

ED COMMITTEE #2
January 23, 2012
Briefing

MEMORANDUM

January 19, 2012

TO: Education Committee

FROM: Essie McGuire, Senior Legislative Analyst 

SUBJECT: **Briefing – Inspector General Report, “Evaluation of Budget and Financial Information Provided by Montgomery County Public Schools”**

Today the Education Committee will receive a briefing from the Inspector General, Edward Blansitt, on his recent report “Evaluation of Budget and Financial Information Provided by Montgomery County Public Schools”. The report was issued on January 9, 2012, and is attached.

The report identifies findings and recommendations in four areas. The Committee may want to discuss with Mr. Blansitt the report’s recommendations for specific information to request for budget deliberations, and identify next steps for additional discussion with the Board and MCPS staff to determine how information can best be communicated.

FINAL REPORT

Office of Inspector General

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

January 9, 2012



**Montgomery County, Maryland
Office of Inspector General**

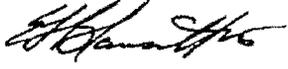


OFFICE OF INSPECTOR GENERAL

MEMORANDUM

January 9, 2012

TO: Hon. Roger Berliner, President, County Council
Hon. Isiah Leggett, County Executive

FROM: Edward Blansitt 
Inspector General

SUBJECT: Final Report, *Evaluation of Budget and Financial Information Provided by Montgomery County Public Schools*

This memorandum provides our final report on the financial information provided by the Montgomery County Public Schools. The objective of our report was to determine whether the budget documents and related financial reports provided to elected decision-makers (the BOE, the Executive and Council) and their staffs provide sufficient information needed to ensure oversight and assess MCPS financial resource utilization, requirements and allocations.

Our report identifies additional information that should be provided by MCPS in periodic financial status reports and in its budget presentations that would facilitate analysis of the current MCPS financial requirements and its budget requests to better inform the decisions of elected officials. None of our recommendations would require MCPS to provide information that it does not already have available.

The MCPS Chief Operating Officer's December 23, 2011 response to the OIG report defends the adequacy of existing MCPS budget information and financial status reports but does not disagree with any of the recommendations and agrees to provide additional information if it is desired by elected officials.

We strongly urge you and other elected officials to work with MCPS to ensure such information is consistently reported to you and your staffs.

We appreciate the courtesies and assistance provided by MCPS staff during our review. If you have any questions, please contact me at 240-777-8241.

Report in Brief

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

Montgomery County Maryland Office of Inspector General

January 9, 2012

Background

Authority to establish policies, employee salaries and benefits for Montgomery County Public Schools (MCPS) is reserved to the elected County Board of Education (BOE). However, funding for MCPS is provided from revenues appropriated by the County Council.

The County Executive's fiscal year (FY) 2012 recommendations included, among other things, that County government pay a smaller portion of the costs of employee health insurance benefits and retirement plans. The Executive recommended that governing boards of the County funded agencies support a similar approach to promote equity among County funded employees but did not incorporate such changes in the budget levels proposed.

For FY 2012, the County Council recommended increasing the share of health benefits costs paid by school employees, and approved funding for MCPS they thought supported that decision. The BOE subsequently announced that due to lower-than-originally-projected health benefit costs in FY 2011 it would not be necessary to increase the share of health benefits costs contributed by school employees in FY 2012.

Why We Did This Review

Questions were raised about why the Council did not receive information regarding the lower health benefits costs. These circumstances evidenced the need for a broad review by the Office of Inspector General (OIG) to ensure that relevant financial and budget information is provided by MCPS in the future to decision makers and their analysts.

What We Found

1) The Monthly Financial Reports MCPS provides to County elected leaders present the estimated year-end financial results of MCPS relative to the budget. The reports display differences between amounts budgeted and estimates of revenues and expenditures but should present more complete actual revenue and expenditure data for analysis. 2) The actual information reported in the Comprehensive Annual Financial Report (CAFR) differs from the data presented as "actual" in the operating budget submissions. MCPS is able to reconcile the amounts but reconciliations are not presented in MCPS documents. Internal service fund information is only presented in the CAFR. 3) Although Maryland State law requires that the County appropriate funds by specified categories, and that the BOE request and report by these categories (as it does in the Monthly Financial Reports and the CAFR), fewer than 25 out of over 1,000 pages in the MCPS operating budget present data related to the State categories. The budget documents do not clearly link the State categories to the operating or program budget data. The presentation makes it difficult to evaluate the request by State categories and determine the impact of funding decisions. However, we noted that in the December, 2011 submission of the Superintendent's FY 2013 Operating Budget, MCPS included a new pie chart addressing "Where the Money Goes by State Category." 4) At the time the Council made its final decision on the MCPS appropriation for FY 2012, the Council staff had not been provided updated information regarding the projected health benefits costs in FY 2011. The information was not presented to the Council Education Committee or the Council for review and consideration.

What We Recommended

We recommend the Superintendent of Schools work closely with the BOE, Executive and Council to ensure that: 1) they have the information needed to continually improve oversight and that they and the public receive meaningful financial status reports; 2) information reported in the budget documents and other financial reports is reconciled to the CAFR and present complete information; 3) they agree on budget narratives and exhibits to enhance the BOE budget request; and 4) all relevant information needed by decision makers and their key staff members is consistently communicated and documented.

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

Introduction

The Montgomery County Board of Education (BOE) is an elected body established under Maryland State law to provide public education in kindergarten through twelfth grade to children residing within the borders of Montgomery County, Maryland. The BOE is responsible for the policies and operation of Montgomery County Public Schools (MCPS) and is accountable to the State Board of Education. The BOE does not have independent taxing authority. Primary funding for MCPS is provided by Montgomery County from its general revenues. Additional funds are provided from State and Federal sources for general school aid and specific grants. In March of each year, the *Operating Budget Adopted by the Board of Education* (BOE request) is concurrently submitted to the Montgomery County Executive (Executive) and the Montgomery County Council (Council).

In FY 2011 MCPS accounted for approximately 57 percent of Montgomery County's \$3.4 billion tax supported agency expenditures and about two-thirds of all tax supported work-years. Both the BOE and the Council need timely, reliable information upon which to base their respective decisions.

During 2010 and 2011, the Council's Office of Legislative Oversight (OLO) produced a series of reports and analyses that addressed the County's options for long-term fiscal balance¹. OLO concluded that by FY 2016, the combined cost of the County's legal and policy commitments, including employee pensions, health benefits, debt service, and contributions to the capital budget trust funds, was on pace to consume roughly one-third of all available tax revenue. The issue papers provided options for addressing this structural budget problem.

Accordingly, during the spring of 2011, the Council considered fiscal year (FY) 2012 operating budget proposals by the Executive to reduce the ongoing cost of employee compensation in order to create sustainable long term savings in the operating budget of the County government. The Executive recommended, among other things, that the County government pay a smaller portion of the total costs of health and retirement plans for its employees. The Executive recommended that governing boards of the County funded agencies support a similar approach to compensation to "promote equity among locally funded public employees and produce sustainable savings across the entire government..."² but did not incorporate such changes in the operating budget levels proposed for those agencies.

¹ OLO reports containing findings presented to the Montgomery County Council are available at: <http://www.montgomerycountymd.gov/csltmpl.asp?url=/Content/council/olo/reports/2008.asp>

² *County Executive's FY12 Recommended Operating Budget and FY12-17 Public Services Program, March 2011*, page 3. The General Assembly made changes to retirement benefits for teachers and other school employees in the State retirement system starting in FY 2012. The BOE applied these changes to employees in the MCPS pension plan.

The FY 2012 budget submitted by the Superintendent of Schools (Superintendent) to the BOE in December 2010 included funding to cover healthcare costs that were expected to increase by about \$18 million.³ The Council cannot make changes to school employee benefits since authority to make those changes is reserved to the BOE. The Council can recommend such changes and encourage the BOE to make them by approving funding to the schools that supports only the modified benefit levels.

The Executive recommended a FY 2012 MCPS operating budget of \$2.124 billion, including a local contribution of funds, excluding amounts carried over from FY 2011, of \$1.415 billion. That amount was \$82 million below the BOE request. In a May 26, 2011 memorandum to the Council, the Council President recommended alternatives to the Executive's proposal on employee benefits. While recognizing that decisions regarding the benefits offered to MCPS employees are the BOE's to make, she identified savings that would result if the BOE took certain actions regarding the structure of employee retirement and health benefits.⁴

For FY 2012, the Council appropriated a budget for MCPS of over \$2.086 billion, including a local contribution of funds, excluding amounts carried over from FY 2011, of over \$1.370 billion. In taking that action, the Council recommended increasing the share of health benefits costs paid by school employees,⁵ and approved funding to MCPS that the Council thought was consistent with that decision. Compared to the BOE request, the appropriation for MCPS FY 2012 operations approved on May 26, 2011 excluded \$18.7 million related to funding for school employee health benefits.⁶

In a June 8, 2011 letter,⁷ the BOE President commented on press reports that indicated the Superintendent believed the reductions imposed by the Council could be met through efficiencies and cost reductions in the provision of health and life insurance to employees rather than by increasing the share of costs paid by employees. In that same letter, he asserted that he had advised the Council President in a meeting on April 15, 2011 that MCPS would likely be able to reduce healthcare expenditures by about \$15 million. His

³ *Superintendent's Operating Budget in Brief FY 2012 Recommended to the Board of Education, December 2010*, page 62.

⁴ Memorandum from Council President Valerie Ervin to the County Council dated May 16, 2011.

⁵ The Council changed the employer-employee premium split for County government employees from 80-20 to 75-25 for those in the point of service (POS) plan but retained the 80-20 split for those in health maintenance organizations (HMOs). The premium split for non-represented employees hired since October 1, 1994 had been 76-24. The Council recommended to the BOE that it change the premium split for MCPS employees from 90-10 to 85-15 for those in POS plans and from 95-5 to 90-10 for those in HMOs.

⁶ The Council approved a local contribution \$127 million below the local contribution requested by the BOE, but the total appropriation approved included revised contributions from State, Federal and other sources resulting in a total appropriation \$118.9 million below the total amount requested by the BOE.

⁷ Letter from Montgomery County Board of Education President Christopher S. Barclay to Council President Valerie Ervin, dated June 8, 2011.

letter adds that "... the Council's Education Committee had plenty of opportunity to review the Board of Education's Budget request during April and May 2011."

This activity coincided with the departure of the Superintendent, whose twelve-year tenure ended June 30, 2011, and the appointment of a new Superintendent who officially took office on July 1, 2011.

Questions were raised about why the Council did not receive information regarding the lower-than-originally-projected health benefits costs. These circumstances evidenced the need for a broad review by the Office of Inspector General (OIG) to determine whether the failure to communicate such information resulted from deficiencies in the budget presentation, deficiencies in financial reporting, or errors, and to help ensure that relevant financial and budget information is provided by MCPS in the future to decision makers and their staff analysts.⁸

Objectives, scope and methodology

The objectives, scope and methodology are presented in Appendix A of this report.

Background

In each fiscal year (July 1 through June 30 of the following calendar year) funds are appropriated by the Council in categories that are required by Section 5-101 of the Education Article of the Annotated Code of Maryland (Education Article). Section 5-101 requires a local BOE to prepare a budget that includes specified revenue and expenditure categories. The BOE must track expenditures according to the purpose of the expenditure in sufficient detail to meet all reporting requirements. These categories are explained in detail in the *Financial Reporting Manual for Maryland Public Schools*, revised 2009 (financial manual) http://www.marylandpublicschools.org/MSDE/divisions/bus_svcs/frm and are summarized in Appendix B of this report.

In December of each year, the Superintendent proposes an MCPS budget for the following fiscal year to the BOE. The BOE subsequently submits its request to the Executive and the Council, who each have staff analysts responsible for providing independent analysis of the MCPS financial position, as well as recommendations regarding the BOE request.

The Executive recommends an overall budget proposal for all County funded activities, including MCPS, to the Council. The amount to be provided to MCPS recommended by the Executive may differ from the BOE request. For FY 2012, the funding level proposed by the Executive for MCPS was substantially below the BOE request.

⁸ On June 21, 2011 the Council adopted a resolution directing its Office of Legislative Oversight to conduct a review and analysis of the State budget category that includes funding for employee benefits, the "Fixed Charges" Category. That report *A Review of Montgomery County Public Schools' Budget Category 12* was issued November 29, 2011.

The Council independently decides the amount to be appropriated from County tax revenues and carried over from prior year appropriations. All revenues estimated to be received from all other sources, including Federal and State aid, grants, fundraising activities and enterprise funds (e.g., food services), must also be approved by the Council for MCPS through the appropriations process.

During the course of each fiscal year, changes to the appropriation may be approved as supplemental funds are received from the County or from State or Federal sources.

After the start of the school year, the Superintendent submits a series of reports to the BOE in memorandum form bearing the subject line "Monthly Financial Report". Each report sent in FY 2010 and FY 2011 states that the financial report reflects the actual financial condition of MCPS as of the end of a previous month and projections through the end of the fiscal year. An exhibit displaying an example of a recent report sent by the Superintendent for FY 2011 is presented in Appendix C of this report.

A few days after the BOE has received and has had an opportunity to review each Monthly Financial Report, it has been the practice for the Superintendent to submit the report to the Executive and Council with a one-page cover memorandum.

The first report is typically provided during November of each year and reports information as of September 30. The last report provided in June of the fiscal year reports information as of April 30. Each report contains projections through the June 30 fiscal year-end. No further reports on the current fiscal year are provided until the Consolidated Annual Financial Report (CAFR) is issued at the end of September.

Findings and Recommendations

Finding 1: The Monthly Financial Reports provided by MCPS to the BOE, Executive and Council display differences between amounts budgeted and estimates of revenues and expenditures but should present more complete revenue and expenditure data for analysis.

MCPS provides Monthly Financial Reports to the County leaders. The reports provide information sufficient to monitor compliance with legal budgetary requirements. The reports briefly explain estimates of the MCPS financial results relative to the MCPS budget and can potentially indicate needed adjustments of appropriations between State categories that might result from unanticipated expenditure overages or revenue shortfalls. However, the information displayed does not provide detail necessary to provide an understanding of the factors that might result in such variances and does not provide sufficient information about current performance upon which to base decisions regarding future financial plans or to facilitate analysis of financial requirements. The reports are made to the BOE and then sent to the Executive and Council as information items.

In order to evaluate the results of operations compared to the current plans, detailed actual financial information for each accounting period reported during a FY is necessary. Year-to-date financial information, at least for the current year and preferably also for the same point in time during the previous year, can be used to evaluate and understand progress made relative to plans during each accounting period as well as seasonal variations. Program progress along with complete explanations of variances and their impact on programs should be provided and updated through the end of the year, at which time actual year end data consistent with the amounts reported during the period should be provided along with staffing and performance data for each year. Such information would facilitate analysis of the most recent period and of future year budget requests.

A. Most amounts presented in the Monthly Financial Reports are estimates of revenues and expenditures rather than actual financial data.

Each Monthly Financial Report typically consists of 4 to 5 pages of narrative with two one-page numeric tables attached. The report presents information related to amounts appropriated to MCPS by the Council, including the MCPS enterprise funds⁹. It does not address the Employee Benefit Plan Trust Fund (EBP), which is the internal service fund through which MCPS employee health and life insurance benefits are financed.

The narratives contain brief explanations of the potential revenue or expenditure variances by State category but provide insufficient support for the explanations. As an example, the explanations of surpluses in the Categories of “Administration”, “Mid-level Administration”, and “Instructional Salaries” found in many of the reports state that the projected surpluses result from a “...higher than anticipated lapse and turnover savings...” The Monthly Financial Reports do not provide sufficient cost or explanatory detail for the reader to determine that, in those categories, salaries and wages constitute 80%, 98% and 100% of the costs, respectively, and that a surplus in those categories would almost certainly result largely from vacant positions. The reports do not explain what lapse, if any, was anticipated, how many or what percentage of the positions have become vacant, or the level of the positions that have become vacant, and do not address the impact of the losses.

Two numeric tables, one identified as Attachment 1 with the title “Revenue” and one identified as Attachment 2 with the title “Expenditures,” are presented to display variances between authorized and currently projected amounts. The “Revenue” table does not provide actual operating data. The “Expenditures” table does not separately identify expenditures. The final report provided in June of each year is based on April data and does not provide year-end actual data.

The “Revenue” table displays five columns that compare past revenue projections to more recent projections. Although the updated projections may be based on actual data, no such operating data is either clearly presented or discussed.

⁹ Activities which are self-supporting, such as food services, real estate management, field trips, instructional television and entrepreneurial activities are reported in enterprise funds.

The “Expenditures” table displays each category for which funds are appropriated, and financial data for each category is displayed in seven columns. Although the cover letter to the Council President states that the Monthly Financial Report includes actual expenditures, the expenditures are combined with encumbrances and cannot be separately identified.¹⁰ The other columns in the table are comparisons of current projections to prior projections.

We were unable to determine when the Monthly Financial Report in its present form was initially used, but we were able to determine that it has been in use for at least the past 15 years. MCPS provided a copy of a June 11, 1996 report signed by then Superintendent Paul L. Vance that presents the same information in the same format and with the same attachments as are displayed in the tables provided for FY 2010 and 2011.

B. Available detailed data is not contained in Monthly Financial Reports.

For the purposes of reporting the availability of resources, it is not unusual to report the sum of expenditures and encumbrances as a single amount. This helps assure the reader that available funds are not likely to be exceeded. While this level of detail might sufficiently serve the purposes of very senior or political leaders in monitoring compliance with the budget, greater detail is needed by staff analysts in order to identify expenditure trends and evaluate future year budget requirements to inform their leaders.

Encumbrances recorded in the MCPS financial system consist primarily of open purchase orders, commitments for master lease payments and salaries. Because such a high percentage of total MCPS expenditures is associated with advance purchases and salaries, the total salaries and encumbrances reported as of the end of September each year (after only one full month of the school year) reflect approximately 75 percent of the total authorized annual appropriation.

To determine trends or evaluate actual cost of operations, detailed year-to-date expenditure data, stated separately from encumbrances, is more useful. Such information is not contained in any of the material routinely provided by MCPS to the BOE, the Executive, or the Council. Combining encumbrances with expenditures as is presented in the MCPS Monthly Financial Reports makes any analysis difficult.

In response to our request for specific FY 2011 actual financial data to include separately stated expenditures and encumbrances, on September 1, 2011, MCPS provided the Budget-Funds Available report as of June 30, 2011. Appendix D displays a comparison of the actual expenditure and encumbrance data at June 30 from the latter report to the

¹⁰ **Expenditures** represent the costs of goods and services that have already been received while **encumbrances** are amounts associated with commitments such as issuance of purchase orders or contracts that are expected to become expenditures if and when the goods and services ordered are received. To be a valid encumbrance, a contractual agreement must exist. The expenditures that result may differ from the amounts encumbered.

estimates included in the last FY 2011 Monthly Financial Report (dated June 16, 2011). That Monthly Financial Report estimated a surplus of budget over expenditures totaling \$17 million in a few State categories that was to result from planned actions designed to produce savings.¹¹ The Budget-Funds Available report indicates that the actual total of expenditures and encumbrances was almost \$27 million below the budgeted amount and included available balances in most State categories. That surplus carry-over from FY 2011 was noted in the November 2011 Monthly Financial Report provided to the BOE and Council.

The amount in the Budget-Funds Available report is consistent in the aggregate with information contained in the FY 2011 CAFR. The Budget-Funds Available report that MCPS is apparently readily able to produce from its accounting records separately identifies expenditure and encumbrance data by State category and provides significant detail within each category. The actual financial data and added accounting detail contained in the Budget-Funds Available report makes it possible to develop actual year-end financial data by State category that is consistent with the amounts presented in the Monthly Financial Report and permits a more complete evaluation of costs within each State category.

Recommendation 1

The Superintendent should work closely with the BOE, Executive and Council to ensure that each has the information needed to continually improve oversight, as well as to ensure that meaningful financial status reports are provided to the public. Changes considered should include:

- Development of Monthly Financial Reports that provide actual operating data for revenues and expenditures.
- More complete narrative explanations of any projected revenue and expenditure variances.
- A final fiscal year-end Monthly Financial Report that provides actual operating results compared to the final budget to be issued no later than the date the CAFR is released.
- The Budget-Funds Available report produced from the MCPS accounting records, or a separate report containing similarly useful detail to be provided at a minimum on a quarterly basis.

¹¹ This amount was initially projected in the report dated March 11, 2011 and resulted from implementation of expenditure restrictions and a hiring freeze instituted on October 12, 2010.

Finding 2: Actual information reported in the Comprehensive Annual Financial Report (CAFR) differs from that reported in the operating budget.

A. The detailed audited financial information contained in the CAFR does not match the data presented as “actual” in the operating budget.¹²

Maryland State law requires that at the end of each year, local education agencies publish a set of financial statements presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited by a firm of licensed public accountants. The CAFR for MCPS issued in late September following the close of the fiscal year provides audited financial information for each fiscal year. This report contains approximately 100 pages of narrative explanation as well as financial and statistical tables. Included among those tables are the Statements of Revenues, Expenditures, and Changes in Fund Balances presented by State Category on both a GAAP basis and on a budgetary basis.

The differences between the statements prepared in accordance with GAAP and the statements prepared on a budgetary basis are reconciled in the notes to the financial statements. Most of the differences are small. The exceptions are the amounts attributable to State contributions to the employee retirement funds and Federal contributions to Medicare Part D which are reported in the “Fixed Charges” category.

The latter amounts are direct obligations of the State and Federal governments, rather than obligations of the County. They are not appropriated by the Council and are therefore not reported in the statements that are presented on a budgetary basis. In the statements presented on the GAAP basis, the State and Federal contributions are treated as revenues and expenditures in the fiscal year incurred.

Neither the final budget nor the actual expenditures on the budgetary basis reported in the 2009 or 2010 CAFR match the amounts presented as “actual” in the Superintendent’s Operating Budget submitted to the BOE in December of those same years. Although none of the differences are large and MCPS is able to reconcile the amounts, the reconciliations are not presented in any of the MCPS documents. Without that reconciliation, the relationship of the actual expenditures presented in the CAFR to the amounts presented in the budget is unclear.

The actual amounts that are consistent with amounts presented in the Operating Budget Request are not made available until the Operating Budget is presented to the BOE. This complicates analysis of the data and effectively creates a delay of almost six calendar months between the end of the fiscal year and the availability of actual year-end data comparable to that presented in the budget. The data presented in the CAFR is ultimately the best available presentation of the MCPS financial position, but its value would be enhanced by providing a reconciliation between this report and both the periodic financial reports and the budget presentations.

¹² The differences between the actual and budgeted revenues and expenditures for the FY then-ended are explained in the CAFR in totals rounded to the nearest \$ 0.1 million but are not reported by detailed revenue or expenditure category.

B. Internal Service Fund information is only presented in the CAFR.

The CAFR does provide information regarding the Employee Benefit Plan Trust Fund (EBP) internal service fund into which MCPS makes contributions from appropriated funds (and from which health insurance and retirement benefits are paid), and the enterprise funds. That information for FY 2011 reflects increases in FY 2010 and FY 2011 operating income and resulting increases in the balance of the internal service fund from just over \$2.8 million at the end of FY 2009 and \$8.5 million in FY 2010 to over \$21.5 million as of the end of FY 2011.¹³

Interim financial data reflecting the internal service fund would have been useful to the BOE, the Executive and the Council in evaluating the FY 2012 budget request. Analysis of such information regarding the internal service fund as is contained in the CAFR would not, alone, have been sufficient for readers to determine the reason for the increasing balance in the fund or to easily project the year-end balance. It is unlikely that the relatively small change between FY 2009 and 2010 would have been sufficient to raise significant questions. However, an awareness of the status of the fund during the course of FY 2011 or any other year could cause analysts and decision makers to raise appropriate questions regarding the costs of the benefits and, as importantly, the amount of contributions that should be needed in future years.

Although the CAFR reports annual information related to the enterprise funds and the internal service fund, separate interim financial reports are needed to ensure the availability of appropriate financial information regarding the funds and costs associated with providing the benefits.

Recommendation 2

The Superintendent should work closely with the BOE, Executive and Council to ensure that information reported in the budget documents and other financial reports is reconciled to the CAFR and presents complete information. Changes considered should include:

- An exhibit in the operating budget reconciling the actual revenues and expenditures reported in the CAFR on a budgetary basis to tables appearing in the Operating Budget submission to the BOE and the BOE Request.

¹³ *Montgomery County Public Schools Comprehensive Annual Financial Report* (for the Fiscal Years Ended June 30, 2009, June 30, 2010, June 30, 2011) pages 34, 36 and 36.

- Interim financial information at mid-fiscal-year presenting the Statement of Revenues, Expenses, and Changes in Fund Net Assets as of December 31, for the enterprise funds and internal service fund.¹⁴

Finding 3: The MCPS budget requests do not provide information necessary to evaluate the appropriation request by State category.

A. The Education Article requires that all jurisdictions report budget and expenditure data in consistent State categories.

The BOE request contains budget requests for each State category, and the Council appropriates by State category. The BOE allocates appropriations within those categories. Under Section 5-105 of the Education Article, if MCPS requires transfers between these categories, approval of the Council must be requested. The requirement that all jurisdictions report budget and expenditure data in consistent categories is intended to facilitate comparisons between Maryland school jurisdictions across a number of years.

The most complete and consistent information currently available for analyzing the financial position of MCPS is available by State category. The Maryland State Department of Education (MSDE) web site presents data based on these categories that can be used to compare MCPS to other Maryland schools or to the State as whole. (http://www.msde.maryland.gov/MSDE/newsroom/special_reports/financial.htm)

The information presented in the Monthly Financial Reports is reported by State category, as are the MCPS results of operation presented in the CAFR. The CAFR also contains a statistical section that includes a ten-year history of many of the statements, including those presenting the expenditures by State category on the GAAP basis that can be useful in explaining operating expenses and therefore in evaluating budget requirements.

For example, we noted from data found in the MCPS CAFR that during the five-year period from FY 2007 to FY 2011 MCPS staffing levels remained almost completely flat while total operating expenditures from all sources grew approximately 15 percent. Almost 60 percent of the increase occurred in the “fixed charges” category while about 36 percent of the increase was in the “instructional salaries” and “special education” categories.¹⁵ Such information can suggest the categories that staff analysts should examine to evaluate the growth in MCPS costs, compare historical costs to the funds requested by category in the budget, and seek explanations.

¹⁴ The November 29, 2011 Office of Legislative Oversight Report: *A Review of Montgomery County Public Schools' Budget Category 12* contains a related, more specific recommendation that MCPS agreed to implement.

¹⁵ More detail is presented in the table in Appendix E of this report and in the MCPS CAFR.

B. The budget documents do not clearly link the State categories to the operating or program budget data provided elsewhere in the documents.

The budget for MCPS proposed by the Superintendent to the BOE in December of each year consists of three documents: 1) *Superintendent's Recommended Operating Budget in Brief* (Budget in Brief), 2) *Superintendent's Recommended Operating Budget and Personnel Complement* (Operating Budget), and 3) *Recommended Program Budget* (Program Budget). These are prepared using guidelines that are generally consistent across years. As previously indicated, the budget adopted by the BOE (the BOE request), is concurrently submitted to the Executive and the Council (budget documents are available on the MCPS website: www.mcps.k12.md.us).

While collectively the three budget documents contain over 1,000 pages, fewer than 25 pages contain budget estimates displayed by State category, and none contain any narrative discussion of the request by category. Only two of the three budget documents address these categories at all. The Program Budget, which contains over 400 pages, does not address the State categories.

The Budget in Brief, which contains approximately 80 pages, has one financial table that summarizes the State categories but contains no description of the categories and no narrative explanations.

The Operating Budget is arranged by major organizational unit and consists of well over 500 pages, including introduction, summary data and appendices. The State categories are presented without narrative explanation in an appendix containing approximately 20 pages of tables near the end of the document. There is no summary table and no indication of how the State categories relate to either the programs or the organizations presented.

It is unlikely that any reader who is not already familiar with and seeking information related to the State categories would either find or understand the material presented about those categories in these budget documents. Financial tables that provide financial “crosswalks” between each category and the organizational units presented, along with narrative justifications, would better inform decision makers.

C. The BOE request does not explain differences compared to the Superintendent's Recommendations.

Absent the legal requirement to appropriate and report by the defined State categories, the BOE and Council might prefer a different presentation of budget and financial information. However, current budgeting and reporting requirements result in the availability of long-term, annual operating results (the CAFR) and progress information (the Monthly Financial Reports). Coupled with budget tables already presented by MCPS, an easily understood and compelling BOE budget request by State category could be developed and presented that would be easily understood by County leaders and the public. Such consistent information is not readily available by organizational unit as

presented in the Operating Budget, or by program. The Program Budget does not present actual results by program.

The BOE request submitted to the Executive and the Council contains only about 35 pages, the majority of which are the same financial tables contained in the Operating Budget. Both documents present the State categories but do not summarize the category tables and provide no narrative discussion. The tables reflect changes between the Superintendent's request and the BOE request, but the information in the Superintendent's request is not updated to reflect the amounts contained in the BOE Request and the differences between the amounts requested are not explained.

For example, the FY 2011 BOE request contains an increase of \$37.2 million compared to the Superintendent's Operating Budget request, all of which was budgeted in the "Fixed Charges" category that reflects MCPS expenditures for health insurance, pension and other benefits. For FY 2012, the BOE request contains an increase of \$41.9 million compared to the Superintendent's Operating Budget request. Of that increase \$41.7 million was budgeted in the "Fixed Charges" category. These changes are not discussed in the BOE request.

Although staff analysts prepare specific budget presentation materials by State category for use by Council members in meetings, the relationship between those materials and the Superintendent's Operating Budget documents is not evident. The value of the significant analyses, and time and effort devoted to development of a compelling operating budget justification are diminished as a result.

We noted that in the December, 2011 submission of the Superintendent's FY 2013 Operating Budget, MCPS included a new pie chart addressing "Where the Money Goes by State Category."

Recommendation 3

The Superintendent should direct his staff to work with the BOE, the Executive and the Council to agree upon mutually acceptable budget narratives and exhibits, to enhance the BOE Request. Such enhancements should include:

- Narrative explanations of the relationships between the Budget in Brief, the Operating Budget, the Program Budget, and the BOE Request and the State categories.
- Financial tables that provide "crosswalks" between the organization budgets and the budgets for each State category, to include crosswalks between the actual operating data for each category and the organizational units presented.
- Differences between the Superintendent's budget requests and the BOE request that are separately highlighted in the later document and provide a narrative explanation for the differences.

- Clear explanations and support for the costs associated with contributions to the funds from which employee and retiree benefits are paid.¹⁶

Finding 4: Council staff was not provided updated information regarding projected health benefit costs at the time the final Council decision on the MCPS appropriation was made.

Up to date information related to the estimated costs of health benefits was important to the BOE's and the Council's decisions regarding the funding required for the MCPS contribution for employee health benefits. We determined that, at the time Council made its decision regarding appropriations for MCPS, the Council staff had only the operating budget request documents explained above and the Monthly Financial Reports available for analysis. Information regarding the downwardly revised estimates of health benefits costs could not have been gleaned from the Monthly Financial Reports and was not available in any other document provided to Council staff prior to the time information was presented to the Council Education Committee for review and consideration or prior to May 26, 2011, when the Council voted on the MCPS appropriation.

A. The BOE receives Monthly Financial Reports but relies on MCPS staff for additional financial information.

A 2009 report issued by the Maryland General Assembly Office of Legislative Audits¹⁷ commented on the oversight put in place by the County Board of Education, stating that:

“The Board receives monthly expenditure data, including budget variances, and is provided with financial updates, including information such as projections of financial activity, by MCPS personnel.”

Although the Monthly Financial Reports are the formal financial documents used by the BOE, we were advised that the reports serve only as a starting point for discussion between the BOE and the Superintendent's budget and financial staff. BOE members are provided additional materials for discussion during BOE meetings. During those meetings BOE members ask additional questions and are provided additional information in response to questions. The BOE Fiscal Management Committee also plays a role in overseeing MCPS financial activities¹⁸.

¹⁶ The November 29, 2011 Office of Legislative Oversight Report: *A Review of Montgomery County Public Schools' Budget Category 12* contains a related, more specific recommendation that MCPS agreed to implement.

¹⁷ *Financial Management Practices Performance Audit Report Montgomery County Public Schools* January 2009, page 57.

¹⁸ The BOE created a committee, now officially named the “Fiscal Management Committee”, in 1980. That committee was given responsibilities for reviewing internal audit reports, meeting with the external auditors to discuss the scope of their work and their audit findings, and reviewing reports generated by the Department of Financial Services.

MCPS staff confirmed that other reports of a financial nature, including the external audit reports, internal audit reports, the pension valuation, State audit reports, and a variety of periodic or ad hoc reports, are presented to the BOE or its Fiscal Management Committee.¹⁹ The BOE leaders expressed confidence in the MCPS staff and the information they provide.

B. Information regarding revised cost estimates and revised health benefits cost is not in the Monthly Financial Reports.

The routinely provided Monthly Financial Reports do not and, at least for the past 15 years, have not contained information regarding the internal service fund that would have been needed to estimate health benefits costs and related contributions to the fund.

We reviewed the information available on the BOE web site related to the period between February 2011 and July 16, 2011. Information posted from the May 23, 2011 meeting does contain a discussion of changes in MCPS employee pension plan and retiree health benefits. However, there was no discussion of an estimated reduction in the costs of health benefits associated with active employees and no discussion of a related surplus in the internal service fund is evident in the video of the meeting.

We asked the BOE President and Vice President how they learned about the \$22 million reduction in the cost of benefits referenced in the BOE President's June 8, 2011 letter to the Council President.²⁰ We were advised that the MCPS Chief Operating Officer briefed them orally about the surplus. On June 16, 2011 the Superintendent recommended and the BOE approved reductions totaling \$14.5 million in the cost of the Employee Benefit Plan comprising employee health and life insurance plans for active and retired employees.²¹

C. Council staff does not receive updated health benefits cost estimates.

In the June 8, 2011 letter, the BOE President asserted the revised cost estimate was provided orally to the Council President, but the Council President asserted that was not the case. Ultimately, whether the Executive and Council President were advised of the reduced cost estimate in private meetings should not matter. Elected leaders should expect that timely information would be provided to appropriate staff through formal or, when necessary, informal communications. The events that occurred demonstrate the failure of the existing process to ensure timely dissemination of information.

Information related to the Employee Benefit Plan Trust Fund (EBP) from which the health benefits costs are paid appears in the CAFR issued in September of each year. An

¹⁹ Since our review focused on formal, recurring reports, we did not review any ad hoc reports to the Fiscal Management Committee.

²⁰ Letter from Montgomery County Board of Education President Christopher S. Barclay to Valerie Ervin, President Montgomery County Council dated June 8, 2011.

²¹ June 16, 2011 memorandum from Superintendent of Schools to Members of the Board of Education, *Final Adoption of the Fiscal Year 2012 Operating Budget*,

estimate of the health benefits cost to MCPS is provided in the budget requests submitted to the BOE in December based on cost projections developed in the fall of each year. Updated cost information related to the EBP is not systematically provided. We reviewed all financial data that we could determine was available to Executive and Council staff during the FY 2012 appropriations process. We also sought to determine whether any informal communication between MCPS staff and Council staff regarding this revised cost estimate had taken place prior to the time the Council made its decision regarding appropriations. We did not find any documents available to the Council or their staff, or any evidence of informal communications between staffs that would have provided that information.

We were assured that MCPS staff consistently provides the Executive and Council staff any financial information that has been requested. The latter suggests that such information would have been provided had it been requested. Both the Executive and the Council staff analysts agreed that MCPS has been responsive to their requests. We also found MCPS staff promptly provided financial data and clarifications we requested. However, such ad hoc communications place needless and undue burdens on MCPS of having to anticipate information requirements of Executive and Council staff, and undue burdens on Executive and Council staff in anticipating the specific questions that might need to be asked. In FY 2012 this proved to be ineffective.

A June 17, 2011 letter to the Council President from the BOE President states that “In prior years, Montgomery County Public Schools (MCPS) staff would review the plan, actual experience, and projections with Council staff and the Council’s committees. This type of analysis and review was not done this year.”

Ad hoc reports, informal communications and budget discussions held in the context of formal hearings can serve to provide clarification and, in the case of open budget hearings, to inform the public of the issues under consideration. They do not serve the same purposes as are served by consistently provided timely, accurate, and relevant information. They cannot be expected to adequately serve as a substitute for well developed information based on actual data rather than estimates.

Recommendation 4

The Superintendent should work with the BOE staff to ensure the following:

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

Other Matters for Consideration

Aside from our formal findings and recommendations we offer the following observations:

1. The opening sentence of each “Monthly Financial Report” submitted to the Executive and Council during FY 2010 and 2011 states: “Pursuant to Section 5-105 (b) (4) of the Annotated Code of Maryland, I am submitting the monthly financial report for Montgomery County Public Schools (MCPS) as of...” This statement implies that the monthly reports are required by Section 5-105(b) (4), and are only provided in order to satisfy it, which generally has not been the case.

Section 5-105(b) (4) states,

A county board shall submit to the county governing body a report within 15 days after the end of each month if during that month the county board takes any action that would commit the county board to spend more for the current fiscal year in any major category than the amount approved in the annual budget for that category.

In FY 2010, only the last report for the fiscal year appears to indicate such a commitment, and in FY 2011 none of the monthly reports projected overspending in any category. Most of the reports we reviewed for FY 2010 and FY 2011 do not appear to be required by either that section or any part of section 5-105.

2. The following points relate to the Program Budget:

- The relationship between the organizations presented in the Operating Budget and the programs presented in the Program Budget is not clear.
- Unlike the Operating Budget, the Program Budget does not present any prior year actual data which would be useful in understanding the operating history of each program.
- In the case of the Program Budget, each program provides comparable information, but it is not clear what criteria are used to define a program. In several cases, programs that are complex, multi-function, multi-million dollar operations employing several thousand staff members are displayed exactly as are a number of uncomplicated functions employing few staff and resources. For example, in the FY 2012 Program Budget the display for Elementary School Instruction, in which \$212,344,227 and 2,871 are positions requested, is the same as that provided for the Internal Audit program, for which \$662,116 and 4 positions are requested.
- The Table of Contents presented in the Program Budget groups programs into larger categories (not related to the State categories discussed above) but does not present summaries of or address those categories.

Summary of MCPS Comments and OIG Response

The MCPS Chief Operating Officer's December 23, 2011 response to the draft OIG report is provided in its entirety in Appendix E. Nothing contained in the MCPS response altered the substance of our findings or recommendations. The response generally defends the adequacy of existing financial and budget information provided by MCPS. It does not disagree with any of the recommendations in this report and agrees to provide additional information if it is desired by elected officials.

The response restates our report findings but presents comments that in many cases are unrelated to the findings they purportedly address. For example, the response cites the recognition MCPS has received for Excellence in Financial Reporting from the Association of School Business Officials (ASBO) and from the Government Finance Officers Association (GFOA). The financial reports reviewed for those awards are limited to the Consolidated Annual Financial Report (CAFR), which is discussed favorably in this OIG report. Changes to the CAFR are not the subject of any of our findings or recommendations.²² Instead, the findings and recommendations made in this report focus on the budget submission and the status reports MCPS provides during the year in support of budget development and oversight.²³

The response also suggests that more specific recommendations should have been provided in this report. We intentionally avoided prescriptive detail. Our findings and recommendations address specific areas in which the existing budget documents and oversight reports should be improved and identify the type of information that should be provided. It is intended that MCPS staff employ professional judgment while working in concert with the Executive and Council staff to determine how best to present the needed information. However, we will be glad to meet again with MCPS to discuss, without attribution, specific information needs communicated to us by elected officials as well as by Council and Executive staff.

The MCPS response does not identify any inaccuracies in our report but implies an inaccuracy in the response to OIG finding 3 part C which states, "The BOE request does not explain changes compared to the Superintendent's Recommendations". The MCPS response to this finding states (page 5 of the response, last paragraph), "When the Board of Education amends the superintendent's recommendation as part of its requested operating budget, a detailed explanation of the changes by state category is published in the budget request. In FY 2011 and FY 2012, the Board did not amend the

²² Fifty-four Maryland governmental entities, including nine school systems, were selected for the 2010 GFOA "Certificate of Excellence in Financial Reporting."

²³ The GFOA also invites applications for a "Distinguished Budget Presentation Award", which requires that a governmental unit publish a document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device, which is more relevant to the findings presented in this report. In recent years that award has been presented to neighboring Maryland school systems, as well as to the Montgomery County Government, the Montgomery County Housing Opportunities Commission, the Washington Suburban Sanitary Commission, and the Maryland-National Capital Park and Planning Commission.

superintendent’s recommendation. The FY 2010 Operating Budget included a schedule that showed Board amendments.”

As is discussed in our report and as indicated in our recommendation, our finding addresses differences between the Superintendent’s recommended operating budget and the operating budget adopted by the Board of Education, which were significant in FY 2011 and 2012. It does not address and is not limited to Board amendments.

To ensure that both our finding and recommendation are clear, we have deleted the word “changes” and substituted the word ”differences” in that finding and related recommendation. The following schedule displays differences between the Superintendent’s recommended operating budget submissions and the operating budgets adopted by the Board of Education by state category for FY 2011 and FY 2012.

	FY 2011 Superintendent Recommended Budget	FY 2011 Board of Education Adopted Budget	FY 2011 Difference	FY 2012 Superintendent Recommended Budget	FY 2012 Board of Education Adopted Budget	FY 2012 Difference
1 Administration	41,941,991	41,941,991	-	39,496,294	39,496,294	-
2 Mid-Level Admin.	141,874,583	141,874,583	-	139,404,916	139,404,916	-
3 Instructional Salaries	871,191,332	871,191,332	-	846,863,049	847,046,612	183,563
4 Textbook & Supplies	34,041,281	34,041,281	-	25,278,498	25,284,894	6,396
5 Other Instruct. Costs	15,098,889	15,098,889	-	14,120,248	14,120,980	732
6 Special Ed.	291,393,563	291,393,563	-	280,336,383	280,336,383	-
7 Student Services	11,306,567	11,306,567	-	11,328,291	11,351,034	22,743
8 Health Services	44,590	44,590	-	54,670	54,670	-
9 Student transportation	96,187,296	96,187,296	-	93,643,985	93,644,620	635
10 Operation of P& E	115,877,577	115,877,577	-	116,587,792	116,587,792	-
11 Maintenance of Plant	33,905,007	33,905,007	-	33,666,617	33,666,617	-
12 Fixed Charges	516,403,879	553,555,446	37,151,567	506,129,409	547,859,895	41,730,486
14 Community Services	208,495	208,495	-	208,495	208,495	-
Total General Fund	2,169,475,050	2,206,626,617	37,151,567	2,107,118,647	2,149,063,202	41,944,555
Total Enterprise Funds	56,659,793	56,659,793	-	56,659,416	56,659,416	-
TOTAL	2,226,134,843	2,263,286,410	37,151,567	2,163,778,063	2,205,722,618	41,944,555

There is no narrative discussion explaining the reasons for these differences in the Board of Education’s adopted operating budget for either year. While the Board amended its FY 2010 operating budget to add about \$21 million of federal stimulus funds, that document did not provide a narrative explanation of the reasons for an additional \$23 million that was over and above the Superintendent’s recommended operating budget for FY 2010. As in FY 2011 and FY 2012, almost all of that unexplained increase was in the “Fixed Charges” category.

Appendix A:

Objectives, scope and methodology

We conducted a review of the financial information presented by MCPS in support of funding decisions regarding the MCPS annual operating budgets. The objective of this review was to determine whether the budget documents and related financial reports provided to elected decision-makers (the BOE, the Executive and Council) and their staffs provide sufficient information needed to ensure oversight and assess MCPS financial resource utilization, requirements and allocations.

Our scope was limited to examination of MCPS financial information, including the MCPS CAFR, provided by MCPS to support the evaluation of the FY 2011 and FY 2012 operating budget requests, as well as the information available to monitor the execution of the FY 2010 and FY 2011 operating budgets. The specific focus of this review is the Monthly Financial Report provided by MCPS to County elected leaders and staff. Related budget preparation documents and examples of similar prior year reports were reviewed to determine whether the material examined in this review was consistent with the material made available in prior years. We did not examine any ad hoc reports that might have been provided by MCPS in response to specific requests.

The methodology included:

- Review of the legislative and regulatory requirements under which MCPS programs are established, funded and executed;
- Evaluation of the Monthly Financial Reports provided by MCPS to determine what additional information, if any, should be included, either by agreement with MCPS or, if necessary, by amending State law to require MCPS to provide needed information;
- Evaluation of the annual MCPS budget submission documents to determine what supplemental information if any, should be included, to inform the Council's review and action on the budget; and
- Analysis of the MCPS Comprehensive Annual Financial Report (CAFR) for FY 2009, FY 2010 and FY 2011 (and prior years as necessary) to identify and assess any significant budget, fund, liability, or other actual results for FY 2011.
- Interviews of selected stakeholders including elected officials and staff.

Our review was conducted between June 2011 and October 2011 in accordance with the inspection standards contained in the *Quality Standards for Inspection and Evaluation*, issued by the Council of the Inspectors General on Integrity and Efficiency (January 2011).

Appendix B:
Page 1 of 2
Explanation of State categories

The following explanations are based on information in Section 5-101 (6) and the MSDE Financial Manual.

1. **Administration:** Activities associated with the general regulations, direction, and control of the school system. These include administering operating policy, providing fiscal and internal services, supporting instructional and other programs, and assisting the instructional staff with content and process. Administrative expenditures affect the system as a whole and are not confined to a single school building.
2. **Mid-level Administration:** The administration and supervision of district-wide and school-level instructional programs and activities. This includes the office of the school principal in each school and the staff providing administration and supervision to the school's instructional programs.
3. **Instructional Salaries:** Salaries and wages for activities which deal directly with teaching and coaching students. Included are salaries for teachers and instructors, aides, school psychologists, guidance counselors and assistants, and library personnel. Except for guidance and psychological services, special education costs are not reported here.
4. **Textbooks and Classroom Instructional Supplies:** Textbooks and other supplies and materials used in support of instruction in settings other than special education settings.
5. **Other Instructional Costs:** All other instructional expenditures, including travel and equipment expenditures, for instruction in settings other than special education settings.
6. **Special Education:** Activities designed for students who, through appropriate assessment, have been determined to have temporary or long-term special education needs arising from cognitive, emotional, and/or physical factors, as defined in the State Board of Education's Special Education Bylaw. These include public school, State, and non-public instructional programs, and staff development.
7. **Student Personnel Services:** Activities designed to improve student attendance at school and to prevent or solve student problems in the home, the school, and the community. These include pupil personnel workers and school social workers.
8. **Health Services:** Physical and mental health activities that are not instructional and that provide students with appropriate medical, dental, and nursing services.
9. **Student Transportation:** Activities concerned with the conveyance of students between home, school, and school activities. Among these are vehicle operation services, monitoring services, vehicle servicing, and maintenance services.

10. Operation of Plant and Equipment: Activities concerned with keeping the physical plant open, comfortable, and safe for use. These include warehousing and distribution services, operating services, care and upkeep of grounds and buildings, and security services.
11. Maintenance of Plant: Activities concerned with keeping the grounds, buildings and fixed equipment (other than student transportation assets and furniture and movable equipment), in their original condition of completeness or efficiency through repair, scheduled and preventive maintenance, or replacement of property.
12. Fixed Charges: Charges of a generally recurrent nature which are not readily allocable to other expenditure categories. Included are local school board contributions to employee retirement and social security; employee insurance benefits (such as health, life, accident, and disability); fidelity insurance, personal liability insurance, and judgments; interest on current loans; and personnel tuition reimbursements for staff.
13. Food Services: Activities concerned with providing food to students and staff, as well as a Senior Feeding Program.
14. Community Services: Activities that are provided by the school system for the community, other than for school activities and adult education programs. These include activities related to community recreation programs, civic activities, public libraries, care of children, transportation services for regular students who attend nonpublic schools, and transportation services for the elderly to senior citizens' feeding programs.
15. Capital Outlay: Activities concerned with the cost of directing and managing the acquisition, construction, and renovations of land, buildings, and equipment. These include expenditures for land, buildings, improvement of grounds and buildings, construction or remodeling of buildings and additions, and initial installation and extension of service systems and other built-in equipment. Included are site acquisition and improvement services; architecture and engineering services; educational specifications development services; and building acquisition, construction, and improvement services. Only expenditures paid for out of current funds are recorded in the Current Expense Fund. All other capital outlay expenditures are to be recorded in the School Construction Fund.²⁴

Non-Categorized Expenditures

Debt Service Fund, Food Service Fund, Student Activities Fund, Trust/Agency Fund are not reported to the category level. Restricted Programs require detailed reporting by category.

²⁴ Our review did not encompass capital budgets or outlays and did not focus on the non-categorized expenditure categories.

Appendix C:



June 21, 2011

The Honorable Valerie Ervin, President
Montgomery County Council
Stella B. Werner Council Office Building
100 Maryland Avenue
Rockville, Maryland 20850

Dear Ms. Ervin:

Pursuant to Section 5-105 (b) (4) of the Annotated Code of Maryland, I am submitting the monthly financial report for Montgomery County Public Schools (MCPS) as of April 30, 2011. This report includes for each category of appropriation the following information:

- Actual expenditures as of April 30, 2011
- Projected expenditures for the remainder of Fiscal Year (FY) 2011
- Projected surpluses and deficits by state category
- Explanations of each surplus or deficit

This monthly financial report reflects implementation of the expenditure restrictions and hiring freeze instituted on October 12, 2010. The report projects an FY 2011 expenditure surplus of \$17.0 million and a revenue deficit of \$0.3 million. There also is a savings of \$4.4 million due to a federal grant from the Education Jobs Fund, for total savings in FY 2011 of \$21.1 million. These savings were used to help fund the MCPS FY 2012 Operating Budget.

If you or your staff have any questions or need further explanation of particular items, please contact Mr. Larry A. Bowers, chief operating officer, at 301-279-3626 or Dr. Marshall C. Spatz, director, Department of Management, Budget, and Planning, at 301-279-3547. Thank you for your consideration.

Respectfully,

A handwritten signature in black ink, appearing to read "J. Weast".

Jerry D. Weast, Ed.D.
Superintendent of Schools

JDW:jp
Enclosure

Copy to:

Members of the County Council
Members of the Board of Education
Mr. Bowers
Dr. Spatz
Mr. Ikhelelo

Office of the Superintendent of Schools

850 Hungerford Drive, Room 122 ♦ Rockville, Maryland 20850 ♦ 301-279-3381

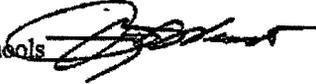
DISCUSSION
6.0

Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

June 16, 2011

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools 

Subject: Monthly Financial Report

This financial report reflects the actual financial condition of Montgomery County Public Schools (MCPS) as of April 30, 2011, and projections through June 30, 2011, based on program requirements and estimates made by primary and secondary account managers. At this time, revenue has a projected deficit of \$300,000, while expenditures have a projected surplus of \$17,000,000. Staff in the MCPS Department of Management, Budget, and Planning will continue to closely monitor both revenues and expenditures. A discussion of the actual financial condition of MCPS as of April 30, 2011, and projected revenues and expenditures through June 30, 2011, follows.

REVENUE

Total revenue is projected to be \$2,123,725,967.

County

The projected revenue from the county is \$1,415,085,344.

State

The projected revenue from the state is \$470,612,213. This is a decrease of \$17,510,621 due to a reduction in State Foundation aid, partially offsetting an increase of \$21,888,276 for the Federal Education Jobs Fund grant. There also is a decrease of \$300,000 in nonpublic placement reimbursement and a decrease of \$200,000 in projected out-of-county living reimbursement from the budgeted amount.

Members of the Board of Education

2

June 16, 2011

Federal

The projected revenue from federal aid is \$1,445,000. This includes \$1,100,000 of reimbursement from the Federal Emergency Management Administration (FEMA) related to the costs of storm cleanup during Fiscal Year (FY) 2010. There is an increase of \$100,000 in the projection for Impact Aid.

Other

The projected revenue from other sources is \$4,589,568. There is a projected deficit of \$1,000,000 in miscellaneous revenues due to a shortfall in summer school revenue of \$470,000 and lower than anticipated investment income of \$630,000, and offset by an increase of \$100,000 in other miscellaneous revenues.

Appropriated Fund Balance

The projected revenue from appropriated fund balance is \$16,404,012.

Enterprise Funds

The projected revenue from enterprise funds is \$56,058,126.

Supported Projects

The anticipated revenue for supported projects is \$159,531,704. This estimate includes \$17,510,621 for the Federal Education Jobs Fund grant. An additional \$4,377,655 will be added to the grant through the FY 2012 Operating Budget. There also is \$7,197,198 carried forward from FY 2010. Projects approved through April 30, 2011, have been assigned \$155,502,957.

EXPENDITURES

There is a projected surplus of \$17,000,000. There are projected surpluses in Category 1, Administration; Category 2, Mid-level Administration; Category 3, Instructional Salaries; Category 4, Textbooks and Instructional Supplies; Category 5, Other Instructional Costs; Category 6, Special Education; Category 7, Student Personnel Services; and Category 12, Fixed Charges.

As a result of increasing concerns about the fiscal outlook for the remainder of FY 2011 and the need to generate end-of-year fund balance of at least \$10.3 million, comprehensive expenditure restrictions were imposed on October 12, 2010, requiring managers to make only absolutely necessary expenditures for the remainder of the fiscal year. On November 30, 2010, County Executive Isiah Leggett requested additional savings for a total of \$19.2 million. Additional year-end fund balance will be available to help fund the MCPS FY 2012 Operating Budget but

Members of the Board of Education

3

June 16, 2011

cannot be used by the County Council for other purposes without violating the FY 2011 Maintenance of Effort waiver granted by the Maryland State Board of Education.

Each manager has included the impact of the comprehensive expenditure restrictions with their expenditure projections for the remainder of the fiscal year. Based on a review of the expenditure projections, an estimate of how year-end expenditures will be reduced has been made. These estimates have been incorporated into this monthly financial report. The following provides an explanation for each of the categorical variations:

Category 1—Administration

The projected surplus of \$800,000 in Category 1, Administration, is unchanged from last month. The surplus is primarily a result of higher than anticipated salary lapse and turnover savings. Savings in nonposition accounts also are projected as a result of the expenditure restrictions that were implemented on October 12, 2010.

Category 2—Mid-level Administration

The projected surplus of \$2,800,000 in Category 2, Mid-level Administration, is unchanged from last month. The surplus is primarily a result of savings in position salary accounts due to higher than anticipated lapse and turnover. There also are savings in nonposition salary accounts.

Category 3—Instructional Salaries

The projected surplus of \$3,100,000 in Category 3, Instructional Salaries, is unchanged from last month. The surplus is primarily a result of higher than anticipated lapse and turnover savings as a result of the expenditure restrictions that were implemented on October 12, 2010.

Category 4—Textbooks and Instructional Supplies

The projected surplus of \$2,300,000 in Category 4, Textbooks and Instructional Supplies, is unchanged from last month. The surplus is a result of savings from a reduction in projected central purchases of textbooks and instructional materials. School allocations for textbooks and instructional supplies are exempt from the expenditure restrictions. The surplus also is a result of savings in a variety of other expenditure accounts, including program supplies and office supplies, as a result of the expenditure restrictions that were implemented on October 12, 2010.

Category 5—Other Instructional Costs

The projected surplus of \$900,000 in Category 5, Other Instructional Costs, is unchanged from last month. The surplus is primarily a result of savings in consultant and contractual services. The surplus also is a result of savings in a variety of other expenditure accounts, including staff development activities.

Members of the Board of Education

4

June 16, 2011

Category 6—Special Education

The projected surplus of \$5,600,000 in Category 6, Special Education, is unchanged from last month. The surplus is primarily due to a realignment of positions and other expenditures from local to grant resources, including the *Individuals with Disabilities Education Act* (IDEA) and the *American Recovery and Reinvestment Act of 2009* (ARRA). Additional surplus is a result of a decrease in the number of students who require tuition for nonpublic placement and higher than anticipated lapse and turnover savings. The surplus also is due to lower costs for legal fees.

Category 7—Student Personnel Services

The projected surplus of \$200,000 in Category 7, Student Personnel Services, is unchanged from last month. The surplus is primarily a result of higher than anticipated salary lapse and turnover savings.

Category 12—Fixed Charges

The projected surplus of \$1,300,000 in Category 12, Fixed Charges, is unchanged from last month. The surplus is primarily a result of savings for employee benefits associated with positions that were realigned from the local budget to grants in Category 6, Special Education.

JDW:LAB:MCS:jp

Attachments

ATTACHMENT 1

MONTGOMERY COUNTY PUBLIC SCHOOLS
Monthly Financial Report and Year-end Projections
As of April 30, 2011

REVENUE

Source	FY 2011 Original Budget	Revised Budget(s)	Projection		Current Report Variance Over (Under) Revised Budget
			As of 4/30/2011	As of 3/31/2011	
County	\$ 1,415,085,344	\$ 1,415,085,344	\$ 1,415,085,344	\$ 1,415,085,344	\$ -
State	488,822,834	471,112,213 (a)	470,612,213	470,612,213	(500,000)
Federal	245,000	245,000	1,445,000	1,445,000	1,200,000
Other	5,589,588	5,589,588	4,589,568	4,589,568	(1,000,000)
Appropriated fund balance	10,300,000	16,404,012 (a)	16,404,012	16,404,012	-
Subtotal	1,919,842,746	1,908,436,137	1,908,136,137	1,908,136,137	(300,000)
Food Services	47,040,254	47,040,244	47,040,244	47,040,244	-
Real Estate Management	3,071,095	2,994,281	2,994,281	2,994,281	-
Field Trip	2,354,716	2,354,716	2,354,716	2,354,716	-
Entrepreneurial Activities	2,164,100	2,152,490	2,152,490	2,152,490	-
Instructional Television	1,490,510	1,516,395	1,516,395	1,516,395	-
Supported Projects	128,224,619	159,531,704 (c) (d)	159,531,704	159,531,704	-
Total	\$ 2,104,188,040	\$ 2,124,025,967	\$ 2,123,725,967	\$ 2,123,725,967	\$ (300,000)

Notes:

- (a) Revised budget includes carryover of prior year encumbrances.
(b) Includes \$8,104,012 for prior year encumbrances.
(c) Includes \$7,197,190 carried forward from FY 2010 and \$8,599,274 in supplemental appropriations.
(d) Includes \$17,510,621 for Federal Education Jobs Fund grant, offset by a reduction of \$17,510,621 in State Foundation aid. An additional \$4,377,855 will be added to the grant through the FY 2012 Operating Budget.

ATTACHMENT 2

MONTGOMERY COUNTY PUBLIC SCHOOLS
Monthly Financial Report and Year-end Projections
As of April 30, 2011

EXPENDITURES

Category	Authorized Expenditures	Expenditures and Encumbrances 4/30/2011	Projected Expenditures 6/30/2011	Current Report Projected Year-end Balance	Prior Report Projected Year-end Balance	Variance Over (Under)	(a) Percentage
01 Administration	\$ 38,829,924	\$ 36,648,157	\$ 1,381,767	\$ 800,000	\$ 600,000	\$ -	2.06
02 Mid-level Administration	138,214,348	131,680,748	1,753,602	2,800,000	2,800,000	-	2.00
03 Instructional Salaries	808,479,181	788,883,172	13,516,019	3,100,000	3,100,000	-	0.38
04 Textbooks and Supplies	24,398,886	18,766,816	2,331,970	2,300,000	2,300,000	-	8.43
05 Other Instructional Costs	12,188,212	9,868,952	1,831,260	900,000	900,000	-	7.38
06 Special Education	241,841,887	238,253,999	(1,912,112)	5,600,000	5,600,000	-	2.31
07 Student Personnel Services	10,468,052	10,161,844	107,108	200,000	200,000	-	1.91
08 Health Services	44,852	15,556	29,296	-	-	-	-
09 Student Transportation	83,632,048	87,054,901	8,577,147	-	-	-	-
10 Operation of Plant and Equipment	85,984,600	80,844,774	6,019,726	-	-	-	-
11 Maintenance of Plant	33,332,341	31,534,739	1,798,042	-	-	-	-
12 Fixed Charges	424,880,396	358,428,791	87,163,805	1,300,000	1,300,000	-	0.31
14 Community Services	50,000	60,000	-	-	-	-	-
Subtotal	1,908,436,137	1,782,048,707	88,387,430	17,000,000	17,000,000	-	0.89
61 Food Services	47,040,244	40,968,863	6,081,581	-	-	-	-
51 Real Estate Management	2,394,281	2,470,188	624,113	-	-	-	-
71 Field Trip	2,354,718	1,381,263	973,453	-	-	-	-
81 Entrepreneurial Activities	2,162,480	1,841,397	511,083	-	-	-	-
37 Instructional Television Supported Projects	1,518,395	1,398,905	117,490	-	-	-	-
Total	\$ 2,124,025,987	\$ 1,958,313,900	\$ 150,712,067	\$ 17,000,000	\$ 17,000,000	\$ -	0.80

Note:

(a) Percentage of projected year-end balance to authorized expenditures.

Appendix D:

Comparison of Monthly Financial Report (MFR) expenditure estimates to actual expenditures and encumbrances from Budget-Funds Available (BFA) report

State Category	FY 2011 budget as of 10/31/2011	BFA 6/30/2011 actual Expenditures	BFA 6/30/2011 actual Encumbrance	BFA actual available Funds at 6/30/2011	MFR projected year-end available balance at 6/30/2011
1 Administration	38,829,924	37,758,616	211,686	859,622	800,000
2 Mid-Level Administration	136,214,392	132,606,756	41,039	3,566,597	2,800,000
3 Instructional Salaries	806,479,191	798,380,410	-	8,098,781	3,100,000
4 Textbooks & Instructional Supplies	24,398,899	20,425,494	1,635,033	2,338,372	2,300,000
5 Other Instructional Costs	12,198,213	10,093,082	1,981,601	123,528	900,000
6 Special Ed.	241,941,828	233,744,132	53,704	8,143,994	5,600,000
7 Student Services	10,469,052	10,211,383	-	257,669	200,000
8 Health Services	44,852	16,267	-	28,584	
9 Student transportation	93,632,048	92,066,003	707,292	858,752	
10 Operation of P& E	85,964,500	84,619,249	874,871	470,381	
11 Maintenance of Plant	33,332,841	32,714,926	279,755	338,160	
12 Fixed Charges	424,880,396	422,737,543	567,948	1,574,905	1,300,000
14 Community Services	50,000	50,000	-	-	
Total	1,908,436,136	1,875,423,861	6,352,929	26,659,345	17,000,000

Appendix E:

Changes in MCPS operating expenditures & staff FY 2007 –FY 2011²⁵

State category	2007	2011	Changes from FY 2007- FY 2011	% Change FY 2007 to FY 2011	Change in category as% of total change
1 Administration	43,163,115	36,954,635	-6,208,480	-14.38%	-2.10%
2 Mid-Level Administration	118,650,653	135,139,216	16,488,563	13.90%	5.58%
3 Instructional Salaries	760,940,050	824,315,364	63,375,314	8.33%	21.44%
4 Textbook & Instructional Supplies	36,680,260	21,939,573	-14,740,687	-40.19%	-4.99%
5 Other Instructional Costs	18,687,106	11,571,972	-7,115,134	-38.08%	-2.41%
6 Special Education	227,023,151	271,395,047	44,371,896	19.55%	15.01%
7 Student Services	10,264,691	10,680,737	416,046	4.05%	0.14%
8 Health Services	44,821	16,267	-28,554	-63.71%	-0.01%
9 Student transportation	81,298,925	94,135,828	12,836,903	15.79%	4.34%
10 Operation of P& E	102,598,137	113,952,839	11,354,702	11.07%	3.84%
11 Maintenance of Plant	30,815,334	33,013,662	2,198,328	7.13%	0.74%
12 Fixed Charges	463,825,658	636,600,510	172,774,852	37.25%	58.45%
14 Community Services	<u>1,750,520</u>	<u>1,608,047</u>	<u>-142,473</u>	<u>-8.14%</u>	<u>-0.05%</u>
	1,895,742,421	2,191,323,697	295,581,276	15.59%	100.00%
Personnel					
Instruction:					
Teachers & staff	11,071	10,804	-267	-2.41%	
Special education	3,362	3,662	300	8.92%	
School administration	1,675	1,683	8	0.48%	
Student personnel & support services	<u>4,000</u>	<u>3,978</u>	<u>-22</u>	<u>-0.55%</u>	
Subtotal	20,108	20,127	19	0.09%	
Special Revenue & Business-type Activities	<u>632</u>	<u>619</u>	<u>-13</u>	<u>-2.06%</u>	
Position total	20,740	20,746	6	0.03%	

²⁵ Source: *Montgomery County Public Schools Comprehensive Annual Financial Report* (for the Fiscal Year Ended June 30, 2011) page 85.

Appendix F:

Montgomery County Public Schools Chief Operating Officer's Response



December 23, 2011

Mr. Edward L. Blansitt III
Inspector General
Office of the Inspector General
Montgomery County Government
51 Monroe Street, Suite 802
Rockville, Maryland 20850

Dear Mr. Blansitt:

Thank you for providing Montgomery County Public Schools (MCPS) staff with the opportunity to review and comment on the Office of Inspector General Official Draft Report, *Evaluation of Budget and Financial Information Provided by Montgomery County Public Schools*. Comments and suggestions for technical changes were provided and some were incorporated into the draft report.

The following comments are offered upon final review. Consistent with past practice, I look forward to our comments being attached to your final report.

Summary Response

The Board of Education, superintendent of schools, and staff share the interest in providing meaningful, clear financial information to decision makers and the public as well as complying with all federal, state, and local reporting requirements. Over the past thirty years, MCPS has been recognized with awards for the quality of our financial reporting, including seven years of receiving the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) and thirty consecutive years of receiving the Certificate of Excellence in Financial Reporting from the Association of School Business Officials (ASBO).

The Inspector General's report, like the recently released report of the Office of Legislative Oversight (OLO) on MCPS Category 12, originated from questions raised about information provided by MCPS during review of the Board of Education's Fiscal Year (FY) 2012 Operating Budget Request. The OLO report focused on available data regarding employee benefits in Category 12 and in the internal service fund and pension trust fund used by MCPS for employee benefits administration. The data-driven suggestions in the OLO report can improve current procedures to ensure that the Council has the information it needs to make budget decisions on MCPS employee benefits. MCPS agreed with the suggestions and the Board of Education committed itself to working collaboratively with the county executive, Councilmembers, and Council staff to implement the report's recommendations.

Office of the Chief Operating Officer

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The Inspector General's report, on the other hand, includes no examination of MCPS reports in the area of employee benefits and makes no specific suggestions for new procedures that can improve the analysis of MCPS budget requests in this area. Instead, the report deals on a very general level with the MCPS operating budget documents and MCPS monthly financial report. Specifically, recommendation #4—related to findings in the area of employee benefits—recommends only “That all relevant information...is consistently communicated,” and “That all important communications...are well documented.” While these are valid goals, with which MCPS fully agrees, the recommendations do not offer specific suggestions to improve current procedures. The OLO report, in contrast, offers a practical and specific road map for improving communications and outcomes.

During the discussion of the FY 2012 MCPS Operating Budget, issues arose on the amount of appropriation for Category 12, Fixed Charges, related to the cost of employee benefits, particularly health and life insurance. The report states that MCPS had requested an increase of \$18 million for this purpose, an amount generally sufficient to spark further questions and request for detailed support. Neither Councilmembers nor Council staff asked for supplementary information or asked any specific questions on the status of the Employee Benefits Plan internal service fund, even though they received information from the County government indicating similar surpluses in its health plan fund. MCPS and the County government use similar procedures to manage their health care plans, with which the Council staff is familiar. The Government Operations and Fiscal Policy Committee, with jurisdiction over compensation for all county agencies, did not request any supplementary information on the internal service fund and asked no questions on the status of the fund or the assumptions behind the MCPS request. In past years, such major issues typically were resolved only after extensive staff review and public discussion.

The stated objective of the Inspector General's review was to “determine whether the budget documents and related financial reports provided to decision makers (the Superintendent, the BOE [Board of Education], the Executive, and Council) and their staffs provide sufficient information needed to ensure oversight and assess MCPS financial resource utilization, requirement and allocations.”

The report and findings reflect a limited understanding of the differences and requirements between the three critical processes of budgeting, financial oversight, and financial reporting. While the three processes are clearly interrelated, they each have separate timelines, objectives, and requirements. To meet these objectives, appropriate reports and data are critical. Due to the different timelines, the data will appear different based on the information available at the time and the objective of the report.

The school system's monthly financial report has been an invaluable tool in helping us manage our complex operating budget expenditures; however, Maryland State law does not envision that a monthly financial report is a proper tool for analysis of budget requests. Maryland State law provides specific direction for the information to be included in the Board of Education budget

request submitted to the county executive and County Council. The Board of Education Operating Budget Request and the accompanying Program Budget provide detail by state category, organizational unit, program, and object of expenditure, which are used to evaluate the budget request.

Finding #1

Monthly Financial Reports provided by MCPS to the Board of Education, county executive, and County Council display differences between amounts budgeted and estimates of revenues and expenditures but do not present revenue or expenditure data sufficient for analysis.

- A. Most amounts presented in the Monthly Financial Reports are estimates of revenues and expenditures rather than actual financial data.
- B. Available detailed data is not contained in Monthly Financial Reports.

MCPS Response

Monthly Financial Reports are intended to provide information to the parties regarding the financial position of MCPS for the fiscal year relating to the annual budget. Maryland State law and the Maryland State Department of Education (MSDE) financial manual do not provide a standard format for monthly financial reports. Each local school district uses its own approach and provides information in a format and scope developed to be most useful to the Board of Education, other elected officials, and residents.

MCPS has used the same basic format for financial reports for at least 15 years. Over that period, the reports have been regularly reviewed by the members of the Board of Education, including through scheduled public discussions at monthly meetings. The County Council Education Committee has received each report and reviewed them regularly at committee meetings. The Board of Education and the committee have asked questions and requested additional information based on issues that arose from the discussions, but no changes have been requested in the format. Specifically, there have been no questions regarding the amount of actual expenditures. Most questions have concentrated on the level of available funds and the end-of-year projections.

Since neither revenues nor expenses occur in a linear fashion, projections are much more critical to forecasting whether spending for the entire year is on track. The MCPS monthly financial report combines year-to-date actual expenditures and encumbrances to show current commitments. MCPS can distinguish actual expenses to date on the report, but it is not clear that the information would be useful in forecasting the overall financial position since the majority of MCPS expenditures do not occur evenly throughout the year. MCPS can provide actuals and encumbrances if desired by elected officials.

The report states on page 14 that the major purpose of the monthly financial report, as described by state law, is to alert the county governing body that a school board may be committed to spend more during the fiscal year than was appropriated for any state category of expenditure. This sensible direction allows either the school board or the County Council to take necessary actions either to correct the problem or offset the deficit by savings in other state categories. It should be noted that the monthly financial report format as described by the report (page 4) shows that the monthly financial report is organized by state category, that it focuses on year-end projections, and that it deals with commitments for spending by combining actual expenditures with formal encumbrances (commitments). In this respect, the existing format complies with the intent of Maryland State law. The financial report does not discuss the status of internal service funds, fiduciary funds, or enterprise funds because the status of these funds does not affect the surplus or deficit in a category. The report notes, moreover, that year-end categorical transfer requests submitted by the Board of Education included specific detail on transfers made to the internal service fund to increase its reserve.

Finding #2

The detailed audited financial information contained in the Comprehensive Annual Financial Report (CAFR) does not match the data presented as "actual" in the operating budget.

MCPS Response

The report states that the differences between actual expenditures for the previous fiscal year as presented in the CAFR and the operating budget are small and that MCPS is able to reconcile the amount of differences. MCPS provided and explained the reconciliation to the Inspector General. Each August, as part of the budget development process, the MCPS Department of Management, Budget, and Planning completes a reconciliation of actual expenditures for the previous fiscal year between the General Ledger and the distinct Budget Management Application that is used to prepare and print the operating budget. The purpose of this process is to provide data to account managers to assist in the preparation of budget submissions for the next fiscal year. Because final audited numbers are not complete for the CAFR at that time, small differences are possible between the General Ledger extract used in August and the final audited CAFR.

The budget reconciliation includes a variety of adjustments based on the differences between the General Ledger and the operating budget. Adjustments include expenses such as non-cash depreciation and inventory adjustments that are not included in the budget, accounts with expenditures not expected to be included in the subsequent year's budget, new accounts not yet included in the budget system mapping table, and accounts with expenditures that do not have a one-to-one relationship with an operating budget account. Many of the expenditures subject to reconciliation are one-time or non-recurring expenditures. Based on the reconciliation, adjustments are made to be able to print actual expenditures in the budget. Control systems ensure that the reconciliation provides a presentation of actual expenditures in the budget that is

consistent with the General Ledger, but which does not necessarily match the CAFR for each state category of expenditure. A subsequent download using final CAFR amounts can be performed, if necessary, but because actual expenditures in the budget would still differ slightly from the CAFR by state category, the budget would have to include a reconciliation, which can be shown in the budget as a control tool, as recommended by the report.

Finding #3

MCPS budget requests do not provide information necessary to evaluate the appropriate request by state category.

- A. The Education Article requires that all jurisdictions report budget and expenditure data in consistent state categories.
- B. The budget documents do not clearly link the state categories to the operating or program budget data provided elsewhere in the documents.
- C. The BOE request does not explain changes compared to the superintendent's recommendation.

MCPS Response

MCPS' budget presentation has been expanded over many years to provide meaningful information to readers in the community as well as decision makers. The state categories are at an extremely high level and do not provide the level of detail decision makers have required. The MCPS budget presentations include information by instructional level as well as identification of initiatives and special programs.

The recommended operating budget provides detailed information by state category. County Council staff has requested and received detailed explanations for increases or decreases in the request for categories. Providing categorical detail for each organizational unit is not of significant value. A review of other school system budgets that include such information shows that it is not helpful without detailed explanatory information.

The superintendent's recommended budget provides detailed explanations for all budget changes. The Budget in Brief summarizes budgetary changes for the general public. A summary of category changes is included.

When the Board of Education amends the superintendent's recommendation as part of its requested operating budget, a detailed explanation of the changes by state category is published in the budget request. In FY 2011 and FY 2012, the Board did not amend the superintendent's recommendation. The FY 2010 Operating Budget included a schedule that showed Board amendments. The FY 2012 changes in Category 12, Fixed Charges were explained in detail in the superintendent's recommended budget, with an accompanying chart of the detail organized by the major components of Fixed Charges. It does not make sense that the county executive or the County Council would approve such major increases without a detailed explanation.

MCPS continues to be willing to provide any requested additional supplementary information needed by elected officials.

Finding #4

County Council staff had no information regarding lower-than-originally projected health benefit costs at the time the final Council decision on the MCPS appropriation was made.

- A. The BOE relies on Monthly Financial Reports for financial information.
- B. The BOE acknowledges that information regarding the revised costs estimates was not in the Monthly Financial Reports.
- C. County Council staff was not advised of revised health benefits cost estimates.

MCPS Response

During the winter of 2011, as MCPS began to identify the savings on benefits, its consultants continued to question whether this was indeed the start of a change of a multiyear trend of cost increases or an anomaly. It was only during the last few months of the year that staff was more confident that the beginning trend would indeed continue through the end of the fiscal year. Once staff had confirmed that this was a trend, the cost savings was reported. The county executive has stated that he was informed of this revised cost estimate. The president of the Board of Education has stated that the information was provided to the County Council president. County executive and County Council staff analysts have agreed that MCPS is responsive to inquiries regarding financial information.

MCPS will continue to provide financial information as requested by elected officials.

Recommendation 1

That the superintendent of schools work closely with the Board of Education, county executive, and County Council to ensure that they and the public receive meaningful financial status reports.

MCPS Response

It has long been the goal of MCPS to provide meaningful financial reports. To that end, staff has met many times with the public and the staff of elected officials to ensure that information is understandable and clear and has provided other information as a result. The program budget was developed as a tool to make the complex MCPS budget more readable for the public. Staff will continue to work to provide meaningful financial status reports.

Recommendation 2

That the superintendent of schools works closely with the Board of Education, county executive, and County Council to ensure that they have the information needed to provide adequate oversight.

MCPS Response

MCPS has received many acknowledgements from staff in the offices of the County Council and county executive for the quality of the information provided. MCPS staff will continue to work to provide information required by elected officials and will work with the staff in the offices of the County Council and county executive to meet their needs for information.

The Inspector General recommends "An exhibit in the operating budget reconciling the actual revenues and expenditures reported in the CAFR on a budgetary basis to tables appearing in the Operating Budget submission to the BOE and the BOE Request." Although this exhibit can be added to the future budgets, this information provides limited value to the decision makers or their staff in reviewing and approving the budget request. The Inspector General also has recommended, "Interim financial information at mid-fiscal-year presenting the Statements of Revenues, Expenses, and Changes in Fund Net Assets as of December 31, for the enterprise funds and internal service fund." This recommendation is similar to a recommendation made in the Office of Legislative Oversight report referred to on page 1 of this letter, and we already have agreed to this suggestion.

Recommendation 3

That the superintendent of schools works closely with the Board of Education, county executive, and County Council to ensure that they agree on budget narratives and exhibits to accompany the BOE budget request.

MCPS Response

MCPS staff has been acknowledged as extremely responsive and willing to provide data and financial information. Staff will continue to work to provide information required by elected officials and will work with fiscal analysts in the offices of the county executive and County Council to provide needed information.

Recommendation 4

That the superintendent of schools works closely with the Board of Education, county executive, and County Council to ensure that all important communications, formal or informal, are documented.

Mr. Edward L. Blansitt

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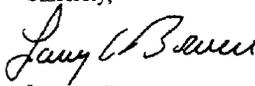
December 23, 2011

MCPS Response

MCPS staff regularly communicates and works with the fiscal staff in the county executive and County Council offices. Staff will continue to communicate and document those communications as appropriate.

If you have any additional questions, please contact me at 301-279-3626 or Mrs. Susanne G. DeGraba, chief financial officer, at 301-279-7265.

Sincerely,



Larry A. Bowers
Chief Operating Officer

LAB:mcs

Copy to:

Dr. Starr

Mr. Edwards

Mrs. DeGraba

Mr. Doody

Dr. Spatz