

Appendix H: USAS and ESC Reporting

Ohio’s Uniform School Accounting System

The *Uniform School Accounting System User Manual* (Ohio Auditor of State, 2013) states that USAS “is based upon the use of a combination of dimensions (different sets of codes, each of which supplies different elements of information). By selecting the most appropriate code within each required dimension, each financial transaction of the school district will be adequately identified. The use of certain dimensions to identify each type of financial transaction is the responsibility of management of the school district. The determination should consider the informational needs of the school district, the Ohio Department of Education, and other regulatory agencies. For various reasons, certain financial transactions should be coded in more detail than others.”

USAS is structured to meet the needs of school district financial reporting, and works well for Ohio’s school districts. This system allows for detailed reporting for both revenue and expenditures. However, ESC operations differ from that of traditional school districts and the lack of uniformity in ESC network wide financial reporting is most often the result of the lack of options or specific directions, unique to ESCs, to where revenue and expenditures should be coded. This results in significant variation in financial reporting and makes the task of accurately comparing and evaluating operations on a macro level difficult.

All ESCs employ a licensed treasurer and receive financial audits. It was not our finding that financial data was being reporting incorrectly, but rather that improvements could be made to better capture the unique operations and services that ESCs exist to provide.

Revenue

The revenue structure within USAS consists of six potential dimensions. The primary dimensions used to evaluate ESC revenue included fund and receipt code, as the use of these dimensions are reported for all revenue and the definitions are consistent as they are assigned by the AOS.¹ Funds are established by constitutional provisions or special statutes to help assure that money is spent for purposes specified in appropriations. Identification of funds usually is made in terms of

| Revenues | | | |
|-----------------------|------------------|--------------|---------------------|
| Transaction Indicator | Fund | Receipt Code | Special Cost Center |
| xx | xxx | xxxx | xxxx |
| Subject Area Subject | Operational Unit | | |
| xxxxxx | xxx | | |

Source: USAS Manual

¹ Special cost centers and operational unit assignments are made at the school district (or ESC) level and therefore are not consistently used across the system but rather a way for individual agencies to track and evaluate revenue internally. Furthermore, these dimensions are not used by all ESCs. Transaction indicators and subject area dimensions did not provide additional insight to operations. For these reasons, these four dimensions were not considered in the ESC network-wide analysis of financial operations.

their legal basis, in terms of objectives to be served, and sometimes in terms of both the source of receipts and type of activities which they finance. The most common fund is the general fund, which accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is disbursed or transferred in accordance with Ohio law. The receipt code dimension consists of four digits, and is the dimension by which revenues are identified by the purpose which they serve.

On the revenue side of ESC financial reporting, the receipt coding structure allows for variation in reporting ESC revenue by not providing clear guidance on where to record the primary revenue sources. The largest revenue source for all ESCs is generated from providing services to school districts. Depending on how a school district compensates the ESC for such agreed upon services, this revenue is typically recorded within either USAS receipt category 1220 Tuition and Other Payments from Other Districts and/or receipt category 1830s Services Provided Other Entities.

When school districts elect to pay the ESC for contracted services through transfers of its foundation payments, settlement reports (ODE) instruct that the revenue received by the ESC from the transfers from district foundation payments be coded within receipt code “122X”. This flexibility gives the ESC the decision on the final number in the four number dimension string. Nine possible options exist.² When examining the general fund revenue of all ESCs network wide, this set of receipt codes made up 45.2 percent of total general fund operating revenue in FY 2018.

| <u>DESCRIPTION</u> | <u>USAS CODE</u> |
|----------------------------------|----------------------|
| STATE SUPPORT | |
| STATE PER-PUPIL TOTAL | 3110 |
| GIFTED EDUCATION FUNDING | 3110 |
| SPECIAL EDUCATION TRANSPORTATION | 3110 |
| TOTAL STATE FUNDING | |
| TRANSFERS | |
| DISTRICT PER-PUPIL TOTAL | 122X |
| FORMULA PRESCHOOL SPECIAL ED | 1223 |
| CONTRACTS PAID BY SCHOOLS | 122X |
| TOTAL TRANSFERS | |

Source: ODE

In an attempt to determine the amounts collected from school districts through foundation deductions for contracted services, we found multiple variances in the receipt location where these payments were coded. One ESC collected over \$4.6 million for contracts paid by schools through transfers of foundation payments, none of which was recorded in the 122X receipt category. Another ESC collected \$1.1 million for contracts paid by schools through transfers, all of which was coded in 1223 Special Education. A review of contracts collected for this respective ESC supported multiple non-special education related services. Another ESC

² USAS receipt category 1200 Tuition: Money received from patrons, other school districts, and other sources for education provided in the school district. Subcategories include:

- 1220: Tuition and Other Payments from Other Districts: Money received from other districts for the education provided in the schools of the district.
 - 1221 Regular Day School, 1222 Summer School, 1223 Special Education, 1224 Vocational Education, 1225 Adult/Continuing Education – Basic Education, 1226 Adult/Continuing Education – High School, 1227 Open Enrollment, 1228 Community Schools, and 1229 Miscellaneous Payments from Other School Districts.

collected \$2.6 million for contracts paid by schools through transfers and coded this revenue in 1229 Miscellaneous Payments from Other School Districts, along with other transfers from the district per pupil funding.³ These variances in the location where the revenue from contracts was coded, along with the fact that other revenue is often coded in the same receipt code with the contract revenue, made it impossible to accurately identify this key revenue source across the network.

When contracted services are paid through direct bill, the revenue is primarily received in category 1830 Miscellaneous Receipts from Local Sources - Service Provided Other Entities within USAS.⁴ When examining the general fund revenue of all ESCs network wide, this category (including the subcategories within 1830) made up 43.1 percent of total general fund revenue in FY 2018.

A review of the revenue included within this category suggested that ESCs use a variety of methods when recording revenue from the services provided to school districts. Four ESCs use only the top level category of 1830, recording no revenue in the subcategories 1831, 1832, 1833, or 1839. Other ESCs do not use the top category 1830 at all, instead use primarily 1832 to record revenue generated through providing services to school districts. In addition, one category (1831) is defined in USAS as “Not Used at this Time”, however four ESC receipt revenue within this subcategory.

Other variances in reporting revenue from services provided to school districts outside of the 1220 and 1830 categories were identified. One ESC records the revenue it receives (more than \$6 million) for providing preschool services within receipt code 1211, a dimension within the tuition category used to code money received from *patrons* as tuition for pupils attending the regular day school. The ESC indicated this practice has been in place for years, back to the time when some money was collected from the parents and has never been changed or questioned. This revenue was excluded from the indirect public funding within our analysis, as according to USAS does not appear by definition to be generated by tax dollars but rather payment from patrons. Another ESC uses an internal services rotary fund to record the revenue (not including the administrative fee) collected to pay for services provided. This fund, by definition, used to account for operations that provide goods or services to other governmental units on a cost-reimbursement basis. For this reason, it was excluded from operating revenue within our analysis.

³ District per student funding is deducted from a member district’s state foundation funding, as set by ORC § 3313.843.

⁴ USAS receipt category 1800 Miscellaneous Receipts from Local Sources: other income from local sources which is not classified in prior categories. Subcategories include:

- 1830 Services Provided Other Entities: revenue from services provided other entities, other than for tuition, transportation, or food services. These services may include data processing, purchasing, maintenance, cleaning, consulting and guidance.
 - 1831 Not Used at this time, 1832 Other School Districts, 1833 Customer Services, and 1839 Other Entities.

In addition to the variances identified in recording the aggregate total revenue above, no uniform options exist within USAS for ESCs to further define the source of the revenue received (the specific school district making the transfer or payment). Therefore, even if all ESCs recorded aggregate revenue generated from providing services in a consistent uniform manner, there would still be no accurate method to evaluate revenue collected by customer in the USAS system as it exists today.

Expenditures

The expenditure structure within USAS consists of nine potential dimensions. The primary dimensions used to evaluate ESC expenditures included fund, function, and object code. The use of these three dimensions are reported for all expenditures and the

| Expenditures | | | | |
|-----------------------|------------------|---------------------|----------------|---------------------|
| Transaction Indicator | Fund | Function | Object | Special Cost Center |
| xx | xxx | xxxx | xxx | xxxx |
| Subject Area Subject | Operational Unit | Instructional Level | Job Assignment | |
| xxxxxx | xxx | xx | xxx | |

Source: USAS Manual

definitions are consistent as they are assigned by the AOS. The fund dimension for expenditures is consistent with that of revenue defined above. The function dimension is a broad area of programs, sub-programs and activities into which expenditures are classified. For example; Function 1000 (first level) indicates the district-wide Instruction program, 1200 (second level) indicates Special Instruction, 1230 (third level) indicates Special Instruction-Handicapped, and 1233 (fourth level) indicates Special Instruction-Handicapped-Visually Impaired. The object further identifies expenditures as it defines the goods and services for which the school district pays. Objects include salaries, purchased services, supplies, and materials. Functions and objects are assigned by the AOS.⁵

While greater detail opportunities exist within USAS when reporting the expenditures, variation still occurs due to the lack of defined directions and/or specific design for the operations of ESCs. When examining the most common services provided by ESCs it became clear that there are many unknown expenditures due to the significant use of the miscellaneous and “other” categories used by the ESCs within the USAS system.

Of the \$730.6 million of general fund operating expenditures reported, \$263.5 million, or 36 percent, was coded within the USAS category for instruction (USAS category 1000). According to USAS “this category captures costs associated with activities directly dealing with the teaching of pupils or the interaction between teacher and pupil. Teaching may be provided for pupils in a school, in a classroom, in another location, such as in a home or hospital, and through other approved media such as television, radio, telephone and correspondence. This category

⁵ Special cost centers and operational unit assignments are made at the school district (or ESC) level and therefore are not consistently used across the system but rather a way for individual agencies to track and evaluate expenditures internally. Furthermore, these dimensions are not used by all ESCs. Transaction indicators, subject area, instructional level, and job assignment dimensions were not used consistently and did not provide additional insight to operations. For these reasons, these additional dimensions were not considered in the ESC network-wide analysis of financial operations.

includes aides or classroom assistants of any type who assist in the instructional process. Technology used by students in the classroom or technology that has a student-instruction focus should also be coded here.” Of this \$263.5 million in instruction costs reported by the ESCs in FY 2018, \$64 million, or 24.4 percent, was coded within a function level defined as “other”.⁶

Professional development was a service category that 51 of 52 ESCs reported to provide in FY 2018. USAS function level 2210, Improvement of Instruction Services, captures “those activities which are designed primarily for assisting instructional staff in planning, developing, and evaluating the process of providing challenging learning experiences for pupils. These activities include curriculum development, techniques of instruction, child development and understanding, staff training, and so forth.” This category includes five subcategories⁷ – every ESC recorded expenditures within 2210. Of the \$67.5 million reported in Improvement of Instructional Services, \$56.4 million, or 83.5 percent, was spent on the salaries and benefits of ESC employees providing such services. When examining the use of subcategories used, \$14.1 million (20.9 percent) was recorded in the 2219 “other” category. Further, 36 ESCs used this “other” category to record expenditures in some fashion.

ESCs provide professional development as a service to school district, as well as to their own employees. However, USAS function codes do not specify or delineate expenditures between the two. For example, ESCs train their own employees on initiatives that are developed and pushed out by ODE. ESC employees provide training to school district employees as a service to the district. The expenditures dedicated to internal and external professional development are captured in the same function code. While some ESCs use the USAS operational unit dimension to track costs by service or customers, others do not. For this reason, the cost to provide professional development services to school districts could not be determined.

Ohio School Districts and USAS

USAS object level 400, Purchased Services, is used to record “amounts paid for personal services rendered by personnel who are not on the payroll of the school district, and other services which the school district may purchase. While a product may or may not result from the transaction, the primary reason for the purchase is the service provided in order to obtain the desired results. Other school districts are included under this definition.”

The purchased service object category within USAS includes ten subcategories⁸ which are heavily used by school districts for recording purchased services from ESCs. The level of detail these object codes provide is useful as it is broken into subcategories, but it does not indicate the

⁶ Categories include 1190 Other Regular Instruction, 1239 Other Handicaps K-6, 1249 Other Handicaps 7-12, 1290 Other Special, 1319 Other Secondary Regular Vocational Education, 1339 Other Handicapped Vocational Education, 1490 Other Adult Continuing Instruction, and 1990 Other Instruction.

⁷ Subcategories include 2211 Service Area Direction, 2212 Instruction and Curriculum Development, 2213 Instructional Staff Training Services, 2218 Lead Teachers, and 2219 Other Improvement of Instruction Services.

⁸ Subcategories include 410 Professional and technical services, 411 Instruction Services, 412 Instructional Improvement Services, 413 Health Services, 414 Staff Services, 415 Management Services, 416 Data Processing Services, 417 Statistical Service, 418 Professional/Legal Services, and 419 Other Professional and Technical Services.

type of provider from who these services are purchased. For example, a school district may purchase health services for a student within their district. They may purchase that service from a hospital, a private company who specializes in this service, or an ESC. Adding this additional level of detail would allow for transparency and visibility into the types and cost of services school districts contract for with an ESC.

Other States

While the educational operations and the corresponding financial reporting of other states differ methodologically from Ohio, examining how other states report financial data is a useful resource when evaluating potential improvements for financial reporting options for Ohio’s ESCs. The following descriptions from Texas and Michigan are two examples of how these states provide detailed directions and tailored dimensions specific to the financial operations of their ESCs.

Texas: The Texas Education Agency’s chart of accounts, *Financial Accountability System Resource Guide – Financial Accounting and Reporting Appendices*, (Texas Education Agency, 2019) identifies reporting codes that are designed specifically for use by the state’s ESCs. For example, Texas has a Special Revenue Funds with specific uses for ESCs.

- 405 Gifted and Talented (Regional Education Service Centers (ESCs) Only): ESCs must use this code to account for funds to support school district efforts in the area of gifted and talented education.
- 433 Shared Service Arrangements – Professional Staff Development: This code is used by the fiscal agent of a shared services agreement to account for funds used to provide preservice training and staff development in technology an innovative teaching practices for teachers and administrators. Public schools and regional education service centers may:
 - o Serve as fiscal agents for establishing a center for professional development under the direction of an institution of higher education or;
 - o Receive funds directly to provide training and staff development in technology and innovative teaching practices.

Further, Texas also has function codes specific for ESCs. Function code 62 School District Administrative Support Services (for use by Regional Education Service Centers Only) is used to record “costs related to performing certain administrative services for school districts” and provides further details on the services it includes, and guidance on what should and should not be coded here.

Michigan: The Michigan Department of Education’s chart of accounts, *The Michigan Public School Accounting Manual* (Michigan Department of Education, 2020) identifies reporting codes that are designed specifically for use by the state’s intermediate school districts (ISDs).⁹ For

⁹ The Michigan Association of Intermediate School Administrators defines an ISD as: ISD - which sometimes go by the name Regional Educational Service Agency (RESA) or Educational Service Agency (ESA) — work with local school districts, the Michigan Department of Education, business and industry and community groups. They support student achievement and leverage limited resources in the following areas: teaching and learning, specialized student

example, Michigan has object codes with specific uses for ISDs, 8200 Payments to Other Public School Districts: This category represents payments or distributions to other Michigan public schools (ISD's, local education agencies (LEAs), and public school academies (PSAs)). There are an additional four subcategories:¹⁰

- 8210 tuition payments to other public schools (Payments to ISDs, LEAs, or PSAs, only)
- 8220 payment to another public school district for services rendered (payments to ISDs, LEAs, or PSAs, only)
- 8290 other transitions – do not include sub-grantee disbursements here. Those would be recorded in “8510.” (Payments to ISDs, LEAs, or PSAs only).

Conclusion

The USAS Manual provides a significant amount of detail and instruction for its users and is a prime tool for managing, recording, and auditing the financial operations of Ohio's school districts. Additional functions or codes and/or more detailed instructions specific to the unique operations of ESCs would enhance the use of this fundamental tool by providing more accurate detail to use in evaluating and comparing operations network-wide. A close partnership with Local Government Services Section of AOS will be critical to ensure that potential changes or enhancements are within the limitations of the USAS chart of accounts (see **R1.1**).

services, shared operational services, developing partnerships, technology services, and school improvement, assessments and mandates.

¹⁰ These subcategories also have specific functions they may be used with which would define services further.