



Testimony to House Education Committee HB 2393 5 March 2015 Steven Anderson, Senior Research Fellow

Chairman Highland and members of the committee:

Thank you for the chance to provide testimony. I apologize that I could not appear and address this very important issue in person but weather concerns restrict my ability to travel to Topeka. First let us address what HB 2393 does for the schools, elected officials and citizens because I believe this is not only misunderstood but not addressing elements of this bill in the past has cost the state \$100's of Millions of federal dollars that the state was rightfully entitled too. I have provided an outline format because of the width and breadth of this complicated subject in order to facilitate the communication.

1. It brings a non-partisan third party in as rule maker on financial reporting for formal reporting
 - a. Governmental Accounting Standards Board (GASB) pronouncements become the guide
 - i. It begins the process of full transparency and accountability in reporting
 - b. GASB provides a uniform basis of comparison of financial statements between school districts
 - i. Parents, citizens and elected officials from the local school board to Topeka deserve honest financial reporting
2. It does NOT interfere with current requirements on reporting to the federal government in order to meet the various standards required for grants in aid
3. It protects school districts with outstanding bond issues from Securities and Exchange Commission (SEC) actions
 - a. 3 states including Kansas, several municipalities and one school district have already faced cease and desist actions based on non-GASB compliant financial statements
 - i. The SEC named Kansas' administration, including budget director Duane Goosen, who was the first budget director ever named by the SEC in an indictment, showing the egregious nature of Kansas' lack of compliance
 - ii. While serving as budget director and temporary comptroller of the state I directed correcting what was an ongoing disaster in financial reporting by adhering to GASB and Generally Accepted Accounting Principles (GAAP)
 1. I can speak from experience that it is not a difficult fix for the schools
 - b. School board members will find they will be named in these filings if they do not take action whether this bill passes or not
4. It provides a uniform budget summary for school districts with a chart of accounts
 - a. Budget reporting and GASB financial reporting differ only in one is an estimate of expenditures in advance and the other is a measurement of actual expenditures after the fact---this chart of accounts works for both purposes
 - b. Extremely useful for Budget to Actual comparisons

- c. I would suggest that schools maintain subsidiary accounts of each of these general categories both for greater information with which to manage school finances but also for full transparency
- 5. Consolidation of payroll and uniformity could bring in over \$20 M per year
 - a. Prior administrations, budget directors and KSDE administrative personnel missed billing the federal government for payments made to KPERS for those special education teachers and other federal salary employees.
 - i. I personally found and had a hand in getting \$100's of Millions to Oklahoma's teacher retirement system since 2000.
http://www.ok.gov/TRS/documents/Valuation_2014.pdf page 43
 - b. KDSE personnel may tell you that it is too late but they are wrong
 - i. It is too late to recover the millions lost but going forward there is an approach and this bill has an element of that in the unified payroll
 - ii. Ask KSDE to research the Arkansas approach
 - 1. Arkansas uses a unified employer contribution rate that includes their payment on the state teachers retirement system's unfunded liability
 - a. That payment approaches 15% of payroll and has increased consistently over the years
 - b. Kansas is around 10% of payroll and simply adding the current direct payment to KPERS to payrolls would accomplish:
 - i. **Increasing the amount of federal funding going to KPERS by about \$21 M**
 - 1. **Based on a estimate provided Division of Budget by KSDE while I was director**
 - ii. **Increases the amount of funding for schools shown in the National Center for Education Statistics (NCES) by the amount of the dedicated payment**
 - 1. **This is the source for attacking state funding by the NEA that is distorted because our employee benefits are understated by the amount of the directed payment**
 - iii. **Increases teacher pay for comparisons with other states**
 - 1. **Arkansas' employer contribution including the unfunded liability is recorded as pay while Kansas' dedicated payment is not**
 - 2. **NCES data distorts and provides NEA and others the ability to say Kansas is a lower paying state when they are not comparing apples to apples.**
- 6. There will be some additional costs to school districts for upgrading payroll and reporting but benefits far outweigh negatives
 - a. Most of the cost would be largely a transition cost and not an ongoing
 - b. Consolidated payroll and financial reporting administrative functions could provide savings greater than costs in long run by many multiples

- i. This is NOT school consolidation
- ii. Could be accomplished very simply by outsourcing to private sector firms
- iii. Recovering the \$21 M a year ----- which could be re-tasked to the schools or put back in the State General Fund rather than increasing KPERS contribution
 - 1. For members interested I will address how you do that within GASB and OMB regulations on request
- c. What price can we put on honesty in reporting?

Thank you again for the opportunity to provide testimony. I would encourage the committee to support the changes included within this bill and will be happy to answer questions at 405 341-5900 or 405 923 8875 or via email at stevea@aracpas.com that any member may have.