

House Education Committee

Ron Highland, Chair

H.B 2393 Requiring school districts to use Generally Accepted Accounting Principles; financial publication requirements.

March 5, 2014

Submitted in Opposition by Kathy Johnson, USD 497 Director Finance

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to provide testimony in opposition to House Bill 2393 which sets new requirements relating to accounting systems, accounting standards, financial accounting, reporting and publication, compliance audits and penalties for non-compliance.

Section 1 of the bill will require a school district to use only a select few software packages, approved by the State Board of Education, for payroll and accounting. Lawrence, like many other districts, have in recent years invested in technology, including fully integrated administrative software packages that not only include integration of payroll and financial accounting systems but also extend the integration from human resources to payroll, from student management to human resources and from student management to finance. This integration creates efficiencies in administrative operations and streamlines processes.

To force districts to dismantle this type of infrastructure in order to use a single software selected by the State Board of Education that may not meet existing district needs, is taking a step backward and will increase administrative costs, take money away from the classroom and create duplication of efforts. The process of implementing new software for payroll and financial accounting, especially in light of a requirement to do it immediately, is a very time consuming and expensive process that would further exhaust already severely declining general fund dollars. In general, I believe districts and their existing software systems have the capabilities to produce adequate comparative data within the already existing uniform accounting system required by the State for budget purposes. It is not necessary to force districts to incur the expense and utilize the manpower required to change administrative software. Existing comparative data documents could be expanded using data already collected by the State in the budget process.

Section 2 outlines requirements for publishing certain data on the district's website. I have a couple of areas of concern with this section.

- ✓ Section 2(i)(C) requires publishing "contributions and expenditures for any defined benefit pension plan, defined contribution plan, and any other postemployment or employee benefit plan for each individual employee of the school district". If this is intended to include post retirement plans that are deferred revenue for an employee such as their personal 403b, privacy is a concern. An employee's personal financial retirement planning should be private and not subject to public scrutiny.
- ✓ Section 2(i)(D-E) requires the reporting of expenditures and revenues for each extracurricular sports, activity and club. Like many districts, Lawrence currently accounts for a portion of these

expenses in the core financial accounting systems and school stand-alone activity fund accounting programs are in place for the school activity funds. Consolidating the accounting and reporting these by specific sport, activity or club in this level of detail will require additional system configuration and administrative support to account to this micro level of detail. Larger districts with multiple secondary schools have a significant number of sports, activities and clubs that keep their students engaged in learning and school involvement. There would be an increase in administrative support needed, again taking resources away from the classroom.

- ✓ Section 2(i)(F) requires reporting of all expenditures attributed to each building or facility. Lawrence already budgets and tracks a majority of its costs by building for internal review and evaluation. This requirement does not impact us significantly but, if the purpose of this data is to be able to compare building costs to other buildings within a district or to building costs in another school district, it will not be “like” data. Every facility has other factors that should be taken into account when evaluating the operational cost of a building. A building might be all electric, a building might have been built in 1928 vs 2010, or have an open floor plan vs traditional room structure. Staffing ratios implemented by a district for custodial, maintenance, teachers, etc., all vary. Special needs situations, be it for staff or a facility modification, have impacts on the operational cost of a building. These are just a few of the things that should be taken into consideration when doing comparisons; these are not visible in numbers alone.

Section 3 eliminates the waiver of Generally Accepted Accounting Principles (GAAP). Lawrence, like the majority of school districts in the state, waives GAAP accounting principles and follows the regulatory basis of accounting. GAAP accounting means districts also have to comply with Governmental Accounting Standards Board (GASB) and American Institute of Certified Public Accountants (AICPA) as well. For example, beginning with the year ending June 30, 2015, districts not waiving GAAP accounting principles will have to implement GASB 68. GASB 68 is Accounting and Financial Reporting for Pensions, which requires school districts preparing GAAP financial statements to report the district’s share of the State KPERS unfunded liability as a net pension liability within their own financial statements. A district that is waiving GAAP, still has a reporting requirement, but only in the notes to the financial statements. GAAP accounting will also require districts to implement full property asset accounting including infrastructure and depreciation. Additional administrative staff will be required to support this change. GAAP prepared financial statements will typically require a Certified Public Accountant’s support to prepare, and most school districts do not have that level of accounting expertise on staff. Districts will be required to pay for accounting services. In addition, audit costs will increase significantly, and in many cases these costs could increase by at least 50%, again taking away resources from the classroom and adding to administrative costs.

My opposition to this bill is that it forces districts to use a state prescribed software, increasing administrative costs and taking resources away from the classroom. Requiring school districts to follow GAAP accounting and not allowing them to waive GAAP, will increase administrative and audit costs, taking resources away from the classroom. Employee privacy is breached. Security of the district’s financial and payroll system database is a concern if interactive analysis by patrons is required to be allowed from a district website. In the current economic climate, the focus of school districts’ dollars should be the classroom, not driving up administrative costs.

Thank you for your consideration.