

CHAPTER 5 – FINANCIAL MANAGEMENT

BACKGROUND

Sound financial management enables school districts to meet the challenge of satisfying the dual demands of educating America's children while balancing financial resources. Sound financial management ensures that school districts receive and secure all available revenues; make sound financial decisions; develop and monitor budgets; establish strong internal controls; issue timely, accurate, and relevant financial reports; and comply with internal policies and procedures as well as external laws and regulations.

Metropolitan Nashville Public Schools (the School System) receives financial resources from state, federal, and local sources. The primary state funding source comes through the Tennessee Department of Education. The Tennessee Department of Education appropriates funds for K-12 education through the Basic Education Program funding formula, which provides a per student allotment to the School System.

The state considers allocations determined by the Basic Education Program funding formula to be sufficient to provide a basic level of education for Tennessee students. This basic level of funding includes both a state and local share of the Basic Education Program.

The Basic Education Program has three major categories (instruction, classroom, and non-classroom), each made up of separate components related to the basic needs of students, teachers, and administrators within a school system. Average daily membership (student enrollment) is the primary driver of funds generated by the Basic Education Program.

Funds generated by the Basic Education Program are divided into state and local shares for each of the three major categories (instructional, classroom, non-classroom). The state and local share for each school system is based on an equalization formula that is applied to the Basic Education Program. This equalization formula is the primary factor in determining how much of the Basic Education Program is supported by the state versus the local district.

The equalization formula is driven primarily by property values and sales tax, applied at a county level. For example, the state and local equalization shares for County System A would be the exact same state and local shares for City System A, within the same county. All local school systems are free to raise additional education dollars beyond the funds generated by the Basic Education Program.

CHAPTER HIGHLIGHTS

- The School System's use of Metropolitan Nashville Government's online eBid system is an effective and profitable means of selling surplus property.
- For the past five years, the School System has received the Association of School Business Officials International Meritorious Budget Award for excellence in budget presentation.
- Risk-based audit approaches would optimize internal school fund audit resources and schedules while adding audit outcomes to principal evaluations would enhance the value and importance of school fund audits.
- Prepaid business credit cards offer a more efficient means of distributing Basic Education Program funds to teachers to purchase supplies.
- Configuring the Web Requisition system for use by charter schools would enhance their procurement process by enabling them to initiate electronic purchase orders.

Federal dollars are provided through programs such as No Child Left Behind, Individuals with Disabilities Act, the Title I Program, and the National School Lunch Act and Child Nutrition Act. The bulk of local funds come from property and sales taxes. The School System does not have taxing authority and is dependent upon the county government for property and local option sale tax revenues.

The total 2013-2014 revenue budget is projected to be \$734,420,300, which includes \$12,000,000 in fund balance. Of the \$734,420,300, excluding fund balance, property tax revenues of \$285,203,000 comprise nearly 39 percent followed by state and other government revenues of \$256,191,700, which comprises 35 percent. Basic Education Program revenue is \$252,545,000 for 2013-2014. Local option sales taxes for 2013-2014 are projected to be nearly 25 percent of the revenue budget, or \$181,737,500.

In addition to operating revenue, the 2013- 2014 budget consists of child nutrition funds totaling \$42,058,900 and funds from federal sources totaling \$84,598,000.

The School System's 2013-2014 operating expenditure budget totals \$746,420,300 of which 71 percent (\$527,031,800) goes to provide educational instruction. The second highest expenditure is for plant operations, which comprises 8 percent (\$63,114,400) of the operating budget. In addition, each year a higher percentage of the School System's budget is allocated to fund charter schools. The 2013-2014 charter school allocation was \$36,454,500, which is projected to increase to \$50,096,500 during 2014-2015.

In addition to its operating budget, the School System incurs expenditures for child nutrition and capital projects. The 2013-2014 child nutrition budget totaled \$42,058,900 and consisted primarily of personnel and food costs, which comprised approximately 51 percent (\$21,616,600) and 32 percent (\$13,621,600) of the total child nutrition budget, respectively.

The capital budget is made up of a six-year list of projects approved annually by the board of education. The School System's approved capital project budget is included with capital budgets of other Metropolitan Nashville Government agencies and submitted to the mayor and Metropolitan Council for review and approval. Capital funds actually provided to the school district depend upon the city's needs and bonding capacity. If funds are provided, the School System prioritizes the capital projects list and funds individual projects accordingly. For 2013-2014, the capital project appropriation totaled \$95,000,000.

The school board designates a finance committee each year to oversee the budget process. The finance committee delegates responsibility for the planning, development, implementation and monitoring of the budget to School System administration.

The Budgeting and Financial Reporting Department distributes general instructions for preparing the budget and provides specific line-item instructions for certain budget items to each department head. This information aids departments in preparing their individual requests.

Departments start the budget process by reviewing the district’s mission and goals, which drive the programs and services offered. By focusing on a clearly defined mission and measurable concrete goals departments can ensure that budget requests match the needs of the students served. Each department sets its priorities for the coming budget year. These priorities may be new programs or services, or new targets for existing programs and services. After departments have submitted their budget priorities, the director of schools and the executive staff review the requests to ensure consistency with the School System’s goals and priorities.

The budget process begins in December with review of the strategic plan and discussions related to the strategic plan and improving student achievement. Budget goals are linked to the strategic plan. Budget discussions and deliberations continue through March. A proposed budget is submitted to the mayor in April. In May, the budget is presented to the Metropolitan Nashville Council. On or before June 30, Metropolitan Nashville Council passes the budget ordinances, which the mayor signs into law.

Once the budget is approved by Metropolitan Nashville Council, the budget documents are housed with the director of Budgeting and Financial Reporting under the direct supervision of the chief financial officer. The Budgeting and Financial Reporting Department monitors departmental budgets and prepares monthly reports for the chief financial officer. The school board and Metro Council must approve budget amendments that change the final appropriation amount.

Responsibilities for the financial management of the School System are divided between Metropolitan Nashville Government and the School System as shown in **Exhibit 5-1**.

**Exhibit 5-1
Division of Financial Management Responsibilities**

Financial Management Function	Performed by Metropolitan Nashville Public Schools	Performed by Metropolitan Nashville Government
Operations	<ul style="list-style-type: none"> • Accounts Payable • Accounts Receivable • General Ledger • Payroll • Deposits • Grant Accounting • Purchasing 	<ul style="list-style-type: none"> • Maintains accounting and payroll systems • Issues accounts payable and payroll checks • Maintains check stock • Maintains vendor master file
Treasury and Cash Management	n/a	<ul style="list-style-type: none"> • Maintains investments • Maintains depository relationship
Fixed Assets	<ul style="list-style-type: none"> • Identifies, records, and tags fixed assets • Coordinates fixed assets inventory • Maintains recorded accountability 	<ul style="list-style-type: none"> • Provides fixed asset tags • Maintains fixed asset system
Budget	<ul style="list-style-type: none"> • Develops and manages annual School System budget 	<ul style="list-style-type: none"> • Reviews, approves, incorporates into city budget through ordinance for city council
Reporting	<ul style="list-style-type: none"> • Operational monthly reporting 	<ul style="list-style-type: none"> • Preparation of Comprehensive Annual Financial Report
External Audit	<ul style="list-style-type: none"> • Provides information and assistance with selected internal school fund audits 	<ul style="list-style-type: none"> • Coordinates with external auditors and manages annual audits

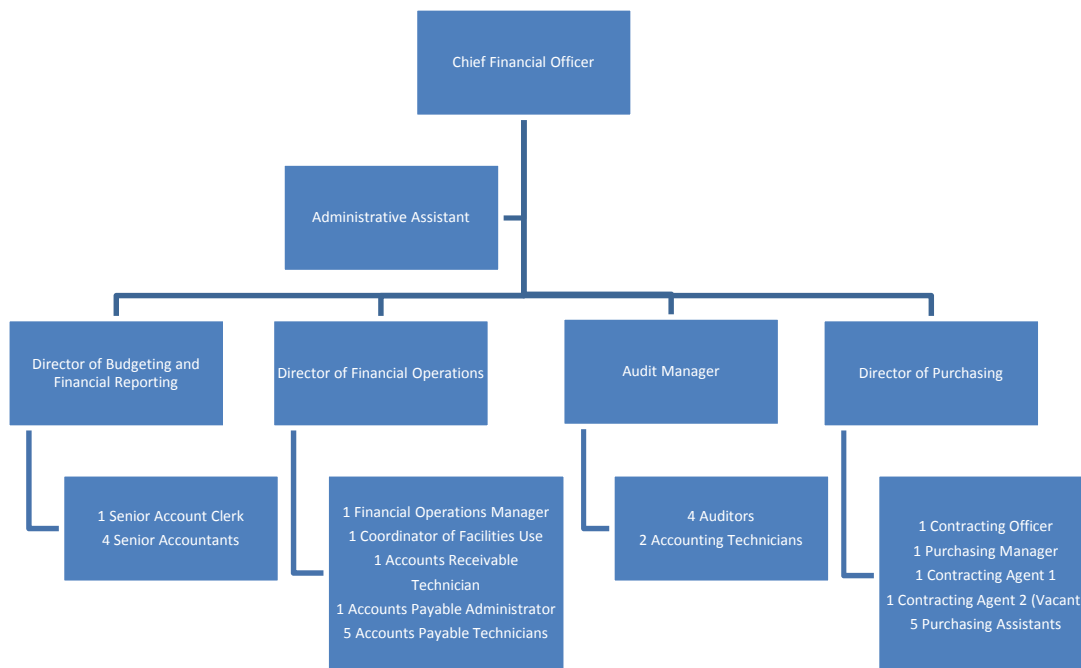
**Exhibit 5-1
Division of Financial Management Responsibilities (Cont'd)**

Financial Management Function	Performed by Metropolitan Nashville Public Schools	Performed by Metropolitan Nashville Government
Internal Audit	<ul style="list-style-type: none"> Conduct internal school fund reviews and audits Train and support school bookkeepers 	<ul style="list-style-type: none"> Assurance services as approved by the Metropolitan Nashville Audit Committee
Accounting Software	<ul style="list-style-type: none"> Makes entries Provides supporting documentation to Metropolitan Nashville Public Schools 	<ul style="list-style-type: none"> Manage features of software Approve entries to post

Source: Director of Budgeting and Financial Reporting, February 2014

The School System's financial management functions are housed in the Office of Chief Financial Officer under the direction of the chief financial officer. In addition to financial management and internal audit functions, the chief financial officer also oversees facility and grounds maintenance, facility planning and construction, and facility services. Financial management functions under the chief financial officer's oversight include budgeting and financial reporting, financial operations (accounts payable), purchasing, and internal school fund audits. The chief financial officer has an administrative assistant and four finance-related direct reports who are supported by 29 staff positions. **Exhibit 5-2** presents the organization of the Office of Chief Financial Officer exclusive of the nonfinancial components.

**Exhibit 5-2
Office of Chief Financial Officer Organization**



Source: Metropolitan Nashville Public Schools

The 2013-2014 budget for the Chief Financial Officer Organization was approximately \$3,000,000. This amount is less than one-half of one percent of the School System General Fund budget. Each position in the Chief Financial Officer's Organization supports 302 district staff and 2,473 students at a cost of \$92,012 per employee in the finance organization. These numbers are favorable in comparison to the three school districts that responded to the peer survey and is an indication that the Chief Financial Officer's Organization is rightly staffed. However, these results are somewhat expected given that Metropolitan Nashville Government performs some finance and accounting-related functions on behalf of the School System.

In comparison to the peers, the School System has the lowest finance to district budget ratio and supports more district staff per finance employee. Moreover, it is second highest to Duval County Schools in terms of the number of students supported per finance employee. Additionally, staff and student support is provided at a lower budgeted cost per finance position than two of the three peers.

Exhibit 5-3 compares the School System's finance department to that of the peer districts that responded to the peer survey. The amounts are not precisely comparable because of the different functions performed by the districts. The exhibit includes the various functions performed by each of the school system finance departments.

**Exhibit 5-3
Budget and Function Comparisons
Metropolitan Nashville Public Schools and Peer District Finance Offices
2013-2014**

Description	Metropolitan Nashville Public Schools	Atlanta, GA Public Schools	Polk County, FL Public Schools	Duval County, FL Public Schools
2013-2014 Finance Dept. Budget	\$3,082,400	\$7,032,842	\$5,404,760	\$5,264,131
2013-2014 General Fund Budget	\$746,420,300	\$595,123,803	\$714,090,657	\$988,461,053
Finance/District Budget	0.41%	1.18%	0.76%	0.53%
Finance Department Positions	33.5	68	77	46
Total District Employees	10,120	7,249	13,241	11,689
Total Students	82,863	49,128	95,445	126,763
Employees per Finance Position	302	107	173	254
Students per Finance Position	2,474	722	1,245	2,756
Cost per Finance Position	\$92,012	\$103,424	\$70,512	\$114,438

Source: Metropolitan Nashville Public Schools and Peer District 2013-2014 Budgets and Other Various Sources.

BEST PRACTICES

Best practices are methods, techniques, or tools that have consistently shown positive results, and can be replicated by other organizations as a standard way of executing work-related activities and processes to create and sustain high-performing organizations. When comparing best practices, similarity of entities or organizations is not as critical as it is with benchmarking. In fact, many best practices transcend organizational characteristics.

McConnell Jones Lanier & Murphy LLP (or the review team) identified 22 best practices against which to evaluate the organization and management of the School System. **Exhibit 5-4** provides a summary of these best practices. Best practices that the School System does not meet result in observations, which we discuss in the body of the chapter. However, all observations included in this chapter are not necessarily related to a specific best practice.

Exhibit 5-4
Summary of Best Practices – Financial Management

Best Practice Number	Description of Best Practice	Met	Not Met	Explanation
1.	Document accounting policies and procedures. Advances in technology have made available more effective methods than a hard copy manual. The policies and procedures should be updated periodically. Periodic reviews should be updated in the documentation promptly as they occur.	X		The School System maintains accounting policies and procedures on its website at: http://www.policy.mnps.org/Page51142.aspx The procedures are reviewed and updated periodically. The most recent revision date is provided on the face of the policy and procedure document.
2.	Use a website as a means of communicating financial information to citizens and other interested parties.	X		The School System maintains operating and capital budget information on its website at: http://www.mnps.org/Page56790.aspx In addition, each year the School System prepares a budget book explaining that year's budget in an easy to understand, straight forward format. The budget book includes numbers from the current year's budget as well as prior year figures that provide the reader with a broader context.
3.	Use electronic devices to capture time worked.	X		The School System is in the testing phases of implementing an automated timekeeping system to capture the attendance information necessary to complete payroll.
4.	Strive to pay 100 percent of employees electronically.	X		The School System has achieved a 93 percent direct deposit participation rate among its employees.

**Exhibit 5-4
Summary of Best Practices – Financial Management (Cont'd)**

Best Practice Number	Description of Best Practice	Met	Not Met	Explanation
5.	Establish risk-based plans to determine the priorities of the internal audit activity.		X	The internal audit group has not developed a risk-based approach to conducting internal school fund audits. See Observation 5-A.
6.	A written cost allocation plan is in place that ensures indirect expenses are apportioned to benefiting cost objects in an objective and consistent manner.		X	Although the senior grants accountant prepares an indirect cost proposal for grants, there is no cost allocation plan for charter schools that can be used to determine and support oversight fees charged for administrative services performed on behalf of charter schools. See Observation 3-A in Chapter 3-Impact of Charter Schools on MNPS.
7.	Establish processes for inventorying capital assets on a periodic basis and ensure that such assets are properly accounted for and safeguarded.		X	Although a fixed asset inventory process exists, it is not being administered effectively because departments have not cooperated with the fixed assets accountant. See Observation 5-C.1.
8.	Establish a formal policy specifying a suitable unrestricted fund balance for the general fund, defining criteria for determining a suitable level and outlining plans for adjusting the level of unrestricted fund balance.	X		Per the Tennessee Code Annotated 49-3-352, any accumulated fund balance in excess of three percent (3%) of the budgeted annual operating expenses for the current fiscal year may be budgeted and expended for any education purposes, but must be recommended by the board of education prior to appropriation by the local legislative body. At the end of 2013-2013, the undesignated fund balance exceeded the requirement by approximately \$34,600,000.
9.	Convert paper invoices to electronic format via scanning as soon as they arrive in the accounts payable department. Once scanned, enter the invoice into automated workflow so that a paper invoice is not needed.	X		As invoices arrive via regular mail or e-mail, they are scanned through the Kofax system then distributed to accounts payable clerks for payment via the workflow.
10.	Use accounts payable metrics to track payment efficiency and discounts taken.	X		Each month, the director of financial operations prepares a report of accounts payable statistics such as payment methods, average number of invoices processed per accounts payable staff, invoices received and processed, unpaid invoices, average days to pay, and discounts taken.

**Exhibit 5-4
Summary of Best Practices – Financial Management (Cont’d)**

Best Practice Number	Description of Best Practice	Met	Not Met	Explanation
11.	Establish a budgeting process that provides principals the flexibility and discretion to allocate resources (people, time, and money) according to their school’s needs.	X		Based on its strategic plan, the district has begun a pilot program with 17 schools to allow principals more autonomy over their school budgets. The district will provide a pool of resources and allow principals to allocate the funds according to their school’s needs. Next year, the pilot group will be increased to 55 schools.
12.	Use performance evaluations as a means to hold budget authorities accountable for financial administration.		X	Principals are not evaluated on the results of internal school fund audits. See Observation 5-B.
13.	Distribute a budget calendar and written budget instructions that provide an overview of the budget process as well as budget preparation tools such as templates and specific line-item instructions for certain budget items.	X		The annual budget book contains an overview of the budget development process as well as a detailed calendar of budget activities. In addition, at the beginning of the budget cycle, schools are provided with a budget template to assist with budget development. The Budget Template Form is to be used to summarize the requested increases/decreases to the current year operating budget, except for cost increases associated with salaries and benefits or cost of living adjustments.
14.	Centralize the procurement of goods and services to ensure consistent application of policy and increase cost effectiveness.	X		The Purchasing Department centrally procures School System-funded goods and services.
15.	Utilize an entity-wide electronic purchasing module to capture and route purchase requisitions along a pre-defined approval pathway to issue authorized purchase orders. Electronic workflow system provides users and purchasing staff real-time information regarding the requests, authorizations, and processing time.		X	Not all purchase requisitions are initiated in the district’s electronic Web Requisition system. Charter schools submit paper requisitions for Title I purchases to Metropolitan Nashville Public Schools Federal Programs for approval and further processing by the Purchasing Department. See Observation 5-G.

**Exhibit 5-4
Summary of Best Practices – Financial Management (Cont'd)**

Best Practice Number	Description of Best Practice	Met	Not Met	Explanation
16.	Issue a purchase order for every purchase made above a specified minimum dollar amount as purchase orders document what is being purchased and terms under which the entity agrees to make a purchase. Issue blanket purchase orders for repetitive, specified purchases of consumable supplies and services for a specific period of time.		X	Purchase orders are not issued for utility bills. At the time of the review, purchase orders were not consistently issued for maintenance, transportation, and print shop expenses. Purchasing Department management states that purchase orders related to the Maintenance and Transportation Departments have increased during the past two years. See Observation 5-H.
17.	Utilize cooperative agreements and purchasing consortiums to maximize purchasing power and efficiencies.	X		The Purchasing Department participates Metropolitan Nashville Government contracts and in 14 purchasing consortiums. Purchasing policy entitled "Purchasing for MNPS FM 2.111" lists contracts established with Metropolitan Nashville Government, the state of Tennessee, and other community purchasing cooperatives as third priority from which to purchase goods and services. Based on discussions with Purchasing Department staff and samples reviewed, the School System actively purchases goods and services from these cooperative agreements.
18.	Establish thresholds at which purchasing staff is required to obtain competitive bids and quotes in order to receive the best value. Retain evidence of bidding results. Require purchasing manager approval for items above a specific pre-determined dollar amount.	X		Purchasing policy entitled "Purchasing for MNPS FM 2.111" delineates the competition requirements for purchases that fall in four defined categories. Based on samples reviewed, competitive bids are obtained, evidence of purchasing staff engaged in bidding is retained, and purchasing manager approval is obtained.
19.	Compare the purchase request to the remaining amount of funding available in the budget.	X		Purchase requisitions are reviewed by budget offices for federal and local funds to determine if budget is available for the requisitioned purchase. Based on sample reviews, this best practice appears to be consistent practice.

**Exhibit 5-4
Summary of Best Practices – Financial Management (Cont'd)**

Best Practice Number	Description of Best Practice	Met	Not Met	Explanation
20.	Retain purchase orders; monitor and review open purchase orders, close residual purchase orders.	X		Purchase orders are electronically retained. The purchasing manager monitors open purchase orders and closes them as appropriate. Based on observation and review, this best practice appears to be consistent practice.
21.	Utilize the Purchasing Department to centrally manage the bid process for goods and services that are competitively bid. Involve the department user group to evaluate the bid proposals received against the pre-defined bid criteria. Tabulate results and recommend award to highest scoring vendor.	X		Contracting officers manage the bid process and score the quantitative components of the proposals received. User groups evaluate and score the qualitative aspects of the bid proposals. Evaluations are tabulated by the contracting officers, presented for recommendation of award, and retained. Based on staff discussions and samples reviewed, this best practice appears to be consistent in practice in the last two years.
22.	Establish a contract management program requiring a minimum threshold at which a contract must be prepared, legal review of contracts to mitigate shortcomings or risks to which the entity may be subjected, contract list, and periodic contractor performance evaluation.	X		Purchasing policy entitled "Purchasing for MNPS FM 2.111" requires a contract be prepared for purchases of \$10,000 or more. Contracts are prepared using a contracts database that is periodically reviewed by Metro's legal counsel. Policy requires contracts to be reviewed by Metropolitan legal counsel prior to execution. All district contracts have a signature block for Metro's legal counsel and must be signed prior to being filed with the county. The standard contract template used by the School System contains requirements for periodic contractor evaluations and designates the party responsible and criteria for review. Based on staff discussion and samples reviewed, this best practice appears to be consistently executed.

Source: McConnell Jones Lanier & Murphy LLP Review Team

ACCOMPLISHMENTS

ACCOMPLISHMENT 5-A

The School System uses Metropolitan Nashville Government's online eBid system to sell surplus property.

Many school districts around the country sell surplus property through live auctions. However, the eBid system used by the School System represents a novel, 21st Century approach to the sale of school property. eBid is fashioned after the popular eBay online auction website, which is an online market place that brings millions of people together to buy and sell goods and services. eBid is Metropolitan Nashville's online surplus property auction web site that allows users to bid on surplus property online. It is easy to use and highly secure. eBid offers surplus, seized, confiscated, abandoned, forfeited, unclaimed property and real estate for sale.

Users register at <https://ebid.nashville.gov> and can search various categories such as appliances, collectables, and construction supplies. The School System places surplus property on the site that is fully depreciated and is no longer in use. In addition, surplus property is placed on the site that fits into any of the following disposal categories whether or not fully depreciated including;

- destroyed (sold through eBid or if applicable, sold as recyclable strap material);
- disposed flood damage;
- surplus property lot/warehouse; and
- non-capital item (various property-laptops, monitors, personal printers, calculators, etc.).

Gross proceeds from surplus property sales for 2011-2012 through 2013-2014 (through February 2014) totaled approximately \$461,348. Net proceeds to the School System totaled approximately \$355,277. The School System receives about 77 percent of gross proceeds while Metropolitan Nashville Government retains the remaining 23 percent. **Exhibit 5-5** provides a summary of sales activity since 2014.

**Exhibit 5-5
Surplus Property Proceeds
2012 through February 2014**

Fiscal Year	Gross	Net	Gross	Net	Gross	Net
	2011-2012		2012-2013		2013-2014	
July	\$4,342.14	\$3,343.45	\$7,095.32	\$5,463.40	\$31,900.10	\$24,563.08
August	\$8,600.00	\$6,622.00	\$60,196.58	\$46,351.37	\$9,538.24	\$7,344.44
September	\$5,364.44	\$4,130.63	\$6,833.22	\$5,261.58	\$14,756.14	\$11,362.23
October	\$3,516.53	\$2,707.73	\$7,943.76	\$6,116.67	\$9,917.78	\$7,636.69
November	\$10,335.44	\$7,958.29	\$12,725.77	\$9,798.84	\$17,478.96	\$13,458.81
December	\$13,128.73	\$10,109.12	\$8,451.84	\$6,507.92	\$5,311.88	\$4,090.16
January	\$16,856.43	\$12,979.45	\$15,506.83	\$11,940.26	\$5,179.47	\$3,988.19
February	\$6,242.73	\$4,806.94	\$11,368.57	\$8,753.80	\$32,923.94	\$25,351.49
March	\$6,972.45	\$5,368.81	\$4,322.31	\$3,328.18	-	-
April	\$22,295.79	\$17,167.76	\$6,015.35	\$4,631.82	-	-
May	\$49,305.67	\$37,965.37	\$13,379.47	\$10,302.19	-	-
June	\$1,930.05	\$1,486.16	\$31,611.99	\$24,379.73	-	-
Total	\$148,890.40	\$114,645.71	\$185,451.01	\$142,835.76	\$127,006.51	\$97,795.09
Total 2012-2014					\$461,347.92	\$355,276.56

Source: Metropolitan Nashville Public Schools-Fixed Asset Accountant, February 2014.

ACCOMPLISHMENT 5-B

Metropolitan Nashville Public Schools received the Association of School Business Officials International (ASBO) Meritorious Budget Award (MBA) for excellence in budget presentation for the preceding five years (FY2010 through FY2014). The School System was the first school district in Tennessee to receive this award.

The Association of School Business Officials International, founded in 1910, is a professional association of 5,000 members that provides programs and services to promote the highest standards of school business management practices, professional growth, and the effective use of educational resources. The award is conferred only to school entities that have met or exceeded the Meritorious Budget Award criteria. To earn this award, the School System submitted its budget for a rigorous review based on stringent criteria. Developed by the Association of School Business Officials for school districts, the Meritorious Budget Award criteria guide school business officials toward a quality school budget presentation by enhancing the school business officials' skills in developing, analyzing, and presenting a school system budget.

DETAILED OBSERVATIONS

INTERNAL AUDIT

OBSERVATION 5-A

The internal auditors do not use risk-based approaches and high-level analytics to focus and maximize their audit efforts with respect to internal school funds.

Schools manage large sums of money in the form of internal school funds, the largest portion of which are student activity funds. The *Tennessee Internal School Uniform Accounting Policy Manual* defines internal school funds as any and all money received and accounted for at individual schools and specifically include, but are not limited to:

- any donation or grant made to the school, a school club, or any academic, arts, athletic, or social activity related to a school;
- funds for cafeteria services operated at the school;
- fees collected by the school;
- funds transferred to the local school from the school board that are to be accounted for at the local school level;
- funds raised through cooperative agreements with outside organizations;
- rental fees charged to outside entities for use of school facilities; and
- student activity funds.

Student activity funds pose a risk of significant financial loss to the School System. For example, during 2012-2013, schools received \$9,766,805 and spent \$9,631,368 in student activity funds. As of June 30, 2013, the fund balance of student activity funds was \$5,644,265 across 138 schools. Managing and accounting for these funds is decentralized and widely dispersed within the School System. Risks arise because segregation of duties is not ideal, each school has its own bank account, and cash management expertise varies from school to school. While teachers and coaches handle funds for school events and fundraisers, the principal and school secretary/bookkeeper at each campus is primarily responsible for managing these funds.

The *Tennessee Internal School Uniform Accounting Policy Manual* requires internal school funds to be audited by an independent certified public accountant each year. In addition, the School System's internal auditors perform audits of internal school funds. The purpose of such audits is to ensure accountability for the safekeeping and proper handling of school funds and to determine compliance with the uniform accounting policy manual. No audit can guarantee the safeguarding and proper management of funds. However, internal auditors play a critical compliance role and provide at least some assurance that internal school funds are managed in accordance with the *Tennessee Internal School Uniform Accounting Policy Manual*.

The audit manager and four internal auditors perform school audits throughout the year. Preliminary audits for high schools begin around February, middle schools begin in March, and elementary school audits begin in April. In June, the Internal Audit Department performs year-end closing procedures and provides information to the external auditors. Final audits are completed in October and final audit reports issued in November. Throughout the year, the auditors conduct online reviews of transactions, assist with preparing journal vouchers, and provide advice and training.

Each auditor is assigned 34 schools and uses a standard program to apply basically the same procedures to each school, each year. According to the standardized work program, the internal auditors select 10 percent of checks and all checks over \$1,000. In addition, 10 percent of receipts are selected. A risk-based approach would use audit resources more effectively by selecting samples based on perceived risk. This approach could lead to better audit results.

The Institute of Internal Auditors defines risk-based internal auditing as a methodology that links internal auditing to an organization's overall risk management framework. It allows internal auditors to provide some assurance that risks are being managed effectively based on the organization's "risk appetite", which is defined as the amount of risk an organization is willing to accept. In this approach, audit resources are directed towards potential problem areas as auditors consider factors such as transaction volume, compliance history, expertise and tenure of accounting staff, and the overall internal control environment.

A properly timed and performed risk assessment provides the foundation for more efficient and effective audits. It focuses the auditor's attention on identifying, assessing, and responding to those risks that have the potential to materially affect the administration of student activity funds.

One example of a risk-based approach would be foregoing the application of every audit program step to a school that has no finding during the past five years. Instead of examining individual purchasing transactions in search of purchases made without a purchase order, the auditor might generate a system report that compares purchase order date to invoice date. Since the risk of unauthorized purchases is low, a high-level analytic would be just as effective as a detail disbursements test and take less time. Another example might be timely deposit of funds. In a school where this has not been an issue in the past and the staff has not changed, the auditor might consider preparing a schedule comparing the date a deposit was recorded in the books to the date shown on the bank statement. This type of comparison can be made for low risk schools without examining deposit slips and related backup documentation.

RECOMMENDATION 5-A.1

Use a risk-based audit approach to plan the nature, timing, and extent of audit procedures; select audit samples; and allocate staff resources.

The audit manager for the School System should devise a risk-based audit model using the following factors:

- volume of expenditure and receipt transactions;
- amount of expenditure and receipt transactions;

- tenure of school principal and bookkeeping staff;
- experience of school principal and bookkeeping staff;
- knowledge of school principal and bookkeeping staff;
- results of previous external audits;
- result of previous internal audits;
- nature and timing of fundraisers occurring during the year;
- principal's attitude toward internal control and adherence to the *Tennessee Internal School Uniform Accounting Policy Manual*; and
- other relevant risk factors.

The model should assess each school using the above factors and then design alternative audit approaches and sample selections to reflect the risks identified. A scale and ranking should be developed indicating which schools are high, medium, and low risks. The audit program, instead of applying the same procedures every year to each school, should be tailored based upon the schools assessed risk and risk category. For example, low-risk schools might receive a full audit once every two or three years while high-risk schools would continue to receive an audit each year.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

OBSERVATION 5-B

The School System does not take sufficient steps to ensure that appropriate action is taken on internal school fund audit findings so that they are fully addressed in a timely fashion.

As a result, some schools have reoccurring findings that go unresolved from year to year, which indicates a lack of motivation to comply with the Uniform Activity Manual.

Follow-up audits are helpful for determining whether sufficient action is being taken on audit findings. However, the Internal Audit Department does not perform follow up audits that are documented in a formal follow-up report. Findings from mid-year audits that occur from February through May are reviewed by internal auditors during final audits, which occur in the fall. However, during the subsequent audit season, there is no follow-up on findings in the final report from the previous season.

Formal, documented corrective action plans are useful for holding those responsible for the administration of internal school funds accountable for addressing audit deficiencies. However, principals are not required to submit formal correction action plans that can be monitored and enforced. Although principals are supposed to provide responses to audit findings not all of them do so, and those who provide comments do not always provide a corrective action plan complete with responsibilities and timelines. Principals' responses to internal school fund audits should contain the following elements at a minimum:

- statement as to whether school management agrees with the finding;
- direct response to the finding and its recommendation(s);
- specific actions that management commits to take to correct the finding;
- response that is clear and concise;
- exclusion of information that is not pertinent to the finding or its corrective action plan;
- identification of specific positions, if applicable, responsible for implementation; and
- specific and realistic timetables for implementation.

Tracking audit deficiencies by school, by year is a useful way to identify recurring audit findings and to determine whether personnel responsible for administering internal school funds are addressing internal control weaknesses adequately. Findings that reoccur from year to year at the same school are often an indication that either staff are unaware of how to comply, need more training, or have a lax, or worse, careless attitude regarding compliance. Although the audit manager maintains a record of audit findings, it is not used to hold principals accountable for recurring noncompliance. At one time, the principal and bookkeeper met with representatives of the Internal Audit and Leadership & Learning Departments to review and address recurring deficiencies. According to Internal Audit staff, this practice was discontinued two years ago.

Including audit results in principal evaluations is an effective way to emphasize the critical nature of a principal's financial management responsibilities and to hold them accountable for fulfilling their responsibilities under the Internal School Accounting Act (Section 49-2-110, TCA).

The Internal School Accounting Act (Section 49-2-110, TCA) provides boards of education and school principals with definite authority and responsibility for the administration and safekeeping of all internal school funds. The Act makes school principals responsible for the safekeeping, management, and accounting of all student activity and other internal school funds. Principal evaluations do not specifically address internal school funds. Section D22 of the Administrator Evaluation Observation Form rates principals on budgetary responsibilities, which is a broader category than internal school fund audit results.

Duties and responsibilities of individual school principals outlined in the *Tennessee Internal School Uniform Accounting Policy Manual* include, but are not limited to, the following:

- notifying the Comptroller of the Treasury, Division of Municipal Audit if the principal becomes aware of any evidence of fraud related to internal school funds;
- implementing and complying with the regulations, standards, and procedures contained in the Manual and any other policies adopted by the local board of education that has jurisdiction over the school;
- providing for the safekeeping and handling of all school money and other school property, irrespective of the source of such money or property (Section 49-2-110, TCA);

- submitting reports and other materials to the director of schools or board of education on a timely basis, as directed;
- delivering all financial records, books, ledgers, computer files, reports, and supporting documentation, as directed by the director of schools or board of education;
- assuming responsibility for equipment located at the school, including equipment security, inventory control, care, and utilization;
- complying with purchasing procedures prescribed by the board of education, including bid policies and procedures established by the board for student activity and other internal school funds;
- notifying the director of schools or the director's designee and appropriate local law enforcement agency when equipment is stolen, misplaced, or destroyed;
- complying with the provisions of Section 49-6-2007, TCA, regarding the disposition or transfer of property; and
- maintaining a current edition of the Manual on school premises and making it available to all school personnel.

RECOMMENDATION 5-B.1

Enforce accountability for addressing and resolving internal school fund audit findings by conducting follow up audits, including principal responses in audit reports, requiring schools to prepare formal corrective action plans, tracking audit deficiencies for discussion, and making audit results a criteria in principal evaluations.

The chief financial officer, audit manager, and appropriate Leadership and Learning staff should coordinate efforts to reinforce accountability for internal school funds. The audit manager should consider moving the start date for mid-year audits up a few months to allow time to conduct follow up audits. Leadership & Learning management should coordinate with the Internal Audit Department to require that all principals provide a response to audit findings and the Internal Audit Department should include the responses in the final audit report. Leadership & Learning management should instruct principals to submit formal corrective action plans with their comments. The corrective action plans should, at a minimum, include the following for each finding:

- school;
- principal name;
- bookkeeper name;
- finding number;
- year observed;
- description;

- management's response;
- corrective action taken or proposed;
- person responsible; and
- resolution deadline.

Leadership & Learning management should hold principals accountable for executing corrective action plans. Internal auditors should review these corrective action plans to gauge progress during follow up audits. The audit manager should review historical audit findings and trends with principals and bookkeepers from schools with recurring and/or significant findings. Finally, Leadership & Learning management should work with Human Resources to revise principal evaluations as necessary to give heavier weight to audit findings and their subsequent resolution.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

GENERAL ACCOUNTING

OBSERVATION 5-C

Although internal controls over sensitive; technology assets are strong, the process for the bi-annual inventory of capitalized assets needs to be strengthened.

The School System's internal controls over sensitive items, Information Technology items, and vehicles are operating effectively. These items go through a physical inventory annually. Capital items recorded in the School System's accounting system for depreciation goes through a bi-annual physical inventory.

Sound, comprehensive controls over fixed assets are critical to ensure that fixed and sensitive assets are safeguarded and accounted for. The School System defines fixed assets as "tangible items of a non-consumable nature, the value of which is \$5,000.00 or more and the normal expected life of one year or more. Examples of fixed assets are land, buildings, equipment, fixtures, motor vehicles, audiovisual materials and certain computer hardware and software".

Sensitive minor equipment is defined as items purchased with a cost of between \$100.00 and \$5,000.00 and a useful life of over one year. Sensitive equipment includes items such as computers and external computer peripherals as determined by the State Personal Property Section. All sensitive assets are considered trackable and must be entered into the School System's FileMaker Pro inventory system.

Written fixed asset procedures exist, and there are strong controls over sensitive items, Information Technology items, and vehicles. Items tracked on the FileMaker Pro system have a physical inventory annually. Information Technology items are received and tagged at a central warehouse and entered into the FileMaker Pro database. The central warehouse receives approximately 95 percent of all sensitive items coming into the District. Other sensitive items are received and tagged by school and department inventory staff. Inventory tags are bar coded and location codes are placed in the door jams of offices/classrooms where the equipment is located. The tag numbers and location codes are also entered into the FileMaker Pro database. Transportation tracks VIN numbers and assignments on all vehicles.

The Fixed Asset Fund for MNPS carries a balance for assets at June 2014 of the following: capital asset original price \$1,081,485,393 less accumulated depreciation \$397,947,256 for book value \$683,538,137. Of this amount Machinery, Equipment, Furniture and Fixtures represents 0.72 percent (\$4,950,495). Some of these items are tracked in the FileMaker Pro but the majority are only tracked in the School System's accounting software. These items are required to have a bi-annual physical inventory. The bi-annual physical inventory is organized by the fixed asset accountant. This process is to send sheets out to schools and departments to be reviewed, updated and then returned. Many of these items are fully depreciated and have a negligible salvage value. When an item is obsolete and no longer useable, the school/department will notify the warehouse to pick up the item for surplus or sale on Ebid.

Principals and department heads have the ultimate responsibility and accountability for the School System's property. Each school principal or department head is responsible for designating an inventory lead at their location. The lead is responsible for maintaining control of the inventory and recording movement of equipment within the building or outside of the building.

Finally, schools are not putting the serial number, asset number, and model number on the surplus online system form that the school completes to dispose of surplus inventory. The absence of this information makes it more difficult for the fixed assets clerk to remove disposed assets from the system. The fixed assets clerk needs this information to remove the item from the books. Currently, the fixed assets clerk has to look at the picture of the item and hunt for it in the system. If the school provided the information, it would facilitate locating and removing the item from the records thereby reducing the number of surplus items remaining on the books.

RECOMMENDATION 5-C.1

Strengthen controls over the bi-annual physical inventory that is organized by the fixed asset accountant.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

RECOMMENDATION 5-C.2

Require that the serial number, asset number, and model number be placed on the surplus equipment form so that this data can be captured and used by the fixed asset accountant to remove surplus assets from the fixed assets system.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

OBSERVATION 5-D

The School System's method of sending journal voucher documentation to Metropolitan Nashville Government's Accounting Office is archaic and redundant, particularly in light of the capabilities of readily available document imaging technology.

The senior accountants in the Budgeting and Financial Reporting Department are responsible for the following tasks, which result in journal vouchers and associated supporting documentation including:

- a) payroll edit entries;
- b) internal service fund charges;
- c) transportation department charges; and
- d) various charges to individual schools.

After the entries are entered into the accounting software, the current method of sending the journal voucher documentation is via interoffice mail. Imaging technology allows documents to be scanned and e-mailed. This process is much more efficient than sending paper documents through interoffice mail. By using this technology, the School System can reduce the usage of paper.

Exhibit 5-6 is an image of the FASTpak – the interoffice envelope used to send documentation to Metropolitan Nashville Government's Accounting Office.

**Exhibit 5-6
FASTpak**

METRO MAIL

METROPOLITAN GOVERNMENT
of Nashville and Davidson County
FASTpak

Department: _____

Entered by (name and UserID#): _____

Date entered: _____

Department Approval: _____

Budgets Approval: _____

N/A
(for BX document type only)

Document Type: _____

Batch Number: _____

MetroMail Routing Instructions - Please Deliver To			
Document Type	Agency	Contact	Select One
Payroll Time Entry	Central Payroll		
RC	Division of Accounts		
RQ	Division of Purchases		
PV/OP/OF/OE/OI/OJ	Division of Accounts - AP		
BX	Office of Management & Budget		
JE	Division of Accounts		
FA/DEP	Division of Accounts		

RECOMMENDATION 5-D.1

Use imaging and e-mail technology to send journal vouchers and related supporting documentation to Metropolitan Nashville Government’s Accounting Department, and discontinue sending paper documents through interoffice mail.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

OBSERVATION 5-E

The School System does not collect all charges in advance when providing certain services to the public.

Not collecting the funds in advance places extra administrative burden on the School System because the funds must be tracked and collected. In addition, if the charges are not paid, the School System faces financial loss.

The School System makes its facilities available for public use. The facility coordinator uses a system called SchoolDude to track facility rentals and usage. The facility coordinator and the accounts receivable technician review the information before it is entered into SchoolDude. The accounts receivable technician then prints an invoice and sends it to the customer.

The Transportation Department provides outside party field trip invoices to the accounts receivable technician. The Transportation Department sends the invoices through interoffice mail, and the accounts receivable technician enters them into an Access Database for tracking. The accounts payable clerk then sends the invoice to the customer and provides a monthly report to the director of Financial Operations.

As part of its 2013-2014 department goal effective July 1, 2013, the School System required organizations who use their facilities to make a deposit that would cover the cost of the rental prior to use, excluding personnel costs for custodial (custodial services are outsourced) and food service fees which are billed afterwards. The bills for these services are billed after the services have been provided. Collecting facility fees in advance has increased collections with less outstanding balances at the end of the fiscal year.

The coordinator of facility use and the accounts receivable technician meet monthly to review invoices from SchoolDude prior to mailing them to customers. The objective is to make sure all scheduled usages are accounted for properly.

Each month, the accounts receivable technician meets with the director of Financial Operations to review the invoice report and accounts receivable aging. Once payments have been posted, they decide which accounts will require collection efforts.

Exhibit 5-7 provides a summary of outstanding facility rental receivables as of December 31, 2013 and shows that \$37,079 of receivables were written off.

**Exhibit 5-7
Public Field Trip and Facility Rental Receivables**

Description	Balance July 1, 2013	Current Year Charges	Payments	Write-offs	Balance December 31, 2013
Field Trips	\$53,884	\$91,700	\$142,398	\$-0-	\$3,186
Building Rental	\$59,757	\$96,783	\$90,882	\$37,079	\$28,579
Total	\$113,641	\$188,483	\$233,280	\$37,079	\$31,765

Source: December 2013 Financial Operations Report, page 2 of 9.

The annual breakdown of the \$37,079 write offs is as follows:

- 2010-2011 - \$558
- 2011-2012 - \$19,899
- 2012-2013 - \$16,622

The School System’s Facility Use Policy FM 2.118 states that final payment of the full amount due for the use of school property is due within 30 days of invoice. Balances older than 60 days are turned over to a collection agency. Customers with over 60 days of unpaid invoices who have made no effort of contacting Financial Operations for payment arrangements are subject to collection activities and are denied future usage.

Of the \$31,765 in outstanding receivables as of December 31, 2013, \$3,187, or 10 percent, was 60 days or more past due. The 10 percent consisted of groups who subsequently contacted MNPS regarding payment arrangements. As of June 30, 2014, only \$1,220, or 3.84 percent of the \$31,765 balance at December 31, 2013 was still outstanding.

Exhibit 5-8 provides an overview of balances turned over to the collection agency since June 2012 and provides the balance due as of April 2014.

**Exhibit 5-8
Facility Rental Collection Agency Activity**

Total Referred to Agency	\$48,076.50
Total Collected	(\$14,745.87)
Agency Commission	(\$3,812.13)
Balance Due	\$29,518.50

Source: Operations Facility Rental Collection Report.

RECOMMENDATION 5-E.1

Require the public to pay in advance for field trips and school facility rentals.

The School System should not carry accounts receivable for goods and services provided to the public. In addition to collecting an advance deposit for field trips and facility rentals, the School System should collect for all anticipated charges before services are provided or access granted to rented school facilities. The chief financial officer should instruct the director of Financial Operations to eliminate the practice of carrying public accounts receivable and issue any policy directives necessary to achieve this goal.

FISCAL IMPACT

The 2013-2014 write offs totaled \$4,489. Future write-offs are likely to be lower than in previous years because of anticipated changes in collection procedures. Assuming write offs could be reduced to the 2013-2014 amount by collecting balances up front, the annual savings would be approximately \$5,000 per year.

OBSERVATION 5-F

The School System’s method of disbursing and recovering Basic Education Program funds is antiquated and inefficient.

Tennessee Code Annotated, Section 49-3-359 requires that Tennessee schools provide basic education program funding for instructional supplies. The amount is \$200 for every teacher in kindergarten through grade twelve. One hundred dollars is given directly to the teacher for such purpose as determined by each teacher. Metropolitan Nashville Public Schools adds an additional \$100 to that required by statute so that the total amount given to each teacher is \$200.

In addition, the statute requires that another \$100 be placed in a pooled fund for the use of all teachers in a school. These funds are to be spent as determined by a committee of teachers in the school. The purpose of the pooled funds is to permit purchase of items or equipment that may exceed an individual teacher's allocation for the benefit of all such teachers at the school and the enhancement of the instructional program.

The School System includes Basic Education Program funds in teacher checks at the beginning of each year and settles up with each teacher at the end of the year when teachers bring in receipts to support expenditures. Unspent funds are returned to the school in addition to funds for which the teacher fails to provide receipts. This cycle continues each year. The process of managing Basic Education Program expenditures and reimbursements can be time consuming. More effective, technology through prepaid business credit cards is available to streamline the process.

A prepaid business credit card is ideal for Basic Education Program purchases because it can be tailored based upon the School System's needs. The School System can apply any dollar amount to each card and set limitations as to which category of spending will be allowed or restricted, for example grocery stores, retail shops, gas stations, restaurants, and so on. The card holder and the School System's program administrator can view expenditure statements online, and the School System can adjust not only the total amount of funds on each card, but also the total amount on deposit with the prepaid card company.

Although each teacher would still be required to submit expenditure receipts, the year-end reconciliation process and providing Basic Education Program funds the following year would be simplified and streamlined. The teacher would no longer be required to return unused funds, because they would still be on the card. There would be no need to issue a check at the beginning of the following school year; funds could be added to the card using the card provider's online system.

RECOMMENDATION 5-F.1

Use prepaid business credit cards to distribute Basic Education Program funds, and eliminate the practice of adding funds to teacher paychecks at the beginning of each school year.

The chief financial officer should instruct the director of Budgeting and Financial Reporting to research available prepaid business credit card options. The director of Budgeting and Financial Reporting should coordinate with the chief academic officer and the executive director of Technology and Information Services to develop a plan to enroll in a prepaid credit card program in time for the 2015 school year.

FISCAL IMPACT

There could be some cost to implementing the program such as the cost of the prepaid business credit cards and the technology required to setup the cards, monitor their usage, and audit purchases. These costs would need to be determined through consultation with the prepaid debit card service provider. Any costs associated with administering the program will depend on which card vendor is selected and how many cards are issued.

PURCHASING

OBSERVATION 5-G

The School System does not consistently use electronic purchase requisitions.

The School System employs a centralized purchasing model to procure most of its goods and services. In accordance with the standard operating procedure entitled "Completion of Purchase Order", a requisition should be entered electronically into the procure-to-pay system by a school or department.

Web Requisition (Web Req) is the proprietary procure-to-pay workflow system that was implemented in 2010 for the School System. Web Req electronically routes purchase requisitions along the pre-defined approval process. Web Req interfaces with the Oracle EnterpriseOne accounting system (EnterpriseOne system), which issues purchase orders upon final approval. However, purchase requisitions for charter school expenditures using federal funding are initiated outside of Web Req in paper form and routed to the Purchasing Department. Processing paper requisitions for charter schools is less efficient and can cause delays in the procurement process.

Federal funding is given to the School System, which is allocated and in escrow for charter schools to spend. Charter schools do not have access to the Web Req system to initiate purchase requisitions. As a result, charter school personnel complete paper requisitions, obtain campus-level approvals and subsequently submit the requisition to the School System's federal budget office for approval. From here the paper requisition is entered into the Oracle EnterpriseOne system by Purchasing Department staff.

As the system is currently configured, authorized Web Req users have unrestricted access to the accounts from which to requisition goods and services. The system is not configured to limit charter schools from accessing only federal funds. The School System requires charter schools to use the manual paper requisitions process to mitigate the possibility of School System resources being inadvertently used to procure charter school goods and services.

Currently, the Purchasing Department estimates that they process approximately 15 to 25 paper requisitions each month for charter schools. While the current number of monthly paper requisitions is not overly burdensome on current resources, the process can be automated and create efficiencies. Standardized automated processes can create transparency to identify and track requisitions and can be processed faster. Currently, the Purchasing Department averages two and a half days to convert initiated purchase requisitions into purchase orders using the EnterpriseOne system. Manual purchase requisitions take a week or more and could get lost in the process.

Charter schools have experienced tremendous growth since 2004-2005. Charter schools in Nashville have grown from 143 students in 2004-2005 to more than 5,400 students in 2014-2015. As charter schools continue to grow the number of paper requisitions processed will increase and become challenging for existing resources.

RECOMMENDATION 5-G.1

Configure the Web Requisition system for limited access for charter schools to initiate electronic purchase requisitions.

The School System should explore if Web Req can be reconfigured in a manner that would provide charter schools limited access to their specific funds when initiating purchase requisitions. Eliminating the paper purchase requisition process for charter schools will streamline and standardize the procurement process and reduce potential delays and bottlenecks associated with the current centralized manual entry system.

FISCAL IMPACT

This recommendation could be implemented with current resources.

OBSERVATION 5-H

Purchase orders are not consistently issued for all contracted vendors.

In 2012-2013, the School System expended \$140,536,920 for goods and services excluding payroll and debt payments. Purchase orders were not issued for \$61,018,217 of the \$140,536,920 expended total, or approximately 43 percent.

The School System employs a centralized purchasing model to procure most of its goods and services. Through the Purchasing Department's electronic workflow system, Web Requisition (Web Req) purchase requisitions are initiated and routed along a pre-defined authorization path. Upon obtaining the requisite approvals, Web Req interfaces, on a batch basis, with the Oracle accounting system that issues the purchase orders.

The School System's purchasing policy states that employees may initiate orders using purchase orders or purchasing cards. A purchasing card may be used for travel purchases, purchases from vendors who will not accept a School System purchase order, or in emergency situations. However, some expenditures such as utilities, maintenance, transportation, print shop expenses, and food ordered by Nutrition Services, are made without issuing a purchase order through the Oracle accounting system.

The School System does not issue purchase orders for utility services such as electric, gas, waste removal, and phone. Utility services are procured without a contract from the utility providers serving the local area. Utilities are on "direct pay", as purchase orders are not issued and invoices are received and processed by the School System's Accounts Payable Department. In 2012-2013, maintenance expenses were on "direct pay," however in 2013-2014, they transitioned to purchase order process.

The Nutrition Services Department orders dry goods, produce, and dairy using a purchase order module in WebSMARTT, a comprehensive web-based solution designed specifically for food services that tracks

sales transactions and inventory. The purchase order is generated at the school level for individual cafeteria needs on a weekly basis. The purchase order number is used in receiving and invoicing. However, as the purchase order within WebSMARTT is currently configured, the order is not applied against the aggregate expenditure by vendor upon entry prior to approval. On a monthly basis, WebSMARTT data is uploaded into the Oracle accounting system. Actual aggregated expenditures are compared to budget amounts on a monthly basis in arrears.

As depicted in **Exhibit 5-9**, the top 50 vendors from which the School System procured goods and services represent \$107,448,036, or 76 percent of the total \$140,536,920. **Exhibit 5-10** indicates that of these top 50 vendors, purchase orders were not issued for 17 of the vendors that make up \$37,069,437 or 34 percent of the \$107,448,035 that the School System expended with the top 50 vendors.

**Exhibit 5-9
Top 50 Vendors by Expenditures in 2012-2013**

Vendor	PO	Sum of Amount
GCA SVCS GRP (ACH)	Yes	\$23,200,671
NASHVILLE ELECTRIC SERVICE CO	No	18,709,751
TN BOOK CO (ACH)	Yes	9,476,967
INSTITUTIONAL WHOLESALE CO INC	Yes	8,621,293
WRIGHT EXPRESS FINANCIAL SERVI	No	5,003,515
MDHA (ACH) (P#)	No	4,593,967
PIEDMONT NATURAL GAS CO (METRO	No	2,345,058
NCS PEARSON INC (MAINTENANCE)	Yes	2,259,586
GOLDENROD DAIRY (ACH)	Yes	2,153,706
TRIBAL EDUCATION (ACH)	Yes	2,085,299
APPLE INC (ACH)	Yes	1,879,609
A Z OFFICE RESOURCE INC (ACH)	Yes	1,656,304
DELL MARKETING LP(ROUNDROCK TX	Yes	1,572,990
SPRINT	No	1,558,493
GENESIS LEARNING CENTERS (ACH)	Yes	1,388,776

**Exhibit 5-9
Top 50 Vendors By Expenditures In 2012-2013**

Vendors	PO	Aggregate Expenditure
AMERICAN PAPER & TWINE CO (ACH)	Yes	1,340,542
CDW GOVERNMENT INC (ACH)	Yes	1,224,048
EDUCATIONAL BASED SVCS	Yes	1,142,410
CENTERSTONE CMHC (ACH)	Yes	1,065,445
ALLIED WASTE (ACH)	No	958,087
SPECTRUM CENTER SCHOOLS	Yes	878,396
METRO TRANSIT AUTHORITY (ACH)	Yes	847,912
EDUCATION NETWORKS OF AMERICA	No	797,212
CATAPULT LEARNING LLC	Yes	772,584
ANGELO FORMOSA FOODS INC (ACH)	Yes	717,043
MID SOUTH BUS CENTER INC (ACH)	No	694,224
SCHOOL SPECIALTY INC #34 (TN/W	Yes	652,727
NEW TEACHER PROJECT INC, THE	Yes	638,729
BELLSOUTH (85 ANNEX)	No	637,600
FEY VOR RITE PRODUCE SALES INC	Yes	567,183
TEACH FOR AMERICA	No	556,530
BEACON TECHNOLOGIES (ACH)	Yes	523,582
DISCOVERY EDUCATION (MARYLAND)	Yes	519,360
AMERICAN ALLIANCE INNOVATIVE S	Yes	466,808
MNPS PV4100530 FY13 Exp Accrue	No	436,086
RICOH USA PROGRAM (ACH)	No	432,770
LIPSCOMB UNIV/COLLEGE OF ED	Yes	390,124
FERGUSON ENTERPRISES (ACH)	No	386,796
MUSIC & ARTS CENTER	Yes	386,580
TRISTAR DIGITAL CONNECTIONS LL	Yes	381,382
GIRTMAN & ASSOC INC (ACH)	No	379,172
PILGRIMS PRIDE CORP	Yes	369,440
VANDERBILT UNIVERSITY MEDICAL	Yes	366,330
BUCK INSTITUTE FOR EDUCATION	Yes	363,513
SPECIAL SECURITY SERVICES INC	Yes	361,403
JOHNSTONE SUPPLY (ACH)	No	360,180
CAROLINA BIOLOGICAL SUPPLY CO	Yes	347,723
MAYNARD SELECT LLC (ACH)	No	338,834
BLACKBOARD INC	Yes	321,266
MID TENN FORD TRUCK SALES INC	No	320,030
Top 50 Vendors by Expenditures Total		\$107,448,035
Total Expenditures		\$140,536,920
Percentage of Total		76%

Source: Metropolitan Nashville Public Schools Purchasing Summary, 2012-2013.

**Exhibit 5-10
Top 50 Vendors by Expenditures Without Purchase Orders In 2012-2013**

Vendor	PO	Sum of Amount
NASHVILLE ELECTRIC SERVICE CO	No	18,709,751
WRIGHT EXPRESS FINANCIAL SERVI	No	5,003,515
MDHA (ACH) (P#)	No	4,593,967
PIEDMONT NATURAL GAS CO (METRO	No	2,345,058
SPRINT	No	1,558,493
ALLIED WASTE (ACH)	No	958,087
MID SOUTH BUS CENTER INC (ACH)	No	694,224
BELLSOUTH (85 ANNEX)	No	637,600
TEACH FOR AMERICA	No	555,000
EDUCATION NETWORKS OF AMERICA	No	497,524
MNPS PV4100530 FY13 Exp Accrue	No	436,086
RICOH USA PROGRAM (ACH)	No	3,555
FERGUSON ENTERPRISES (ACH)	No	244,401
GIRTMAN & ASSOC INC (ACH)	No	100,101
JOHNSTONE SUPPLY (ACH)	No	73,210
MAYNARD SELECT LLC (ACH)	No	338,834
MID TENN FORD TRUCK SALES INC	No	320,030
Top 50 Vendor By Expenditures Without Purchase Orders		\$37,069,437
Top 50 Vendor By Expenditures		\$107,448,035
Top 50 Vendors By Expenditures Without Purchase Orders as Percentage of Total		34%

Source: Metropolitan Nashville Public Schools Purchasing Summary, 2012-2013.

Many of the 17 vendors listed above are utility providers and are not contracted as previously mentioned. Two of the 17 vendors listed in Exhibit 5-10 are providing repetitive consumable goods and services that are contracted for a specific period of time with a maximum amount. Two other vendors listed above are contracted but do not have a specified maximum contract amount. By not issuing purchase orders for each vendor at the contracted amount, the School System is missing the opportunities to create consistencies among the purchasing business processes and establish an automated method of monitoring the aggregated expenditure by contract.

RECOMMENDATION 5-H.1**Issue purchase orders for all contracted vendors and eliminate direct pay.**

The School System should require purchase orders to be issued for all contracted vendors thereby eliminating exception processing of “direct pay.” Blanket purchase orders should be used for contracts for goods and services that are provided on a consistent basis with multiple delivery dates over a set period of time. A blanket purchase order allows multiple purchases to be made for a specified period of time against the same order number. Similar to a regular purchase order, departmental funds are encumbered for the contracted amount upon the issuance of a blanket purchase order. Blanket orders should be sent to the vendor so they know the PO number to include on all invoices.

FISCAL IMPACT

The School System can implement this recommendation with existing resources.

OBSERVATION 5-I**The School System does not have a formal review process with written procedures for evaluating contractor performance and contract compliance.**

The School System does not have a formal review process with written procedures for evaluating vendor performance to ensure consistency and timeliness of contract compliance. The standard contract template used by the School System contains a provision for contractor performance evaluations. The provision assigns a specific department position the responsibility of performing and documenting the contractor’s performance evaluation during the term of the contract. Some contracts detail specific criteria on which the evaluations will be measured, some do not. The School System does not have procedures detailing when and how the evaluations are required to be completed if the contract is silent to these details. Additionally, the School System does not centrally monitor the responsible parties listed in the contract to ensure the evaluations are completed and retained.

The Purchasing Department maintains a “contracts tracking spreadsheet” that captures pertinent information such as vendor name and number, funding source, competitive bid from which the contract was awarded, the contract number, and the effective and termination dates for all contracts issued by the School System. This multi-tabbed document contains 3,400 lines of active, amended, and terminated contracts for the School System. It provides quick reference to high-level contract specifics that is used for queries and research.

Within established industry best practices, a properly completed vendor evaluation provides for evidence that contracted terms are being monitored, appropriate records are maintained, vendor performance is being evaluated, contracts are managed for close-out, and contract results are evaluated. Without establishing standard procedures and tools to evaluate, document, and ensure the responsible parties are completing vendor evaluations and monitoring contract compliance, the School System may not be consistent in vendor evaluations and may be accepting inferior goods or services and possibly exposed to financial loss.

RECOMMENDATION 5-I.1

Strengthen the contractor performance evaluation process by establishing written procedures and tools, and centralize retention of the evaluations.

To ensure contractor evaluations are performed in a consistent manner, the School System should establish and implement written procedures and tools used to evaluate and document the contractor performance evaluations and contract compliance. Completed evaluations could be centrally retained in electronic format on the shared drive with limited access to Purchasing personnel.

FISCAL IMPACT

This recommendation can be implemented using existing resources.

ALTERNATIVE SOURCING AND LEVERAGING OPPORTUNITIES

In this section of the chapter, the review team evaluates opportunities for the School System to outsource financial operations or leverage resources with Metropolitan Nashville Government. Typically, it is not practical for school districts to outsource financial management activities due to the unique complexities of school accounting, reporting, administrative, and legal requirements associated with school operations. The Metropolitan Nashville Public School System is no exception. For these reasons, with the exception of the internal school fund audit function, the review team deems outsourcing financial management functions to be neither practical nor cost effective. With respect to leveraging, many financial functions are already leveraged with Metropolitan Nashville Government. As a result, only opportunities for outsourcing or leveraging internal school funds are evaluated in this section.

OUTSOURCING INTERNAL SCHOOL FUND AUDITS

We do not consider the internal school fund audits to be a viable outsourcing opportunity. It would be neither efficient nor cost effective to do so. Therefore, we believe the function should remain with the School System.

The audit function consists of a manager, four auditors, and two trainers. **Exhibit 5-11** presents the department's 2014-2015 \$622,800 budget.

**Exhibit 5-11
School Audit Function Budget
2014-2015**

Account Description	Amount
Salaries	\$367,200
Supplies & Materials	5,000
Other Expense	3,700
FICA, Medicare, Pension & Insurance	185,500
Travel\Mileage	5,900
Contracted Services	55,500
Total Budget	\$622,800

Source: Metropolitan Nashville Public Schools 2014-2015 Budget, Document #9.

The audit department performs 136 school fund audits per year in addition to the following responsibilities:

- trains new school bookkeepers to maintain compliance with Tennessee Internal School Uniform Accounting Policy Manual;
- provides advice regarding school fund transactions;
- assists bookkeepers with operating and navigating School Funds Online, the system used for internal school fund accounting;
- approves requests to establish new vendors in the accounting system;

- reviews and assists with preparation of monthly bank reconciliations;
- conducts online reviews of transactions throughout the year;
- performs special assignments upon request; and
- assist external auditors during year-end audit.

Exhibit 5-12 presents the total available hours the department has during the year to accomplish its responsibilities.

**Exhibit 5-12
Available Audit Department Hours per Staff**

Account Description	Amount
Weeks per year	52
Hours per Week	40
Total Available Hours per Year	2,080
Vacation	(120)
Holiday	(80)
Sick	(96)
Personal Days	(24)
Total Available Work Hours per Year per staff	1,760
Total Audit Staff Available Hours (4*1,760)	7,040

Source: Metropolitan Nashville Public Schools Internal Audit Department.

Auditors do not track time spent conducting internal school fund audits. Per discussion with audit staff, the time is difficult to quantify because audit activity is ongoing throughout the year with online monitoring of school transactions and bookkeeper support. The auditors consider this activity to be a part of the annual audit that takes place once a year. Auditors provided the review team with their best estimate of the time incurred to audit internal school funds including all monitoring and support activities. The review team used the estimates to calculate a utilization percentage to assess how much excess capacity is in the department. **Exhibit 5-13** presents the calculation, which shows that 98 percent of auditors' available time is spent performing audit and related activities. This analysis assumes that only internal school funds audits would be outsourced. The audit manager trainer positions would not be outsourced and would remain with the School System.

**Exhibit 5-13
Estimate of Internal School Fund Audit Hours**

Description	Time Estimate	Mid-Point Hours	# of Schools	Total Estimated Hours
High Schools	80-100 hours	90	21	1,890
Middle Schools	40-60 hours	50	34	1,700
Elementary Schools	30-50 hours	40	73	2,920
Special Schools	40-60 hours	50	8	400
Total Audit Hours			136	6,910
Total Audit Staff Available Hours				7,040
Audit Staff Utilization Percentage				98%

Source: Metropolitan Nashville Public Schools Internal Audit Department.

Using the estimate of total audit hours, the blended cost to audit internal school funds is estimated to be \$59 per hour as shown in **Exhibit 5-14**.

**Exhibit 5-14
Calculation of Blended Cost Rate**

Audit Function Budget	\$622,800
Less: Manager & Two Trainers	(\$213,200)
Adjusted Budget-Four Auditors	\$409,600
Total Audit Hours	6,910
Blended Rate	\$59

Source: Metropolitan Nashville Public Schools Internal Audit Department 2014-2015 budget, and Director of Budgeting and Financial Reporting.

To be a candidate for cost-effective outsourcing, an external audit entity would need to be able to perform the 136 audits at a blended rate considerably less than \$59. McConnell Jones Lanier & Murphy LLP's affiliate McConnell & Jones LLP is a Houston, Texas based certified public accounting firm that performs audits of a similar nature. Based on our firm's standard billing rates ranging from \$100 for audit staff to a \$300 partner rate, it is not likely that a well-qualified independent certified public accounting firm would be able to conduct the school audits for a blended rate less than \$59. Even with gains in efficiency, the rate spread is too wide. Consequently, outsourcing the School System's internal audit function is not deemed to be cost effective and therefore not recommended.

LEVERAGING INTERNAL SCHOOL FUND AUDITS

This analysis focuses on the ability of the Metropolitan Nashville Office of Internal Audit eight staff auditors to absorb the School System internal school audit function. Based on the analysis in **Exhibit 5-15**, Metropolitan Nashville Government audit staff are over capacity by an estimated 328 hours. Therefore, it would not be feasible to leverage Metropolitan Nashville Government's audit staff to absorb the School System's internal school fund audits.

Metropolitan Nashville Government’s audit function has 10 full time staff consisting of the chief audit executive, one audit manager, and eight staff auditors. **Exhibit 5-15** provides an overview of annual available hours for Metropolitan Audit personnel.

**Exhibit 5-15
Metropolitan Nashville Government
Available Audit Department Hours per Staff**

Account Description	Amount
Hours per year (365*8)	2,920
Weekends (104*8)	(832)
Holidays	(80)
Vacation & Personal	(100)
Sick Self & Family	(60)
Total Available Work Hours per Year per staff	1,848
Direct time percentage (to factor in time staff spends on administrative duties)	81%
Available Hours per Audit Staff	1,497
# of Audit Staff	10
Total Audit Staff Available Hours	14,969
Estimated Hours Lost through Turnover (10 percent)	(1,497)
Audit Management Hours	(1,300)
Non-audit services: investigations, disclosures, and other requests	(1,700)
Estimated Audit Hours Available	10,472
Average hours to complete audits in-progress	(1,200)
Estimated Audit Hours Available for New Audit Projects	9,272
New Audits Conducted per Year	12
Average hours per audit	800
Total Hours Required	9,600
Estimated Audit Hours Available	(328)
Estimated Hours Over Capacity	328

Source: Metropolitan Nashville Government Internal Audit Department-Utilization Forecast.

FISCAL IMPACT SUMMARY

RECOMMENDATION		2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	TOTAL 5-YEAR (COSTS) OR SAVINGS	ONE TIME (COSTS) OR SAVINGS
CHAPTER 5: FINANCIAL MANAGEMENT								
5-A.1	Use a risk-based audit approach to plan the nature, timing, and extent of audit procedures; select audit samples; and allocate staff resources.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5-B.1	Enforce accountability for addressing and resolving internal school fund audit findings by conducting follow up audits, including principal responses in audit reports, requiring schools to prepare formal corrective action plans, tracking audit deficiencies for discussion, and making audit results a criteria in principal evaluations.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5-C.1	Strengthen controls over the bi-annual physical inventory that is organized by the fixed asset accountant.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5-C.2	Require that the serial number, asset number, and model number be placed on the surplus equipment form so that this data can be captured and used by the fixed asset accountant to remove surplus assets from the fixed assets system.	\$0	\$0	\$0	\$0	\$0	\$0	\$0

FISCAL IMPACT SUMMARY (Cont'd)

RECOMMENDATION		2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	TOTAL 5-YEAR (COSTS) OR SAVINGS	ONE TIME (COSTS) OR SAVINGS
CHAPTER 5: FINANCIAL MANAGEMENT								
5-D.1	Use imaging and e-mail technology to send journal vouchers and related supporting documentation to Metropolitan Nashville Government's Accounting Department, and discontinue using the FASTpak to send paper documents through interoffice mail.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5-E.1	Require the public to pay in advance for field trips and school facility rentals.	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$25,000	\$0
5-F.1	Use prepaid business credit cards to distribute Basic Education Program funds, and eliminate the practice of adding funds to teacher paychecks at the beginning of each school year.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5-G.1	Configure the Web Requisition system for limited access for charter schools to initiate electronic purchase requisitions.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5-H.1	Issue purchase orders for all contracted vendors and eliminate direct pay.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5-I.1	Strengthen the contractor performance evaluation process by establishing written procedures and tools, and centralize retention of the evaluations.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Totals—Chapter 5		\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$25,000	\$0

Management Response

	Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
Management of Metropolitan Nashville Public Schools should:			
5-A.1	Use a risk-based audit approach to plan the nature, timing, and extent of audit procedures; select audit samples; and allocate staff resources.	Accept. A risk assessment was completed in September 2014 and used to plan the nature, timing, and extent of audit procedures for the 2014-2015 school year. Auditors attended two days of training to learn how to develop risk assessments, calculate materiality limits and develop sample sizes based on risk and materiality of the auditee. This risk-based format will ensure staff resources are allocated properly.	December 2014
5-B.1	Enforce accountability for addressing and resolving internal school fund audit findings by conducting follow up audits, including principal responses in audit reports, requiring schools to prepare formal corrective action plans, tracking audit deficiencies for discussion, and making audit results a criteria in principal evaluations.	Partially Accept. Documented audit responses from principals are required for all audit findings beginning with the fiscal year ending June 30, 2014. Responses are reviewed by Executive Lead Principals, officers and Internal Audit manager for completeness. Formal corrective action plans will be required for significant or recurring audit findings. Internal Audit is tracking audit deficiencies, and follow-up audits are being performed. To date, six follow-up audits have been completed. Audit results are already incorporated into the Tennessee Educator Acceleration Model (TEAMTN) Administrator Evaluation Rubric with Standard D3.	July 2014 Ongoing, begun September 2014
5-C.1	Strengthen controls over the bi-annual physical inventory that is organized by the fixed asset accountant.	Accept Because of the difficulty the fixed asset accountant has in gathering returned reports and updating the physical inventory reports for the capital asset system, these items are going to be added to the physical inventory of sensitive items completed annually by the Inventory Team. This transition is scheduled to begin January 2015.	July 2015
5-C.2	Require that the serial number, asset number, and model number be placed on the surplus equipment form so that this data can be	Partially Accept These information items are already included on the surplus	November 2014

Management Response

FINANCIAL MANAGEMENT

	Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
	captured and used by the fixed assets clerk to remove surplus assets from the fixed assets system.	equipment form; however, MNPS has updated this form to show these information items as required fields to be completed.	
5-D.1	Use imaging and e-mail technology to send journal vouchers and related supporting documentation to Metropolitan Nashville Government's Accounting Department, and discontinue using the FASTpak to send paper documents through interoffice mail.	Partially Accept Upon inquiry to the Metropolitan Nashville Government's Finance Department in September 2014, MNPS found this change is not currently an option. MNPS management will work with Metropolitan Government's Finance and Information Technology Services Departments to explore other options.	TBD
5-E.1	Require the public to pay in advance for field trips and school facility rentals.	Reject (Field Trips) Field trips are not based on a flat rate scale and therefore cannot be pre-billed. Field trips are billed based on driver hours and miles driven. This cannot always be determined ahead of time, so billing cannot take place until after the field trip. Field trips are only engaged by schools and teachers for the students under their care. The public does not use MNPS buses. Reject (School Facility Rental) Organizations that use MNPS facilities are required to pay in advance for the cost of rental prior to use. This excludes personnel costs for custodial and food services, which are billed afterward. MNPS custodial service is outsourced and must be approved by the renter after each event before any billing occurs. Food service costs are difficult to pre-bill as well because they are billed on actual hours used. To avoid over billing, MNPS bills for the actual cost after each event.	N/A
5-F.1	Use prepaid business credit cards to distribute Basic Education Program funds, and eliminate the practice of adding funds to teacher paychecks at the beginning of each school year.	Reject The accountability and documentation required for credit card use to spend BEP funds would be the same as the current process (card issue and maintenance administration, card usage tracking for fraudulent/unauthorized use or compromise, receipt collection and audit for authorized expenditures, etc.), so credit	N/A

Management Response

	Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
		cards offer no benefit in that regard. The financial benefit (rebate) from card usage would be approximately \$2,000 per year, which is more than offset by the additional administrative burden to issue, track, reconcile, and close out credit cards (based on the current administrative requirements for district p-cards).	
5-G.1	Configure the Web Requisition system for limited access for charter schools to initiate electronic purchase requisitions.	Reject Providing charter schools with access to the MNPS systems for requisition/purchase includes both the web requisition system (for requisition entry and approval) and the Oracle Enterprise One system (for purchase order approval, print and mail, recording receipts, and generating purchase order and financial reconciliation reports). MNPS currently prohibits access to these systems by charter schools (or any other non-Metro legal entity) because the systems do not have user access profile restrictions to prevent a charter school from accessing and manipulating MNPS financial data. Conservatively, the cost to install system logic that ensures restricted access by charter schools would be approximately \$85,000. This figure may be significantly understated as the magnitude and breadth of system code that would be impacted by this change (and need secondary re-writing) is unknown.	N/A
5-H.1	Issue purchase orders for all contracted vendors and eliminate direct pay.	Partially Accept As noted in the report, there are some contracted vendors with whom purchase orders yield no benefit (utilities, banks, charter schools, employee benefit providers, etc.). A systematic collaboration between Purchasing, Accounts Payable, and selected departments has already reduced direct pay expenditures to the non-utility vendors shown in Exhibit 5-10 to half the cumulative amount shown in the Exhibit.	July 2015

Management Response

	Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
5-1.1	Strengthen the contractor performance evaluation process by establishing written procedures and tools, and centralize retention of the evaluations.	Accept A written policy and procedure for contract management will be created that prescribes and documents contracted vendor evaluation.	April 2015