

COST CONTROL SYSTEMS

Best Practices and Indicators

Financial Management

1. The district periodically analyzes the structure and staffing of its financial services organization.

- a. The financial services department has an approved organizational structure.
- b. The position descriptions for critical financial service positions contain appropriate education and experience requirements.
- c. Financial services staff are cross-trained for critical accounting processes.
- d. Financial service staff receives appropriate training and professional development.
- e. The financial services units are appropriately staffed to ensure effective delivery of financial services to users.
- f. Decentralized accounting services positions are appropriately trained.
- g. The district staff analyzes potential cost savings of alternative financial services delivery, i.e., privatize vs. employees.
- h. Other information that demonstrates the district's use of this best practice and should be considered.

2. Management has developed and distributed written procedures for critical accounting processes and promotes ethical financial management practices.

- a. These procedures address
 - identification and description of principal accounting records;
 - standard accounting and journal entries including requirements for supporting documentation;
 - identification of positions that approve accounting and journal entries prior to entry; and
 - instructions for determining appropriate cut-off and closing of accounts for each accounting period.
- b. The board has approved written ethics policies for the district financial staff.
- c. The district has established written procedures that provide for confidential reporting of suspected improprieties.
- d. Other information that demonstrates the district's use of this best practice and should be considered.

3. The district has adequate financial information systems that provide useful, timely, and accurate information.

- a. The financial accounting system has appropriately integrated financial software components that minimize manual processes including
 - efficient data entry (decentralized vs. centralized);
 - capital projects tracking by and across fiscal years;
 - reconciliations between control accounts and subsidiary records (receivables, payables, payroll, inventories, fixed assets, etc.) which are automated or are rendered unnecessary by integrated accounting controls that ensure that the records remain in balance;
 - direct-deposit program for payroll checks that is implemented to reduce workload for accounting for payroll checks; and
 - manual processes, including those using spreadsheet software, which are used to verify, track, or maintain accounting activities are minimized.
- b. The district staff analyzes cost savings of automation or manual processes
- c. The district staff analyzes financial accounting and reporting procedures to minimize or eliminate duplication of efforts

***Best Financial Management Practices With Their Associated Indicators
Best Practices (1, 2, 3 . . .) and Indicators (a, b, c . . .)
Adopted June 2002***

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- d. The district staff analyzes strategic plans for measurable objectives/results
- e. The accounting system facilitates accountability for restricted sources of funds through fund/grant/project accounting.
- f. District financial staff provides the board and district management with monthly and annual financial reports that effectively summarize financial operations and financial condition in an easy-to-understand format that assists the board in making financial decisions.
- g. District financial staff provides effective feedback to the board and management on funding sources, budget limitations, and financial condition impacts relating to major financial proposals.
- h. District managers receive periodic (at least monthly) reports or can electronically view data showing budget vs. expenditure comparisons for their responsibility areas.
- i. Other information that demonstrates the district's use of this best practice and should be considered.

4. District financial staff analyzes significant expenditure processes to ensure they are appropriately controlled.

- a. District financial staff analyzes significant contract methods and financial negotiations, especially large dollar amount or high volume contracts.
- b. District financial staff analyzes major expenditure categories to recognize and review unusual fluctuations in cost.
- c. Other information that demonstrates the district's use of this best practice and should be considered.

Internal Controls

5. The district has established adequate internal controls.

- a. The district has established effective controls over receipting processes to ensure
 - timely depositing and recording of collections;
 - recording of collections to the correct accounting codes (fund, revenue source, object); and
 - compliance with federal, state, and district laws, rules, and policies as appropriate relating to accounting for moneys received.
- b. The district has established effective controls over payroll processes to ensure
 - appropriate and timely reporting and remitting of federal payroll taxes to appropriate agencies (review reports and determine reasons for any payroll tax penalties paid by district);
 - appropriate and timely reporting of other payroll deductions, such as health insurance premiums;
 - appropriate and timely reporting of payroll and attendance information to employees (both on a payroll and annual basis);
 - compliance with federal, state, and district laws, rules, and policies; and
 - salary costs are properly charged to the correct accounting codes, including but not limited to fund, function, project, location, and object.
- c. The district has established effective controls over disbursing processes.
 - Payments are for authorized purposes, have sufficient budget authority, and prior verification of funds availability.
 - Payments are supported by evidence that the goods and services were received.
 - Payments are supported by appropriately canceled vendor invoices/bills.
 - Disbursements are properly charged to the correct accounting codes (fund, function, project, location, object).

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- d. Other information that demonstrated the district's use of this best practice and should be considered.

6. Management proactively responds to identified internal control weaknesses and takes immediate steps to correct the weaknesses.

- a. Internal control weaknesses are identified from external and internal audit reports, risk assessments, grantor monitoring reports, and other sources, such as communications from employees and the public.
- b. District management assigns responsibility for resolving internal control weaknesses to appropriate staff.
- c. Assigned staff must periodically report to management on progress towards resolving internal control weaknesses.
- d. Other information that demonstrates the district's use of this best practice and should be considered.

7. The district produces an annual budget that is tied to the strategic plan and provides useful and understandable information to users.

- a. Budgets are formed and adopted pursuant to applicable state law and rules.
- Budget meets state-mandated and district required time deadlines.
 - Budget document summaries are in approved format and appropriate detail is included.
- b. District staff use appropriate revenue-estimating practices when developing estimated budget sources for appropriation.
- Includes prior year comparisons
 - Enrollment projections
- c. The district has established a budget planning process and timeline that is clearly communicated to all of the involved stakeholders.
- d. The district has established a budget planning process to link strategic plan objectives to the development of the budget.
- e. School principals include SAC/community input when developing school budgets.
- f. Other information that demonstrates the district's use of this best practice and should be considered.

8. Management analyzes strategic plans for measurable objectives or measurable results.

- a. Strategic plan objectives can be tied to specific departments or projects and provide guidance to determine appropriate expenditures to achieve plan objectives (note-overlaps with accountability chapter).
- b. Strategic plan includes a provision for maintaining adequate levels of unreserved fund balance. ¹
- c. Management has developed a process that primarily commits funds for activities and projects that meet strategic plan objectives.
- d. The district has established appropriate procedures for reviewing, evaluating the financial impact of, and approving budget amendments.
- e. Other information that demonstrates the district's use of this best practice and should be considered.

¹ The amount held in reserve considers the potential overestimation of FEFP funding due to error in the district's enrollment projection, potential exposure to emergencies, and potential industry or community changes.

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External and Internal Auditing

9. The district ensures that it receives an annual external audit and uses the audit to improve its operations.

- a. Audit reports indicate that the audits were completed in accordance with Government Auditing Standards.
- b. The district responds to audit comments timely and appropriately.
- c. Other information that demonstrates the district's use of this best practice and should be considered.

10. The district has an effective internal audit function and uses the audits to improve its operations.²

- a. The district's internal audit function is organizationally independent.
 - It reports to the board or to a board-designated internal audit committee.
- b. The internal audit function performs annual risk assessment.
- c. The internal audit function prepares an annual internal audit plan that is based on prioritization of risks identified in the annual risk assessment.
 - The board approves the annual internal audit plan.
- d. Internal audit function has sufficient resources to provide reasonable audit coverage on a periodic basis.
 - The internal audit function uses appropriate audit programs to conduct audits.
- e. The board periodically approves internal audit reports.
 - Internal audit reports include district responses and corrective action plans.
 - The internal audit function has a process that ensures periodic follow-up of findings noted in previous internal audit reports.
- f. Other information that demonstrates the district's use of this best practice and should be considered.

11. The district ensures that audits of internal funds and discretely presented component units (foundations and charter schools) are performed timely.

- a. The district ensures that required reports are timely and received by the external auditor for consideration in the completion of the district's financial audit.
 - Annual school internal accounts financial audits are timely completed and presented to the board.³
 - CPA audits of direct support organizations are timely completed and presented to the board.
 - CPA audits of charter schools are timely completed and presented to the board.
- b. District management review financial reports of school internal accounts and discretely presented component units and use the information contained in the reports to make appropriate decisions involving these activities.
- c. Other information that demonstrates the district's use of this best practice and should be considered.

12. The district periodically reviews cash management activities, banking relationships, investment performance, and considers alternatives.

² Most school districts do not have an internal auditor. They generally do have internal accounts auditors, whose responsibility is to audit the school internal accounts. These internal accounts auditors should not be confused with internal auditors. However, school districts that do have internal audit functions often assign the audits of the school internal accounts to the internal auditor for efficiency purposes.

³ Some school districts have not been successful in presenting audited financial data on the school internal accounts by the time the external auditor is ready to complete the district's financial audit. Please also remember that the school internal accounts auditor often is not an internal auditor.

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- a. The district has appropriate written policies and procedures for cash management.
 - The district maintains its cash deposits in qualified public depositories.
 - Cash collections are timely deposited and invested.
 - District staff that do not have the ability to update accounting records timely perform bank reconciliations.
 - District staff that prepare bank reconciliations ensure that needed adjustments are timely made.
 - Appropriate management staff periodically review bank reconciliations and investigate unusual reconciling items.
 - The district has cash forecasting processes that ensure adequate liquidity throughout the year.
 - Banking contracts are periodically analyzed to ensure terms and fee schedules are appropriate.
- b. The district has appropriate written policies and procedures for investments that provide guidance for maximizing return for investments while ensuring the safety and liquidity of investments.
 - The district has an investment policy when it invests in those authorized investments for which an investment policy is required.
 - When investing in other than SBA investments, the district periodically reports to the board the results of its investing activities—monthly or quarterly, and annually as appropriate.
 - When investing in other than SBA investments, district staff analyzes the risk of the investment vs. the projected return on the investment.
 - When investing in other than SBA investments, district staff are knowledgeable and receive periodic training on investments.
 - If appropriate, the district either physically protects its investments or provides for sufficient safekeeping of investment securities.
 - If appropriate, the district monitors investment earnings to ensure accuracy of amounts collected.
- c. Other information that demonstrates the district's use of this best practice and should be considered.

Capital Asset Management

13. The district has established written policies and procedures and periodically updates them to provide for effective management of capital assets.

- a. District staff is knowledgeable about capital asset financial reporting requirements and has established procedures to ensure adequate and timely reporting.
- b. The district has implemented effective procedures to ensure that capital outlay purchases are appropriately capitalized.
 - The districts capitalization thresholds are consistent with state requirements.
 - The district reconciles capital asset expenditures with additions to capital assets.
 - The district has procedures to ensure that appropriate asset values for completed construction projects are timely transferred to detailed subsidiary records for capital assets.
- c. The district maintains detailed subsidiary records of capital assets.
- d. The district physically safeguards and tags capital assets.
- e. The district physically inventories capital assets annually using cost-effective methods.
- f. The district has established and carries out appropriate procedures to follow up on missing property items.
- g. The district appropriately accounts for capital assets acquired with restricted source funds.

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- h. Other information that demonstrates the district's use of this best practice and should be considered.

14. The district ensures significant capital outlay purchases meet strategic plan objectives.

- a. The district prepares separate capital projects budgets.
- b. The district does not charge maintenance and operations staff salaries to restricted capital outlay sources that do not permit such charges.
- c. The district has implemented effective procedures and periodically updates them to provide for effective management of assets.
- d. Other information that demonstrates the district's use of this best practice and should be considered.

Debt Management

15. The district has established written policies and procedures and periodically updates them to provide for effective debt management.

- a. The district tracks debt service requirements and ensures timely payment.
- b. The district is knowledgeable about debt service financial reporting requirements, e.g., continuing financial disclosures pursuant to Securities and Exchange Commission requirements, and has established procedures to ensure adequate and timely reporting.
- c. The district complies with federal arbitrage requirements.
- d. The district complies with bond covenants.
- e. Other information that demonstrates the district's use of this best practice and should be considered.

16. The district ensures that significant debt financings meet strategic plan objectives.

- a. The district evaluates debt capacity prior to issuing debt.
- b. The district evaluates financing alternatives when acquiring major capital assets.
- c. Other information that demonstrates the district's use of this best practice and should be considered.

Risk Management

17. The district has established written policies and procedures and periodically updates them to provide for effective risk management

- a. The district's policies require clear and complete financial contract terms for all insurance contracts.
- b. District staff analyzes current insurance plans including deductible amounts, co-insurance levels, and types of coverage provided.
- c. The district periodically compares costs and a risk analysis with peer districts.
- d. Other information that demonstrates the district's use of this best practice and should be considered.

18. District staff periodically monitors the district's compliance with various laws and regulations related to risk management.

- a. The district has established policies and procedures and periodically updates them to identify various risks and provide for a comprehensive approach to reducing the impact of losses.
 - The board has written risk management policies.

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- District management maintains written procedures that carry out board policy.

b. The district has adequate insurance coverage. ⁴

- Liability, property, casualty, umbrella, employee and public official bonds.

c. Other information that demonstrates the district's use of this best practice and should be considered.

19. The district prepares appropriate written cost and benefit analyses for insurance coverage.

a. District staff analyzes alternatives for insurance coverage such as self-insurance and other current industry trends.

b. Management reports to the board comparisons with local industry, other governmental entities, and comparable school districts.

c. Other information that demonstrates the district's use of this best practice and should be considered.

Purchasing

20. The district has established written policies and procedures to take maximum advantage of competitive bidding, volume discounts, and special pricing agreements.

a. The district periodically evaluates purchasing practices to maximize use of human resources assigned to the purchasing function.

- Purchase cards are used for small dollar purchases.
- Effective quotation procedures are used for purchases above small dollar purchases, but less than dollar limits requiring competitive bidding.
- Competitive bidding processes are used for purchases above competitive bidding thresholds.
- State contract bids, bids of other school districts, and other innovative purchasing processes are considered where appropriate.

b. The purchasing function is organizationally separate from district departments that requisition goods and services.

c. Other information that demonstrates the district's use of this best practice and should be considered.

Inventory Management

21. The district has established written policies and procedures and periodically updates them to provide for effective management of inventories.

a. The district monitors inventory turnover to ensure that it does not have significant balances of outdated inventory items.

b. The district has established effective controls over inventory processes including effective receipt and issue procedures.

c. Warehouse or inventory storage areas are reasonably safeguarded to

- prevent unauthorized access; and
- protect inventory items from physical deterioration.

d. The district conducts annual physical counts of inventories using cost-effective methods.

⁴ State law and rules establish requirements that school districts must follow regarding both the types of insurance coverage and how they acquire insurance coverage. Also, employee benefits (health, dental, etc.) and worker's compensation along with loss prevention activities are covered in Personnel Best Practices.

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- e. Other information that demonstrates the district's use of this best practice and should be considered.

22. The district periodically evaluates the warehousing function to determine its cost-effectiveness.

- a. The district periodically identifies and evaluates the costs to maintain inventories. These costs are allocated to the per-unit cost of inventory items to compare with other warehousing alternatives such as next-day or rapid response inventory services provided by vendors.
- b. The district evaluates warehousing services to ensure effectiveness and user satisfaction.
- Inventory requisitions are delivered timely.
 - Users receive inventory items they ordered.
 - Items stored in warehouse are those that user most frequently ask for.
 - Effective reorder points are used for stock replenishment.
- c. Other information that demonstrates the district's use of this best practice and should be considered.