

Division of Administration
Division of Operations

Management of Contracts and Adherence to Approved Budget Authority

To: All Staff

From: Jahantab Siddiqui
Chief Administrative Officer

Dan Lubeley
Acting Chief Operating Officer

This circular provides direction to all HCPSS staff who are responsible for budgets and contracts. This direction is a result of recent overspending in HCPSS contracts and spending beyond the approved Board of Education (Board) authority or the approved operating budget.

It is critical that HCPSS staff follow all relevant Board policies related to procurement and comply with the approved budget authority for expenditures. Due to recent over expenditures, the Divisions of Administration and Operations are working together to place specific controls within the Workday application. They are reminding staff of their responsibilities related to contract management. We recognize that some staff may require additional resources, training, and support and are working to build resources to help contract managers. The Office of Procurement has developed a Canvas page with resources that will be helpful for contract managers. Please use this [link](#) to visit the canvas page. Additionally, beginning with Fiscal Year 2025, all staff with contract responsibilities will be required to take mandatory training to review requirements.

We are asking all staff with contract responsibilities to:

1. Review your existing contracts to ensure that you adhere to the Board approved scope, spending authority, and budget.
 - a. Be aware of the spending authority, per fiscal year and in total, provided by the Board of Education associated with each contract and the budget authority approved in the Operating Budget for the services or goods being procured. Please note this is the dollar amount approved as a part of Bids & Contracts by the Board. This amount is **not** the amount that is approved in the operations budget. The budget does not equal spending authority.
2. Familiarize yourself with the contract and ensure the contract is sufficient to support operations for the remainder of the school year.
3. Schedule regular checkpoints to assess the status of each contract.
4. Schedule regular checkpoints to coordinate the contract status and usage for staff utilizing services covered in a contract managed by other staff.
5. Purchase orders must be approved and issued before any orders are placed.

Please note that adherence to Board policy, procurement office requirements, and the approved budget is mandatory. Per direction from the Superintendent, no unbudgeted expenditures will be permitted without the review and approval of the Chief Administrative Officer serving as the Superintendent's designee.

Workday Controls Staff should be aware that a new process in Workday will prevent payments from being issued to vendors whose contract limit has been met. This Workday control applies to contracts over the current \$50,000 threshold per policy 4050 that requires Board approval. Contracts under the \$50,000 threshold will not have this control created as these items are not procured by the Office of Purchasing. Please note that the staff responsible for contracts under the \$50,000 threshold are still held accountable for the other requirements of this circular. To avoid vendor issues, please pay close attention to your contract's spending authority and current status.

Contracts Exceeding Approved Authority. You may not engage in services or make purchases beyond the contract limit, and each contract manager is responsible for regularly reviewing and raising operational concerns where necessary.

Budget Controls. The August 10, 2023, memorandum from the Chief Administrative Officer provided clear guidance related to unbudgeted expenditures. Please review the attached memorandum to ensure that you are complying with the guidance contained.

We appreciate your cooperation and commitment to ensuring transparency, accountability, and fidelity in our financial management. If you have any questions or concerns related to your contracts or your approved budget authority, contact the Office of Purchasing at 410-313-6644 or purchasing@hcpss.org.

Attachment

JS/DL/vw



August 10, 2023

MEMORANDUM

To: Karalee Turner-Little, Deputy Superintendent
Division Chiefs

From: Jahantab Siddiqui, Chief Administrative Officer

Subject: FY 2024 Budget Management

The purpose of this memorandum is to provide a brief recap of the FY 2024 Operating Budget, highlight potential budget risks, and share certain budget management and monitoring strategies that are necessary to implement. I want to thank you and your performance managers for their remarkable work during the FY 2024 budget process as we worked toward the adoption of the FY 2024 budget. It would not have been possible to recommend a budget adoption strategy without the problem-solving approach that you and your teams brought to the table.

FY 2024 Budget Overview. We were fortunate to have the FY 2024 budget include significant pay raises for our teachers and staff as well as substantial increases in expenditures to support student transportation, college and career readiness, and special education among other priorities. In total, FY 2024 recurring costs in the budget grew by more than \$74.0 million. However, the recurring revenue growth from the County and State was not sufficient to afford the expenditure growth and offset the FY 2023 use of fund balance. The county revenue grew by \$47.0 million and state revenue grew by \$24.9 million. However, a good portion of this new revenue was needed to pay for existing budget costs funded with the \$28.9 million of fund balance used in the FY 2023 budget. Consequently, the net recurring revenue growth that was available for FY 2024 was only \$43.0 million. In other words, we grew our ongoing expenditures by more than \$74.0 million while our ongoing revenues only grew by about \$43.0 million.

As a result, the budget was balanced using a large amount of one-time funds. In total, \$31.0 million of one-time funds were used to balance the FY 2024 budget. While actual audited balances have previously been used to balance the operating budget, this year it was a *projected* unassigned fund balance amount that was used for budget adoption, nearly exhausting the projected fund balance and putting it well below the threshold established in Policy 4070. On a positive note, we are optimistic that the actual ending fund balance for FY 2023 will be higher than projected. We will know the actual amount

once the Annual Comprehensive Financial Report (ACFR) is completed on September 30, 2024.

FY2024 Budget Risks. In addition to the use of one-time funds, many difficult decisions were made to reduce the requested budget for costs that are not fully controllable. These difficult decisions pose potential budget risks for FY 2024. These include:

- Increased Special Education compensatory services. Some of these costs are currently covered in part by grants, however, current estimates show that grant funding will not be sufficient to cover the potential costs.
- Special Education non-public placement. The FY 2023 budget for this was fully expended and we are concerned that with tuition costs increasing, and more students in non-public placements, the FY 2024 budget growth of \$500,000 will not be sufficient.
- Pupil transportation costs. While these costs were increased to account for inflationary increases, additional routes to support a new high school (and relevant exemptions) and implement new school start times, ongoing adjustments could create fiscal pressures as currently we are projecting to be over-budget.
- Substitute wages. Actual expenses for FY 2023 exceeded the budget by \$3.9 million and the FY24 budget was only increased by \$1.0 million. If FY 2023 trends continue, this cost area will create fiscal pressures for the operating budget.
- Health insurance costs. These costs have historically been volatile and big swings can occur from year-to-year, despite actuarial projections. While the final budget increased funding for this fund, it did not account for health insurance costs for all new positions. It will be critical to manage this budget to ensure we do not backslide and create another health fund deficit.

FY2024 Budget Management and Monitoring.

It is not unusual for adopted budgets to have cost risk areas and in prior years we have been able to rely on actual fund balances to ensure we are prepared for unforeseen cost volatility or expenditures. However, for FY 2024 our ability to manage this volatility is diminished due to the amount of fund balance being used as well as our need to begin to think strategically about how any available fund balance can factor into a strategy to manage the impact of one-time funds on the FY 2025 budget.

At this point in the fiscal year, I believe that through our continued collaboration and a shared commitment toward the goal of ensuring financial stability, it is not necessary to enact budget control measures. In prior years, we have implemented budget control measures to restrict expenditures, a process to review non-school based vacancies for possible salary savings, and required budget office and chief-level review for expenditures over a certain amount. Historically, the school system has also had to implement mid-year savings plans and consider employee furlough days. Right now, such measures are not necessary and we believe that with increased communication and

monitoring, the FY 2024 budget can be effectively managed. and more time can be dedicated to developing strategies to fortify the FY 2025 budget against costs risk.

There are several strategies that the Budget Office is implementing that will help support this increased communication and monitoring:

- Increased monitoring of budget-to-actual trends across all offices and providing regular updates to the Superintendent regarding possible budget concerns areas, not limited to the cost risks noted in the memo.
- Review of position vacancies reported monthly by Human Resources, including the number and amount of time positions are vacant for each state category. This will be an important trend to more closely monitor to ensure that we stay on track to meet the \$(13.8) million salary savings targets in the budget.
- Continued review of expiring COVID-19 grants and grant applications with current or future fiscal impacts,

In addition to these measures, there are several requests that we have for you:

- Please ensure staff elevates potential unbudgeted costs to their budget analyst as early as possible, and **before** incurring or committing to any unbudgeted expenditures.
 - This applies to costs for contracts, supplies, materials, equipment, and discretionary wage costs.
 - Unbudgeted expenditures exceeding \$5,000 may only be incurred for these items once a budget amendment is completed to cover the unplanned cost.
 - Prior budget approval is not needed for certain costs that are unbudgeted or may exceed the line-item budget. For instance, expenditures related to legal requirement or those that cannot be directly controlled such as compensatory service costs, substitute wage costs, and non-public placement tuition will not require pre-approval before incurring. However, we ask that your teams work very closely with their budget analyst on these types of costs so that budget to actual estimates are monitored and budget amendments are done as needed.
- Engage Darin Conforti, Executive Director of Budget, or designee, in any internal conversations, ***prior to Board or Superintendent decision-making***, related to negotiations, settlements, bargaining agreements or other cost-drivers so budget staff can provide counsel and help develop plans and contingencies for unplanned expenditures.
- Please do not bring forward items for approval that have a current or future fiscal impact without budget office review. While all bids and contracts Board Reports are reviewed by the budget office, it is critical that any Memorandums of Understanding or Agreements (MOU/A), grant awards or agreements, partnerships and other commitments brought forward outside of this process are reviewed for budget implications and this analysis provided to the Superintendent or the Board ***prior to their decision-making.***

Thank you for your understanding and your partnership in helping us manage the FY 2024 budget. While these are precautionary measures, should circumstances require additional budget management guidance or measures, we will develop those in continued collaboration with the Executive Leadership Team.

If you have any questions related to this guidance, please do not hesitate to contact me or Darin Conforti, Executive Director of Budget.