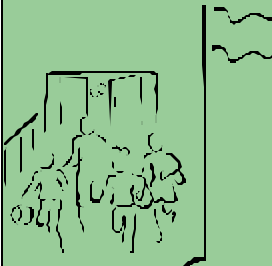


Seattle Public Schools

Financial Operations and Information Systems Audit

School Board Meeting
April 16, 2003



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Presentation Agenda

- Approach – type of project – scope
- Commendations
- Board questions
- Causes of shortfall
- Conclusions
- Future/next steps
- Study component highlights
- Summary Comments

Overall Audit Approach

- Constructive review
- Focus on the General Fund
- Study conducted in phases
- Conclusions based upon available evidence

Type of Project

- Performance audit
- Address specific Board questions
- Four components defined in scope
- Not a fraud audit

Commendations

- Skilled Group of Business Managers
- Sound Financial Organization Structure
- Staff Commitment
- Powerful Technology Architecture
- Successful Technology Systems Implementation
- Available Foundation for Reporting
- Maximized Revenue Funding

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Scope of Work – 4 Components

- Budget
- Process and Technology
- Internal Controls and Reporting
- Organization

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Scope of Work – Years (in order)

- FY02 – available detailed revenues and expenditures
- FY01 – reviewed in less detail
- FY03 – information as available

Project Challenges

- Lack of audit trail
- Access to personnel
- Fragmented information

Board Questions

- Was District's analysis accurate?
- Were there delays in discovery/reporting?
- What can be done to prevent situation from happening again?

Was District's Analysis Accurate?

- Acknowledged that mistakes were made and accounting records plugged
- Analysis could not be fully substantiated
- Presented in simplest of terms
- Did not fully address underlying causes
- Process rushed/high-level in nature

Was District's Analysis Accurate? (continued)

- Accounted for \$21 million of \$23.3 million
- Systems disconnect - \$7.0 million
- Revenue error - \$7.0 million
- Accounting adjustment - \$5.0 million
- Revenue decline – 2.0 million

Discovery

- Some budget issues first recognized April-May 2001
- Delays in reporting
- Checks and balances not working to prevent problems
- Adjustments made (plugs) to correct situation during FY02 budget development
- Personnel anticipated that future revenues would cover shortfalls

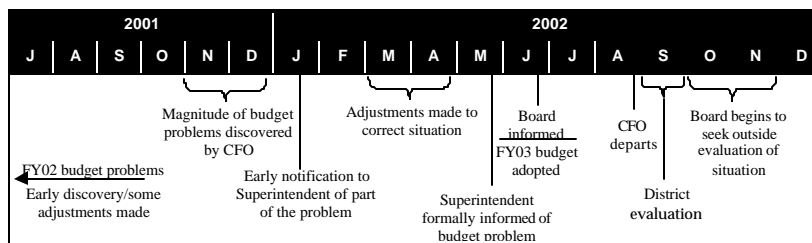
Discovery (continued)

- Preliminary notification of some problems around January 2002
- More adjustments (transfers) in March-April 2002
- CFO formally contacted Superintendent in late May 2002 about magnitude of the problem
- Board notified mid-June 2002
- Process for recovery initiated

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Discovery Timeline



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Direct Causes – Series of Missteps

- Errors made
- Budgets plugged
- Continued spending

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Underlying Direct Causes – Perhaps More Important

- Lack of financial oversight
- Checks and balances not working
- No budget monitoring
- Disconnects between schools and central office
- Organizational deficiencies
- Additional personnel issues
- Changing processes
- Accountability
- Economic decline

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Conclusions

- FY01 and FY02 budgets out of control
- Mistakes, disconnects in business practices, lack of fiscal discipline
- Oversight – significantly deficient
- Confluence of events and factors = FINANCIAL STORM

How Positioned For Future?

- Available financial team, but not complete
- Starting to make changes
- More robust budget development process for FY04
- Need to focus on critical path

Next Steps

Component	2003			2004			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Budget							
- Establish strengthened budget tracking and control functions							
- Monitor budgets (immediate)							
- Strengthen practices (immediate)							
Process/Technology							
- Reengineer processes/streamline workflow							
- Integrate technology							
Internal Controls/Reporting							
- Establish new policies and procedures							
- Shore-up internal controls							
- Develop, distribute, and utilize reports							
Organization							
- Hire Budget Manager (immediate)							
- Strengthen oversight (immediate)							
- Implement training program							

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Budget Highlights

- Moderately complex budget environment
- Solid assumptions
- No control over economic/legislative/OSPI changes
- Over-relied on historical spending patterns to cover shortfalls
- Continuous revisions throughout year
- Confusing terminology
- Revenue budgets not entered into system on timely basis

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Business Model Disconnects

- Schools sometime spend monies without informing central office
- Central office pays for differential between actual and average salaries
- Not fully tracking school carry-forwards
- Lack of accountability for expenditures
- Decentralized grants management
- Training/support issues

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Process Highlights

- Change annually
- Tools not fully available
- Training irregular
- Schools budget before funding levels known
- Time constraints/data availability/ownership problems

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Process Highlights (continued)

- Ad hoc budget changes
- Continued low use of budgets
- Budget and position planning not well aligned
- Inefficient manual processes
- Grants/budget tracking not fully aligned

Technology Highlights

- Two tier one ERP systems in use
- Stand-alone budget development system
- Implementations considered successful
- Can further automate functionality
- Process reengineering and system configuration work remains
- Interfaces cumbersome but working

Internal Controls Highlights

- Checks and balances – missing for important budget activities
- Documentation – audit trails not well established
- Budget controls – high risk
- Organization controls – moderate risk
- Conclusions – moderate-high
- Controls must be evaluated in conjunction with other components of financial framework

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Reporting Highlights

- Systems infrastructure available
- Current information provided to management is lacking
- Board packet needs improvement
- Report distribution a problem
- Recent systems changes have impacted framework
- Format/terminology issues
- Data availability
- Underutilization of information

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Organization Highlights

- Senior management sets the pace and the tone
- Budget Manager turnover
- Other managerial turnover
- Lack of oversight over CFO position
- Silos present cultural challenges

Organization Highlights (continued)

- High workloads at peak in budget cycle
- Lacking functions in grants and budget tracking and control
- Frequent changes in organization
- Limited training
- “Kids-first” culture versus business practices

Summary Comments

- Time to shore-up financial infrastructure and add fiscal discipline
- Take a more conservative financial posture

Questions