

# Office of Performance Evaluations Idaho Legislature

Report 06-05F

August 2006

## School District Administration and Oversight Follow-up Report

*In our January 2004 report on school district administration and oversight, we made ten recommendations for improving the Department of Education's oversight of school district administration, and for improving district purchasing practices. In this first follow-up review, we found the Legislature and the State Board of Education have implemented one recommendation and have made progress implementing another recommendation. However, the Department of Education has made little progress implementing the remaining eight recommendations. The department reports that its progress has been hindered by lack of sufficient staff and resources.*

### Background

School districts receive the largest share of the State General Fund (45 percent). In addition, they receive substantial funding from local taxes and federal grants. In fiscal year 2006, the state appropriated \$1.2 billion to public schools. Of that amount, almost \$1 billion was from the State General Fund.

Idaho Code gives primary responsibility for district oversight to local school boards. Statutes also require districts to undergo an annual financial audit and to submit the audit results and

other information to the Department of Education. The department has an important role in ensuring that districts are accountable for their use of the funds they receive. The department is charged with ensuring the accuracy and uniformity of district information and overseeing the district use of dedicated state funding, such as the tobacco tax funds earmarked for substance abuse prevention programs.

In our January 2004 report on school district administration and oversight, we reported that Idaho Code did not require districts to adhere to the same purchasing requirements as other state and local entities. In addition, we said the department needed to improve its fiscal oversight of districts and increase the usefulness of some of its publications.

Our recommendations are generally grouped into three areas:

- Improving and clarifying district purchasing authority and practices
- Strengthening the department's role in overseeing district financial audits
- Improving the usefulness and clarity of information published by the department

*This report was completed at the request of the Joint Legislative Oversight Committee under the authority of Idaho Code § 67-457 through § 67-464. Questions about the report may be directed to the Office of Performance Evaluations through e-mail ([opeinfo@ope.idaho.gov](mailto:opeinfo@ope.idaho.gov)) or phone (208 334-3880).*

## Current Status

### *One Recommendation Fully Implemented and One Partially Implemented*

In response to our recommendations, the Legislature amended Idaho Code 33-601 in 2004 to allow school districts to make purchases through state contracts. During the 2005 legislative session, the code was again modified. School districts are now designated as “political subdivisions” of state government and subject to all state purchasing requirements as outlined in Idaho Code chapter 28, title 67.

The changes in statute also address part of another recommendation to allow districts to make purchases under statewide purchasing contracts. The parts of this recommendation that have not been implemented direct the department to advise districts of the availability of statewide purchasing contracts and to provide district contact information to the state division of purchasing.

These statute changes meet the intent of one recommendation and part of another recommendation directed to the Legislature and the State Board of Education. We therefore assess **one recommendation as fully implemented and the other one is in process.**

### *Eight Recommendations Not Implemented*

The department publishes several documents to assist districts to meet state and federal reporting requirements and to provide guidance to independent financial auditors who review district financial practices. At the time of our 2004 report, we reviewed these documents, related district practices, and the district audits performed by independent auditors. Based on our review of school districts, we made recommendations to improve the clarity and usefulness of the

department’s publications and suggested the department strengthen its training for independent auditors in several specific areas.

For this follow-up report, we spoke with Department of Education representatives and again reviewed the department’s published documents for districts and independent auditors. We found that the department has added several financial codes to its Idaho Financial Accounting Reporting Management System (IFARMS). These codes were added to accommodate changes in reporting requirements made by House Bill H0743 during the 2006 legislative session.<sup>1</sup> In addition, the department has updated its annual letter to independent auditors to reflect these same legislative changes. However, except for reporting modifications due to H0743, the department’s publications remain essentially unchanged. Because the department has not made efforts to clarify existing publications or to strengthen its guidance to independent auditors in the areas we recommended, we assess this recommendation as not implemented.

The department reports that it has done little to implement the remaining recommendations due to limited staffing and resources, but is hopeful that a new position appropriated to the finance division will allow it to address the recommendations beginning in fiscal year 2007. Department officials report the new position will be used to alleviate some of the current workload and allow staff members to be cross-trained, which will then allow the unit to prioritize efforts to implement the recommendations.

The following recommendations have **not been implemented**:

- To improve the uniformity and accuracy of fiscal data collected and reported by school districts, the State Department of Education should

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<sup>1</sup> H0743 requires school districts to report specific funds related to building maintenance.

- modify the Idaho Financial Accounting Reporting Management System (IFARMS) chart of accounts to eliminate unneeded detail and clarify the definitions for selected programs and object codes;
  - expand training offered to district staff responsible for coding and reporting district expenditures; and
  - review the data submitted by districts to identify instances of non-reporting and possible coding problems.
- To enhance the value of annual school district financial audits as a tool for state oversight, the State Department of Education should
    - direct districts to (1) include in their annual financial audits a review of district revenue and expenditure coding and the accuracy of district enrollment, staffing, and pupil transportation data; and (2) report the results of this review to the department;
    - provide guidance and training to audit firms that conduct district financial audits regarding the standards to be used when assessing district coding of revenues and expenditures and the accuracy of district enrollment, staffing, and pupil transportation data; and
    - establish a process for annual review of a small sample of district financial audits to assess the adequacy of work performed by audit firms to test the accuracy of data districts report to the department. The department should consult with Legislative Audits when developing the review process.
  - To improve the usefulness of annual school district financial information, the State Department of Education should
    - provide more comparative information about district revenues and expenditures overall and in the major functional areas such as instruction, administration, and pupil transportation;
    - provide information about how district revenues and expenditures compare to the nation and neighboring states;
    - provide information about revenue and expenditure patterns over time;
    - publish a narrative summary to help readers better understand key information and trends; and
    - make revenue and expenditure information available on the department's website in ways that enable users to make comparisons between districts.
  - To ensure that adequate administrative staffing information for school districts is available for review by policymakers and the public, the State Department of Education should
    - improve reporting about administrative staffing in districts by identifying the number and type of administrative staff in each district, the ratio of students to administrative staff, and changes in administrative staffing over time;
    - require districts to provide information regarding the duties of staff in director, coordinator, and supervisor positions; and
    - make staffing information available on the department's website in easily accessible formats.
  - To ensure school districts have adequate purchasing procedures in place and that purchases are being appropriately reviewed and authorized, the State Department of Education should direct school districts to

include a purchasing compliance review in their annual financial audits.

- To potentially achieve cost savings and to foster communication among individual school districts regarding purchasing, the State Department of Education should
  - work with districts and any pertinent associations to determine the opportunities for any favorable purchasing cooperatives;
  - explore opportunities to use the Internet for district purchasing activities; and
  - encourage district staff to attend the State Division of Purchasing’s training annually to learn about best practices.
- To ensure school district interests are protected when procuring services, the State Department of Education should work with the State Division of Purchasing to provide guidance to school districts on the requirements and the necessary components of written contracts.
- To address the rising costs of health insurance, the Legislature could consider authorizing further study of the potential cost savings of a statewide health insurance plan for school districts.

The department and the board’s assessments of their progress are included in appendix A.

*We appreciate the cooperation and assistance we received from the Department of Education and the Board of Education in conducting this follow-up review. A.J. Burns and Ned Parrish of the Office of Performance Evaluations conducted the review.*

**Joint Legislative Oversight Committee (JLOC)**

Sen. Shawn Keough, Co-chair  
Sen. John Andreason  
Sen. Bert Marley  
Sen. Kate Kelly

Rep. Margaret Henbest, Co-chair  
Rep. Maxine Bell  
Rep. Debbie Field  
Rep. Donna Boe

**Office of Performance Evaluations**

Rakesh Mohan, Director

## **Appendix A**

### *Board of Education and Department of Education's Self-assessments of Implementation Efforts*





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PERFORMANCE EVALUATIONS

## IDAHO STATE BOARD OF EDUCATION

650 W. State Street • P.O. Box 83720 • Boise, ID 83720-0037  
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e-mail: board@osbe.state.id.us

June 19, 2006

Mr. Rakesh Mohan  
Ms. A.J. Burns  
Office of Performance Evaluations  
PO Box 83720  
Boise, ID 83720-0055

Re: Follow-up Review of the Report on School District Administration and Oversight

Dear Rakesh and AJ:

Thank you for the opportunity to update the Office of Performance Evaluation (OPE) on the progress the State Board of Education (Board) has made on the recommendations set out in the January 2004 Report on School District Administration and Oversight.

Listed below are each of the recommendations and the Board's progress on each recommendation:

*Recommendation 5 – To ensure school districts obtain a fair price for their purchases and only spend the amount of funds necessary, the State Board of Education should consult with the State Division of Purchasing to develop requirements similar to those that call for the solicitation of formal bids when state agencies purchase services exceeding \$50,000.*

Title 67, Chapter 57, Idaho Code has been amended. The provisions of chapter 57 establish the procurement requirements for all political subdivision of the state of Idaho. The legislative intent is to provide for the efficient and cost-effective procurement of goods, services, and public works construction.

Therefore, the State Board of Education believes they have complied with the recommendation set out in this report.

Please let me know if you have any further questions or if I can be of any assistance.

Sincerely,

A handwritten signature in blue ink that reads "Karen Echeverria".

Karen L. Echeverria  
Chief Administration and Governmental Affairs Officer



## STATE DEPARTMENT OF EDUCATION

P.O. BOX 83720  
BOISE, IDAHO 83720-0027

DR. MARILYN HOWARD  
STATE SUPERINTENDENT  
PUBLIC INSTRUCTION

May 19, 2006

Rakesh Mohan, Director  
Office of Performance Evaluations  
Idaho State Legislature  
Statehouse

Dear Mr. Mohan,

Please accept the following responses related to your recent evaluation inquiries. All responses target specific recommendations found in the Office of Performance Evaluations Report #0403 and are addressed in the order they appeared in the report.

Specifically for those recommendations requiring additional resources, I would point out that the 2006 Legislature approved an additional Specialist position in the Public School Finance section of the State Department of Education, effective July 1, 2006. The process of hiring this position will soon begin. This position will not only provide additional resources to implement these recommendations, but will also provide much needed cross-training for tasks critical to the calculation and distribution of the public school appropriation. That said, some of the recommendations in this report have not yet been able to be addressed.

1. To improve the uniformity and accuracy of fiscal data collected and reported by school districts, the State Department of Education should:
  - Modify the Idaho Financial Accounting Reporting Management System (IFARMS) chart of accounts to eliminate unneeded detail and clarify the definitions for selected programs and object codes.

Response: The IFARMS chart of accounts is revised based on updates received from the U. S. Department of Education and input from the Idaho Association of School Business Officials (IASBO). SDE Finance staff reviewed and revised program and object codes per the National Center for Education Statistics (NCES). In addition, several function codes were added for the requirement to report to the Legislature how technology / remediation funds were expended. As stated in the initial response to this report, a section of the IFARMS manual was revised to incorporate recent major accounting changes from the Governmental Accounting Standards Board (GASB). Larry Kirk, formerly of Legislative Audit, was contracted to incorporate these changes into the manual. Definition of codes were also reviewed and updated during this update.

- Expand training offered to school district staff responsible for coding and reporting school district expenditures.

Response: The SDE Finance section continues to provide training through IASBO's annual Finance workshop, the SDE's post-legislative regional workshops, and telephone support. The SDE Finance section has one specialist (0.6 FTE), whose primary responsibility is to oversee the collection and reconciliation of IFARMS data, and publish the Financial Summaries. This specialist works with representatives from each of the 114 school districts and 24 charter schools.

- Review the data submitted by districts to identify instances of non-reporting and possible coding problems.

Response: In the process of reconciling a school district's IFARMS report with the audited financial statements, balance sheet and income statement activity is reviewed and reclassified where necessary. Financial data are reviewed to ensure proper object codes (for example, all transfers should be 800). The SDE relies heavily on the assistance of the independent auditor hired by the school district / charter school to review and assist in proper coding. In light of the instances where incorrect coding has been identified, the SDE has worked with auditors and administrators to address the correct coding of financial data.

2. To enhance the value of annual school district financial audits as a tool for state oversight, the State Department of Education should:

- Direct school districts to (1) include in their annual financial audits a review of district revenue and expenditure coding, and the accuracy of district enrollment, staffing, and pupil transportation data; and (2) report the results of this review to the department.

Response: The SDE believes that school districts are currently submitting what they believe to be accurate data. The SDE reviews this data for reasonableness with respect to previous year's data, average daily attendance relative to enrollment, etc. In the event that the SDE staff discovers data that appears questionable, school district staff and/or auditors are contacted to verify the data or to obtain revised data. The SDE will continue to reinforce in its annual letter to independent auditors certain areas of emphasis, as this report suggests. Independent auditors are asked to closely review staffing data (IBEDS), average daily attendance (ADA), and pupil transportation expenditures. They are encouraged to contact SDE Finance staff. Also included with this letter is a list of state foundation payments and a link to the Division of Financial Management's Single Audit Report, which lists federal payments made by state agencies.

- Provide guidance and training to audit firms that conduct district financial audits regarding the standards to be used when assessing district coding of revenues and

expenditures, and the accuracy of district enrollment, staffing, and pupil transportation data.

Response: The SDE has continued to send a letter each year, as has been the practice before this report was published, to independent auditors (most recent attached) to direct them to review data and procedures in the areas of foundation payments, pupil transportation, federal grants, and budgeting. An additional letter from Child Nutrition is also included regarding uniform reporting in the Child Nutrition fund. The SDE also includes a schedule of special distributions (replacement tax, technology, lottery, etc.), the SDE website, and available reference materials such as the IFARMS manual and revenue, expenditure, and balance sheet codes. School district staffing data collected through IBEDS is verified by school districts after the SDE has processed the data. The SDE will include additional items suggested in this report to the FY 2004 auditor letter. Independent auditors are welcome at school finance training sessions—the IASBO often includes them in its annual conference and regional meetings.

- Establish a process for annual review a small sample of school district financial audits to assess the adequacy of work performed by audit firms to test the accuracy of data districts report to the department. The department should consult with the Legislative Auditor when developing the review process.

Response: The SDE has not yet contacted Legislative Audit to discuss this recommendation. It is our understanding that Legislative Audit staff ensure that school district audits are completed properly and are in compliance with Federal guidelines. Please note that certified public accountants are required to complete CPE each year, as well as have an independent peer review.

3. To improve the usefulness of annual school district financial information, the State Department of Education should:

- Provide more comparative information about school district revenue and expenditures overall and in the major functional areas such as instruction, administration, and pupil transportation.

Response: The SDE will consider including additional comparative information as this report suggests. In the mean time, the SDE believes that it provides a substantial amount of comparative revenue and expenditure data. There has been a considerable amount of discussion regarding variances in expenditures per average daily attendance (ADA) amongst school districts and charter schools. Most of this variance can be explained by the statutory foundation formula, including size (enrollment), staffing (indexes), and student categories (grades). We have explored disaggregating expenditures by grades to allow more effective comparisons.

- Provide information about how school district revenues and expenditures compare to the nation and neighboring states.

Response: The SDE uses and refers interested parties to various entities that collect and prepare consistent state education data such as the National Center for Education Statistics, and the National Education Association. Each of these entities provides comparative state data.

- Provide information about revenue and expenditure patterns over time.

Response: The SDE makes available on its website a significant volume of historical annual data in a consistent format that can easily be compared from year to year. The SDE will consider including this suggestion in its publications and website.

- Publish a narrative summary to help readers better understand key information and trends.

Response: The SDE will incorporate into future publications and its website.

- Make revenue and expenditure information available on the department's website in ways that enable users to make comparisons between districts.

Response: The SDE Finance staff will meet with the SDE Office Technology staff to discuss the feasibility of including data on the SDE website that can be accessed. Currently, the SDE Finance staff provides data in database and/or spreadsheet format to individuals as requested.

4. To ensure that adequate administrative staffing information is available for review by policy makers and the public, the State Department of Education should:

- Improve reporting about administrative staffing in school districts by identifying the number and type of administrative staff in each district, the ratio of students to administrative staff, and changes in administrative staffing over time.

Response: SDE's Annual Statistical Report provides considerable information regarding administrative staff. The ratio of average daily attendance to administrative staff is already included for each school district in the SDE Profiles publication. As stated earlier, the consistent format of this publication allows for fairly easy comparison of data over time. SDE Finance staff provides additional detail (IBEDS reports) to interested parties as requested. The SDE will consider modifying our report and website.

- Require districts to provide information regarding the duties of staff in director, coordinator, and supervisor positions.

Response: The SDE will consider revising the information requested from districts in these positions. There are a significant number of administrative personnel in smaller, rural areas of the state that are responsible for duties that cover many of these positions.

- Make staffing information available on the department's website in easily accessible formats.

Response: The SDE Finance staff will meet with the SDE Office Technology staff to discuss the feasibility of this recommendation. In the mean time, all data in our publications are available in spreadsheet or database form as requested.

6. To ensure that districts have adequate purchasing procedures in place and that purchases are being appropriately reviewed and authorized, the State Department of Education should direct districts to include a purchasing compliance review in their annual financial audits.

Response: The SDE will discuss this recommendation with the IASA and IASBO. It is likely that additional reviews such as this will increase the cost of annual audits to school districts. To date, the SDE has not been directly involved with school district / charter school purchasing procedures.

7. To ensure districts can take advantage of statewide purchasing contracts available from the State Division of Purchasing:

- The State Department of Education should advise districts of this resource during any annual training or communications.

Response: The SDE will ensure that districts are advised of this resource.

- The State Department of Education should provide school district contact information to the State Division of Purchasing so that districts will be included on the division's listserv. This listserv periodically provides information about statewide contracts to public agencies that may be able to use them.

Response: The SDE agrees with this recommendation and will work with the State Division of Purchasing to obtain and distribute this information.

8. To potentially achieve cost savings and to foster communications among individual districts regarding purchasing, the State Department of Education should:

- Work with districts and any pertinent associations to determine the opportunities for any favorable purchasing cooperatives.

Response: As mentioned earlier, the SDE has historically been limited in its involvement with school district purchases, but is willing and able to assist with this recommendation.

- Explore opportunities to use the Internet for school district purchasing activities. For example, a statewide school district purchasing website could allow electronic posting of bid solicitations, sharing of district purchasing information, and links to State Division of Purchasing statewide contract information.

Response: The SDE agrees with this recommendation as an option for school district purchases.

- Encourage district staff to attend the State Division of Purchasing's training annually to learn about best practices.

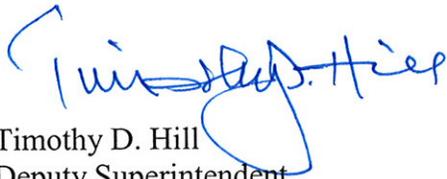
Response: The SDE agrees with this recommendation. In addition, appropriate SDE Finance staff will attend this training if possible.

9. To ensure district interests are protected when procuring services, the State Department of Education should work with the State Division of Purchasing to provide guidance to districts on the requirements and the necessary components of a written contract.

Response: The SDE agrees with this recommendation and will work with the State Division of Purchasing.

Thank you once again for all of your and your staff's work in preparing this report and for the opportunity to respond on our progress.

Respectfully,



Timothy D. Hill  
Deputy Superintendent  
School Support Services

enclosure

TDH/bg

cc: Dr. Marilyn Howard  
Dr. Jana Jones