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*Auditing for a Better Oregon*

June 12, 2000

Stan Bunn, State Superintendent of Public Instruction  
Oregon Department of Education  
255 Capitol Street NE  
Salem, Oregon 97310

Dear Mr. Bunn:

This letter summarizes the results of our review of the pilot project phase of the Database for Education. Fifteen school districts and one education service district reported their fiscal year 1998 and 1999 financial data to the database. The goal was to have this data conform to the revised Program Budgeting and Accounting Manual for School Districts and Education Service Districts in Oregon (manual). This financial data can be viewed in various standardized reports on a department web site. Beginning with fiscal year 2000, all school and education service districts in the state will be required to report their financial data, in conformance with the manual, to the department for inclusion in the Database for Education. This process complies with Oregon Revised Statutes (ORS) 327.511 which requires a uniform budget and accounting system to allow valid comparisons of spending among the districts and the placement of the data in a database accessible by the public.

Our review was limited to five of the pilot project school districts. We compared the fiscal year 1999 actual resources (Actual Total Resources by Fund), actual revenues (Actual Operating Revenue by Source), and actual expenditures (Actual Expenditures by Fund and Object, Actual Expenditures by Fund and Function) as reported in the four standardized reports on the department's web site to the audited financial statements. The five school districts selected for the comparisons were Bend-La Pine, Greater Albany, Lincoln County, Mitchell, and Salem-Keizer. Our review consisted of reading the revised manual, comparing the amounts reported on the department's web site to the districts' audited financial statements, and discussing differences noted with the districts' accounting staff. We have met with the department's Nancy Heiligman and Aaron Munter and KPMG's Doug Kosty on June 6 to discuss the results of our review.

The results of this review will be included in a subsequent audit report. The audit report will also encompass our reviews of the department's management of the Database Initiative Project and school district reporting of attendance and certain other non-financial information to the department. We are communicating the results of our review of the pilot project phase to the department early. This information may be helpful in identifying issues that can be addressed prior to the mandated statewide reporting of the fiscal year 2000 district financial data.

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Management Letter No. 581-2000-06-01

The following are exceptions and issues we identified during our review:

Some amounts reported on the department's pilot project web site differed from what was reported in accordance with generally accepted accounting principals (GAAP) in each district's audited financial statements.

- The reported total actual resources and actual expenditures for the General Fund for a district were both overstated by \$4.9 million on the web site and total actual resources reported for the capital projects fund type were understated by \$629,175 on the web site as a result of audit adjustments. The district stated that it became aware of the audit adjustments after the deadline for submitting the financial data to the department. [Bend-La Pine]
- A district's reported total actual resources and actual expenses for the internal service fund were both understated by \$4.2 million on the web site. This difference was caused by excluding the district's sales (and the related expenses) to other public entities reported in an internal service fund from the amounts reported to the department. The district's business manager now believes these amounts should be reported to the department and stated that the necessary programming changes will be made. [Salem-Keizer]
- A district incorrectly reported \$1,003,000 in interfund transfers-in and interfund transfers-out in the General Fund. These transfers were among subaccounts within the General Fund rather than transfers to and from other fund types and thus should not be reported. The district did not realize that these amounts, used for internal budgetary purposes, should not be reported to the department. [Bend-La Pine]
- The special revenue fund revenues/resources and expenditures reported on the web site were understated by \$474,432. This amount was the donated USDA food commodities received by the district; GAAP requires that these commodities be reported as revenues and expenditures. According to the district, this item is a manual adjustment for preparation of the financial statements and is not input into the district's automated accounting system. As a result, the adjustment amount did not map across to the department's web site. [Salem-Keizer]
- The total resources reported on the web site for the General Fund were understated by \$197,283. This was the difference between the beginning GAAP and budgetary basis fund balances. The GAAP fund balance includes an adjustment to accrue property taxes receivable while the budgetary fund balance does not. The amount was a manual adjustment to prepare the financial statements and was not entered to the district's automated accounting system. Thus, the adjustment did not map across to the department's web site. [Lincoln County]
- The total actual resources (\$158,402) and expenditures/expenses (\$142,796) for the trust and agency fund types reported on the web site were overstated because the district reported revenues and expenditures for two of its agency funds (Youth Challenge Program, La Pine Kid's Club). The total actual resources and expenditures/expenses for the district's expendable and nonexpendable trust funds were \$28,139 and \$2,896 respectively according to the financial statements. The district did not know that the activities for the two agency funds

should not be reported as revenues and expenditures to the department for inclusion in the web site reports. [Bend-La Pine]

One of the goals in revising the Program Budgeting and Accounting Manual for School Districts and Education Service Districts in Oregon was to have a financial accounting and reporting system that complies with GAAP. Achieving this goal will result in increased consistency in financial reporting among the districts and allow the public and policymakers to make valid comparisons. The department should encourage districts to submit GAAP financial data for inclusion in its web site reports. Comparisons by the department of the data received from districts with the districts' audited financial statements would reveal any significant departures from GAAP reporting for follow-up by the department.

We noted that all five districts reported their food services activities in the special revenue fund in the financial statements; however those amounts were reported in the enterprise fund on the web site for four of the districts (the Salem-Keizer amounts were reported in the special revenue fund on the web site). Those four districts did not use an enterprise fund in their financial statements. The manual encourages simplified reporting, including using the minimum number of funds necessary for legal and operational use. It appears that it would be preferable to report the food services activities in the special revenue fund as was done in the audited financial statements. However, should the department determine that it is desirable to report those activities in the enterprise fund, it should do so for all districts to achieve consistent and comparable reporting on the web site.

One district reported depreciation expense and claims expense in the internal service fund in the audited financial statements. The manual does not have objects for these two expenses; the department should consider adding these objects to the manual. Also, the department should consider substituting the caption "depreciation" for the caption "capital outlay" on the web site for the internal service and enterprise funds. Capital outlay expenditures do not apply to these two proprietary funds.

Should you have questions or wish to discuss these issues further, please call me, or Joel Leming, Audit Administrator, at 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Cathy Pollino  
Deputy Director

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