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Auditing for a Better Oregon

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Susan Castillo, Superintendent of Public Instruction
Oregon Department of Education
255 Capitol Street NE
Salem, OR 97310

Dear Ms. Castillo:

The Oregon Audits Division has completed its review of support service expenditures and analysis information provided by the Oregon Department of Education. Our primary objectives were to analyze 2000-2001 expenditures for support services to identify methods for controlling spending and ways the department could assist school districts with related informational needs. During our review, we found issues with Oregon's expenditure data, as noted in the Other Matters section of our audit report number 2004-19. Summarized below is detailed information on those issues, which are mainly related to the manner in which the department sends its expenditure information to the U.S. Department of Education National Center for Education Statistics (NCES).

Department Includes Expenditures Other States Exclude

The department excludes trust and agency funds when it performs calculations of current expenditures; however, it does not exclude such funds in the current expenditure data submitted to NCES.

Trust and agency funds are classified as fiduciary funds. According to generally accepted accounting principles (GAAP), fiduciary funds should be used "to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs." The majority of states we contacted exclude trust and agency funds in the financial data that they submit to NCES.

Department staff was under the impression that those funds were being excluded by NCES. According to NCES, it is not able to exclude those funds as it receives aggregated expenditures by category and is not able to distinguish fund amounts.

Trust and agency funds accounted for approximately $56 million of Oregon's 2000-2001 current expenditures. In addition, we noted that eight districts recorded approximately $4 million of supplemental retirement program expenditures only as trust and agency funds. Altogether, this would cause Oregon's current expenditures to be overstated by approximately $52 million.

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Department Classifies Expenditures Slightly Different than NCES Instructions

We found that the department included some current expenditures in the data it submitted to NCES that should have been classified another way or excluded. The expenditures were in the areas of current interest, redemption of principal, and student transportation.

The function code describes the activity area for which a service or object was acquired (e.g. Instruction—High School Programs and Student Support Services—Guidance Services). Using the Program Budgeting and Accounting Manual for school districts and education services districts (ESDs) in Oregon, expenditures for Current Interest, Redemption of Principal, and Student Transportation can be classified under multiple function codes. According to NCES instructions, such expenditures should be recorded in one or two specific function codes.

Current Interest expenditures were supposed to be coded to one of two specific categories per NCES. Since current interest expenditures for Oregon school districts and ESDs had been spread amongst multiple categories, the misclassified categories were overstated between $2,600 and $1.4 million depending upon the category affected.

Redemption of Principal expenditures should be excluded from the current expenditure calculation according to NCES. The department, however, included approximately $4.4 million of such expenditures.

Student Transportation costs were supposed to be coded to only the category of Student Transportation as per NCES direction, but such expenditures had been spread among multiple categories by school districts and ESDs. This caused some categories to be overstated and the Student Transportation category to be understated by a total of $3.3 million.

Expenditure Duplications

The majority of districts accounted for supplemental retirement program expenditures (function code 2700) in one fund. We found six districts in the state that used two funds to record expenditures for the supplemental retirement benefit program. These districts apportioned the money for such expenditures in the General Fund, then transferred the money to a different type of fund (either a special revenue fund or trust and agency fund) for actual expenditures. The districts classified the expenditures the same in both funds. Since the expenditures were coded the same in both funds and both funds were included in the data sent to NCES, those expenditures were double-counted.

If the department were to exclude trust and agency funds from the data sent to NCES, as it does for its own calculations of current expenditures, it would lessen the issue of duplicate counting from six districts ($7.8 million) to one district ($2.5 million).

Misclassification of Significant Amounts

We found a few significant miscoding of expenditures, where districts coded the expenditure to the incorrect fund or function code. For example, one district included an amount for self-insurance for employees ($369,000) and self-insurance for extra liability insurance for the district ($6,286,000) in the incorrect fund. The expenditures were coded under a special revenue fund but should have been charged to an internal service fund, and internal service funds are excluded for current expenditure calculations. Another district incorrectly coded food services of $668,000 to Business and Other Support Services. Yet another district had expenditures totaling $148,000 for a special education director incorrectly coded to School-level Administration. Finally, we noted that one district coded $124,000 of expenditures for teacher induction incorrectly to Instruction rather than Instructional Staff Support Services.

Allocations of Multi-Category Related Expenditures

Supplemental Retirement Program

The Program Budgeting and Accounting Manual used by Oregon school districts and ESDs has a function code to record the costs of a supplemental retirement program provided to district employees. The code does not allow for distinguishing the expenditures by the type of staff. The district employees that could be in the program include certified staff (e.g. teachers), classified staff (e.g. secretaries and librarians), and administrators (e.g. superintendents and principals). From discussions with districts, we found that approximately 80 percent of the supplemental retirement program expenditures were for teachers.

The department incorporates the function code for the supplemental retirement program in the category of Business and Other Support Services; it is not allocated to the category related to the expenditure (e.g. teachers—Instruction, principals—School-level Administration). This practice causes Oregon's Business and Other Support Services category to be overstated while understating expenditures in other categories. In states such as Oregon, where the expenditure is not allocated directly to the related categories, NCES recommends using a ratio to distribute the expenditures. Other states contacted either directly code the supplemental retirement benefit to the related categories or use a ratio to distribute the expenditures to the related categories.

Technology Services

The department has provided the following directive to districts: if the technology is being used in a classroom situation then the expenditure should be classified under Instruction; and if the technology is used as a library supplement, the maintenance department or the district office, it is classified under Support Services. However, approximately 40 percent of districts put all of their technology-related costs for the district into the support services technology function code. When classified into the NCES format, that code gets included in Business and Other Support Services. On average, about half of the technology costs of those districts were for direct classroom instruction-related technology. This would cause Business and Other Support Services to be overstated and Instruction to be understated.

Salary Expenditures

The department has provided a guideline to districts on classifying salary expenditures. The guideline directs districts to charge staff to the function code(s) that reflect actual job duties and responsibilities rather than job title. As some district staff may have several responsibilities, the department directed districts to use the 33 percent rule to break out expenses. If the breakout is smaller than 33 percent, then districts are to combine some of the components and charge it to the code that best fits.

We found that some districts were charging personnel expenditures to one code rather than allocating the expenditures, when feasible, to those codes that reflected actual job responsibilities. For example, the expenditures at one district for a school psychologist all were charged to Instructional Staff Support Services when half of her time, or $29,000, should have been charged to Student Support Services. Another example is that of a secretary at one of the districts who should have coded half her time, or $19,000, to Student Support Services instead of coding all her time to School-level Administration. Any benefit of the breaking out expenditures among job responsibilities is dependent upon the level at which the data is going to be used. The examples listed affect only the category of Support Services: so, for example, looking at the higher level of instruction, support services, and non-instruction, no changes would be needed. If one were taking a more detailed look at the categories within Support Services, however, then Student Support Services would be understated while Instructional Staff Support Services and School-level Administration would be overstated.

Data Needed to be Collected

We found that the department was not including expenditures for schools serving special student populations. NCES directs states to include expenditures for schools that service special student populations (e.g. juvenile custodial institutions and schools for the deaf and blind). The department had not been collecting expenditure information from these schools/programs and thus had not been included in the expenditure data sent to NCES.

Recommendation

We recommend that the department continually review and refine expenditure data for increased accuracy in the data it reports.

Should you have any questions concerning these issues, please feel free to contact Karen Leppin or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Charles A. Hibner, CPA
Deputy State Auditor

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