

TO: Region 4 Board of Education, Supervision District Board, Chester, Deep River and Essex Elementary Boards of Education

~~(Region 4 Administration) - ?~~

FROM: Chester Board of Finance

DATE: June 4, 2019

CC: TBD (Region 4 Administration, Boards of Finance in Essex and Deep River and Boards of Selectmen) - ?

We understand the complexities of having five boards of education in three towns and want to work with the boards and the administration to produce a better understanding for ourselves and the citizens of our towns of the education budgets, policies and processes by which they are decided and the information used by the boards in making those decisions. There is a tremendous amount of information – policy, procedures, financials, curriculum, state statutes, mandates etc. that must be condensed into the meetings that you have scheduled. The financial information alone with a \$21M Budget is significant. You are lucky there are over 30 people to share this burden.

There is a balance between spending and paying for a level of excellence in our Education system. We have tough decisions to make given the state of our CT funding, our internal cost structures and our ability/inability to raise our grand lists to cover the costs of running our towns. If we are unable to understand our education budgets, then we are failing in our ability to make the best overall decisions affecting not just education, but our infrastructure in general. We are the elected officials that are charged with ensuring accountable and appropriate financial governance. To that end, understanding all expenditures directly and indirectly impacting our towns is our prime responsibility. We previously requested you partner with us and we again request you partner with us.

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However, you cannot be unaware of the frustrations specifically of the Chester Board of Finance leading up to and during this last budget cycle for 2019/20 and now further exacerbated by the disclosure of the 2017/18 Audit.

The Board of Finance has verbally expressed and documented their specific and general concerns regarding the lack of transparency, responsiveness and clarity with respect to student headcount, financials in presentations, allocation of expenditures via

ADM, student projections and the interaction with the Superintendent's office that controls responses from the Business Manager and other administrative offices. Data often comes late if at all and requires excessive back and forth with the business office to clarify points that should have been made clear in the first place. The information that we receive is simply inadequate and issued piecemeal in a fragmented manner so the entire picture is hard to discern.

Recent examples:

Class size history and projections by grade, a major determinate of costs, is not clearly presented nor compared to the general standards/guidelines for class size which was discussed during the recent budget hearing. Although the BOE is charged with establishing class size policies, their impact is material to education and their resultant costs which therefore requires disclosure. Expected enrollment by grade should be a major determinate of educational resources which means that the teachers by grade ought to be a calculation based upon class size rather than treating the teacher headcount as fixed regardless of number of students in the class. This basic information, the foundation of any educational budget, should be a standard part of any annual budget construction and disclosed as part of the 'need' justification. At the Junior High and High school levels, enrollment in various classes vs. by grade might change the analysis, but never the less an analysis needs to be included in any meaningful presentation regarding the Budget. Headcount documents need to be clearly footnoted, e.g. Oct 1 ADM, includes or excludes out placements etc.

That headcount from one document to another has been found to not match. Headcount projections need to be created via an outside consultant who in turn ~~could~~ take information ~~from~~ the individual schools if properly documented to reduce any unintentional subjective inclusions. Staffing and resultant expenditures flow from these projections and the need for accurate objectively derived projections is mandatory.

The movement of funds and resources from the local BOE budgets to the Supervision District is justified where efficiencies and educational consistencies between towns is essential. However, it will not be possible to track and understand the wide variances between budget years as a result of these staffing transfers/ reductions. This will further alienate a public that has already been cut out from understanding the budgets due to complexity and the time it takes to make sense of it. Now, staffing/ funds are removed from local education budgets, transferred to the Supervision budget then reallocated back in an untraceable manner. Even the BOE, BOF and BOS cannot question what they cannot see.

A reporting solution must be incorporated. The detail exists and it must be disclosed in a manner that can be fully understood by all prior to any final presentation.

Capital Expenditures stemming from the land purchase is another example where the spirit and intention of BOE governance/administration ~~has been~~ is an issue. Although this surfaced in the recent past, the notion that someone or somebody approves a land

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purchase without a process, budget, forecast or town approval is unacceptable. **The BOE is not in the real estate business and we are not land speculators.** How is it possible without even the Auditors awareness that the Administration was banking surpluses in separately but privately controlled and undisclosed accounts, and spending those funds as they see fit, suggests a material weakness in controls and procedures – not to mention a violation of State Statutes which are very clear on this matter. Regardless, it is reasonable to expect that capital expenditures of public funds should be authorized by a transparent process that includes approval beforehand by parties charged with that responsibility and sent to the Towns for a vote.

And then the Audit report for 2017/18 discloses a capital deficit directly related to this land purchase.

The Audit revealed that there is nearly \$400k in deficit across three funds which ultimately net with the General Fund. It is **unfathomable** that the Board of Education would be preparing to cover the capital fund \$199K deficit with a transfer of 1% of the General Fund as permitted by State Statute without knowing if any other transfers had taken place during the year. We also wonder if there has been any attempt to understand the other 2 deficits totally nearly another \$200k.

At the end of 2017/18 the BoEF requested the starting balance for 2018/19 Capital and was told \$322K. This was as a new Capital Project Team was being created and a Capital Project list would be forthcoming. This \$322k number was further documented in a spreadsheet presented by the Business Manager, ~~at the last Board of Education Meeting.~~ However, this balance for the 2018/19 year has a starting balance from the 2017/18 year of \$460K. How can there be such a discrepancy between this spreadsheet and the Audit Report showing of a \$199K deficit. That is a \$491K variance. This is a significant number that will have a **significant** impact on the three towns. It cannot be simply covered by a transfer without full disclosure to the Towns and possible approval by the towns. The forecast for 2018/19 year-end has not been finalized and the actual surplus is unknown. Until the financials are finalized it cannot be known what is the best way to handle these deficits. There could be implications not only for the 2018/19 year but for the 2019/20 year and it is unlikely there is a policy or procedure in place to direct any actions.

How do you claim the Auditors at fault when the Audit reports clearly show Capital fund deficits going back several years? How is it possible the Auditors are not aware of funds that had been set aside in another account(s)?

We question your authority to make such a transfer without full knowledge of the financial status of the year end financials, and full disclosure to the towns on how this got created and agreement from the towns regarding how it will be remedied.

A separate issue and outstanding financial risk is the \$94K deficit in the R4 Cafeteria Fund. A recent report prepared by members of the Board of Education did not look very closely at the R4 cafeteria fund's finances and only made the recommendation that

“regionalization would be beneficial” without any supporting information. Now there is a deficit and no discussion regarding remediation.

Let it be known the Town of Chester has set aside funds to evaluate the Chester Elementary Cafeteria fund as it was a Management Item in our 2017/18 Audit. There is a financial risk of nearly \$80K not being properly covered. It is our intention to evaluate how the Cafeteria is functioning and expect the R4 administration will be supportive of this effort. Budget documents do not reveal a true actual to budget analysis while the CES Budget just covers any shortfalls. **Another example of a lack of financial oversight.**

The third deficit of \$85k in Education Grants, a revenue fund has not been addressed at all. When and how will this be attended to?

In closing we make the following recommendations:

e)

the R4 Board, the BOFs of the towns, and a representative from each town appointed by the town's BOS to oversee the financials

b) Recommend a ~~An~~ outside consultant be retained to review the last several year books and records and determine weaknesses in oversight of the Administration by Boards of Education as it applies to these three funds in deficit revealed in the 2017/18 Audit; determine if proper votes had been noticed and taken to allow for expenditures related to these three funds, determine if surplus funds were properly disclosed or funded and make recommendations related to policy and procedures regarding same. It is unrealistic to expect the Administration that created this will be forthcoming in explaining and correcting it in a manner that is fully disclosed to the towns.

c) A complete review of budget documents, and bi-monthly actual to budget reports for improved financial reporting and clarity around student headcount actuals/ ADM and projections, financials including a policy to create forecasts with discernment regarding the difference between what is encumbered vs. forecasted. Budgets need comparisons to future budgets based on actual run rates in addition to budget to budget comparisons excluding debt increases/reductions so clear expenditure budgets are compared year to year – are important starting points and a clearer representation of year to year increases.

d) Request the Region 4 Audit be completed before the Supervision Budget is finalized so any findings can be disclosed and actioned during the budget workshops.

g)e) Creation of pPolicy and, procedures and approval regarding remediation of to surpluses and the subsequent transfer of funds back to the towns. It is unclear

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when a surplus exists whether it will be returned to the towns or just transferred for some additional budgeted or unbudgeted item.

Summary:

Commented [RS6]: So this is basically about financial accountability of the district financial operations and the responsibility of the Board of Finance and Selection to the citizens of our towns. Suggest keeping it high level and clearly focused on achieving action