

Special Education Excess Cost Accounting and Reporting Requirements

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What Is Special Education?

Special education is instruction that is specially designed to meet the unique needs and abilities of an eligible student with disabilities. The instruction must be provided at no cost to the student or parent, in the least restrictive environment possible.

What Is Cost Accounting?

Cost accounting is a type of accounting that involves tracking costs of producing products or providing services. There are numerous methodologies for doing this, each being suitable for different products or services. Cost accounting is used for both management and financial purposes.

What Are Special Education Excess Costs?

“Excess costs” are those expenditures for special education and related services for special education students that exceed the amount needed to provide a basic education to those students, as basic education is defined by the state.

What Does Special Education Excess Cost Accounting Do?

The current special education excess cost accounting methodology is intended to ensure special education expenditures are assigned as either basic education costs or excess costs.

Why A Special Education Excess Cost Accounting Study?

State law requires that state **funding** for school district special education programs be provided on an excess cost basis. Since 2001, the state has also required that every school district **account** for their special education expenditures using an excess cost methodology.

The 2005-07 Operating Budget directs JLARC to conduct a review of the special education excess cost accounting methodology and expenditure reporting requirements. At the same time, the Legislature directed the State Auditor’s Office to examine whether school districts are appropriately and consistently applying the excess cost accounting methodology. JLARC has worked with the State Auditor’s Office during this review.

We undertook this review of the cost accounting methodology to help determine if the statewide excess cost methodology is functioning as intended, and if not, what modifications might be made and what alternate cost accounting methodologies might be considered.

Findings

After analyzing the special education excess cost accounting methodology and reporting requirements, we found that the accounting methodology is not well understood, that there have been problems with how districts have implemented it, and, as a result, there are concerns about the overall accuracy of the accounting data. We have eight findings that fall into four general categories.

Understandability

1. Accounting for costs on an excess cost basis is **complicated**, and many school districts **do not fully understand** this approach and the underlying principles for assigning special education costs to both basic and special education funding.
2. The state's excess cost accounting methodology is **different from** many traditional, more widely understood cost accounting **practices**. We found no other state employing a similar methodology.

Ease to Implement and Administer

3. While the Office of Superintendent of Public Instruction (OSPI) methodology might be difficult to understand, OSPI developed some simplified steps to assigning costs for **certificated instructional staff** that make it **easier to administer**. However, there are **no simplified steps** provided by OSPI to districts for assigning costs of **contracted services** and **non-employee related costs**.

Ability to Capture Expenditures and Assign Costs

4. The OSPI methodology complies with the Legislature's intent that some special education costs should be assigned to basic education programs. However, in an attempt to simplify the process, some of the state assumptions can lead to **inaccuracies in costs reported**.
5. The State Auditor's Office found many school districts were **not accurately and consistently** assigning costs for delivery of special education services.
6. The excess cost methodology **does not report information** about the **total costs** of serving special education students. Therefore, total costs **cannot be reliably compared** across districts and to program funding within districts.

Influence on Program Management and Budgeting

7. The excess cost methodology can yield **results** that may appear **counter intuitive** to staff and the public (e.g., the more time special education students spend in a regular classroom, the greater the percentage of special education teachers' costs are charged as an excess cost).
8. District officials indicate that the excess cost accounting methodology does not influence their budget or program management decisions. The excess cost methodology is viewed as an after-the-fact administrative exercise. Although the methodology splits costs between basic education and special education programs, it does not provide evidence to ensure **whether or not** special education students receive an **appropriate share of the basic education allocation**.

Alternatives and Modifications

Both *standards-based* and *full-cost* accounting approaches are possible alternatives to the current excess cost accounting methodology. There are also a number of modifications to the current methodology that might improve the accuracy of reported special education costs.

Recommendations

1. The Legislature should decide whether the **current** excess cost accounting approach **or** an **alternative** would best meet the needs of the state, school districts, and special education students.
2. If the current excess cost methodology is maintained, the OSPI, assisted by interested stakeholders, should examine **modifications to improve** the **accuracy** of the 1077 Special Education Excess Cost Worksheet.
3. If the current excess cost methodology is maintained, OSPI should provide **clear guidance and instruction** on how to accurately and appropriately: a) complete the 1077 Least Restrictive Environment child counts; and b) assign costs of contracted services and non-employee related costs between basic education and special education programs.
4. If the current excess cost methodology is maintained, OSPI should require school districts to **report all costs** of providing special education services (i.e., expenditures assigned to both basic education and special education programs).