

FINANCIAL ADDENDUM

NYSED Response Rochester Board of Education Action Plan Update - Finance August 30, 2019

The August 30 update to the Rochester City School District's (RCSD) Action Plan, based upon the Distinguished Educator's Findings, as released in his November 2018 Report, cites steps made on ten recommendations to the Board of Education and to district leadership (labeled 1-8; 11-12 in the initial report and forward).

Recommendations and Responses:

Recommendations 1-2: The Board of Education and RCSD staff should proceed with the work described in the Update. A report on progress on Recommendation 1 will be expected by NYSED on February 1, 2020. Reports on components of the Distinguished Educator's second recommendation will be due on November 15, 2019, and throughout the remainder of the 2019-20 school year as noted on the attached Corrective Action Plan Table.

Recommendation 3: SED concurs with RCSD's stated goals to improve consultant selection procedures, ensure consistency of the procurement process with General Municipal Law, and provide training in procedures and improved documentation. Work toward these goals should proceed. By November 15, 2019, the district should submit the new consultant selection criteria to NYSED. By January 15, 2020, the district should present evidence to NYSED that all consultants currently working in the district were selected using these criteria. A similar report should be submitted on June 15, 2020 as well.

However, it is SED's belief that, to realize these goals, the district must assume central control over individual departments' procurement practices. A district in circumstances such as RCSD's should require that all contracting decisions are made centrally by the district's Board and central leadership – with decision-making criteria based upon both cost-effectiveness and coherent alignment with a core strategic plan.

As an example of the language that raises concerns, the Action Plan refers to the consultant request process as requiring a "Rationale of the need of a consultant and why outside resources are needed rather than the use of internal resource; this will be captured for transparency and record maintenance." This language suggests that the only reason for the improved processes is 'for transparency and record maintenance,' when improved strategic alignment and resource use practices across the district should be the goal of all financial decision-making for the RCSD. The substantial cost overruns in the 2018-19 budget demonstrate that this alignment is essential.

Recommendation 4: The RCSD response to the recommendation begins with the language below. This language reveals an unacceptable weakness in RCSD's management of district resources, since it focuses on budget limits – rather than centrally planned resource utilization.

The District currently operates under a decentralized budget management process. Budgets are decentralized to provide managers autonomy over their budgets. The budget process is managed by setting internal controls at the central level to provide monitoring and notification to managers when expenditures are approaching budget limits.

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- **Central Control:** The district must institute appropriate financial controls over procurement, payroll and hiring policy as recommended by both NYSED in 2018 and the Office of the State Comptroller (OSC) in its 2017 audit.
- **Financial Systems:** If the present fiscal management systems are insufficient for this (as the Board noted in the August 30 update's explanation of why payroll could not be made more accurate in response to OSC findings), then the district should investigate the procurement of another system. This should be done through appropriate procurement methods, and with the advice of a professional financial manager with experience in the effective management of the finances of large organizations.
- **Budget Process:** The district should revise budget procedures to create a rational and effective process for projecting and controlling expenditures, as well as for regular adjustments, managed by the central business office, once actual needs are identified. This should happen before there is a need for drastic reductions in program and staff; good planning and control reduce the necessity of disruptive cuts to student programming.
- **Chief Financial Officer Role:** The district's Chief Financial Officer (CFO) should ensure that the organization's budget remains in balance, is sustainable over time and is aligned with central mission. While Department heads and their needs should be included in decision making, allowing managers to have complete autonomy over their budgets, creates a high risk that expenditures will exceed projections, particularly in the absence of strong monitoring and other expenditure controls. The CFO must be empowered to develop and approve final budgets, and control and monitor expenditures.
- **Budget Analysis:** Budget analysts are most effectively used to investigate long-term cost drivers and project future needs in order to improve budget accuracy, prevent resource over-allocations and identify future risks. They cannot be the sole central resource allocated to expenditure controls, nor can they be expected to challenge the spending decisions of semi-autonomous department heads.

Once the OSC has completed its audit/investigation of the causes for the 2018-19 budget overspending, RCSD should present a plan for improved budgeting and cost control processes to both NYSED and the OSC to address the issues identified in both the 2017 and 2019 OSC audits of the district.

By January 15, 2020, the district will present a plan to build systems that manage cash and protect resources.

Recommendations 5-6: The district should proceed with the work described in the Update.

By November 15, 2019, NYSED should be informed of all ongoing contract/salary negotiations with Units and a timeline for the proposed student based budget process should be submitted to NYSED.

By January 15, 2020, the plan for improved communication of budget needs and a working model of the projection tool that will be used to understand the implications of contract negotiations will be submitted to NYSED.

Recommendation 7: The district should implement the OSC recommendations. This should include, as noted above, the use of improved payment control systems in the district. 'If the district's current systems are not versatile enough to manage taxpayer funds effectively, new systems must be put in place. We would expect to see a plan to implement these findings and

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the necessary new systems, as well as the findings from the audit of the 2018-19 overspending, in future months.

Evidence of ongoing work that was to be completed by September 2019 presented to NYSED by November 2020. By January 15, 2020, the district will present a plan to build systems that manage cash and protect resources. NYSED will monitor progress on that plan prospectively.

Recommendation 8-13: RCSD should proceed as indicated in the Action Plan. Given the issues that arose in 2018-19, it may be advisable for the district to seek assistance in budget development from professionals with large organization financial management experience.

Recommendation 8: The enrollment projection report prepared last year should be submitted to NYSED by November 15, 2020. By January 15, 2020, the plan for attendance based staffing and the Academic Return on Investment Analysis referred to in the August report should be submitted to NYSED.

Recommendation 11: Long term financial plan should be submitted to NYSED by January 15, 2020.

Recommendation 12: Schedule of budget presentations for 2019-20 to be submitted to NYSED by November 15, 2019. Some discussion of how the accuracy of budget statements can be confirmed should also be provided.

Recommendation 13: A working model of the cost estimation tool that was to be developed by September 2019 will be submitted to NYSED by November 15, 2019.