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House Committee on Education
HB 2393 – Changes in Accounting Standards/Audit Requirements

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Submitted by

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Mr. Chairman, members of the Committee:

Thank you for this opportunity to provide input regarding House Bill 2393 and its purpose to create uniformity among school district accounting systems, require prescriptive publication of budget information, and remove the waiver from generally accepted accounting principles (GAAP) for school districts.

The first section of this bill speaks to the requirement of the State Board of Education to review and select up to five accounting systems and up to five payroll systems, and then implement a “uniform reporting system” consisting of a “uniform chart of accounts” along with other requirements. This is highly concerning when school districts have implemented such systems that have been selected to meet the needs of the local district and developed over time, and that may now have to abandon and completely retool critical systems to satisfy a proposal that will have significant unintended consequences. Even if a district’s current financial and payroll systems are on the selected list, reconfiguring all the payroll and accounting codes will create tremendous workloads for districts as well as cause the loss of longitudinal data regularly used to track expenditures/revenue from year to year.

School districts across the state already utilize the Kansas Accounting Handbook to build their accounts, with the focus on the “function-object” codes that allow districts, regardless of financial system, to report common information to the state. Other numbers utilized in the account codes are extremely specific to the local jurisdiction, and should indeed be so due to needs of individual districts. To designate a uniform chart of accounts completely disregards the needs of individual districts to design systems that are most meaningful and relevant to local needs. If the desired result is a centralized repository of data – albeit repetitive of reports already provided to the State Department of Education via the budget process – an alternative is to provide current vendors with the desired reporting specifications and engage with them in the development of reports/data files that will fulfill this requirement.

An additional concern with the wholesale change of payroll and finance systems stems from related work connected to a variety of other applications. In Newton, for instance, the district has spent several years implementing Aesop (automated substitute teacher assignment and employee leave request system) and VeriTime (web-based timeclock for hourly employees) – and has spent hundreds of hours with all the related vendors to develop, refine, and implement the critical data integration required to bring the third party data into the payroll system. This integration has allowed the district to become more efficient and accountable with time and resources, yet a change of systems or accounting codes will require this process to begin anew. Repeating such a monumental task so soon – especially when it is working extremely well – truly defies logical thought and completely minimizes the efforts put forth to become more efficient at what we do on a daily basis.

Another significant concern with the bill is the elimination of a school district’s ability to annually waive the requirements of GAAP and present financial statements/audits in the currently accepted method. Without the waiver of GAAP requirements, preparation for annual audits will require significantly more staff time and associated salary costs, and will also increase the cost of the annual audit as a full GAAP audit is undertaken. This will translate into audits costing districts more while having little to no positive value in the operation of the school district. When asked what the impact of this requirement could be, our auditing firm responded:

It's hard to estimate, a lot of the additional audit time will be depend on the expertise within the District. I would guess that most of the small Districts do not have accounting professionals who can deal with the modified cash basis to accrual adjustments that would be necessary to produce the dual based reporting model for GAAP government. In the best case, I would anticipate at least a 50% increase in the audit fee alone. In addition to more audit time, other costs for experts (actuaries), software and help with the Modified Cash Basis to GAAP adjustments will be necessary for many Districts.

Some of the most difficult accounting areas will usually be:

- 1. Property asset accounting - The dual approach in GAAP accounting would require each District to record and depreciate all property assets, including infrastructure. Additional software and staff time will be necessary to enter all the District's assets and assign useful lives. This would be in addition to the time necessary to audit this area.*
- 2. Pension accounting - Is changing right about now. May require that each District's share of the KPERs liability be recorded in their own financial statements, or at least disclosed in required supplemental information.*
- 3. OPEB - Other post employment benefits like health care and early retirement paid to retirees could no longer be reported on just the pay as you go basis. This would require the use of actuaries to determine the OPEB liabilities. A substantial additional cost to the District.*

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In a day when we are struggling to find every penny we can in savings, implementing such procedures that require such significantly increased expense – and arguably far away from the classroom – is yet another example of unintended consequences that will arise from this legislation.

Finally, districts have been required the past few years to post a variety of budget-related reports on their websites. It has been shared in other venues that “most” districts have not complied. Prior to preparing this testimony, websites of over ten school districts in the Wichita area were researched and the required reports were found on every single one. While an assumption should not result that the required information must then exist on all district websites, it should also not be assumed that it exists on none just because another sample resulted in a different result. School district websites vary a great deal in design and function due to the products employed, and some have much less editable regions than others. Having a link or button in the same place on each and every website is not likely to be possible due to navigation limitations of various web content management systems.

In addition to the previously required reports, the current bill significantly increases the complexity of reporting expected to be posted on district websites. Prior to finalizing this bill, should it proceed to the full House, the committee is encouraged to review the depth and complexity of reporting suggested along with the purpose of having such information available on websites. Is it public information? Yes. Can we provide this information if asked or directed? Yes. Will it be another costly process adding to the already full plates of business office staff and create additional expense for local districts? Without a single doubt...yes.

With a sense of great urgency, we respectfully request the Committee consider the significant cost and negative impacts of this action, and not allow HB 2393 to advance.

Thank you for your consideration of this written testimony.