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What's the score? -- Record-keeping for a school district

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Good morning ladies and gentlemen! What's the score? It's 9:15 Tuesday morning. Last Fall, on Saturdays, people around the state were asking, "What's the score?" "Nebraska is ahead 49 to 20, two minutes to go." Then the following Tuesday, people were asking, "What's the score?" "Still in third place." Very recently I completed my income tax return for 1970. When I finished, my wife asked, "What's the score? How much do we pay this year?" The other day, she took the children to the dentist and when I got home, I asked, "What's the score? What is it going to cost me this time?" Today is March 30. Next week your superintendent and board will want to know, "What's the score? How do our school's operations this year compare with the budget?" For you see, just the other day, I received my 1971 real estate tax bill. The mill levy is up and obviously the taxes are up. Your superintendent and board are well aware of this, and they are sensitive to the feelings of the taxpayers. It is for this reason that they will be asking you what's the score so that they can intelligently and satisfactorily answer any questions they may receive from the taxpayers. In each of the instances just mentioned, you can readily tell that the necessary ingredient for a proper answer to each of these questions is the existence of proper records. Records, their creation and importance, will be the topic of my talk this morning.

One of your duties, among other things, is to supervise the financial aspects of your school district. Along these lines I will talk about methods of keeping score — accounting. My talk will deal primarily with financial records, but the same principles used in connection with financial records would also apply to the various other records and nonfinancial reports coming under your supervision and direction.

THE TOTAL ACCOUNTING SYSTEM — A CHAIN

Accounting has been described as the art of recording, classifying, and summarizing in terms of money, transactions and events that are financial in
character; and of interpreting the results thereof. It is interesting to note that accounting, which to a large degree uses dollars that add, subtract, and balance, is described as an art. And in my opinion, accounting truly is an art because it takes imagination and skill to develop meaningful logic and order from a vast array of data derived from numerous unrelated sources. Accounting can also be regarded as a chain. The total accounting system (chain) is only as strong as its weakest link, be that the recording link, the classifying link, the summarizing link, or the interpreting link. Each of these links is very important to the over-all system and a significant breakdown in any one of them can result in ineffective reports to those people who should be relying upon them.

THE RECORDING LINK

Recording should be done at the instant an event occurs. This is true not only in accounting but in all walks of life. Think of the cameraman who caught the shot of Tagge reaching across the goal line in the fourth quarter of the Orange Bowl game. He made a record instantaneously. Think of the time your child was born in the hospital. He received black feet right away and your wife received black thumbs. A record was made so that there could be no doubt about the persons to whom this child belonged. This is the area I am talking about. Your school’s accounting system should be designed so that a record is made when an event occurs, and this should be done with the least amount of cost and confusion possible. Because the people directly engaged in this experience have a first-hand and immediate knowledge of what happened, initial records are created most effectively at this time. These records should be made not by your bookkeepers but by the teachers or the secretary who opens the mail, by the personnel who receive incoming shipments of goods and merchandise, or by the sponsors of the various activities.

It is interesting to note that the persons whom I have suggested should prepare initial records are not trained or disciplined in the financial field. The fact that we can and should use nonfinancial people to perform the all-important first link in our accounting chain should not in any way reduce the effectiveness of our record-keeping. My experience has been that nonfinancial people are often apprehensive about record-keeping. It seems all too difficult to them. It then becomes your responsibility to help them overcome this feeling, and you can do this without making so-called bookkeepers out of them. All you have to do is to inform them of the
The information you so vitally need, which they have readily at their fingertips. You should provide them with a means of communicating this information to you in a simple manner. The easiest way I know of doing this is to design a convenient preprinted form for their use — not a 15-page questionnaire requiring their analysis, evaluation, and interpretation of an event. This simple form is designed to collect raw data and should serve only that purpose. Then, to make this recording system really work, let these people know periodically that the information they are giving you is of real value and most helpful to the over-all operation of the school district. What I am saying here is that you will catch more flies with honey than you will with vinegar, and that a little two-way communication will go a long way toward impressing them with the importance of that extra work they are doing for you.

The other links of this reporting chain are also very important; but you must not overlook the extreme importance of prompt recording, because without this there will be no data to classify, summarize, or interpret. If your teachers or other employees fail to make a record when an event occurs, this information could well be lost forever, just as that shot of the winning Orange Bowl touchdown might never have been recorded.

THE CLASSIFYING LINK

Now that we have devised a system so that vast amounts of raw data are flowing into our accounting office, we have to begin to put some semblance of order to this information. Because we were only interested in accumulating data in the recording stage, it becomes necessary at this point to sort attendance records from achievement records and to sort tax collections from budget requests. This information must be sorted and then arranged according to predetermined classes. For example, the information may be sorted along the terms of the budget as it was approved by the board or in terms of the anticipated revenues to be received. This step must be done by someone who understands the effects of the transactions that were previously recorded. It must be done by someone who has a little better understanding of the operation of your school district so that this person will recognize the information and the use to which it can be put. Once again in your supervisory position, you can control this process to some degree with the use of the preprinted forms previously discussed. A part of each form could include a routing sheet, which would ensure that the information gets to the person who is in the proper position to classify it. Therefore, the information
must be analyzed (coded) before it can be classified.

Classifying, too, is an important job because the end reports received are only as good as the classification accomplished here. For example, if someone in this position had access to the budget and used what he considered good judgment in allocating costs in such a manner as to keep from overspending the budget in a given area, then the resulting reports would not be reliable to those persons who needed them. Misclassifying items is a very poor practice. You see, if someone were to misclassify certain building repairs and utilities because it appeared that the building account would go over budget, you would really be doing your board a disservice because then the board would not have the information available as to what it costs to run their plant. A building may need to be replaced or extensively remodeled for the long-run efficient operation of the district. Other excess expenses in given areas might indicate waste that could better be controlled, resulting in reduction of the cost of operating your district.

This reminds me of an instance I noted several years ago in auditing a small company. The president of that company had decided to buy some liquor to give away as Christmas presents that year. When the initial record (invoice) came to the classifier (bookkeeper), she was concerned that this was not a deductible item for income tax purposes. So in an effort to conceal this disbursement from anyone who might be looking for it, she divided the disbursement by 25, which represented the number of budget items in her general ledger, and charged 1/25th of the cost to each budget item, thinking that the small additional amount in each account would not be noticed by anyone. Her problem arose when we tried to agree the total depreciation expense to the change in the reserve for depreciation for the year. We could not reconcile by the amount of this one small charge to depreciation expense. On reviewing the source of that entry, we found what had happened. Let me tell you this — she was a mighty embarrassed bookkeeper.

The point I am making is that those persons to whom you have delegated the responsibility for classifying data should be reminded of the importance of their jobs and should be impressed with the need to, as our younger generation says, tell it like it is.

THE SUMMARIZING LINK

So what have we accomplished now? We have had someone who is very close to the event start a record, and now all of these records that have been started have been reviewed and classified in some predetermined manner, but
the information in its present form is still not very useful to us. Why? Because it is not a single transaction that is important but it is, rather, the sum of all the operations or of all the transactions for a given period that makes all this information meaningful. It is for this reason then that summaries of operations are prepared at periodic intervals. A periodic interval for some records might be one day, for others a week, and for still others a month. Of course, the length of interval for some records can be a year. Because of the frequency of report requirements, different transactions will need different periodic intervals. Some examples of this would be: A summarization of cash balances should be made daily so that the management of your school district will know (1) if they have enough money to pay bills or (2) if they have excess funds that could just as well be placed in some secure temporary investment.

- **The Use of the Report** What I am about to say now really falls under the category of the interpreting link, but to show how each of these links connects to make a chain, I am going to talk briefly about the use of reports. The daily cash balance report should be used as a basis for preparing some cash-flow budgeting; that is, to decide or estimate how much cash will be received by your district in the next month and the timing as to when it will be received during the month. Likewise, you should estimate the amount of checks or warrants that will be issued in the next month and their timing within the month so that you can start with the current daily cash balance report and estimate the amount of cash flow over the next month; you should then be able to plan ahead either for loans needed to pay the bills or for excess funds that can be invested. I did not really intend to discuss the interpretation of a report, but this seemed like an appropriate place to carry the summarization link through to a final use of this data.

Other reports are prepared weekly and because of this fact the transactions must be summarized weekly. Attendance is frequently summarized on a weekly basis, and you probably know of many other required weekly reports. Some of the records to be summarized monthly would include cash receipts, summarized according to source of receipt, cash disbursements and/or encumbrances summarized according to the budget. It may also be well to summarize monthly the encumbrances and compare them with the amount of the budget previously approved. Summarization of the activity funds and the hot-lunch funds monthly is also necessary so that reports can be made to the people who are responsible for these funds.

Certain records probably have to be summarized at irregular intervals or
perhaps only annually. Such records could relate to the school’s building fund provided, of course, it is not an active fund or the bond retirement fund or estimated expenditures for the following year — the new budget.

- **Preparing the Report** When we speak of summarizing records, we mean not only putting like-coded items in a certain column, adding the column and so forth, but also taking this column total and using the information in preparing some sort of a report. The summarizing link, I suppose, could then better be referred to as the summarizing-and-report-preparing link. Reports must be carefully prepared and in the format desired by the readers. Reports must contain the amount of detail or have the conciseness required by the superintendent or board. Remember, they are busy people too and they will want to interpret the reports they receive — not search through the reports for the needed information. I once knew of a company that had obtained a computer for the first time. This piece of equipment was programmed not only to keep the daily records of cash receipts and disbursements and other transactions, but it was also designed to summarize and post all the records and even to prepare the monthly financial statements. The programmer of this machine and the chief accountant were so proud of their computer and the work it could do that the monthly financial statements, which are the end result of recording, classifying and summarizing — consisted of paper about a foot and a half wide and an inch and a half thick, and weighed about three pounds. One copy of the statements was printed for each director so that when the board met they had a financial statement prepared on their computer. All this was fine except that the statement was so long the directors were never able to get a good overview of their company’s financial transactions for the month or year to date. These reports had been prepared in the format desired by the preparer and contained far more detail than necessary for top level review by the directors. Detail is necessary and certainly is useful in its place, but it can be used to advantage only at the proper level within a company. Remember that if the board believes your reports are too concise, the directors can always speak up and get more detail. By having the information in a manner they have requested, the directors are in a better position to interpret what you have summarized and can ask for a more detailed explanation of a given budget item. At this point the detailed records become important to the district since in some cases your board of education will want detailed reports. When that would be is strictly up to them, but the important thing is for you to find out what kind of reports they would like to see. This is what your accounting system should be
designed to furnish.

Different reports for different people are a necessity, but in many instances once a report or procedure has been started, even though the need for it may be temporary, the tendency is to continue to prepare the report on a permanent basis. Therefore it becomes necessary for you, as the business manager of your school district, to satisfy the many people who require reports from you, but in doing this, put priorities on the relative importance of these reports. In your day-to-day operations of the school, you know there are certain reports that must be produced on schedule. There are others that really should be issued promptly, and some that are probably due, but if not prepared until tomorrow or the next day, will not result in dire consequences. The manager must decide which category to choose and what priority to place on your reports. Perhaps this decision should be committed to writing so that if you are gone for a day or a week, your assistant or the second in command will know what has to be done in your absence. Along the lines previously mentioned — the tendency to prepare certain reports on a permanent basis — I was once told that the best way to determine whether or not a report is really needed is to skip it once and then to sit back and wait to see if anyone asks for it. Believe me, if you are preparing a report and then find that no one misses its lack of preparation for a given periodic interval, it probably should lose some of its priority on your chart or even be eliminated.

THE INTERPRETING LINK

What I have been saying about the summarizing link, which includes the preparation of reports, is very closely related to the final link — the interpreting link. This link is the essential part of accounting. This is the end result. It is for this purpose that all the previous activity has been expended. There are a number of ways the information assembled can be interpreted. Some of this can be in the form of budget analysis comparing parts of the budget as a percentage of the total. Probably a better comparison might be made by comparing dollar expenditures or receipts with those of like amounts for last year or the year before that. But an even better way to interpret this information might be to compare these costs on a per pupil basis because this analysis then adjusts for the effect of changes in your enrollment.

I understand that there are several different methods of calculating per pupil costs. I think it would be a fine idea if, whenever any of you quotes per pupil costs, the basis for determining this cost be disclosed. As you may
know, in the past two years the accounting profession under the direction of the Accounting Principles Board of the American Institute of CPAs underwent quite a change in practice in reporting corporate earnings per share. Rules have been established so that for better comparisons and interpretations the calculation of earnings per share will be done in a similar manner by all companies. That is why I think it would be a fine idea for the Nebraska Association of School Business Officials to encourage all its members to disclose the method of determining per pupil costs when reporting not only to the superintendent and the board but also to the press. Through the press this information comes to the attention of the taxpayers of your district or any other district. From these analyses, important trends can be determined as they occur during the year. The superintendent and board can make use of the information on a current basis to make adjustments or corrections as needed to stay within the budget.

CONCLUSION

If you are successful in getting a good record-keeping combination from the beginning to the end, I guarantee you will improve the efficiency of your district. A good, meaningful system will increase all employees' awareness of the activities and the results if they become a part of this project. If they are thus properly motivated, they will become alert to ways their information and the results thereof can be improved for the betterment of the district. You will be surprised at the many constructive suggestions that can come your way. I am reminded of the lowly file clerk of a manufacturing company who asked a probing question one time and eventually saved that company a fantastic amount of money in its employee disability costs. Being in a manufacturing industry, the men in the plant were subject to accidental injury. Part of the file clerk's job consisted of filing personal-injury claims. One day she asked, "Why don't we hire the handicapped? This is a large company; certainly somewhere in this organization we have a position where these people who have been injured can work, and thus cannot have become completely disabled as a result of employment with us." The simple question, Why not hire the handicapped? made a tremendous difference in the well-being of all the employees in the plant, as well as having financial impact on the cost of employee disability. It would seem to me that the employees in your district, the teachers and all others, could be motivated to find cost reduction methods for you.