

Finance and Risk Management

SUBJECT **New Computer Systems: The Task Force definitely agrees that the District needs to invest in automated accounts payable and grant accounting systems, as well as all core accounting, payroll and human resources areas. The Task Force encourages the District to not expect a new computer system to answer all their problems. Changes and improvements to policies and procedures are critically needed, and many policies and procedures changes should be made even before the new system comes on line. In fact, changing the policies and procedures is good preparation for a new system and helps ensure a successful implementation.**

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
58 V-10.1	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	Implement a new accounts payable system and modify the process flows. Specifically PPS should: 1) prepare a current accounts payable listing as soon as possible; 2) reconcile payables with the general ledger monthly; 3) strengthen internal controls; 4) begin design of accounts payable process system by March 1999.	The Task Force notes that the strengthening of the current system, such that current accounts payable are determined and reconciled with the general ledger monthly and the implementation of enhanced internal control, are steps that must be completed before a new system is implemented. Such procedures should both safeguard the District's financial resources and produce current budget to actual information. The Task Force also notes that the District's accounting department is fully employed with current activity and additional appropriate staffing is required to bring accounts payable up to date.	KPMG did not place a figure to the yearly savings generated by implementing the new accounts payable module and system design. The Task Force notes that the capturing of vendor discounts, the strengthened internal controls, and a well designed, streamlined system will have a positive financial impact estimated to be \$100,000 per year.	In Process
59 V-11.1	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	PPS needs to implement an automated grants accounting and management system.	The Task Force strongly agrees with assigning the overall management of a grant to one individual. The accounting for the grant is merely a support and compliance function. The Task Force agrees with integrating the new financial system with the Grant Accounting and Management departments along with a restructure of the department whereby the grant manager is responsible with grant compliance and have the grant accountant provide oversight.	The Task Force believes that timely preparation of grant reimbursement request will enhance cash flow and generate greater interest income.	In Process

Finance and Risk Management

SUBJECT Fund Balance and Reserves: These recommendations focus on the need to build fund balance in both the General Fund and the Self-Insurance Fund. While the Task Force agrees that these reserves should be re-established, they suggest that the build-up occur over several years, and that Board approval be obtained before “redeployment of any reserves.” The Task Force also believes that the proper reserve levels should be analyzed and determined not only on a per fund basis, but also with consideration for how much money overall is dedicated to funding reserves.

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
65 VI-1.1	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	PPS should phase in a build up of the reserve account over time i.e.: build reserves to 1% of the general operating budget in 1999, 2% in 2000, and 3% in all subsequent years. A 66 - 2/3 vote of the School Board would be required to access the reserves.	Reserves of 3% of general fund which would require a \$9 million current reinvestment should be sufficient. The desired "reinvestment" of approximately \$9 million to replenish depleted reserve levels might best be phased in over time to alleviate a one time fiscal shock, ie: build reserves to 1% of the general fund operating budget in 1999, 2% in 2000 and 3% in all subsequent years. In addition, a 66-2/3% approval level from the PPS Board would be required to access these reserves. If a final determination is made to build the reserve and subsequently maintain "adequate" reserve levels, it should not be at the expense of appropriate service levels, ie: teachers. The Task Force acknowledges that reserves have been depleted as the District has strived to maintain service levels over the past two years as revenue sources declined and operating expenses remained constant. Adequate reserves will eliminate financial crisis management and rebuild the financial credibility of the PPS management team.	An initial cost outlay of approximately \$10-\$16 million would be required to adequately replenish depleted reserve funds, except maximum reserve set aside would be 3% of annual operating budget not 3% to 5%, per KPMG recommendation. As outlined in alternative recommendation, the Task Force would propose a build up of reserves over several years.	In Process
66 VI-2.1	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	PPS Board should ensure its budgeted expenditures do not exceed available revenues including adequate reserving levels.	Adequate reserves should be maintained and must be funded. The budgeting process must be realistic. Programs can only be funded based on known and reliable resource streams. Comfortable reserving levels must not take priority over proper service levels, ie: teachers. The Task Force acknowledges that a mismatch between revenues and expenses is not uncommon based on last minute changes on the revenue side, which complicates the budgeting process.	Neutral over time as expenditure levels do not exceed revenue sources. However, a near term fiscal impact would result from the reinvestment of \$9-10 million to build back depleted funding reserves.	In Process

Finance and Risk Management

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
93 VI-17.1	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	<p>PPS should rebuild and maintain segregated insurance reserves for expected outstanding liabilities including known claim liabilities and IBNR (Incurred But Not Reported) estimates as opposed to KPMG valuation based on 1-2 years of claims liability. These reserves should be rebuilt over time (4-5 years and reviewed annually by the PPS Board).</p>	<p>Adequate reserves assure sufficient funding to cover self-insured liabilities. The Task Force agrees with the finding that the depletion of the self-insurance fund balance since 1990/91 has resulted in a lack of adequate reserves to fund current and future claims. If the purpose of the self-insurance reserve fund is to recognize future liabilities, then the Task Force believes the value of the fund should reflect expected outstanding liabilities (as established by an actuarial review) less any applicable excess insurance coverage and investment income. If the fund is required only to fund current claims payments, then it is not unusual for entities to maintain a zero-balance account for that purpose.</p> <p>Requires reestablishment of liabilities reserve fund. Prohibits further "draw down" of the self-insurance fund to finance operations. (It should be noted that PPS depleted the self-insurance fund in 1997-98. Thus, further draw downs are unlikely notwithstanding the recommendation.) The Task Force disagrees with KPMG's recommendation to base the value of the self-insurance fund on one to two years of claims liability experience, which KPMG valued at \$4 to \$8 million.</p>	<p>Requires inflows of cash to the self-insurance reserve fund at a rate greater than 1998. The KPMG report provides insufficient information to determine a recommended amount.</p> <p>May require additional inflows for four to five years. However, in following years, there should be no additional impact as long as overall loss experience (frequency and severity) remains comparable to prior year.</p>	In Process

Finance and Risk Management

SUBJECT Strategic Planning: Five-year budget planning, strategies for dealing with declining revenues, and using the budget document to enhance communications should all be done within the context of the District-wide strategic plan.					
Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
10 II-5.1	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	PPS should develop a financial plan that is consistent with its new strategic plan.	Without a strategic plan the budget becomes the strategic plan by default. With the direction of the District's goals and objectives reestablished with every budget. Yearly budgets (strategic plans) cannot be as efficient as a long-term plan, and do not preplan for budget short falls or long term planning.		In Process
11 II-5.2	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	The strategic plan, which should result in annual measurable goals and objectives, should drive budget decisions.	Without a strategic plan the budget becomes the strategic plan by default. With the direction of the District's goals and objectives reestablished with every budget. Yearly budgets (strategic plans) cannot be as efficient as a long-term plan, and do not preplan for budget short falls or long term planning.		Plan to Implement
15 II-8.1	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Conduct additional training to ensure that PPS managers and key staff, specifically budget personnel, develop a better understanding of the State's funding formula.			In Process
67 VI-2.2	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	The PPS Board should establish a 3 to 5 year budget planning horizon that is driven by the strategic plan. It should examine the impacts of the changing financial, operational and funding conditions on District-wide and individual program budgets.	Allows for prioritized planning. This will be challenging when the State operates on a two year budget cycle. Currently there is no long term stable funding for education to off set this situation.		In Process
68 VI-2.3	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	As part of the Strategic Plan the Board should develop short and long-term strategies for addressing declining revenues.	This recommendation is part of "tying budget to strategic plan" Recommendation #11		In Process

Finance and Risk Management

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
71 VI-3.2	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	<p>Improve the budget document as a communication device. The budget is a reflection of financial resources needed to achieve the goals and objectives set forth in the Strategic Plan. The budget is the culmination of the budget process.</p>	<p>Tailor budget documentation to specific audiences, with the appropriate level of complexity and details. However always have all the details available for those who want complete information.</p> <p>Translate financial information in to English. Make it simple and visual.</p>		Plan to Implement

Finance and Risk Management

SUBJECT Self-Insurance: There are two important and distinct components to an appropriate analysis of insurance costs. First and foremost is the quality of claims processing. The District needs to evaluate the most effective way to ensure that what ultimately has to be paid for a claim is the lowest amount possible. Secondly, the District also has to consider the cost or fees associated with the administrative functions related to claims processing. We agree with KPMG that appropriate deductibles and liability limits need to be established. We do propose alternative ways to calculate what these amounts should be.

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
94 VI-17.2	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Assess the adequacy of current excess coverage limits.	<p>There is agreement that higher limits of liability and lower deductibles (SIRs) would provide additional security and stability to the schools' risk management program. The Task Force is in general agreement with the KPMG recommendation. Although it appears that PPS has not incurred any claims that have exceeded their limit of liability or even exceeded significantly lower deductibles (SIRs) that could be purchased, alternative limits of liability and deductibles (SIRs) should be evaluated. The insurance marketplace is very "soft"; and additional limits should be relatively inexpensive. This would provide additional protection for PPS in the event the tort immunities are eroded or there are actions against PPS that would fall outside those immunities. The same reasoning applies with the deductibles (SIRs). The current deductibles (SIRs) are very high, and lower levels should be considered, even with a resulting increase in premium. This is particularly important when the cash reserves aren't available to cover a large loss.</p> <p>PPS has not experienced a claim of sufficient magnitude to justify paying additional premiums for the additional insurance protection.</p>	The insurance market will provide PPS with costs for varying deductibles (SIRs and higher limits of liability). We don't believe that has been done recently and should be explored to discern the actual costs involved.	Plan to Implement

Finance and Risk Management

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
96 VI-19.1	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	PPS should conduct an analysis of the quality of claims administration of both the public liability and workers' compensation self-administration programs. Work with a qualified independent third party, to assess quality of current administration program, including a comprehensive analysis of whether the current program results in effective management of claims costs.	<p>Although potential savings related to the cost of claims administration may be available, the overall quality of claims administration and the ability of the claims administrator to produce cost-containment on the claims are the more important factors to consider.</p> <p>An analysis of the quality of the current claims administration program can be performed best by an independent third party, which may require an additional expense. The Task Force finds the cost-savings analysis performed by KPMG for this recommendation to be insufficient because it appears KPMG did not include a fee for a third-party administrator (TPA) to take over administration of existing workers' compensation claims. Thus, KPMG probably understated the cost of obtaining workers' compensation claims administration services on a contract basis. KPMG also did not value correctly the total cost of PPS's self-administration program. More importantly, KPMG did not provide an analysis of the quality of the current claims administration. Although the State and PPS's excess insurer have performed audits of PPS's self-administered program, such audits do not provide a basis to determine the quality of the claims administration or the ability of the claims administrator to control claims costs. Finally, we find that KPMG's lack of analysis of the quality of claims administration applies equally to general liability claims.</p>		Further District Review Pending
97 VI-20.1	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Develop a system for recording an estimated liability for all claims throughout the year. PPS should issue an RFP for competitive bid pertaining to the administration of its unemployment insurance program in an effort to ensure the most cost-effective coverage strategy and related fees.	<p>Outsourcing this function makes sense as PPS probably does not have the core competency or expertise to properly investigate and administer these claims. The quality of service and level of insurance protection should be evaluated, along with the costs involved.</p> <p>It appears PPS is currently operating under a bonded-service program whereby the insurer/administrator will cover all claim costs over an agreed-to annual amount. If actual costs exceed the predetermined amount, the insurer will pay those costs; if the actual costs are less, the insurer retains the difference. This works well from the standpoint of fixing your annual cost, but PPS may be leaving significant dollars on the table.</p>	It appears PPS is currently operating under a bonded-service program whereby the insurer/administrator will cover all claim costs over an agreed-to annual amount. If actual costs exceed the predetermined amount, the insurer will pay those costs; if the actual costs are less, the insurer retains the difference. This works well from the standpoint of fixing your annual cost, but PPS may be leaving significant dollars on the table.	Plan to Implement

Finance and Risk Management

SUBJECT Day to Day Operations: The rest of the recommendations address very specific daily operational tasks or functions. Often the issues reflect system limitations, but again we encourage the District to consider significant changes in policies and procedures which can be made now in preparation for a new system.

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
72 VI-4.1	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Improve the level of oversight and accountability over PPS' established budget.	Appropriate oversight is critical for the District to detect and prevent potential overspending before it occurs.		Plan to Implement
74 VI-5.1	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Consider reassigning certain duties within the Finance Department to improve financial management and oversight capacity.	While the Task Force recognizes that all the necessary and desirable changes cannot be made at once, there is a sense of urgency that as much as can be accomplished as quickly as possible should be done. There are some limitations due to increased turnover and job classifications.		In Process
75 VI-5.2	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Perform timely bank reconciliation on a monthly basis.	Accurate cash reporting. Better oversight for preventing or detecting and correcting errors.	Eliminated one position for a savings of salaries and benefits totaling \$61,000. Cost of outsourcing is approximately \$12,000. Net annual savings are estimated to be \$49,000.	Done
76 VI-5.3	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Implement a process that requires the Controller or other qualified employee to initiate the investment transactions utilizing a confidential code system.	This is a financial security issue, a misappropriation of funds could be significant. Individuals are bonded up to \$300,000.		In Process

Finance and Risk Management

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
77 VI-5.4	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Implement a process that requires a qualified person, such as the Controller, to implement a bank fee and interest earned tracking system.	<p>Avoidance of overcharges and fees.</p> <p>Better tracking of investment income.</p>		Done. New Cash Manager, hired in November, will track investment earnings on a monthly basis and prepare projections for the remainder of the current fiscal year, as well as for next year for budgeting purposes. Bank fees are also tracked monthly, overcharges can be reversed. \$5,500 recovered bank fees in 1998.
78 VI-5.5	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Conduct accounting staff training and structure the accounting department in a manner that allows for proper overlap and cross training of staff to safeguard against down time.	The accounting staff management should do its best to portray the benefits of cross training. The training program for accounting staff is important and should be developed as soon as practical. The Task Force notes that the current staff is consumed with current day to day duties and additional qualified staff is appropriate. Also the accounting department must prepare a training program that is appropriate.	\$40,000 annual training cost.	Plan to Implement
79 VI-6.1	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	Implement a policy whereby all fixed assets must be tagged and recorded on the fixed assets system prior to being put into use in the schools and PPS offices.	<p>The Task Force notes that improving procedures to be able to tag fixed assets before they are put into use is important. However, there is not necessarily a need to change the delivery practices of having certain items, based on urgency and quantity, delivered directly to the schools. The issue is that tagging occurs before fixed assets are put into use. Where the tagging occurs should be based on other considerations.</p> <p>Having all fixed assets delivered to the central office, tagged, and then sent to the schools is often inefficient. At times it is easier to perform the tagging on-site at the school.</p>	Either additional staffing or outsourcing are required to implement the recommendation, and would therefore require additional spending.	Plan to Implement

Finance and Risk Management

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
80 VI-6.2	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	Perform a cost-benefit analysis to determine the most economical and efficient method for properly tracking and accounting for fixed assets, including, but not limited to, consideration of outsourcing, doing it in-house, or a combination of both.	Tracking and accounting for the volume of assets that characterize PPS, given that these assets are located in over 120 buildings throughout the District, is a monumental task. PPS should explore all options to determine the most efficient and cost effective way to improve this area. Clearly, the one employee who is trying to track assets single-handedly is not adequate. Since there are companies who specialize in fixed asset management, the District should not automatically assume that PPS should invest in the bar-coding equipment and computer systems to perform these tasks in-house. The feasibility of having this function outsourced should also be analyzed.		Plan to Implement
81 VI-7.1	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Establish internal audit function and related long-term audit plans to test various aspects of PPS administration compliance and operations.	The Task Force is aware that PPS plans to hire consultants to perform business process reengineering as part of the implementation of the new software system. Having an internal auditor on the PPS staff would provide a reality check, to be sure that the consultants suggestions can actually be implemented and work in the PPS environment. An internal auditor would also provide additional resources to the Controller and the Finance Department, which seem to be needed, given all the suggested changes just in the Finance and Risk Management areas of the performance audit.		Plan to Implement
82 VI-8.1	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	The Task Force recommends that the Payroll Department focus its effort on the design of a new system rather than changing the current process. Grant administrators should be provided with copies of time sheets of time charged to various grants.	The Task Force agrees with the ultimate acquisition of a new on-line payroll system. The timely submission of time sheets from the schools is policy. However in practice it is most difficult to enforce the timely submission of time sheets. The Task Force believes that a more prudent course is to begin the design of the payroll information flow in anticipation of the new on-line system.		In Process
83 VI-9.1	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Ensure proper hiring policies and procedures are followed.			In Process

Finance and Risk Management

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
86 VI-12.1	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	<p>Reduce the number of purchase orders processed by the purchasing department in addition to reducing supply inventory. Expand the use of procurement cards to travel and entertainment if feasible. Continue to require all vendors to give PPS established discounts to all users.</p>	<p>The Task Force is in agreement to promote and expand procurement card usage by District employees. The following points came out of our discussions:</p> <p>Expand to cover travel and entertainment. Make sure proper controls over signers and audit procedures are in place.</p> <p>We assume the PPS warehouse has best pricing, accordingly procurement efforts should be directed there first. However, procurement card users should receive PPS warehouse pricing from retail/wholesale vendors whenever possible. If they are not, these vendors must be so instructed.</p> <p>Centralized paying of purchases under the procurement card may be best made by check versus allowing auto debit, benefit payment float. Payment float is a separate issue; however, a study might be made for all payables/disbursements.</p> <p>KMPG recommends training seminars, which may be appropriate. Scheduling should be done to coincide with other required meetings.</p> <p>PPS personnel suggest reduction in FTEs may come from reduced future hires versus cuts in existing staffing levels. The Task Force is in general agreement with this statement.</p>	<p>Some wage savings should be realized as well as reduced costs associated with reduced inventory levels. Wage cost may be further reduced if the card usage is expanded to cover travel and entertainment expenditures. It is unlikely cost savings in total will be immediate or anywhere near KPMG's aggressive estimates.</p>	In Process

Finance and Risk Management

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
95 VI-18.1	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	<p>Develop a system for recording an estimated liability for all claims throughout the year. PPS should consult with an actuary to develop a system to estimate the potential liability for IBNR claims as well as known claims when presenting interim information to management on such issues. Despite the nature of claims, all claims which could result in a liability to PPS should be reported to Risk Management as soon as the claim is made known to any PPS personnel in order to assess and account for the potential liability on a timely basis.</p>	<p>Reviewed the possibility of developing a system for calculating IBNR claims. Because there is no established singular method for this calculation, it was the general consensus that it is neither financially beneficial nor practical to require more than an annual computation of the IBNR.</p> <p>It is suggested that PPS continue its current efforts to obtain a Risk Management software program which will eliminate the current manual manipulation of information to obtain required statistical, financial and loss control data.</p>		Rejected
98 VI-21.1	<input checked="" type="checkbox"/> Alt Rec <input type="checkbox"/> KPMG Rec	<p>It is suggested that PPS evaluate the possibility of reorganization of the Environmental Health & Safety Department and consider combining current staff responsibilities to determine the proper number of additional staff required. The Task Force makes the recommendation to review the job descriptions of the 2FTE in Environment Health & Safety Department to determine if their time can be further allocated into other worker safety functions.</p>	<p>The Task Force is in agreement with KPMG's recommendation to consider adequacy of staffing levels for Environmental Health & Safety Department. PPS should review the prevailing salary range for safety professionals and consider reorganization of current staff responsibilities to determine number of additional staff required. For example, the Task Force questions the need for full time positions for lead and asbestos specialists. The Task Force discussed the financial advantages of and importance of a proactive safety program which should reduce the number of claims and aid in assuring that the organization is in compliance with Federal and OSHA regulations. Although impossible to quantify, the lack of training programs, safety committee oversights, and non-compliance with safety issues may increase the volume of claims, claims expense, and OSHA fines. The Task Force questions the fiscal impact of the KPMG's study in that an annual investment of \$36,000, including salary and benefits, may not be sufficient to attract capable and qualified safety inspectors.</p>	More than \$36,000 annually.	In Process

Finance and Risk Management

Ref#	Type	Recommendation	Discussion	Fiscal Comments	Status
99 VI-21.2	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	Increase responsibility of Working School Safety Committees.	The Task Force basically agrees with KPMG's recommendation to increase the responsibility of Working School Safety Committees. PPS should review potential cost accounting problems which may arise if OSHA fines are charged to the individual school budgets.		Further District Review Pending
103 VI-25.1	<input type="checkbox"/> Alt Rec <input checked="" type="checkbox"/> KPMG Rec	The District should perform an analysis to determine the possibilities of either outsourcing records management, archiving activities or acquiring a facility to store and manage the District's records.	The recommendation to further study the records management area is worthy. The District currently has many irons in the fire and the records management does not merit the time right now to do a proper job given the imprecise nature of the potential savings.		Further District Review Pending

Finance and Risk Management