California Department of Education

SACS Minutes, February 2018, Attachment B

# Coding/reporting issues observed in 2016-2017 unaudited actuals data submissions

| Issue | Correct Procedure | Reference |
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| Revenue of restricted resource subject to unearned revenue | The revenue of restricted resource which is subject to unearned revenue is recognized in the period in which qualifying expenditures are made. Cash received but unspent at the end of the fiscal year is booked as a liability (Object 9650, Unearned Revenue), and revenue is reduced to the amount that has been expended. The carryover should not be recorded as ending fund balance (Object 9740, Restricted Balance). | *CSAM* Procedure 310, Resource (Project/Reporting) Classification.  *CSAM* Procedure 510, Recognition of Common Revenue Sources |
| E-rate accounting guidance | LEAs should report the cost of telecommunications goods or services at gross, and to report the E-Rate subsidy as local revenue (not federal revenue) using Resource 0000, Unrestricted. | SACS Forum Meeting Minutes for November 2015 |
| Technology expenditures - function | Centralized data processing (i.e., technology) expenditures should be recorded to Function 7700 and not to Other General Administration Function 7200.  Technology expenditures attributable to instruction and instruction support should be charged to Function 1000, Instruction, and/or Function 2420, Instructional Library, Media and Technology, as appropriate.  Technology expenditures that become an integral part of the building, such as wiring a building to upgrade Internet and other technology services, are appropriately charged to Function 8100 or 8500, depending on whether the improvement is capitalizable. | *CSAM* Procedure 325, Function (Activity) Classification  *CSAM* Procedure 630, Technology – Coding Examples  *CSAM* Procedure 770, Distinguishing Between Supplies and Equipment |
| Technology expenditures – intangible assets | Software, such as enterprise reporting systems, whether purchased or licensed, may meet the criteria to be considered an intangible asset and reported in Object 6400 or 6500, rather than Object 5800. | GASB Statement 51, Accounting and Financial Reporting for Intangible Assets  *CSAM* Procedure 630, Technology – Coding Examples |
| No amount entered for Object 9796, “Net Investment in Capital Assets” | Object Code 9796 (Net Investment in Capital Assets) consists of capital assets, net of accumulated depreciation and less any related debt. Any deferred outflows and inflows of resources are also included.  The technical review check “NET-INV-CAP-ASSETS” reads:  If capital asset amounts are imported/keyed, objects 9400-9489 (Capital Assets) in funds 61-73, then an amount should be recorded for Object 9796 (Net Investment in Capital Assets) within the same fund. | *CSAM* Procedure 330, Object Classification |
| OPEB expenditures | OPEB expenditures recorded in Object 3701 and Object 3702, OPEB Allocated, should be allocated among all activities – any combination of fund, goal and/or function, but not necessarily resource - as appropriate in proportion to total salaries or FTEs in all activities. This allocation should be done even when benefits are paid on a “pay as you go” basis; that is, the amount paid represents current year benefits for already retired employees. Amounts paid should not be charged only to the account lines of the retired employees’ former salaries.  In addition, a portion of the “pay as you go” amount may be attributable to normal costs and/or unamortized liability for OPEB-eligible current employees. Generally, these amounts are direct-charged to the programs in which active employees’ salaries are charged. Consult CSAM for specific guidance. | *CSAM* Procedure 785, Postemployment Benefits Other Than Pensions |
| PCRAF - Unrealistic or incorrect allocation factors for undistributed support costs  Example: FTE entered for only one instructional program, resulting in allocation of all undistributed costs to that program; or an implausibly low number of FTE per program, e.g. one FTE for regular education; or dollar amounts entered instead of factors | To assure that costs are allocated on a consistent and standard basis, allocation factors should reflect real counts of the teacher FTEs, classroom units (square footage utilized), or pupils transported in all instructional programs operated by the LEA. | *CSAM* Procedure 910,  Program Cost Accounting |
| PCRAF - Allocation factors entered for programs for which there are no direct costs | Undistributed support costs should normally only be allocated to programs in which direct charged costs are incurred.  The PCR/PCRAF should not be used to allocate costs incurred on behalf of other entities, such as charter schools, in lieu of recording them correctly to Goal 7110 in the GL. | *CSAM* Procedure 910,  Program Cost Accounting |
| TRC explanations that are meaningless or otherwise unhelpful, or repetitive use of the same explanation for exceptions (e.g., “will be corrected at 1st Interim”). | If the data is wrong, the LEA should correct the data before submitting it. If the LEA believes the data is right, the LEA should provide a meaningful explanation of why.  Note that revenue and expenditure accounts generally cannot be corrected in the coming year because these accounts are closed out to fund balance at the end of each year. If the data is wrong, it should be corrected before submission. | SACS User Guide and TRC instructions |

## Indirect Cost Calculation

| Issue | Correct Procedure | Reference |
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| Administrative costs charged entirely to a general administration function when other functions benefit from those expenditures. | Especially for small school districts and charter schools, administrative costs should be allocated between general administration, board and superintendent (functions 71XX), school administration (Function 2700), and/or other instructional support functions (functions 2XXX), as necessary. For salaries, standardized distribution (e.g. 70%/30% allocation between Function 2700/7200) may be used in lieu of time documentation. | *CSAM* Procedure 325, Function Classification  *CSAM* Procedure 905, Documenting Salaries and Wages |
| Use of Goal 8600, “County Services to Districts or other county offices.” | In lieu of time documentation, COEs performing activities in support of school districts or other county offices may allocate the costs 50%/50% between Goals 8600 and 0000 (Undistributed). | *CSAM* Procedure 905, Documenting Salaries and Wages |
| Audit costs not charged to the appropriate function. | Audit costs should be charged to either Function 7190 or 7191, depending on whether LEA is subject to federal Single Audit provisions. | *CSAM* Procedure 325, Function Classification |
| Abnormal or mass separation costs not excluded from the indirect cost pool. | Abnormal or mass separation costs charged to a general administration function should be excluded by entering the appropriate amount in Part II, Line of the Indirect Cost Rate Worksheet, Form ICR. | *CSAM* Procedure 915, Indirect Cost Rate  CDE letter dated 12/15/2006, “Indirect Cost and Accounting Changes Effective Beginning 2007-08.” |
| OPEB costs charged entirely or disproportionately to a general administration function. | OPEB expenditures related to retirees are allocated among all activities in proportion to total salaries or FTEs in all activities. | *CSAM* Procedure 785, Postemployment Benefits Other Than Pensions |
| Insurance, legal and communications costs charged entirely to a general administrative function. | Bus and food service vehicle insurance should be charged to functions 3600 and 3700, respectively. Pupil insurance should be charged to Function 1000.  Legal costs should be recorded primarily to Function 7100 (Board and Superintendent), unless the costs are associated specifically with the business office, purchasing or personnel matters. Settlements should be charged to Function 7100.  Communications costs such as telephone, cell phone, and internet service should be charged partially to Function 2700, 7700, and maybe 8XXX, but generally not all to Function 7200. | CDE letter dated 12/15/2006, “Indirect Cost and Accounting Changes Effective Beginning 2007–08.” |
| Incorrect use of Function 7700, Centralized Data Processing, for costs other than those of a general administrative nature | Costs on behalf of instructional programs should be reported in Function 1000, Instruction or Function 2420, Instructional Library, Media and Technology. Costs should be allocated between agency-wide and instruction and instruction-related functions as necessary. If all data processing costs are initially accumulated in Function 7700, instructional costs should be reclassified to the appropriate function(s) using Object 5710. | *CSAM* Procedure 325, Function Classification |

## Charter School Reporting/Coding

| Issue | Correct Procedure | Reference |
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| Salaries reported without corresponding benefits. | Employee benefits should be recorded separately from the associated salary and in one or more appropriate benefit object codes. | *CSAM* Procedure 330, Object Classification |
| Salaries and corresponding benefits not recorded to the same resource, goal, and/or function. | Salary and benefits for the same employee should normally be recorded to the same resource, goal, and function. | *CSAM* Procedure 325, Function Classification  *CSAM* Procedure 910, Program Cost Accounting |

## Charter Indirect Cost Pool Expenditures Coded Incorrectly

| Issue | Correct Procedure | Reference |
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| Management company fees lump-sum charged to one function, such as 7200. | Charter Management Organization (CMO) fees paid for charter school oversight should also be charged, in part, to those function(s) that best reflect the activity, such as instructional administration (Function 2100), school administration (Function 2700), or pupil services (functions 3000 – 3999). | *CSAM* Procedure 905, Documenting Salaries and Wages  *CSAM* Procedure 915, Indirect Cost Rate |
| Charter/small school districts’ contracts for “back office” accounting services. | Fees paid for fiscal and business services are partially attributable to school administration and should be allocated appropriately. In lieu of a documented distribution, these costs may be charged 70% to school administration and 30% to general administration. | *CSAM* Procedure 905, Documenting Salaries and Wages |
| Depreciation expense lump-sum charged to Function 7200 (Fund 62). | Depreciation expense should be charged to the functions that benefit from the asset for which depreciation is charged. For example, depreciation on a school building that consists of regular education classrooms should be charged to Goal 1110, Function 1000. | *CSAM* Procedure 915, Indirect Cost Rate  *CSAM* Procedure 325, Function Classification |
| Misconception that indirect cost rate does not apply. | Indirect cost rates are calculated for charter schools that report separately using SACS, even if an indirect cost rate is not used. | *CSAM* Procedure 915, Indirect Cost Rate |