



INCREASING YOUR BUDGET KNOWHOW: A CHECKLIST

BY CINDRA SMITH



PUBLIC COMMUNITY COLLEGES ARE COMPLEX organizations, and their budgets, financial reports, and accounting rules can be daunting. Most trustees do not have a specialized background in finance or accounting. However, as stewards of public funds and resources, they must be willing to learn key fiscal concepts, understand how to read budgets and financial reports, and know how to assess appropriate controls and audits. They must learn enough to know what questions to ask and be able to understand the answers. And they must set fiscal policies that guide budget development and require fiscal stability and accountability.

The following checklist can help you assess your knowledge and skills in each of these areas.

Budget

- Does board policy ensure an appropriate level of involvement by various stakeholders in the process of developing the budget?
- Is your board aware of and has it discussed the planning assumptions on which the budget is based?
- Do you understand the projected revenues and resources? Are the projections based on reasonable assumptions? Are the projected revenues from students, local taxes and levies, state funds, grants, donations, and partnerships appropriate?
- Do you understand the basic accounting principles relevant to public entities? (e.g., fund accounting, reserves, etc.)
- Does the board have policy guidelines for budget allocations? For instance, are mission priorities reflected in the overall allocations? If your board has established “target percentages” for personnel, reserves, new initiatives, etc., have the targets been met?
- Do you understand the expenditure categories? Are the projected expenditures realistic given past history and probable influences on expenditures? Are the proportions of funds dedicated to personnel, maintenance, supplies, and other major categories appropriate?
- Is the “ending balance” or unrestricted reserves sufficient to meet unexpected needs?

Can you determine:

- The level of debt?
- The level of income compared with the level of expenditures?
- That cash flow is sufficient to meet expenses?

Are you assured that:

- Funds allocated or restricted to specific purposes are not commingled or transferred without the approval required by board policy and by law?
- Are deferral of payments and other ways of spreading

expenses over a period of time appropriate? Do they not commit the organization to liabilities that it cannot meet? Do you understand the payment schedule?

Long-Range Planning

Does your board discuss the implications of making long-term commitments, such as:

- Employee union contracts?
- Employee retirement and health benefits?
- Building projects?
- New programs?
- Debt?
- Multi-year contracts for services, and so on?

Has your board explored and does it understand the long-range impacts of:

- State and regional economic trends?
- Enrollment projections and trends?
- Facility and maintenance needs?
- The need to upgrade technology and other equipment?
- Are you sufficiently confident that revenues will be available to cover projected financial commitments?

Fiscal Management

- Does your board have clear policy guidelines for fiscal and asset management?
- Are you willing to delegate responsibility for financial monitoring to the CEO? To a board audit or finance committee?
- Does your board receive monthly or quarterly financial statements? Do you understand them? (If not, how will you learn to understand them?) Do the statements provide a clear picture of the fiscal condition of the institution? Are they timely?
- Does the institution have sufficient “cash” on hand to meet its needs?
- Does the institution have sufficient internal controls or an internal audit system? Does management follow up on potential problems in a timely manner?

Understanding Audits

- Do you require that the college’s financial statements and operations be audited on a regular basis by an external firm? Do you clearly understand the purposes of financial audits?
- Does your board select the auditing firm?
- Does your board’s auditing firm report to the board?
- Do you understand the concept of “generally accepted auditing principles” and other government standards used to evaluate the soundness of public institutions? (Federal standards are set by the Governmental Accounting Standards Board; your state may have additional standards.)

Public community colleges are complex organizations, and their budgets, financial reports, and accounting rules can be daunting. Most trustees do not have a specialized background in finance or accounting. However, as stewards of public funds and resources, they must be willing to learn key fiscal concepts, understand how to read budgets and financial reports, and know how to assess appropriate controls and audits.

- ❑ If your board has an audit or finance committee, do you ensure that their reports on the audit are discussed thoroughly by the entire board?

Investments

- ❑ Does your board have an investment policy that defines an appropriate level of risk and reflects other investment values on your board?
- ❑ Are you confident that college funds are invested securely and appropriately?

State and Federal Accountability

- ❑ Is your board aware of the laws and regulations that affect your budget and how funds are spent? Is your institution able to comply with the laws? If not, why not, and what steps are being taken to comply?
- ❑ Are reports required by state and federal agencies accurate and filed in a timely manner? Does your board appropriately review the reports? When you are asked to approve the reports, do you understand them well enough to approve them?

Foundation and Gifts

- ❑ Is your board confident that gifts are accounted for and used appropriately?
- ❑ Is your board aware of how the college foundation is spending its money? Does the foundation comply with related laws and board policy?
- ❑ Are you assured that its financial reports are filed in a timely manner?

Monitoring

- ❑ Are you willing to:
- ❑ Ask tough questions?
- ❑ Ask “stupid” questions?
- ❑ Challenge management when something doesn’t make sense?
- ❑ Do the work necessary to learn how to evaluate budget reports, quarterly financial reports, and the audit?

Are you alert to the following potential problems?

- ❑ General fund balances or reserves falling below the level the board has established as prudent
- ❑ Declining balances or reserves over a period of years
- ❑ Deficit spending or routinely borrowing or transferring funds to meet cash flow needs
- ❑ Long-range commitments for salaries, benefits, contracts or debt that exceed projected revenues
- ❑ Commingling special funds with general funds
- ❑ Unpaid or late bills and debt payments
- ❑ Audits that contain significant qualified or adverse opinions, or which report significant weaknesses or reportable conditions.



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