

Office of the Legislative Auditor Program Evaluation Update

SCHOOL DISTRICT FINANCIAL REPORTING

June 23, 1993

INTRODUCTION

Since our 1990 evaluation, the Department of Education has made only limited progress improving the quality of spending data that it collects. The department is simplifying its reporting system, but it still does not ensure that school districts are reporting their financial data accurately or completely. The department needs to:

- Revise its reporting manual for school districts and train district staff in its use, and
- Monitor the quality of reported data.

Since 1980, Minnesota school districts have routinely reported their annual expenditures to the Department of Education using a computerized reporting system called UFARS (uniform financial and accounting reporting standards). This system has met districts' own accounting needs, while enhancing the state's ability to monitor local financial conditions. In addition, UFARS has become policy makers' primary source for comparative information on school district spending.

In 1990, we published a report on school district spending which examined the accuracy of UFARS data.¹ We reported that UFARS data were often incorrect and unreliable, and that no single state-level entity was ensuring that all districts provided comparable, complete data. In addition, we found that the system itself was complex and hard to use.

We recommended that the Department of Education should ensure the quality of the expenditure data that it maintains. We also recommended simplifying UFARS, and called on the department to establish clearer, more concise definitions for spending categories and to improve documentation and support for local staff who send UFARS data to the state.

Subsequently, the 1990 Legislature required that the Department of Education monitor and enforce school districts' compliance with data standards, develop tests to determine data quality, annually test UFARS data, and require districts to correct errors.² The next year, the Legislature directed the department to develop and distribute standard editing checks for UFARS data.³ In 1993, the Legislature repealed these requirements to help reduce mandates on the Department of Education.⁴

This update looks at the Department of Education's

¹ Office of the Legislative Auditor, *School District Spending* (St. Paul, February 1990).

² *Minn. Laws* (1990), Ch. 562, Art. 8, Sec. 10.

³ *Minn. Laws* (1991), Ch. 265, Art. 9, Sec. 15.

⁴ *Minn. Laws* (1993), Ch. 224, Art. 12, Sec. 32.

response to our major recommendations. We focused on two questions:

- **To what extent has the Department of Education simplified UFARS, and is it providing support to school districts that must use the system?**
- **How is the department monitoring UFARS data quality?**

To answer these questions, we interviewed representatives from the Department of Education and the UFARS Advisory Council, which makes recommendations to the State Board of Education on changes to and maintenance of the UFARS system.⁵ We also examined recent reports and documents related to UFARS.

IMPROVING UFARS

In May 1991, the Department of Education contracted for its own UFARS evaluation. Like our study, it found that UFARS was too detailed and complex and that the manual needed updating.⁶ It also recommended that the department examine UFARS' many spending categories to see whether all were needed. Furthermore, the consultant's report confirmed that

UFARS users needed more and better training.

In December 1991, the department also asked the UFARS Advisory Council to examine UFARS. In January 1992, the council directed its Accounting Task Group to revise and simplify UFARS so that districts could use it more accurately and uniformly. As part of this effort, the department surveyed its own managers to help identify UFARS reporting requirements. The task group issued a proposal in December 1992, and it may be adopted early this summer.

Our analysis of the UFARS proposal indicates that:

- **The UFARS Accounting Task Group has proposed eliminating about 200 categories from UFARS (about 20 percent), although it would retain most of the categories that we identified earlier as unreliable and invalid.**

The proposal would not eliminate some categories that we found particularly problematic. For example, in 1990, we reported that about one-third of the districts in our sample could not correctly report their spending for secondary subjects such as art, math, and foreign languages. Sometimes, administrators could not separate

secondary from elementary expenses. Other times, they knew how much they spent on supplies or fringe benefits in total, but not by subject. Others simply did not keep such detailed records.

Our 1990 report also found that school districts had difficulty classifying expenditures completely and accurately because procedures and definitions in the UFARS manual were unclear. Nevertheless:

- **The Department of Education has done little to update the UFARS manual.**

The UFARS manual is still out of date. Some parts predate the computerization of UFARS and have not been changed for nearly 20 years. For example, the forward is still dated 1974, and telephone numbers for a committee are dated 1975. Chapters on how to report spending on programs and types of services and materials, areas of particular interest to policy makers, have not been revised since 1988. The manual still is supplemented by more than a hundred Financial Accounting Instructions, which the department sends out sporadically to describe new categories or assorted changes.

However, the Department of Education is computerizing the UFARS manual to make it simpler to revise and distribute in the future. Staff told us that

⁵ *Minn. Stat.* §121.902. *Minn. Laws* (1993), Ch. 224, Art. 12, Sec. 32 repealed statutes that created the UFARS Advisory Council.

⁶ Stan Tikkanen, *UFARS User Study* (St. Paul: Minnesota Department of Education, September 1991).

they do not plan to totally update the manual until the task group's proposal is finalized. Using additional funds obtained from the 1993 Legislature, the department intends to contract for help in revising the UFARS manual during fiscal year 1994.

The UFARS Accounting Task Group has proposed other changes which should help improve the quality of spending data that the department collects. Besides eliminating some categories, it has recommended that the department reconcile other data collection systems that it uses to make aid payments with UFARS at least annually. Also, it has developed a more stringent approval process for new spending categories.

CHECKING DATA QUALITY

We found that:

- **The Department of Education has not adequately monitored UFARS data quality.**

For example, the department does not routinely sample spending data to determine whether districts are reporting accurately and completely, yet it continues to publish and disseminate these data. In the most recent edition of its annual report, *School District Profiles*, the department acknowledges that there is significant variation in one

spending category because some districts do not report correctly.⁷ We found other instances where some districts report that they spent nothing for some major programs that are provided. We think that these inaccuracies continue to make *School District Profiles* misleading to policy makers, and we continue to question its usefulness.

But, in the last three years:

- **The department has added computerized editing routines to UFARS that prevent school districts from reporting certain illogical data to the state.**

These may reduce some of the inaccurate reporting that we identified in our 1990 report. However, the editing procedures do not ensure that districts are reporting their expenditures completely and accurately in the first place.

CONCLUSION

Overall, we found that the Department of Education has made only limited progress in improving the quality of data that it collects on school district spending. Much work remains to be done. To ensure that districts are reporting accurately, completely, and consistently, we repeat our 1990 recommendation that:

- **The Department of Education should update the UFARS manual and routinely train school district staff on how to use the system properly.**

Furthermore:

- **The Department of Education should monitor quality to ensure that districts report their spending accurately and completely.**

Since 1990, the Department of Education has been reorganized and reduced in size, and UFARS staffing has dropped from 2.4 full-time equivalents to 1.9, so the task has been difficult. Nevertheless, if the department continues to collect and disseminate very detailed spending data from school districts, then it needs to ensure that those data are valid and reliable. Although the 1993 Legislature repealed specific statutory mandates related to UFARS data quality, we think that the Department of Education must take primary responsibility for the quality of the data that it maintains. To help, the 1993 Legislature appropriated additional funds to the Department of Education to revise the UFARS manual and provide districts with financial management assistance.

7 Minnesota Department of Education, *School District Profiles 1990-91* (St. Paul, April 1992), 16.

AGENCY RESPONSE

In response to this update, Commissioner of Education Gene Mammenga wrote on June 7, 1993:

I do not have any differences with the facts put forth in the report update. However, I do believe that the efforts of the Department could be put in a more positive light and that the Department has made considerable progress toward obtaining accurate and timely accounting and reporting by the Minnesota school districts.

As the report relates, the Department has led an effort to revise and simplify the UFARS accounting system. This was done in conjunction with school district personnel so as to ensure that the resultant system serves the needs of both the school districts and the state. This was a first, necessary step before any other improvements are possible.

Second, your report does point out that limited resources have been available in the Department for the area of financial management. Thus, it would be good to emphasize that the Legislature and the Governor signed into law an appropriation for the Department which includes funding for the Governor's proposal to significantly improve our financial management services. With

these resources we will proceed to recreate the UFARS system and to provide the necessary training and monitoring. I am gratified that the importance of this area was recognized and provided for.

In summary, I am optimistic that we are successfully proceeding in the direction set forth by your office.

SCHOOL DISTRICT SPENDING SUMMARY

February 1990

Our 1990 evaluation, *School District Spending*, looked at district spending patterns, as well as the quality of districts' financial data.

To test data quality, we sampled 97 school districts and asked whether the spending that they reported for 107 common programs, services, or activities was correct and defined according to state standards. We determined data to be valid if 90 percent of the districts could actually estimate or report their expenses, and reliable if 85 percent had actually submitted correct data to the Department of Education.

We found that:

- School districts misreported almost half of the items that we tested, and only one of 10 program categories (food service) shown in *School District Profiles* was reliable and valid enough to compare district spending.

Where districts submitted erroneous data, we obtained corrected figures or reasonably precise spending estimates. Using corrected data, we found that:

- School districts used about half of their resources (\$1.6 billion) on regular instruction in 1987-88; about three-fourths of all spending went for salaries and benefits.

- In districts where enrollment was the lowest, annual operating costs were \$1,000 above the state average of \$4,243 per student.

We suggested several ways to reduce non-instructional costs, such as sharing superintendents, reducing compensation to school board members, pricing lunches to cover costs, and closing excess instructional space. Also, we estimated that the state could have saved about \$10 million in non-instructional costs by closing 85 school districts with the lowest enrollments.

Regarding data quality, we recommended that the Department of Education ensure the quality of the data that it collects. We also recommended that it simplify its financial reporting system and provide better documentation and support to district staff.

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