

March 5, 2015

The Honorable Ronald Highland, Chairperson  
House Committee on Education  
Statehouse, Room 561-W  
Topeka, Kansas 66612

Dear Representative Highland:

**SUBJECT:** Fiscal Note for HB 2393 by House Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2393 is respectfully submitted to your committee.

HB 2393 would require the State Board of Education to issue a request for proposals (RFP) and select one to five accounting systems and one to five payroll systems for school districts. Any payroll system selected would be required to provide KPERS information and other employee benefit plan information on an individual employee basis, including contributions and expenditures for any defined benefit pension plan, defined contribution plan, and any other postemployment or employee benefit plans.

The Department of Education would be required to categorize all school districts based on enrollment size, into small, medium, and large districts. Each year one-third of the districts would implement the selected new accounting and payroll systems so that on or before July 1, 2018, all districts would have implemented the required systems.

On or before October 1 of each year, each school district would be required to publish on its internet website the following: (1) Form 150; (2) budget summary for the current year and actual expenditures for the two preceding school years; (3) the salary pay rate, supplemental contracts and the contributions and expenditures for any defined benefit pension plan, defined contribution plan, and any other postemployment or employee benefit plan for each employee of the district; (4) expenditures and revenue generated for each extracurricular sport offered by the district, including all salaries and supplemental contracts of coaches, assistants and staff; facilities maintenance costs; and any other costs associated with the sport; (5) expenditures and revenue generated for each extracurricular activity or club offered by the district, including all salaries and supplemental contracts of employees associated with the activity or club and any other costs associated with the activity or club; and (6) the number of buildings and facilities that the district occupies, whether such building and facilities are owned or leased, and the

expenditures incurred to operate the building or facility, including the individual staffing costs, cost of utilities, maintenance and all payments being made on each building/facility.

HB 2393 would require each school district to conduct an annual compliance audit to determine whether they comply with all requirements of the bill. The audit will be conducted as part of and supplemental to the current audits required by current law. Upon completion of each audit, the district would publish a summary of the audit with recommendations on an easily identifiable link on the district's website. The summary would contain a notice that the complete audit report may be obtained or viewed free of charge at the district office. A copy of each such audit would be submitted to the State Board of Education.

The Department of Education would receive and investigate any written complaints alleging a district is not in compliance with the requirements of HB 2393. If a district is found to be out of compliance, the State Board of Education would notify the district in writing. The district would have 30 days to cure the noncompliance and submit evidence of compliance to the State Board of Education. If the evidence is not received within 30 days, a civil penalty of \$1,000 per day would be imposed on the district. Prior to imposing a penalty, the State Board of Education would need to hold a hearing to receive a district's response to the complaint.

Finally, the bill would require school districts to utilize the generally accepted accounting principles (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB), rather than the basis of cash receipts and disbursements.

According to the Department of Education, enactment of HB 2393 would increase its operating expenditures, as the agency would be required to issue an RFP and select accounting systems and payroll systems for all school districts. The agency estimates the RFP process and the categorization of districts would cost approximately \$15,000, all from the State General Fund and would be performed by an outside contractor. In addition, the bill would require the agency to hold hearings to receive a district's response to a complaint of noncompliance with provisions of the bill. The Department estimates additional expenditures of \$10,000, also from the State General Fund, would be required to investigate complaints, as well as costs associated with the hearings.

Although the Department would be responsible for the RFP for both the payroll systems and accounting systems for school districts, the agency assumes school districts would incur all costs to transition and utilize the new payroll and accounting systems. However, if the state would own and operate the payroll and accounting systems, the costs would be substantial. In addition, the Department estimates the statewide cost for the annually required compliance audits at approximately \$1,001,000 ( $\$3,500$  per audit X 286 school districts = \$1,001,000). The cost of these audits would be borne by the school districts.

The bill would also require that school districts utilize GAAP, rather than the basis of cash receipts and disbursements. The staff of the Department of Education contacted two certified public accounting firms and requested an estimated cost for school districts to comply

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with this provision. The Department reports that it would cost an additional \$7,000 above the current audit costs in the first year for each district to comply with GAAP. The agency estimates that 90.0 percent of school districts currently use cash basis disbursement audits. As a result, this provision would cost districts statewide an estimated \$1,801,800 ( $\$7,000 \text{ additional cost per audit} \times 286 \text{ districts} \times 90\% = \$1,801,800$ ). Any fiscal effect associated with HB 2393 is not reflected in The FY 2016 Governor's Budget Report.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,  
Director of the Budget

cc: Faith Loretto, KPERS  
Dale Dennis, Education