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**Edward J. Collins, Jr. Center for Public Management**

John W. McCormack Graduate School of Policy and Global Studies  
University of Massachusetts Boston



## **Memorandum**

**TO:** Parry Graham, Superintendent

**FROM:** Heather Michaud, Project Services Manager

**DATE:** October 31, 2024

**RE:** Transmittal: LPS General Fund Expenditure Review

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This memo is to formally transmit the Lincoln Public Schools General Fund Expenditure Review high-level findings and recommendations as well as supporting data.

Below you will find a brief discussion surrounding overarching findings and recommendations which emerged during the analysis process. While documenting trends was specifically noted in the scope of work, the Project Team felt strongly you should have a listing of assumptions which supported a series of potential actions. Further, and because the newly developed Lincoln Public Schools Business Office Procedures Manual has several references to on-going oversight standards, the Project Team attempted to highlight some of these practices as a mitigation strategy for expenditure monitoring. Please note, the following is not an exhaustive list and as a reminder, the Center does not provide accounting or auditing services.

### **Data Reviewed**

The analysis targeted only general fund line-item data between the years FY2022 and FY2024 and utilized raw information exported directly from the adopted financial system MUNIS (now Enterprise ERP). Additionally, the data reviewed was not based on GAAP (Generally Accepted Accounting Principals), rather exact current year / fiscal year activity was segregated. The following criteria encapsulated the data request:

- Adopted Budget
- Adjusted Budget (Not including encumbrances, only valid line-item transfers)
- YTD Expenditures
- YTD Encumbrances (Valid and approved for carry forward)
- Remaining Balance
- Turnback Totals
- Remaining Unliquidated Purchase Order Totals

It should be noted, fiscal years FY2020 and FY2021 were also requested, however, the Project Team was informed of certain shortcomings within the MUNIS system formally closing databases, therefore, these details were unavailable. Further, FY2024 was not yet fully closed as of this review and thus should be considered “approximate” or “unaudited” when evaluating the information.

Finally, it is important to keep in mind the Project Team did not attempt to reconcile the supplied information year over year to any formal / informal reporting which may have occurred such as the annual Department of Elementary and Secondary Education year-end report or town financial statements.

### **General Methodology**

The Project Team was provided upwards of 15 different data exports based upon the previously listed criteria. The work strictly reviewed raw general fund line-item expenditure data for the three years between FY2022 and FY2024 at a basic level. No expanded line-item, journal entry, or purchase order detail was included or a part of the review.

Specifically, three aspects of the expenditure activities were considered;

1. Total Year End Encumbrances
2. Total Year End Unspent Funds
3. Total Turnback / Unliquidated Purchase Orders

Further, the Project Team attempted to apply a simple set of standards when designing the data query targeting only fiscal year end remaining / unspent budget dollars to create an “extremes” report for each of the three fiscal years. The simplified criteria were as follows:

1. Remaining Budget less than (\$5,000)
2. Remaining Budget greater than \$5,000

Finally, the Project Team tested the three “extremes” reports using FY2024 as the control to determine if repeat remaining budget activity presented throughout the three-year period and if so, in what general categories of expenditure types.

### **General Data Trends**

#### ***A. General Fund Encumbrances & Unliquidated Purchase Orders***

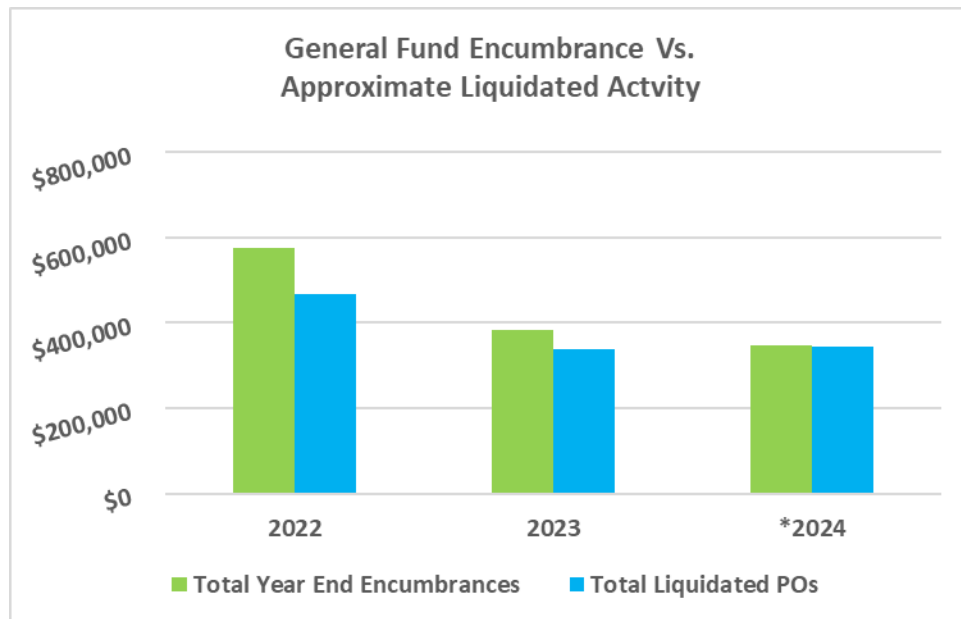
The review identified the following summary surrounding “Total Year End Encumbrances” versus “Approximate Liquidated” and “Unliquidated” purchase orders.

| <b>Fiscal Year</b> | <b>Total Year End Encumbrances</b> | <b>Approximate Number of Liquidated POs</b> | <b>Approximate Total of Liquidated POs</b> | <b>Total of Unliquidated POs</b> | <b>% of Unliquidated Pos to YE Encumbrances</b> |
|--------------------|------------------------------------|---|--|----------------------------------|---|
| 2022               | \$576,926.53                       | 167   | \$468,150.53                               | \$108,776.00                     | 18.85%  |
| 2023               | \$383,817.42                       | 142   | \$338,855.42                               | \$44,962.00                      | 11.71%  |
| *2024              | \$347,147.88                       | 229   | \$345,499.88                               | \$1,648.00                       | 0.47%   |
| <b>Total</b>       | <b>\$1,307,891.83</b>              | <b>538</b>                                  | <b>\$1,152,505.83</b>                      | <b>\$155,386.00</b>              | <b>11.88%</b>                                   |

FY2022 had the highest closing encumbrance balance of \$576,926.53 as compared to FY2023 and FY2024, however, the more important issue is the amount of “Unliquidated” purchase order dollars that became a part of any returned balance due to the Town of Lincoln.

Based on the raw, unreconciled data, over the past three years Lincoln Public Schools has returned approximately \$155,386 related to unliquidated purchase orders. On average, the percentage of unliquidated funds compared to total year end encumbrances are 10% or \$51,000 during the last three years. While this may seem insignificant, when viewed against the total Lincoln Public Schools adopted budgets, these turnbacks represent a high of 0.88% and a low of 0.01% of the annual general fund budget.

The following bar graph offers a pictorial view of the total year end encumbrances versus liquidated purchase orders between FY2022 and FY2024. The trend clearly depicts FY2022 as an outlier with FY2023 and FY2024 offering similar results. FY2024 trends most favorably given only \$1,648 remained from outstanding prior year purchase orders.



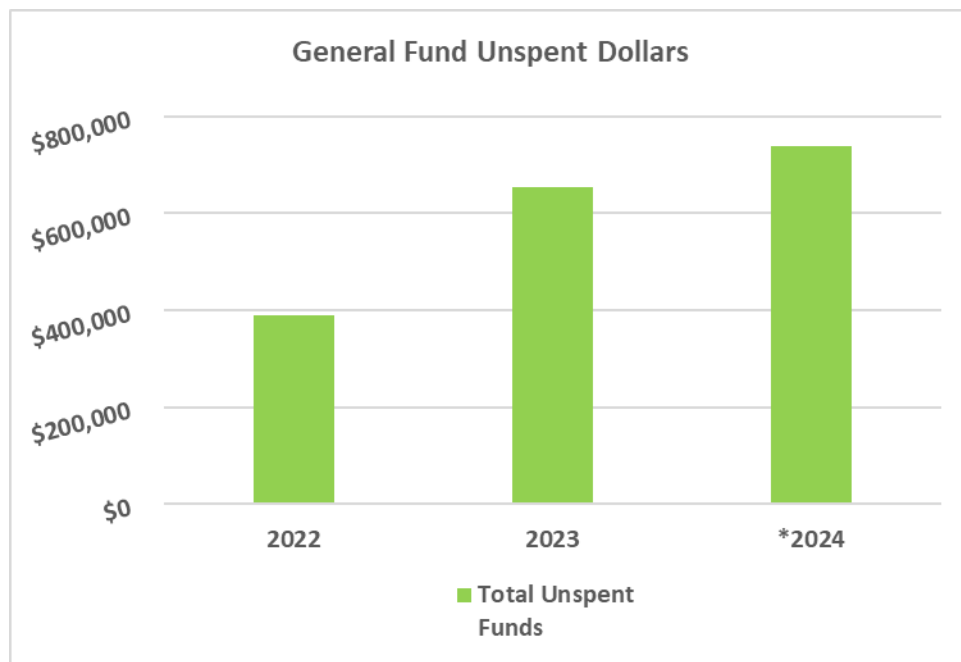
Further detailed analysis would be necessary to fully identify precisely what purchase orders may have generated the larger unliquidated turnback figures in FY2022 and FY2023.

#### ***B. General Fund Unspent Dollars***

A more straightforward and simple review targets the closing unspent funds balance between FY2022 and FY2024. The following table details the Total Unspent Funds as reported in the basic general fund expenditure reports alongside the difference year over year, and the percentage of unspent dollars compared to adopted budgets.

| Fiscal Year | Adopted Budget  | Total Unspent Funds | \$ Difference Year Over Year | % Difference Year Over Year | % of Unspent Funds to Adopted Budget |
|-------------|-----------------|---------------------|------------------------------|-----------------------------|--------------------------------------|
| 2022        | \$12,358,139.00 | \$389,356.18        |                              |                             | 3.15%                                |
| 2023        | \$12,666,821.00 | \$653,018.99        | \$263,662.81                 | 67.72%                      | 5.16%                                |
| *2024       | \$13,241,298.87 | \$738,402.74        | \$85,383.75                  | 13.08%                      | 5.58%                                |

The trend which emerged showed a steady growth in remaining unspent dollars over the past three years. The bar graph below reveals the increased swelling from \$389,356 in FY2022 to \$738,402 in FY2024.

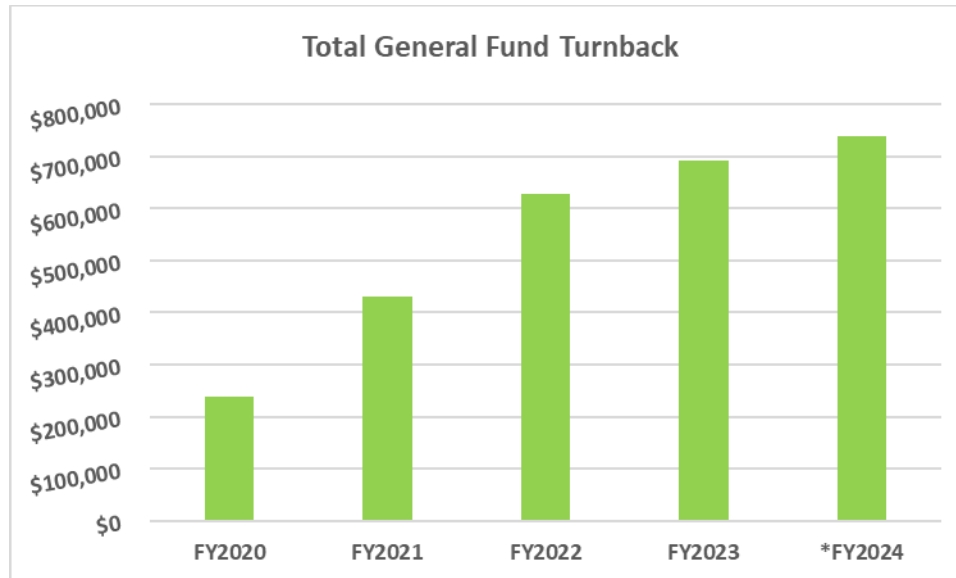


A more telling and standardized measurement compares the remaining unspent balances to the original adopted budget total. In FY2022 the unspent balance was 3.15% of the total adopted budget, whereas the trend jumped to over 5% in fiscal years 2023 and 2024.

To further extrapolate the concept of “unspent” funds, the Project Team summarized the total general fund “turnback” as reported by the Town of Lincoln Finance Department in the table below over a full five-year period. This high-level review offers an interesting growth trend, exploding returned funds by 210% between FY2020 and FY2024.

| Description                        | FY2020           | FY2021           | FY2022           | FY2023           | *FY2024          |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Unspent POs                        | \$75,587         | \$52,914         | \$108,776        | \$44,962         | \$1,648          |
| Total Unspent General Fund Dollars | \$162,804        | \$378,096        | \$519,865        | \$646,187        | \$737,861        |
| <b>Total Turnback</b>              | <b>\$238,391</b> | <b>\$431,010</b> | <b>\$628,641</b> | <b>\$691,149</b> | <b>\$739,509</b> |

To further illustrate the steady year-over-year increase of turnback general funds, the bar graph on the following page charts the activity beginning in FY2020 through the unaudited FY2024 estimated figure.



Given this extraordinary financial activity, the Project Team elected to combine certain elements of the remaining balance data discussed previously. The table below summarizes adopted budgets, unliquidated purchase orders, and total general fund turnback to create a general assumption of total funds returned to the Town of Lincoln and the percentage of adopted budget unspent.

| Fiscal Year  | Adopted Budget         | Total of Unliquidated POs | Total Returned Funds  | Total Turnback        | % of Approximate Returned Funds to Adopted Budget |
|--------------|------------------------|---------------------------|-----------------------|-----------------------|---|
| 2022         | \$12,358,139.00        | \$108,776.00              | \$519,865.00          | \$628,641.00          | 5.09%   |
| 2023         | \$12,666,821.00        | \$44,962.00               | \$646,187.00          | \$691,149.00          | 5.46%   |
| *2024        | \$13,241,298.87        | \$1,648.00                | \$737,861.00          | \$739,509.00          | 5.58%   |
| <b>Total</b> | <b>\$38,266,258.87</b> | <b>\$155,386.00</b>       | <b>\$1,903,913.00</b> | <b>\$2,059,299.00</b> | <b>5.38%</b>                                      |

While there may be fair and explainable circumstances to support an average turnback of general funds exceeding 5% of total adopted budget, this phenomenon falls outside a normally acceptable standard. The Project Team is unaware of a “best practice” discussing precise and acceptable percentage of budget remaining for a school district, however, one could argue any unspent balance represents poor budgeting, insufficient planning and / or general budget management practices.

### ***C. General Fund Expenditure Accounts “Extremes”***

This final analysis represents a more conceptual and theoretical viewpoint, from the basis of unspent line-item balances less than (\$5,000) and greater than \$5,000. The Project Team selected \$5,000 as a benchmark for extracting “extremes” by line-item account given the average remaining balance of all 364 accounts was between \$1,070 in FY2022 and \$2,029 in FY2024. These figures were considered too low for a high-level review, therefore, \$5,000 under or over budget was applied. The desired outcome of this final review was to identify similar remaining balance issues in like accounts over the three years. By attempting

to identify accounts experiencing year-over-year overspending or underspending, the Project Team was able to compile a general listing of account types requiring further review.

Using FY2024 as the control or base year, the Project Team developed a query which matched accounts meeting the under or over budget criteria during the 3-year period. The data revealed a steady growth in like accounts as noted below.

| Fiscal Year | Number of Shared "Extremes" Accounts |
|-------------|--------------------------------------|
| 2022        | 15                                   |
| 2023        | 39                                   |
| *2024       | 62                                   |

Of these shared accounts the following account types, by object code, emerged as the most similar with remaining balances exceeding budget or falling below the budgeted amount.

| Account Object | Account Description         | Total Three Year Remaining Balance Variance | Average Three Year Remaining Balance Variance |
|----------------|-----------------------------|---|---|
| 51010          | Administrative Salaries     | \$29,957.79                                 | \$14,978.90                                   |
| 51011          | Admin Asst / Secretary Wage | \$17,051.97                                 | \$17,051.97                                   |
| 51020          | Professional Salaries       | \$507,132.27                                | \$30,502.44                                   |
| 51030          | Tutors                      | (\$26,645.93)                               | (\$5,134.33)                                  |
| 51031          | Aides                       | \$93,029.22                                 | \$13,508.28                                   |
| 51040          | Facility Support Staff      | \$122,610.29                                | \$61,305.15                                   |
| 51050          | ERI & MISC Salaries         | \$108,592.55                                | \$36,197.52                                   |
| 51051          | Stipends                    | (\$236,427.95)                              | (\$118,213.98)                                |
| 51405          | Substitute Salaries         | \$213,494.01                                | \$71,164.67                                   |
| 51499          | Miscellaneous Salaries      | \$19,750.86                                 | \$5,729.31                                    |
| 52010          | Electricity                 | \$106,789.94                                | \$35,596.65                                   |
| 52020          | Contracted Services         | \$38,634.04                                 | (\$2,438.60)                                  |
| 52040          | Grounds                     | \$33,463.65                                 | \$11,154.55                                   |
| 52999          | Misc Other Prop Rel Svcs    | \$49,638.90                                 | \$16,546.30                                   |
| 54010          | Textbooks                   | \$39,113.50                                 | \$9,778.38                                    |
| 54012          | Durable Goods               | \$25,807.04                                 | \$8,602.35                                    |
| 54013          | Consumable Supplies         | (\$42,498.51)                               | (\$5,155.72)                                  |
| 57020          | Collaboratives              | \$342,099.94                                | \$114,033.31                                  |
| <b>Total</b>   |                             | <b>\$1,441,593.58</b>                       | <b>\$315,207.15</b>                           |

The full detailed analysis supporting these findings has been attached to the transmittal.

## General Recommendations

The following general recommendations do not encapsulate all potential mitigation strategies and best practices; however, they do offer a summary of baseline standards which should be applied to properly monitor school finances. In addition, the newly developed Business Office Procedures Manual expands on these concepts from a procedural and reporting framework.

1. **Leverage Financial System Reports:** Perhaps the most basic and straightforward recommendation is to normalize system generated reports. It is acceptable to manage certain homegrown reporting and monitoring, however, at the end of any fiscal period, the data maintained by the adopted financial database will dictate all final accounting figures. Additionally, “real time” data will always be maintained in the financial database including payroll and accounts payable encumbrances, expenditures, transfers, and other journal entries. Ensuring fresh, up to date information is consistently used as the basis for budget monitoring and projections will drastically improve accuracy throughout any fiscal year cycle.
2. **Budgeting Practices:** When contemplating new budgets, it is critical to review at least 3 to 5 years of historical activity within each line-item account. Organizations evolve over time requiring budgets to follow as appropriate in support of the required goods and services. If certain accounts display over or under variances in budget, those line-items should be targeted for a deep dive review to determine the most accurate budget figure.
3. **Payroll Accounts Monitoring:** Given over half of the accounts identified in analysis C. *General Fund Expenditure Accounts “Extremes”* were related to employee payroll accounting a fair recommendation would be to establish a review following each posted payroll. The review would test expenditures associated with individual employee positions against the remaining encumbrances by account. Essentially, with each payroll that is posted, the expenditure amount should increase, and the encumbrance amount will decrease. If this activity is not occurring, there is an issue with the encumbrance liquidation process which must be addressed.  
  
Further, and if individual employees are properly set up by position, account, and annual anticipated salary (including hourly employees) into the financial system, the remaining account balance will be known almost immediately enabling administration to properly report on unplanned activity, make arrangements to cover overages, transferring funds in a timely manner, thus avoiding large year end variances.
4. **Purchase Order Monitoring:** Open purchase orders should be reviewed at least monthly to ensure both the accuracy of the anticipated good or service, the vendor, and the encumbered or spent amounts are correct. Like salary encumbrances, approved purchase orders create encumbrances against line-item accounts which impact the estimated remaining balance. Improper monitoring of open purchase orders can lead to ending balances being over or understated and therefore are critical to proper budget management.
5. **Year End Preparations:** In preparation for year end closure, in May of each year, the recommendation procedures discussed in 2 and 3 above must be calculated for accuracy through

June 30. If monitoring of accounts is conducted by both bi-weekly payroll and at least monthly for purchase orders and accounts payable, then remaining account balances will generally be accurate to base strategic decisions around. For example, if salary savings are realized due to a new hire savings or leave, while a more expensive paid leave was necessary impacting a different account, processing appropriate transfers sooner than later reduces the number of year end variances. Similarly, anticipating final payments from “blanket purchase orders” (purchase orders which typically span 10 or 12 months and are drawn down monthly to fund items such as utilities, copy paper, or leases) and adjusting purchase order balances accordingly will greatly improve the accuracy of balances. The same concept should be applied for all open purchase orders, closing those that are not necessary and adjusting totals accordingly.

Overall, instilling standardized and consistent review and monitoring practices on at least a monthly basis will support a greater understanding of financial activity and increase the precision of both budgeting and projections.

Enclosed / Transmitted:

- *LPS GF Exp Analysis FY2022-FY2024*
- *FY2024-FY2022 Like Extremes*