FINAL REPORT

Zero-Based Budget Subcommittee
Facilities and Finance Committee
Board of Education
City School District of New Rochelle

Prepared and Submitted
by
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I. PROPOSED DELIVERABLES

The Zero-Based Budget Subcommittee (ZBB Subcommittee) of the Facilities and Finance Committee of the City School District of New Rochelle (CSDNR) (Fay Pinto[1] and Joyce Furfero) identified and reported at the Committee's meeting on November 28, 2018 the following proposed deliverables:

(1) A budget users manual or more robust budget users manual detailing any and all procedures related to compiling the budget of authorized expenditures and requisitioning reimbursements for authorized expenditures, including, but not limited to, organizational reporting charts, a glossary of terminology, a timeline with mandatory performance dates; and directions for executing the process on an annual basis or, preferably, a 3-year running plan. [The subcommittee subsequently realized that a 5-year financial plan is probably preferable and updated its deliverable to a 5-year financial plan.]

(2) A zero-based budget from which the budget proposal will be made (so that the two will be identical), and preferably pro forma budgets for the subsequent 2 years to make a continuous 3-year financial plan. The 3-year plan would be for (a) internal planning and (b) communications with the public about the direction and magnitude of budget changes. [The subcommittee subsequently realized that a 5-year financial plan is probably preferable and updated its deliverable to a 5-year financial plan.]

(3) A pro forma budget, preferably, for 3 years, that includes identifiable revenue streams as well as expected expenses to project/predict monthly balance (surplus or deficit). In a similar vein, Mr. Hastie asked for monthly cash flow balances to assess the current financial position of CSDNR and to predict how close CSDNR is coming to meeting the adopted budget (under/over). [The subcommittee subsequently realized that a 5-year financial plan is probably preferable and updated its deliverable to a 5-year financial plan.]

The members of the ZBB Subcommittee also proposed to identify major initiatives of the individual schools and capital replacement schedules to map a minimum 3-year financial plan for CSDNR. [The subcommittee subsequently realized that a 5-year financial plan is probably preferable and updated its deliverable to a 5-year financial plan.]

The members of the ZBB Subcommittee also requested to attend the budget users training sessions for nVision, CSDNR's budget software program, to see how the budget is currently constructed. The November budget users training sessions for nVision were cancelled and were never rescheduled. The ZBB Subcommittee members were unable to observe a complete budget input cycle. However, from surfing the Internet and discussions with Thomas Ryan, the Interim Assistant Superintendent for Business and Administration, the subcommittee was able to obtain relevant information about nVision and the subcommittee has made recommendations for revising and upgrading nVision.

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[1] Unfortunately, because of work and family obligations, Ms. Pinto was unable to continue and resigned from the subcommittee on February 17, 2019, and the work of the committee was completed by Joyce Furfero.

The members of the ZBB Subcommittee also culled the 2018-2019 zero-based budget for line items that were entered as CODE 39, but were really expenses from which individual schools benefited. This issue arose during last year's budget process, when the Board discovered that budget requests from school buildings were actually being processed through expense CODE 39, Central Administration. It looked like CSDNR was top heavy in Administration and that tax dollars were not getting to the students. The subcommittee found approximately $6 million such line items. This finding led to queries about the budget software and its capabilities.

CSDNR uses a finance software package called nVision. Apparently, CSDNR has been misusing and underutilizing nVision since its inception. Mr. Ryan, the Interim Assistant Superintendent for Business and Administration, commented that nVision had been coded before he came, originally, in 2000, and that no one has bothered to review and revise or upgrade or update the codes since then.

Recoding the line items in nVision is now imperative. The New York State legislature recently enacted a new law, Education Law §3614, which requires each school district to report expenditure per pupil per school. Some schools were required to report for the 2018-2019 school year. New Rochelle will be required to report for the 2019-2020 school year. The current nVision coding is inadequate to meet the needs of the new law, at least not without significant manual teasing. The subcommittee addresses this issue under Deliverable (1) as II.A.3 The New York State Education Law $3416 Imperative.

Finally, in the CSDNR documents that the Facilities and Finance Committee received as background materials were two reports – one by the Citizens Advisory Committee, which made Findings and Recommendations for the 2012-2013 Budget and the other was the Community Advisory Committee, which made Findings and Recommendations for the 2013-2014 Budget. *See* Exhibit 1 (A http://www.drfurfero.com/csdnr/finalreport/EXHIBIT%201A.pdf and B http://www.drfurfero.com/csdnr/finalreport/EXHIBIT%201B.pdf). Given the issues that the members of the Facilities and Finance Committee raised and discussed this year, it is obvious that CSDNR has not bothered to act on the advice of these committees. These two committees raised similar issues 5-6 years ago and made recommendations that CSDNR has apparently ignored. Having outside stakeholders – students, parents, voters, and taxpayers – on BOE committees sounds good in theory, but fails in practice. If this outside membership is solely for the sake of appearance and appeasement, it is disingenuous to all stakeholders, especially, the students!

II. RESULTS AND RECOMMENDATIONS

A. **Deliverable (1):** *Produce a budget users manual or more robust budget users manual detailing any and all procedures related to compiling the budget of authorized expenditures and requisitioning reimbursements for authorized expenditures, including, but not limited to, organizational reporting charts, a glossary of terminology, a timeline with mandatory performance dates; and directions for executing the process on an annual basis or, preferably, a 3-year running plan. [The subcommittee subsequently realized that a 5-year financial plan is probably preferable.]*

1. **Budget Users Manual** Each year the Business Office will prepare a Budget Users Manual. Since each year CSDNR hires new teachers, staff, and administrators, who may or may not be directly involved in the budget process, but who must, nevertheless, participate in the budget process, and, since budgeting is a continual process throughout the year (the "budget cycle"), this Manual must be distributed to all administrators, teachers, and staff on the first day of each new school year (in September).

   The Budget Users Manual that Jeff White developed for the 2018-2019 budget cycle has good content. *See* Exhibit 2, White's Budget Prep Manual. http://www.drfurfero.com/csdnr/finalreport/EXHIBIT%202.pdf However, it assumes that CSDNR moves from the incremental budgeting method to a zero-based budgeting method for budget development and construction. If CSDNR reverts to the incremental budgeting method, some revision to the recommendations below may be necessary. Otherwise, the subcommittee recommends that CSDNR build on White's Budget Prep Manual.

   In addition to the items already covered in White's Budget Prep Manual, the subcommittee recommends that the following items also be included:

   (1) A Comprehensive Budget Cycle Calendar The budget calendar is a timeline with mandatory performance dates for the coming academic year. The many advantages of having a well-defined and well-refined budget schedule is published in the NYSED Budget Handbook, http://www.p12.nysed.gov/mgtserv/budgeting/handbook/guide.html. The schedule must include key deadlines for submission of budget requests (e.g., requests for supplies, requests for personnel, etc.), dates for internal meetings among administrators, teachers, and staff, dates for external meetings with parents, voters, and taxpayers (e.g., public input forums, budget cafes, mandatory public hearings, etc.), key dates for Board of Education votes, and the budget vote date. CSDNR has published Budget Calendars in the past, but they only start in February when the budget is being finalized for public view, comment, and vote. The budget process, however, is a "cycle." It is an ongoing and continuing process throughout the year, and then repeats itself again at the start of a new school year. The Budget Calendar must reflect the ongoing and continuing nature of the budget process, treat it as a cycle, and starting with the Inventory Control

Sheet, due on September 15ᵗʰ, and continuing for the whole year to vote and subsequently implementation for the following year. It must be a Comprehensive Budget Cycle Calendar.

(2) Organizational Reporting Charts for the Budget Process The organizational reporting chart for the budget process shows who submits what budget information to whom and by what date, with email address and phone number of the person to whom budget information is to be submitted and the form of the budget submissions (e.g., nVision budget entry, Inventory Control Sheet, Personnel Control Sheet, etc.). A star [*] in the chart would indicate a person, who is responsible for entering the budget data into the nVision software program.

(3) The Inventory Control Sheet Upon return to class each fall, a teacher generally takes an inventory of supplies that s/he has available for that year along with authorizations for the list of supplies she requested in the current budget year. At the same time, a teacher is/will be required to complete an Inventory Control Sheet of what supplies, including durable supplies, s/he expects to need for the following academic year along with recommendations for any new or additional supplies and durable supplies not already in the system. The Inventory Control Sheet is/will be submitted to the Department Chair on or before September 15ᵗʰ.

(4) The Personnel Control Sheet On or before December 15ᵗʰ or as soon thereafter as is practicable, the principal of each building and the head of each non-academic department is to complete a Personnel Control Sheet which lists requests for new personnel for that building or department for the next academic year, e.g., teachers, aides, accountants, laborers, etc. All requests from academic units are to be submitted to the Assistant Superintendent for Academic Affairs, who will review, make recommendations, and submit it to the Superintendent. All requests from non-academic units are to be submitted to the Assistant Superintendent for Business and Administration, who will review, prioritize, make recommendations, and submit the requests to the Superintendent. The Superintendent will review, prioritize, and make recommendations for staggered hiring over a 5-year planning period. In other words, not all personnel are equally and immediately important and hiring is to be scheduled as part of a 5-year financial plan.

(5) Screenshots of nVision Software Budget Entry Pages with Instructions *See* Exhibit 2, White's Budget Prep Manual.
http://www.drfurfero.com/csdnr/finalreport/EXHIBIT%202.pdf

(6) A list of all updated budget codes *See below,* II.A.2 Update Budget Codes in nVision. See Exhibit 3, Budget Codes, Current and Proposed spreadsheet.
http://www.drfurfero.com/csdnr/finalreport/EXHIBIT%203.pdf

(7) The Requisition Reimbursement Form A big problem that the Business Office has had for years is the problem of employees who have authorization to spend,

but buy something before they have obtained a Purchase Order. A "must" for inclusion in the Budget Users Manual is a section on requisitioning reimbursements and a copy of a newly designed Requisition Reimbursement Form. No employee shall expend any money for the school district for which s/he expects reimbursement with having first completed, submitted, and obtained approval for the expense. The following caveat shall be included in this section and on the Requisition reimbursement Form: **"DO NOT BUY ANYTHING UNLESS YOU FIRST COMPLETE, SUBMIT, AND OBTAIN AN APPROVED PURCHASE ORDER FROM THE BUSINESS OFFICE. YOU WILL NOT BE REIMBURSED AFTER THE FACT!** And, then, the Business Office MUST adhere to the policy of NOT reimbursing after the fact!

(8) **Glossary of Key Budget Terminology.** The budget and expensing process, from request submission to budget requisition, has its own language. A good users manual will consistently use the professional budget language and, at the same time, provide budget users with a glossary of the relevant terminology so that everyone speaks the same language/is on the same page/understands each other. [Some words that came to my mind when I started with the Facilities and Finance Committee are budget approval, appropriation, authorization, request, requisition, etc. Another word to which I was introduced is encumbrance.] A glossary of key terminology is imperative, because CSDNR is continually hiring new employees, who must be familiar with the budget and expensing processes, and it does not hurt to remind continuing employees of the language of the processes, also.

2. **Update Budget Codes in nVision** School districts organize and report budget information according to a Classification and Coding Scheme. Code numbers serve to identify accounts without reference to stated titles. Code numbers identify accounts by fund, function, object, location, and program: A-2815.220-39-0000. The first code represents the funding source, in this case, A is the General Account. The second code represents the function of the expenditure. It identifies groups of services aimed at accomplishing certain purposes or ends, for example, 2815 is Health Services – Regular School. The third code represents the object – the article or service which is purchased for the function. In this case, 220 is Computer Equipment. The fourth code represents the location, e.g., school building, requesting the expenditure. The fifth code represents the program for which the expenditure is being made. Programs may extend across locations and may be paid for through Central Administration. However, the expenditure must have a definitive "home" location that can be easily identified. Transparency for the public! And now, reporting for New York State (NYS) Department of Education (DOE).

How it works: The first, second, and third codes (fund, function, and object) are pre-assigned by the NYS DOE. The fourth and fifth codes are available for discretionary use by the school district. The fourth and fifth codes for CSDNR were programed before 2000 and never recoded. The fourth code is misutilized (it is coded for programs as well as locations) and the fifth code is underutilized (programs have not been identified and assigned individual codes). This misutilization and

underutilization has been problematic, because budget users from the schools end up dumping miscellaneous requests into Location Code 39, which is Central Administration, when, in fact, the benefit of the budget expense goes to a school. A goal of updating the budget codes is to eliminate location codes that are currently being used for programs and to code all of the possible programs for which a school may appropriate money under its own building code as the fifth code. The end result will make the budget more transparent with respect to where, for whom, and on what the money is actually being spent. See Exhibit 3, <u>Budget Codes, Current and Proposed spreadsheet</u>.

On Sheet 1 of Exhibit 3, the <u>Budget Codes, Current and Proposed spreadsheet</u>, are the function and object codes. These codes are pre-assigned by NYS DOE. They are immutable. On Sheet 2 are the location codes. These codes are discretionary with the district. To the left are the current codes and to the right is a prototype of proposed codes. On Sheet 3 are the program codes. These codes are also discretionary with the district. To the left are the current codes and to the right are some ideas for proposed codes. Anything "reserved" is not currently used and is available for future use. Feel free to reassign location and/or program codes.

The process of logically organizing the codes requires an experienced staffer, someone who has complete knowledge of the entire school system and its academic and non-academic programs. The actual changes to nVision are not difficult, but they are tedious and time consuming. The ZBB Subcommittee recommends that CSDNR economize on data entry by hiring an intern – an accounting or education major – for credit from one of the local colleges to help with this code entry process. CSDNR should contact local schools ASAP and advise of its internship opening for Fall 2019. CSDNR should ask about the possibility of getting an intern over the summer.

3. **The New York State Education Law §3614 Imperative** Beginning with the 2018-19 school year, Education Law §3614, which was passed by the NYS Legislature and became law as Chapter 59 of the Laws of 2018, requires school districts to "annually submit to the commissioner [of the State Education Department] and the director of the budget ... a detailed statement of the total funding allocation for each school in the district for the upcoming school budget year" in a "form developed by the director of the budget, in consultation with the commissioner [of the State Education Department]." The *New York State School Funding Transparency Form* is the outcome of this process, https://www.budget.ny.gov/schoolFunding/index.html

New Rochelle will be required to report on the *New York State School Funding Transparency Form* for the 2019-2020 school year. https://www.budget.ny.gov/schoolFunding/NYSchoolTransparencyGuidanceDocument.pdf The current nVision coding is inadequate to meet the needs of reporting under the new law, at least not without significant manual teasing. CSDNR needs immediately (this summer, if possible!) to revise and update the codes in nVision so that it is properly prepared to report the requisite data to New York State on a timely basis. *See above*, II.A.2 Update Budget Codes in nVision.

4. **Budget-Entry Training Sessions or Workshops**. CSDNR uses the nVision software for budget entry into the computer. Budget-entry workshops for budget users must be scheduled for no later than the first and second weeks in November. These workshops will review the software, the coding system for item entry, and the budget entry process.

B. *Deliverable (2): A zero-based budget from which the budget proposal will be made (so that the two will be identical), and preferably pro forma budgets for the subsequent 2 years to make a continuous 3-year financial plan. The 3-year plan would be for (a) internal planning and (b) communications with the public about the direction and magnitude of budget changes. The members of the ZBB Subcommittee also proposed to identify major initiatives of the individual schools and capital replacement schedules to map a minimum 3-year financial plan for CSDNR. [The subcommittee subsequently realized that a 5-year financial plan is probably preferable.]*

1. **Zero-Based Budget** Deliverable (2) was developed when the ZBB Subcommittee thought that it would be working with Jeff White to improve the zero-based budget and its development process. Unfortunately, due to Mr. White's untimely departure and a 2-month delay in finding a replacement, Mr. Ryan, who used a status quo budget and tax cap to yield the 2019-2020 budget proposal, the subcommittee had little to do with the actual budget or its development process. The subcommittee did, however, have ample opportunity to collect data to patch together a preliminary draft of a financial plan for the next few years.

2. **Multi-year Financial Plan** Financial planning is a tool that addresses both immediate and long-term needs. Everyone on the Facilities and Finance Committee agreed that the district does not engage in enough conversation about budgeting and long-range financial planning. The district needs to have more dialog and consider what its needs look like in a long-run. CSDNR already knows when certain budget items like textbooks turn over. Textbooks have an average economic life of 5 years. The economic life of other supplies and durable supplies, like Chromebooks and Smartboard, also have relatively well-defined economic lives. CSDNR needs to build these turnover rates into a multi-year financial plan, not only for improving its own fiscal well-being, but also to make the budget and the whole budget process more transparent to parents, votes, and taxpayers.

Once budget items have rational Location and Program codes (*see above*, II.A.2 Update Budget Codes in nVison), budget items can be easily cross-referenced and reports in different formats can be tabulated and printed. *See* Exhibit 4, <u>Multi-Year Financial Plan Prototype</u>. <u>http://www.drfurfero.com/csdnr/finalreport/EXHIBIT%204.pdf</u> Data for the attached prototype financial plan came from principals' and teachers' presentations, public input during the budget café session, and asset inventories from Carl Thurnau, Director of the Facilities Department. In the future, data for multi-year financial plan can come from (1) Inventory Control Sheet, (2) principals' wishlists, (3) public input

via budget forums or cafes, (4) public hearings, (5) asset inventories, (6) a newly designed form or software program, (7) outside auditors, e.g., PKF O'Connor Davies, etc.

3. **Inventory of Assets and Capital Plan** The annual Financial Reports from the auditors, PKF O'Connor Davies, list capital (non-current, non-financial) assets, https://www.nred.org/groups/15855/business__administration/home. In the most recent audit for 2018, PKF O'Connor Davies lists $132,438,166 in capital assets. *See* 2018 Financial Statement, p. 13, https://echalk-slate-prod.s3.amazonaws.com/private/groups/15854/site/fileLinks/76be92e8-277a-4e44-87b0-2e3ad74f26e9?AWSAccessKeyId=AKIAJSZKIBPXGFLSZTYQ&Expires=1868723128&response-cache-control=private%2C%20max-age%3D31536000&response-content-disposition=%3Bfilename%3D%222018_Audit_and_Financial_Statements.pdf%22&response-content-type=application%2Fpdf&Signature=24OsyVFCt0P72HBAWYuYBjrSUb0%3D. Some are being depreciated ($96,704,285). Some are not ($35,733,881). See p. 15. Other than for keeping a running total from DAY 1 (whenever that was), how do the auditors determine current capital asset values net of depreciation? Do they go around the school and "count"? Might the auditors have a list of the CSDNR's capital assets? Someone needs to ask the auditors if they have a current list of CSDNR's capital assets. The Board, the Business Office, and the Facilities Department need some answers.

Mr. Thurnau found three inventory lists of assets, but none is newer than 2013. See Exhibit 5 (A http://www.drfurfero.com/csdnr/finalreport/EXHIBIT%205A.pdf, B http://www.drfurfero.com/csdnr/finalreport/EXHIBIT%205B.pdf, and C http://www.drfurfero.com/csdnr/finalreport/EXHIBIT%205C.pdf). These lists could probably be updated with the very unscientific, low-tech process of just going to the delivery destinations and asking if the person to whom the asset was delivered (or his/her replacement) knows the status of the asset and whether it still exists or was replaced. This data collection process is not difficult, but it is tedious and time consuming.

The ZBB Subcommittee recommends that CSDNR economize on data collection by hiring an intern – an accounting or education major – for credit from one of the local colleges to help with this data collection process. CSDNR should contact local schools ASAP and advise of its internship opening for Fall 2019. CSDNR should ask about the possibility of getting an intern over the summer.

C. **Deliverable (3):** *A pro forma budget, preferably, for 3 years, that includes identifiable revenue streams as well as expected expenses to project/predict monthly balance (surplus or deficit). In a similar vein, Mr. Hastie asked for monthly cash flow balances to assess the current financial position of CSDNR and to predict how close CSDNR is coming to*

meeting the adopted budget (under/over). [The subcommittee subsequently realized that a 5-year financial plan is probably preferable.]

nVision is a multi-faceted financial software program. Budgeting is only one module. It also has Accounting, Payroll, Accounts Receivable, and Requisitions modules, to name a few. The Accounting module has many submodules: Cash Disbursements, Cash Receipts, Journal Entries, Line Item Receiving, nVision Payroll to General Ledger Distribution, Payroll Purchase Order, Purchase Orders, Trust and Agency, and Utilities, and it can generate many reports: Analysis Reports, Audit Reports, Financial Reports, Purchase Order Reports, Schedule Reports, Setup Reports, Transaction Reports, and Vendor Reports. I was unable to sample the nVision software to determine whether any of these submodules can generate the kind of cash flow projections for which Mr. Hastie is asking and Mr. Ryan said that he thinks nVision does not do the kind of cash flow reports that Mr. Hastie wants.

Mr. Ryan said that a monthly cash flow report would indicate only the school district's cash position not its budget details as Mr. Hastie requests. Instead, Mr. Ryan said that he gets a monthly budget appropriations status report that indicates original budget, adjustments, expenditures, encumbrances and balances. He can also pull up this report at any time, not just on a monthly basis. Mr. Hastie should check with Mr. Ryan to see if this budget appropriations status report is what he wants.

In any event, not knowing what is otherwise available, the ZBB Subcommittee drafted a prototype for a cash flow report on a spreadsheet. *See* Exhibit 6, <u>Cash Flow Report Prototype</u>. <u>http://www.drfurfero.com/csdnr/finalreport/EXHIBIT%206.pdf</u> With proper budget and revenue coding, spreadsheet entry and calculation should not be difficult to track cash inflow and cash outflow. Mr. Hastie can review the different reports and decide which report or type of report is more relevant for the purpose he and the Board intend.

III. **ADDENDUM** CSDNR has been without its key business official since November 2018 when its former Assistant Superintendent for Business and Administration, Jeffrey White, left. Almost the entire staff of the Business Office left at the same time. The Business Office was a shell without direction. Supposedly, Dr. Parvey was interviewing, but that process stopped dead in the water. The BOE finally brought Mr. Ryan out of retirement and appointed him as Interim Assistant Superintendent for Business and Administration. He started on January 14, 2019. The Business Office had been without leadership for almost two months and Mr. Ryan has subsequently spent most of his time getting the office re-staffed, re-organized, and up to speed.

As a result, the budget process for 2019-2020 has been a disaster. It has floundered. CSDNR had a budget calendar, but it was not functional, given all of the delays, and, in the end, discarded. The public was completely uninformed about what was happening with the budget. Mr. Ryan ended up presenting a Status Quo budget to the public, which, by all accounts on social media, was not well received. The traditional three (3) budget input sessions from the public were cancelled and replaced belatedly, without adequate notice to

the public, with a Budget Café. Less than 100 people attended. For a Board that wanted to put its best foot forward and have greater transparency after the budget fiasco last year, it has miserably failed. CSDNR needs a permanent budget process, especially, one that supersedes any administration so that the district does not flounder. The Board needs to review its Policies and Bylaws, Series 3000: Business and Non-Instructional Operations, especially sections 3110, 3120, 3130, 3140, and 3150. They were last revised on July 1, 1988, https://www.boarddocs.com/ny/nred/Board.nsf/vpublic?open&id=policies#. These sections are skimpy on details of the budget process. They need to be made more robust and codified.

Eventually, CSDNR will hire a new Assistant Superintendent for Business and Administration and the assumption is that s/he will want to "do his/her thing." However, it is to CSDNR's advantage to have a budget process in place for the next budget cycle to facilitate the acclimation of the new Assistant Superintendent for Business and Administration into the CSDNR system and give him/her a chance to get his/her feet on the ground before tackling harder issues. Having a functional budget process in place will also give CSDNR an advantage in the interview process as an incentive for a candidate to take the job. Without one, all a candidate will see on interview is the morass of problems to be tackled on Day 1. Therefore, the ZBB Subcommittee strongly recommends that the BOE review this report and re-review the reports of the Advisory Committees for the 2012-2013 and 2013-2014 budgets and start immediately to implement changes, so that any new Assistant Superintendent for Business and Administration will have an easier time than Mr. Ryan did to fill the position.

Submitted by

Joyce Furfero
Zero-Based Budget Subcommittee

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