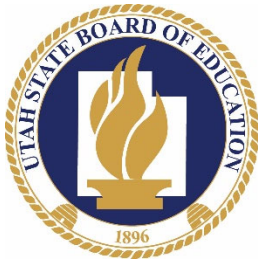


# EDUCATIONAL



**THE UTAH STATE BOARD OF EDUCATION**  
Report to the Education Interim  
Committee and the Public Education  
Appropriations Subcommittee

## Activity-based Costing Report

November 2020

**Tamra Dayley**  
Audit Manager  
School Fees Consultation Project Staff  
Tamra.dayley@schools.utah.gov

**Charity Goodfellow**  
Auditor  
School Fees Consultation Project Staff  
Charity.goodfellow@schools.utah.gov

**Angie Stallings**  
Deputy Superintendent of Policy  
Angie.stallings@schools.utah.gov

# Activity-based Costing Report

## STATUTORY REQUIREMENT

### U.C.A. Section 53E-3-520

requires the Utah State Board of Education to create a working group, including LEA representatives, to evaluate and present recommendations on LEA efforts to establish cost centers and implement activity-based costing. The State Board is required to report the recommendations to the Education Interim Committee and Public Education Appropriations Subcommittee no later than November 30, 2020.

## EXECUTIVE SUMMARY

During the 2019 General Session, the Legislature passed House Bill 250, *School Fee Revisions*, which tasked the Board with creating a working group to evaluate local education agency (LEA) efforts to establish cost centers and implement activity-based costing (ABC). This report presents our evaluation of LEA efforts to implement activity-based costing and provides recommendations. The LEA systems for student registration, school fees tracking, and accounting are often different systems that do not share information. Therefore, most LEAs and schools have some or part of the revenue or expense tracking information for activities and programs supported by school fees readily available, but require additional resources and skilled staff to fully incorporate activity-based costing. One challenge to full implementation of activity-based costing is setting standards for measurement of costs and activities at a district and school level. Setting these standards will assist with needed development of accounting systems to provide transaction-level details and student-level fee receipts and expenditures. Another issue discussed by the working group is the need for knowledgeable personnel to appropriately record school fees revenues and expenditures. Thus, additional support is needed to hire or train staff with the ability to record school fees revenues and expenditures at the transaction point at the school or LEA.

## BACKGROUND

---

In the 2019 General Session, the Legislature passed House Bill 250, *School Fee Revisions*, which required the State Board to create a working group, including LEA representatives, to evaluate and present recommendations on LEA efforts to establish cost centers and implement activity-based costing. This requirement was situated within the broader focus of the bill which was amending provisions related to school fees. A school fee is something of monetary value requested or required by an LEA as a condition to a student's participation in an activity, class, or program provided, sponsored, or supported by a school. While school fees can provide much-needed revenue, it is important to ensure they do not unfairly restrict participation. As stated in R277-407,

To preserve equal opportunity for all students and to limit diversion of money and school and staff resources from the basic school program, each LEA's fee policies shall be designed to limit student expenditures for school-sponsored activities, including expenditures

for activities, uniforms, clubs, clinics, travel, and subject area and vocational leadership organizations, whether local, state, or national.

Student fees begin with the student as the basis and fees are paid per student as an identifiable individual transaction. Therefore, the costs allocable to the defined activity should also be limited to the individual student participation. Assigning costs in this manner is consistent with activity-based costing. Activity-based costing is an accounting method that assigns overhead and indirect costs to related products and services. The thinking behind activity-based costing is that it is a more reliable way to identify the cost of an activity.

Additional requirements in the bill demonstrate a shift on the part of LEAs and schools to engage in efforts to remove barriers for a student's full participation in an activity, course, or program. These efforts include prohibiting LEAs from imposing an additional fee or increasing a fee to supplant or subsidize another fee. Beginning with or after the 2021-2022 school year, if an LEA imposes a fee, the fee shall be equal to or less than the expense incurred by the LEA in providing for a student the activity, course, or program for which the LEA imposes the fee. Again, the reasoning is to ensure fees are in line with the cost of the activity, course, or program. Given differences in the accounting systems used by LEAs and schools throughout the state, evaluating and achieving activity-based costing at specific school fees transaction level is challenging. An ongoing process of gathering, analyzing, and reflecting on evidence is necessary to make informed and consistent judgments to improve a student's full participation in public education. The working group and survey provide some insight into LEA efforts to implement activity-based costing.

## **ACTIVITY-BASED COSTING WORKING GROUP**

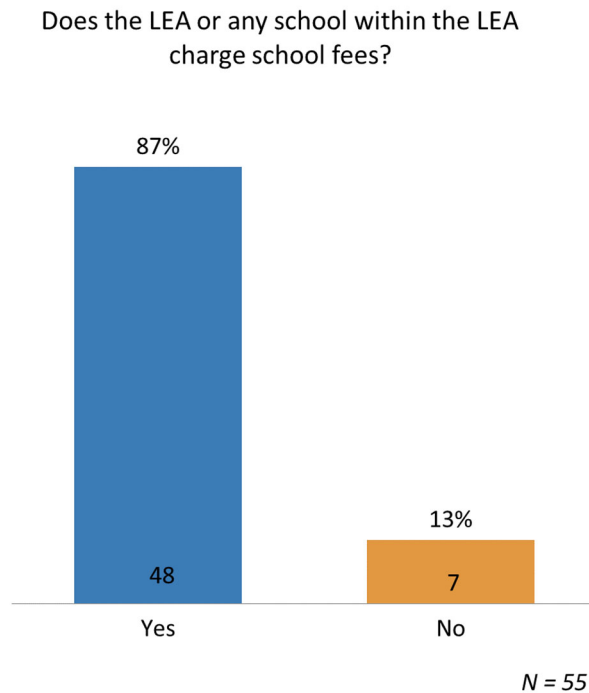
The School Fees Project team worked with the Association of Business Administrators to gather eight district business administrators (BAs), four urban and four rural, as committee participants. Upon the recommendations of the State Charter School Board staff, three business administrators from charter schools and two representatives from charter management companies were also selected to participate in the work group. From the State Board, participants included the School Fees Financial Operations and Policy personnel.

## **EVALUATING EFFORTS BY LEAS TO IMPLEMENT ABC**

Board Rule R277-113 requires that transactions be recorded accurately, utilizing the codes as established by the Board-approved chart of accounts including fund, function, program, location, and object or revenue code. Based on the coding used, financial and program reports are prepared and submitted to the Utah State Board of Education. Regardless of whether the funds are collected or expended at the school or LEA level, all required codes (fund, function, program, revenue/object, location) must be used to ensure compliance. Program codes and revenue classification and object codes are particularly critical for consistent and accurate data reporting.

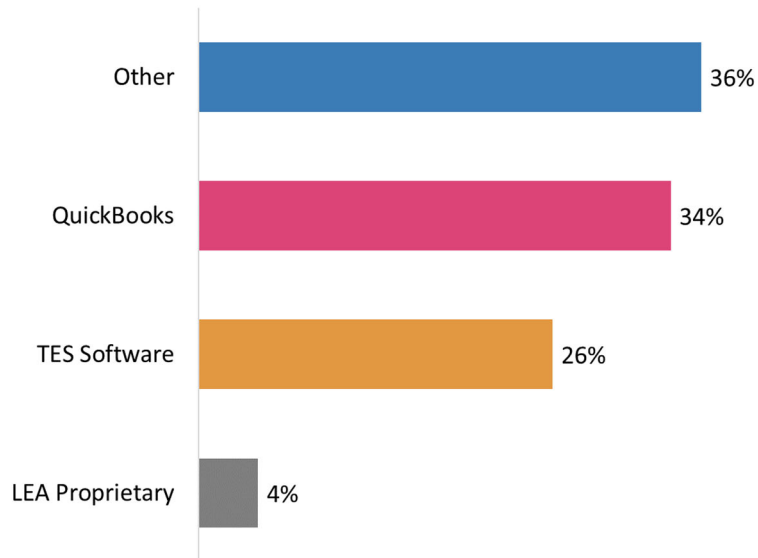
Given the current accounting processes that track program codes, the adaptation of program codes as cost center codes could meet the needs of activity-based costing or program/activity reporting. However, it is possible for an activity e.g. football to have expenditures tracked at the LEA level and the school level as well under different program codes. To evaluate the tracking of revenues and expenditures a survey was sent to LEAs to determine how the LEA and schools within the LEA track expenditures by activities or programs and process school fees revenues. The survey was sent to 156 LEAs and we received responses from 57 for a 37% response rate although not every respondent responded to each question. Below are the questions and responses received.

The first question established that most respondents charge school fees with 87% responding yes (figure below).



Next, LEAs were asked what type of accounting system schools use to record school fees revenue. As illustrated in the figure on the following page, over a third of respondents (36.2%) use a system other than an LEA proprietary system, TES software, or Quickbooks. Another third of respondents utilize QuickBooks (34.0%). About a quarter of respondents use TES Software (25.5%) and only 4.3% use an LEA proprietary system.

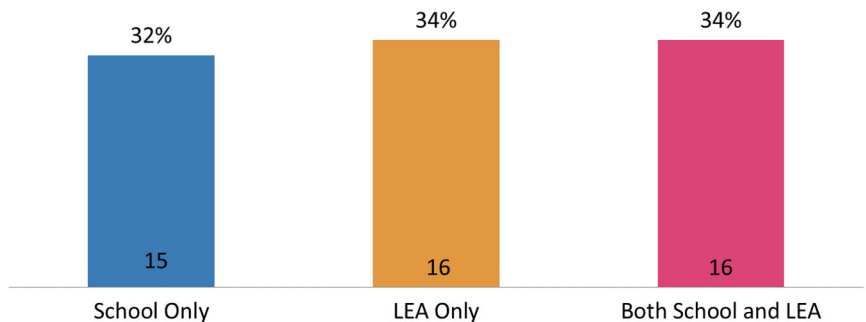
What type of accounting system does your school(s) use to record school fees revenue?



*N = 47*

The next two questions ask about which entity controls the bank accounts to which the funds are deposited when student fees are collected and which entity is authorized to make withdrawals. As illustrated below, in terms of depositing funds, respondents were fairly evenly split with about a third reporting only the LEA controls the bank accounts to which the funds are deposited (34.0%), a third identified both the LEA and the school as the controlling entities (34.0%), and slightly less than a third responded that only the school was the controlling entity (31.9%).

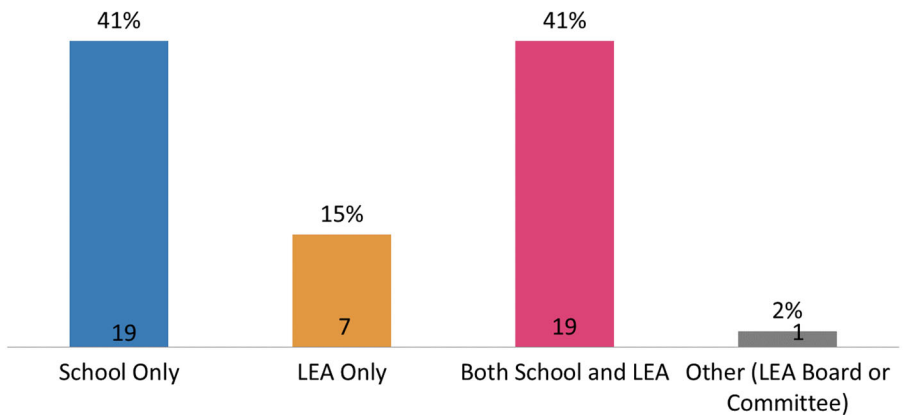
When student fees are collected which entity controls the bank accounts to which funds are deposited?



*N = 47*

For the authorization of withdrawals or the use of school fees funds, most respondents reported that this function is controlled by personnel at both the LEA and school (41.3%) or at the school only (41.3%). Fewer respondents limit this control to the LEA only (15.2%) and only 1 respondent had this function controlled by the LEA Board or Committee (2.2%) (see the figure below).

Authorization of withdrawals or use of school fees funds are controlled by personnel at which entity?

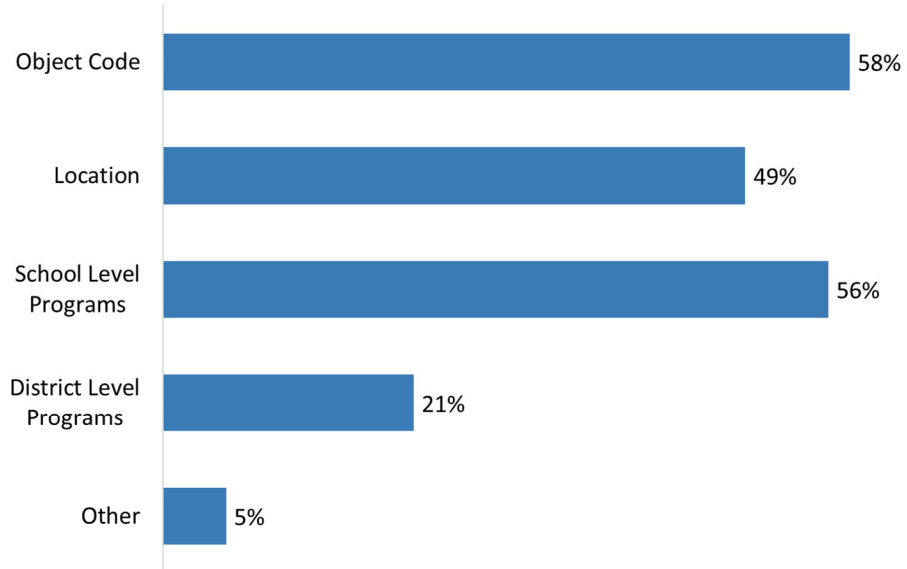


N = 46

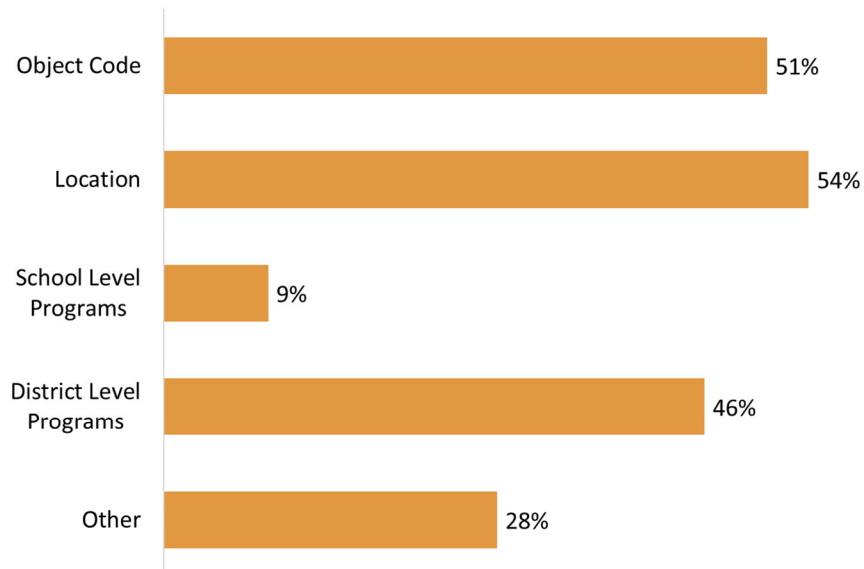
The last two questions asked LEAs about the criteria for expenditures identifiable or reported to the LEA accounting system. First, LEAs were asked about expenditures currently funded by school fees revenues. As detailed in the figure on the following page, a majority of respondents reported that object code (57.9%) and school level programs (56.1%) are identifiable or reported to the LEA accounting system. Location almost reached a majority with 49.1% affirming it as identifiable or reported to the LEA accounting system. Fewer respondents marked district level program (21.1%) and other (5.3%) as identifiable or reported to the LEA accounting system.

Second, LEAs were asked about program or activity expenditures from any revenue source. As illustrated in the second figure on the following page, a majority of respondents reported that location (54.4%) and object code (50.9%) are identifiable or reported to the LEA accounting system. District level programs fell below a majority with 45.6% affirming it as identifiable or reported to the LEA accounting system. Fewer respondents marked other (28.1%) and school level programs (8.8%) as identifiable or reported to the LEA accounting system.

Are expenditures, which are currently funded by school fees revenues, identifiable or reported to the LEA accounting system by the following criteria (mark all that apply)?



Regardless of revenue source, program/activity expenditures are identifiable or reported to the LEA accounting system by the following criteria (mark all that apply)?



## RECOMMENDATIONS

---

The ongoing process of gathering, analyzing, and reflecting on evidence is necessary to make informed and consistent judgments to improve a student's full participation in public education. The requirements to report and account for student fees are not new, but new emphasis regarding activity-based costing will enable fact-based decision making by LEAs to increase student participation. The

certificate of compliance requirements are measurements or evidence of the LEA/schools efforts to remove barriers for a "student's full participation in an activity, course, or programs" (see 53G-7-501). The working group and survey provide some insight into LEA efforts to implement activity-based costing and have led to the following recommendations.

### Recommendation #1

Set standards for the measurement of costs and activities; meaning definitions of allocable costs to program and activities supported all or in part by school fees at a district and school level. These definitions should consider the end use of the activity-based costing information to local boards, the State Board, and the Legislature. A taskforce should be assembled to determine the structure of the activity-based costing. As requirements become prescriptive the data may become less valuable at a local LEA or school level and vice versa. However, it is recognized that to have value, all uses and users of the data must be considered and balanced.

### Recommendation #2

Detailed recording of school fees revenue or expenditures at the time of the transaction will require additional support for people with knowledge, skills and abilities at the schools or LEA. This will ensure a more efficient activity-based costing process.

### Recommendation #3

Integration of the accounting system with registration and student information systems is necessary for an efficient consolidation of information. Support for accounting system development that will provide transaction level details of student level fee receipts and expenditures will allow LEAs to meet activity-based costing requirements.