## Advisory Committee on Financial Management, Accounting and Reporting Committee Approved by the Committee – March 17, 2010, Meeting Minutes

The Advisory Committee met on March 17, 2010. Members in attendance: Lori Mohs, Pat Morphew, Janet Halonen, Jeff Yeager, Myrna Meunier, David Peterson, Tiffany Rodning, Karsten Anderson, Tracey Fiereck, Angie Manuel and Nancy Schulzetenberg.

MDE Staff: Janna Duffy, Greg Hein, Karen Dykoski, Mary Weigel, Kelly Wosika, Tom Melcher, Dan Smith, Carol Hokenson and Keri Lewis.

The meeting was opened by Jeff Yeager at 12:05 p.m.

The committee members reviewed the agenda. Two agenda items were added: Findings from the Office of the Legislative Auditor (OLA) to be presented by Tom Melcher and Carol Hokenson and Student Activity Accounting Issue presented by Karen Dykoski. Unanimous approval by the committee.

The committee reviewed the January 20, 2010, meeting minutes. No corrections were made to the minutes. Unanimous approval by the committee.

From the October 21, 2009, committee meeting, Janet Halonen had a question regarding the reporting and the levy authority for two schools sharing one teacher under the Career and Technical Program. Janet was concerned that the school that contracts for services cannot levy for the cost of the program. Dan Smith referred to his handout addressing this concern. He explained the statutory language does not permit schools to levy for contracted services in the career and technical (CTE) programs. The districts have the following options to split the contract and each school has their own approved program and levy authority or introduce a change in the statutory language. It was suggested to contact Minnesota Association of School Business Officials (MASBO) to assist with the statutory language change to be presented to the legislature.

Janna Duffy went over Governmental Account Standards Board (GASB) 54 brought up by Myrna Meunier. GASB 54 will affect the Uniform Financial Accounting and Reporting Standards (UFARS) account structure and reporting. The implementation of GASB 54 may require statutory language changes. A review of fund balance calculations such as Statutory Operating Debt (SOD) calculation will need to be review and updated. A subcommittee was established with the following volunteers: Nancy Schulzetenberg, Darwin Viker, Pat Morphew, Tracey Fiereck, Sandra Weston, Pat Chaffy, Jeff Yeager and Myrna Meunier. It was also suggested that someone from the Office of State Auditor (OSA) be included on the committee, Greg Hierlinger was suggested.

Tom Melcher and Carol Hokenson talked about MDE's audit finding from the Office of the Legislative Auditor (OLA). The finding can be found at <a href="http://www.auditor.leg.state.mn.us/FAD/pdf/fad1008.pdf">http://www.auditor.leg.state.mn.us/FAD/pdf/fad1008.pdf</a>. The finding states that, "The Department of Education did not always verify that it paid local education agencies (LEAs) for actual special education program expenditures." MDE's response to the OLA audit finding was, for state fiscal year (FY) 2009, MDE will verify that its special education payments to LEAs agree with audited expenditures reported under the Uniform Financial Accounting and Reporting Standards (UFARS) by implementing the following procedures: LEAs will be required to reconcile expenditures reported through the Electronic Data Reporting System (EDRS), which were used to make state special eucation aid payments and federal aid payments for Individuals with Disabilities Education Act (IDEA) Part B, Sections 611 and 619, with audited expenditures reported through UFARS. MDE is curently transitioning away from the use of EDRS for payment of special eduation aids. For state FY 2010 and later, federal aid payments for IDEA Part B, Sections 611 and 619, are being made using the

new State Education Record View and Submission (SERVS) system. MDE will require expenditures reported through SERVS to match the audited expenditures reported through UFARS. The reconciliation process outlined above for state FY 2009 will continue to be used for state special education for state FY 2010 and until the transition is completed to the new system. Tom Melcher, Director of Program Finance, will be responsible for resolving this finding and the Department expects the finding to be resolved by July 1, 2010.

Tom M. and Carol requested input from the committee. The first question, what is your perspective on the best method for districts to report the data needed to complete this reconciliation? Committee members inquired if the reconciliation included both federal and state special education (SPED). MDE responded that, yes, the reconciliation includes both state and federal special education. The committee explained that out of state placements may be one of the reasons for differences. Concern was expressed that differences may have occurred due to cooperative(s) not providing data. Committee members thought that they would need to go into the detail disability codes in order to identify and correct errors in EDRS. Committee members felt it would be necessary to change UFARS. Opening up UFARS was discussed at great length, and opening UFARS was determined that it would be necessary. Materiality was discussed, two types of materiality were discussed, first the auditor's materiality whether a prior period adjustment would be required or a restated audit would be required (auditor discretion). The second type of materiality would be decided by the district, if they felt making adjustments to either EDRS or UFARS would be necessary. Tom M. explained that if a district did not reconcile differences between EDRS and UFARS, MDE would pay based on the lesser amounts reported.

A second issue raised by Tom M. And Carol. To comply with state and federal special education law, MDE needs to verify that aids are paid only for appropriately licensed special education staff. Licensure checks previously done through EDRS are no longer available for staff funded with federal aid. For FY 2010, MDE plans to ask districts to provide a yearend report detailing expenditures by staff person, with file folder numbers, accounting for the expenditures reported through UFARS for federal reimbursement. The second question that MDE requested member input: What is your perspective on the best method for districts to report the data needed to complete this reconciliation? Members asked if the MDE staffing report could be used in the reconciliation. MDE responded, that the staffing report does not use UFARS finance dimension. Committee members discuss the payroll systems used by the LEAs, and the software does allow for adjustments in the payroll system rather than using journal entries to make payroll adjustments. Committee members felt that a payroll report could be used to document the required information. Other options were discussed to report the total expenditures such as electronic files and drop down menu with a list of staff. MDE will continue to research methods to obtain the required documentation.

A third issue raised by Tom M. and Carol FY 2011, MDE is considering requiring a quarterly report, similar to the yearend report done for FY 2010, to allow reconciliation on a periodic basis throughout the year. If a quarterly report is used, would districts prefer: a report similar to the yearend report with dollars tied out or a report just listing all staff paid from each federal account for licensure check purposes with a follow-up report to districts with licensure errors asking for financial information on just the staff found to be ineligable? The committee responded by saying they would like one other report around fall or in December without amounts. To identify potential reporting problems that can be corrected early in the fiscal year. Followed by a final fiscal year end report that would include total amounts paid.

Kelly Wosika talked about the Transportation Cost of a Federal Program Revisited handout and its publication in the next School Business Bulletin. After discussion Kelly would make a couple changes

to the document. It would include a statement that Object Codes 360 and 364 should be used only with federal funds. A reminder will be added that the allocation may affect non public aid. A committee member mentioned that budgets would need to be changed if Local Education Agency (LEAs) used object code 364. The title programs amendment time period is March.

Karen Dykoski talked about the several requests to expand the definition for UFARS object code 251 to include health savings accounts (HSAs), medical savings accounts (MSAs), health flexible spending arrangements (FSAs) and health reimbursement arrangements (HRAs). Karen provided the board with information from the IRS on Health Savings Accounts. The committee agreed with the change in the UFARS definition. Karen will update the UFARS manual.

Greg Hein presented some issues with UFARS reporting in funds 98 and 99. When appropriate, Greg made a recommendation to the committee and asked for committee input on the recommendation. MDE will take the committee discussion points into consideration when determining how best to resolve the issues presented.

## Fund 98 discussion:

- Issue #1: Depreciation is being used by some reporting entities in fund 1. They are reported in the audit as business type activities (enterprise/proprietary fund).
  - o Recommend: Disallow depreciation object code 531 in all funds except 98.
  - o Discussion: The committee said, this activity belongs in an enterprise fund, since UFARS does not have an enterprise fund, the general fund is used. This activity is for reporting entities that use UFARS type codes 82/83. The committee agreed that a UFARS warning edit could be used for non-enterprise activity reported in fund 98.
- Issue #2: Some entities have balance sheet codes in fund 98 such as cash, property taxes receivable, accounts receivable, inventory, unrestricted fund balance and expenditure summary.
  - Recommend: Restrict balance sheet codes in fund 98 to balance sheet codes 140-149 (assets), 171-174 (accumulated depreciation) and 430 (investment in General fixed assets).
  - o Discussion: The committee agreed with the restriction.
- Issue #3: Very few reporting entities record the annual depreciation in fund 98 and others appear to just calculate and use the numbers for GASB 34 reporting and reconciliation.
  - o Recommend: Group discussion and auditor perspective on the issue.
  - O Discussion: The committee stated the account groups should not have expenditure transactions. The auditor's perspective is that funds 98/99 don't exist anymore. A committee member inquired what is fund 98 used for, if not used perhaps it should be removed. MDE stated they felt fund 98 should agree with the audit. The committee expressed that there is no authoritative requirement that requires fund 98 to agree with the audit. MDE stated that with fund 98 data only partially correct and reported by some districts a concern was raised about uniformity and accuracy of reporting financial data. The committee recommended updating the manual to reflect fund 98 may be used. The committee stated that fund 98 is a relatively low priority when looking at all the other issues districts deal with. The committee will go to their districts to see if they want to report in fund 98 and what they use fund 98 for.

## Fund 99 discussion:

• Issue #4: Some entities have negative assets and liabilities reported in fund 99.

- o Recommend: All asset accounts should be required to have a debit balance and all liabilities should be required to have a credit balance. Implement an edit check.
- Discussion: The committee stated that in some cases the negative balances are a result of overfunding other postemployment benefits (OPEB) and this is the method their auditors recommend in recording.
- Issue #5: Some reporting entities have long-term debt that is not related to a capital purchase. These liabilities are not included in the Statutory Operating Debt (SOD) calculation, so an entity can borrow their way out of SOD.
  - o Recommend: Group discussion.
  - O Discussion: The committee agrees that this is an area that could use change in the SOD calculation; however, a statutory change would be required before the calculation could be changed in UFARS. In a future legislative session, MDE will complete a statutory language change to address long term debt not related to a capital purchase.
- Issue #6: UFARS/Audit reconciliation is not checked for funds 98 and 99.
  - o Recommend: Group discussion.
  - Discussion: The committee did not support UFARS/Audit reconciliation for fund 98 because it is not required by an authoritative body. Low priority on the LEAs to-do list. The committee agreed that the fiscal compliance table could be used to report reconciling items between UFARS and the audited financial statement for fund 99.
- Issue #7: Capital Loans and Capital Appreciation Bonds
  - o Recommend: Group discussion.
  - O Discussion: The committee agreed that the fiscal compliance table could be used to report reconciling items between UFARS and the audited financial statement for fund 99. The adjustment line in the Fiscal Compliance Table should include the name of the reconciling item(s) with the amount(s).

Janna explained that MDE is currently using a helpdesk (internally) and will be available for external users soon. The helpdesk's email address is <a href="mailto:mde.ufars-accounting@state.mn.us">mde.ufars-accounting@state.mn.us</a>. People submit UFARS and/or accounting questions though email to the financial management team member. The helpdesk will log the submission and the team will review and respond to the questions. To goal is to manage questions in a more timely fashion and maintain a database of questions with responses. It will help to develop FAQ's for frequently asked questions.

Karen brought an issue to the committee regarding student activity accounting and the Manual for Activity Fund Accounting (MAFA). A district's student activity accounts are under board control. The board wants to allocate fundraising dollars within these activities to cover the payroll costs for advisors of theses student activities. Some individuals within the district feel that the money was raised by the students for the students and the decision on spending the money rests with the student officers with the organization. Administration and the board feel this "by the students, for the students" language comes from the MAFA guide and because these activities are under board control, MAFA does not apply. It was decided by the committee that the board has final say on how funds should be spent because they have higher level of responsibility and liability and financial transactions must comply with the public purpose doctrine.

Jeff Yeager passed a copy of UFARS Concepts and Generally Accepted Accounting Principles from 1981. He suggested possible putting it back in the UFARS manual since it still applies today but would

need to be updated. It was also suggested that it be considered and reviewed by the GASB 54 Subcommittee.

Jeff called for items for the next advisory meeting: Review recommendation of the UFARS Redesign Workgroup.

The meeting was adjourned at 3:23 p.m.

The first GASB 54 Subcommittee meeting is scheduled for Wednesday, May 19, 2010 at 9:30 a.m. at the Minnesota Department of Education.

The next Advisory Committee meeting is scheduled for Wednesday, May 19, 2010, at 12:30 p.m. at the Minnesota Department of Education.