



Financial Management

Managing for Results in America's Great City Schools -- A Case Study in the Area of Accounts Payable

March 2012

About the Performance Measurement and Benchmarking Project



The Council's *Performance Measurement and Benchmarking Project* is designed to assist districts in assessing their performance in the context of their peers. The project uses a Performance Management System (PMS) which converts district reported data into performance measures. Districts can then use the data to benchmark their own performance to the Council of the Great City Schools' (CGCS) member districts in the areas of Finance, Operations, Information Technology, and Human Resources. Comparable measures are displayed

in a web-based system and allow districts to see where they are performing well and where they have opportunities to improve.

Background of the Case Study

The purposes of this CGCS case study are to (1) identify the top performing districts in Financial Management, as indicated by the *Performance Measure and Benchmarking* data, and (2) determine the specific management practices which led to these districts becoming top performers. The *Performance Measurement and Benchmarking Project* collects and displays data for hundreds of performance measures that senior executives can use to monitor internal processes and outcomes. However, to be considered a top performer a district has to perform consistently well across two select groups of measures. The two groups are Power Indicators and Essential Few, which are comprised of strategic, policy, and management level performance measures which are important for superintendents, chief executives, and board members to understand and monitor.

Aims and Objectives

As an industry, the business and operations components of K12 have not historically operated with a common set of industry standards for monitoring and benchmarking performance. CGCS addressed this through the development of its *Performance Measurement and Benchmarking Project*. The case study element of the initiative is designed to answer the question, “What are the effective management practices of top performing urban school districts that allow them to run effective financial and business operations?” Once these management practices are determined and disclosed, other districts across the nation can use them to analyze and improve their practices. The intention of such disclosures is to increase collaboration between executives of top performing districts and those districts striving to improve their performance to enable the industry to build its knowledge about how large systems work and what it takes to improve them.

Methodology

1. The CGCS *Performance Measurement and Benchmarking Project* team, along with several teams of finance staff members from multiple CGCS member school districts, uses a performance and benchmarking survey to collect data in seven areas: (a) Accounts Payable, (b) Cash Management, (c) Compensation, (d) Financial Management, (e) Grant Management, (f) Procurement, and (g) Risk Management.
2. The survey is distributed to all CGCS member districts and the data collected from the districts are compiled, analyzed, and summarized by the team's statistical analysts and TransACT Communications. The results are developed into a comparative format and published in an annual report, *Managing for Results in America's Great City Schools*.
3. The project team analyzes the data for the Power and Essential Few KPIs to identify the top performing districts in each of the seven areas of financial operations. The following table shows the top-performing districts:

Power & Essential Few KPIs – Best Performing Districts

Accounts Payable

Wichita Public Schools
School District of Palm Beach County
Portland Public Schools
Los Angeles Unified School District
Denver Public Schools
Minneapolis Public Schools
Charlotte-Mecklenburg Schools
Austin Independent School District

Compensation

Boston Public Schools
Atlanta Public Schools
Minneapolis Public Schools
St. Paul Public Schools
Clark County School District
Broward County School District
Norfolk Public Schools
Milwaukee Public Schools
Miami-Dade County Public Schools
Jefferson County Public Schools

Grants Management

Memphis City Schools
Miami-Dade County Public Schools
Norfolk Public Schools
Columbus City Schools
Boston Public Schools

Cash Management

Chicago Public Schools
Broward County Public Schools
Atlanta Public Schools
St. Paul Public Schools
East Baton Rouge Parish School System
Miami-Dade County Public Schools

Financial Management

Austin Independent School District
Pittsburgh Public Schools
East Baton Rouge Parish School System
Houston Independent School District
Omaha Public Schools

Risk Management

Charlotte-Mecklenburg Schools
Little Rock School District
Washoe County School District
East Baton Rouge Parish School System
Anchorage School District
Clark County School District
Albuquerque Public Schools
Orange County Public Schools, FL

Procurement

Charlotte-Mecklenburg Schools
Norfolk Public Schools
Houston Independent School District
Clark County School District
Denver Public Schools

4. A separate “best practice” survey, containing questions for each of the seven areas of financial operations, was designed to allow Chief Financial Officers and their staffs to describe the management and operational practices that led their districts to produce high quality outcomes. This survey uses best practice recommendations and industry standards as promulgated by such entities as the Governmental Finance Officers Association (GFOA), the National Institute of Government Purchasing NIGP), and the International Accounts Payable Professionals (IAPP) Association.
5. The project team reviews the “best practice” survey responses and conducts follow-up phone interviews to clarify and expound on the responses before issuing case study reports. The districts which responded to the “best practice” survey are shown in the district profile section below.

Presented below is the “Case Study of Financial Management Practices” for Accounts Payable resulting from the Council’s analyses of data collected for the fiscal year ending June 30, 2010.

Key Findings

Presented below are the key findings of the case study, which describes the importance of the functional area, profiles the top-performing districts that responded to the best practice survey, lists and describes the Power and Essential Few KPIs included in the analysis, and describes the functional area’s best management and business practices, as identified by the nation’s top-performing urban school districts.

Functional Area 1: Accounts Payable

Best in class Accounts Payable (AP) departments are hyper-efficient in processing invoices and are able to optimize cash flow while building and maintaining strong vendor relationships. The top-performing districts in Accounts Payable that described their management practices are profiled below.

District Profile: Austin Independent School District

Enrollment: 86,697

Number of Schools: 124

Free/Reduced Eligibility: 63.7%

English Language Learners: 27.4%

Percent of Students with IEP: 10.0%

Budget: \$838.5 Million

Mission: “...provide a comprehensive educational experience that is high quality, challenging, and inspires all students to make a positive contribution to society.

District Profile: Denver Public Schools

Enrollment: 79,423

Number of Schools: 162

Free/Reduced Eligibility: 72.5%

English Language Learners: 34.0%

Students with IEP: 11.8%

Budget: \$968 Million

Mission: "...to provide all students the opportunity to achieve the knowledge and skills necessary to become contributing citizens in our society."

District Profile: Los Angeles Unified School District

Enrollment: 919,939 (664,233, K-12. Others are adult education)

Number of Schools: 1,235

Free/Reduced Eligibility: 76.5%

English Language Learners: 31.5%

Percent of Students with IEP: 12.3%

Budget: \$6.5 Billion

Mission: "...staff of the LAUSD believe in the equal worth and dignity of all students and are committed to educate all students to their maximum potential."

District Profile: The School District of Palm Beach

Enrollment: 174,004

Number of Schools: 187

Free/Reduced Eligibility: 46.9%

English Language Learners: 11.0%

Percent of Students with IEP: 15.2%

Budget: \$2.3 Billion

Mission: "The School Board of Palm Beach County is committed to excellence in education and preparation for all our students with the knowledge, skills and ethics required for responsible citizenship and productive employment."

District Profile: Wichita Public Schools

Enrollment: 50,103

Number of Schools: 98

Free/Reduced Eligibility: 72.5%

English Language Learners: 15.6%

Percent of Students with IEP: 12.8%

Budget: \$606 Million

Mission: "...to empower all students with the 21st century skills and knowledge necessary for success by providing a coherent, rigorous, safe and nurturing, culturally responsive, and inclusive learning community."

KPIs for Accounts Payable

There are three Power Indicator or Essential Few KPIs for this area. The following sections discuss the best practices in AP. A best practice which is common across all of the KPIs in Accounts Payable is the use of automation. All of the best performing districts reported the use of technology as a critical component of managing their accounts payable processes.

KPI – Number of Days to Process a Vendor Payment

This KPI measures the efficiency of the payment process. The number of days to process payments ranged from 2 to 15 days for seven of the eight top-performing districts in Accounts Payable. The median for all CGCS member districts is 21 days, with 21 districts exceeding the median, encompassing a range of 23 to 75 days. Factors that influence this measure include the use of automation to process AP transactions and administrative policies and procedures to govern AP practices.

Best Management Practices

Practice 1: Electronic Payments

A GFOA Accounts Payable best practice is the use of electronic payments to process payments to vendors instead of traditional check printing. Best practices of top-performing districts are:

- ❖ **Automated Clearing House (ACH) Payments** are a form of electronic funds transfer that allow a vendor to collect a recurring payment electronically. ACH is used by 80% of the top-performing districts for recurring vendor payments. Denver uses system flags that exist in the district's Enterprise Resource Planning (ERP) system to make direct payments to vendors for certain invoiced goods and services.
- ❖ **Purchase Cards (P-Cards)**. Used by 80% of the top-performing districts for small purchases. The School District of Palm Beach County reported, "The District's use of the Purchasing card for small purchases has drastically reduced the number of invoices to input." Austin Unified School district reported that their use of P-Cards district wide reduced the number of purchase orders processed by two-thirds.
- ❖ **Electronic Funds Transfer and Wire Transfers**. Used by 60% of the top-performing districts for vendor payments. For example, since Austin is self-insured for workers' compensation and employee health insurance, the district requires third-party claims administrators to draft funds against claims directly from the district's bank accounts.
- ❖ **Ghost Payment Cards**. These are either P-Cards or credit cards provided to preferred vendors for ongoing use, with each vendor given a unique "ghost" card number which the vendors automatically charge when purchases are made by the district. In the case of Denver Public Schools, its AP department automatically receives an email confirming such payments. Austin uses a ghost card to pay for airline travel booked through the American Airlines' reservation system and the district's travel agent. Forty percent of the top-performing districts use this method.

Practice 2: Automation

Various studies related to best practices in accounts payable processing have shown that high levels of automation decreases invoice-processing time and costs. Denver for instance reported that the district reduced its AP staff by 33% over three years through their continued use of technology.

- ❖ Automated three-way matching of the invoice/receiving report/purchase order documentation. Los Angeles Unified School District uses the image capture and management capabilities of its FileNet business process system to automatically link accounts payable transactions to the district's Financial System. L.A. reported that this automation accelerates its invoice processing. All of the top-performing districts use some form of automated three-way matching.
- ❖ Maximization of district's ERP system's automation capabilities. This includes automation of routine business transactions such as processing purchase requisitions and purchase orders.
- ❖ Automated calculation and processing of early pay discounts. Denver programmed its ERP to automatically calculate and process early payment discounts offered by its vendors.
- ❖ Electronic Data Interchange (EDI). Sixty percent of the top-performing districts reported using EDI to electronically transmit data either between their internal systems or between their systems and the systems of outside organizations. For instance, Palm Beach uses both EDI and spreadsheets to load hundreds of Food Services, non-PO vendor invoices at one time into its ERP system. L.A. is developing plans to begin processing invoices via EDI with an upcoming implementation of the district's ERP.

Practice 3: Board and Administrative Policies

One of the criteria for the GFOA's Award for Excellence in Government Financing is the use of policies and procedures to govern financial practices.

- ❖ Sixty percent of the top-performing districts reported the use of district policies to govern their Accounts Payable processes. These districts reported that their policies address processes such as (1) the inclusion of prompt payment discounts in contract negotiations, (2) expedited payment processing of selected transactions that meet certain policy thresholds, (3) "piggyback" arrangements on previously negotiated master service agreements to take advantage of aggregated spend level discounts, and (4) establishing strict deadlines for reimbursement of employee expenses such as travel payments.

Practice 4: Other Notable Practices

There are numerous miscellaneous practices top-performing districts reported using to improve efficiency. They include:

- ❖ **Austin:** ((1) cross-Training of Accounts Payable staff, (2) formal training sessions on AP practices for district employees, and (3) availability of online AP training materials for access by employees. In addition, the average years of service of AP employees in the district's AP department is eleven years. Austin reported, "This average absolutely contributes to our efficiency. Staff's flexibility and willingness to be adaptable to new processes is also a contributing factor."

- ❖ **Denver:** (1) use of standard templates for frequently used means of communications, such as emails, (2) script processing of payments, (3) consolidation of vendor billings for all district services or products provided by vendors frequently used by the district, and (4) use of system controls to reduce and/or eliminate duplicate payments.
- ❖ **Los Angeles:** (1) periodic review of industry best practices, (2) periodic evaluation of district AP operations to identify productivity improvement opportunities, (3) use of metrics to measure productivity and statistics to track historical trends, and (4) ongoing staff training.
- ❖ **Palm Beach:** to reduce the volume of past due invoices, the district created a Past Due Invoice Resolution team to concentrate on getting departments and schools to process receipts and unresolved invoice problems.
- ❖ **Wichita:** (1) balance daily batch totals to invoices entered to help identify and resolve issues in a timely manner, (2) regular review of invoice aging reports, and (3) utilize an AP audit recovery firm to find unclaimed credits and overpayments. These measures resulted in a disbursement accuracy rate of 99.988%.

KPI – Non-PO Invoices Processed per FTE per Month

This factor is a significant driver of costs in operating an AP department and is a common measure of efficiency. The number of non-Purchase Order invoices processed per FTE employee per month ranged from 417 to 1,118 invoices for six of the eight top-performing districts in Accounts Payable. The median for all CGCS member districts is 328 invoices, with 19 districts below the median, encompassing a range of 1 to 320 invoices per FTE per month. Factors that influence this measure include the use of automation to process AP transactions, administrative policies and procedures to govern AP practices, and methods to monitor and measure efficiency.

Best Management Practices

Practice 1: Automation

High levels of automation for processing non-PO invoices increase the number of payments made per month per AP staff member. The uses of automation of the top-performing districts are described above for the “Number of Days to Process a Vendor Payment” KPI. For non-PO transactions these automated practices included: ACH direct deposit payments, use of scripts, P-Cards, EDI, spreadsheets to input data into ERP systems, and ghost cards.

Practice 2: Management Oversight

A key influencer of this measure is management oversight of the AP process. A GFOA best practice is the use of performance measures to monitor and improve processes. Top-performing districts reported the use of metrics and key performance indicators to measure productivity. For example, Los Angeles reported using statistical trend data to measure turnaround time and to identify trouble spots and bottlenecks in their AP workflow. In Austin, the AP Supervisor monitors each AP employee’s KPIs to monitor workload volumes and throughput and shifts the team’s workload accordingly.

Practice 3: Administrative Procedures

One of the criteria for the GFOA's Award for Excellence in Government Finance is the use of policies and procedures to govern financial practices.

- ❖ Policy and procedures manual. The top-performing districts reported using formal, written documentation for their AP processes. Specific examples of documented processes cited included: (1) delineation of responsibilities and accountabilities, (2) requirements for monitoring AP processes, and (3) identification of payment approval authority.

KPI – Void Checks as a % of Total Checks

This measure reflects both AP processing efficiency and accuracy. The percentage of voided checks for the eight top-performing districts ranged from 0.06% to 0.88%. The median for all CGCS member districts is 0.88% of checks voided, with 20 districts above the median, encompassing a range of 1.05% to 3.24% of checks voided during the year. Factors that influence this measure include administrative policies and procedures to govern AP practices, methods to monitor and measure efficiency, internal control policies, and the use of automation to process AP transactions.

Best Management Practices

Practice 1: Internal Controls

A high percentage of voided checks suggest a lack of internal controls and a potential for fraud. GFOA recommends financial managers take responsibility for internal control and include some practical means for lower level employees to report instances of management override of controls that could be indicative of fraud. The term “Internal Controls” is a general category governing the AP process. Specific internal control initiatives reported by the top-performing districts are described in the practices below.

Practice 2: Management Oversight

A key influencer of this measure is management oversight of the AP process. A GFOA best practice is the use of performance measures to monitor and improve processes. Best practices reported include:

- ❖ Use of electronic controls available in ERP systems to monitor such anomalies as duplicate invoice numbers, misalignment of the three-way match, duplicate payments, and insufficient budgets.
- ❖ Palm Beach tracks and monitors reasons for voided checks in order to detect any patterns that might exist.
- ❖ Los Angeles is under contract with an expense recovery firm to audit prior payment records to detect past overpayments, duplicate payments, and other anomalies. In addition the district uses reports designed to monitor check cancellations and to identify reasons for such transactions.

Practice 3: Controls Over Vendor Master Files

To help ensure proper disbursement of funds to the correct vendors, International Accounts Payable Professionals (IAPP) Association standards recommend a systematic review of vendor master files.

- ❖ Top-performing districts reported the use of strict controls over access to vendor master files. For instance Austin, Los Angeles, and Palm Beach require maintenance of vendor master files be performed by organizations other than Accounts Payable. In addition, Los Angeles contracts with a third-party administrator to review vendor files for double entries and erroneous information and then corrects the files. Austin specifies specific data that vendors must provide to the district before they can be set up in the financial system.

Practice 4: Other Notable Practices

Los Angeles has a process to highlight lessons learned from past mistakes and to define corrective measures to prevent future errors. The district also cited the use of a continuous improvement process to apply new techniques and to maximize technology. Wichita has an extensive training program to instruct school staff in purchasing and payable procedures. The district also gives visibility to potential problem areas through regular AP staff meetings dedicated to issues and processing deadlines.



About the Council

The Council of the Great City Schools is the only national organization exclusively representing the needs of urban public schools. Composed of 67 large city school districts, its mission is to promote the cause of urban schools and to advocate for inner-city students through legislation, research and media relations. The organization also provides a network for school districts sharing common problems to exchange information, and to collectively address new challenges as they emerge in order to deliver the best possible education for urban youth.

Member Districts

Albuquerque, Anchorage, Atlanta, Austin, Baltimore, Birmingham, Boston, Bridgeport, Broward County (Ft. Lauderdale), Buffalo, Caddo Parish (Shreveport), Charleston County, Charlotte-Mecklenburg, Chicago, Cincinnati, Clark County (Las Vegas), Cleveland, Columbus, Dallas, Dayton, Denver, Des Moines, Detroit, Duval County (Jacksonville), East Baton Rouge, Fort Worth, Fresno, Guilford County (Greensboro, N.C.), Hillsborough County (Tampa), Houston, Indianapolis, Jackson, Jefferson County (Louisville), Kansas City, Little Rock, Long Beach, Los Angeles, Memphis, Miami-Dade County, Milwaukee, Minneapolis, Nashville, Newark, New Orleans, New York City, Norfolk, Oakland, Oklahoma City, Omaha, Orange County (Orlando), Palm Beach County, Philadelphia, Pittsburgh, Portland, Providence, Richmond, Rochester, Sacramento, San Diego, San Francisco, Santa Ana, Seattle, St. Louis, St. Paul, Toledo, Washington, D.C., and Wichita