completion 12/31/2007
  - b. Maintain these procedures online and update as necessary  
Status: Scheduled for completion 9/30/2008
  - c. Expand the budget calendar to outline tasks and assigned responsibilities for those tasks  
Status: Scheduled for completion 12/31/2007
  - d. Benchmark against other school systems to ensure better practices  
Status: Scheduled for completion 9/30/2008
  - e. Include in budget procedures steps to evaluate the budget process  
Status: Scheduled for completion 12/31/2007
- V. Budget Support
  - a. Establish a system where all budget adjustments posted to the budget spreadsheet are cross-referenced ...  
Status: Improvements have occurred to cross-referencing spreadsheets
  - b. Expand the documentation of the MOI budgets to clearly support the budget allocations  
Status: There is sufficient supporting documentation for the MOI budgets
  - c. Document instructions for preparing manually adjusted reports and train staff  
Status: Staff has fully investigated, made improvements, no documentation warranted
  - d. Review the current rate structure for MOI allocation ...  
Status: There are no indications that current formulas are not meeting objectives
  - e. Require school principals to complete needs assessment survey ... for use in adequacy of MOI  
Status: No change to original response
  - f. Analyze all method and rates repeatedly used in the budget process ...  
Status: Rates and methods are routinely reviewed; process is not formal or documented
  - g. Prepare multi-year budgets ...  
Status: Scheduled for implementation 6/30/2008
- VI. Budget Document
  - a. Revise the format of the FCPS budget document by applying ASBO guidelines ...  
Status: In process, changes will occur gradually
  - b. Supplement ASBO requirements with detailed information ...  
Status: In process, changes will occur gradually
  - c. Benchmark their budget document with other counties  
Status: Reviewing formats of Baltimore and Harford Counties
- VII. Management of Budgeted Positions and Associated Costs
  - a. Continue working with HR to manage FTE's, assigning primary responsibilities to HR  
Status: Considerable work with HR occurred during the summer of 2005
  - b. Request that FCPS management formalize the position trade policy ...  
Status: Policy needs to be formalized

## STATUS OF OPERATING BUDGET PROCEDURES REVIEW

- c. Develop a policy for the annual review of vacant positions ...  
Status: HR has done considerable work with vacant positions
  - d. Perform and document an annual reconciliation of regular salary budgets to the supporting HR position records ...  
Status: The determination of salary budgets are supported by the HR position records
  - e. Develop and detail budgets for ancillary wages that are more closely aligned with actual expenditures activity  
Status: Improvements have been made in the ancillary wage budgets
  - f. Determine the cost-effectiveness of developing or purchasing software for salary projections  
Status: Scheduled for completion 9/30/2008
- VIII. Budget Office Function
- a. Assign the payroll interface coding functions to the HR department  
Status: Interface coding performed by HR with periodic review by Budget
  - b. Evaluate and determine the cost-effectiveness of available budget software  
Status: Scheduled for completion 9/30/2008
  - c. Benchmark budget software with other counties  
Status: Scheduled for completion 9/30/2008

(October 27, 2006/HKK-07-07 Attachment)