

AUDIT PROPOSAL

Evaluating School Districts' Unencumbered Cash Balances

SOURCE

This audit proposal is intended to satisfy requirements in 2019 House Substitute for Senate Bill 16.

BACKGROUND

School districts receive federal, state, and local funding each year but may not spend it all. School districts are legally allowed to keep many types of unspent funds and use them the next year. When districts do this it creates a cash balance. Districts may choose to carry a cash balance for a variety of reasons. These include saving for a capital project, enhancing cash flow, or having a rainy-day fund. The amount of cash balances can vary month by month. That's because of the timing of when the district receives its funding and when bills are due. Some of a districts cash balance might be reserved (or encumbered) for future expenses so this money is not available for future general spending. Unencumbered cash is money that has not been reserved for a future expense. As of July 1, 2019, school districts' total unencumbered cash balances were \$2.1 billion.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objectives listed below represent the questions that we would answer through our audit work. The proposed steps for each objective are intended to convey the type of work we would do but are subject to change as we learn more about the audit issues and are able to refine our methodology.

Objective 1: How has the amount of school districts' unencumbered cash balances changed over the last 10 years?

- Work with KSDE, Legislative Research, and others to understand any state law or other rules that apply to district cash balances. This includes accounting rules related to encumbrances or restrictions by fund type.
- Using data from KSDE, determine the end-of-year unencumbered cash balance in total and for each school district over the last 10 years. Also using KSDE data, determine which funds have unencumbered cash balances and what percent of total expenditures those balances represent.
- Work with KSDE and school district officials to understand any trends we see.

Objective 2: How have school districts spent their unencumbered cash balances in recent years?

- For a selection of school districts, determine how much funding the district received and spent in recent years.

- In years where districts spent less than they received, work with school district officials to determine which funds were not spent and why.
- Using school district accounting reports and information from district officials, determine if that unencumbered funding was spent in following years and what it was spent on.

ESTIMATED RESOURCES

We estimate this audit would require a team of **3 auditors** for a total of **5 months** (from the time the audit starts to our best estimate of when it would be ready for the committee).