

By: Representative Brown

To: Education

COMMITTEE SUBSTITUTE  
FOR  
HOUSE BILL NO. 1119

1 AN ACT RELATING TO FINANCIAL AUDITING AND REPORTING BY SCHOOL  
2 DISTRICTS; TO AMEND SECTION 37-3-11, MISSISSIPPI CODE OF 1972, TO  
3 REQUIRE THE STATEWIDE FINANCIAL REPORT OF PUBLIC SCHOOL  
4 EXPENDITURES PREPARED BY THE STATE DEPARTMENT OF EDUCATION TO  
5 COMPLY WITH CERTAIN FUNCTIONAL LEVEL EXPENDITURE CODES AND TO  
6 REQUIRE THE FINANCIAL REPORT TO BE PREPARED ON AN INDIVIDUAL  
7 SCHOOL DISTRICT BASIS; TO AMEND SECTION 37-9-18, MISSISSIPPI CODE  
8 OF 1972, TO REQUIRE THE STATE AUDITOR, WHEN AUDITING PUBLIC SCHOOL  
9 DISTRICTS, TO TEST FOR APPROPRIATE CODING AT THE FUNCTION LEVEL IN  
10 BUDGETING AND EXPENDITURES; TO AMEND SECTION 37-61-9, MISSISSIPPI  
11 CODE OF 1972, TO DELETE FROM THE DEFINITION OF "ADMINISTRATION  
12 COSTS," AS SUCH TERM IS USED FOR SCHOOL DISTRICT BUDGETING  
13 PURPOSES, CERTAIN EXPENDITURE FUNCTIONS RELATING TO CENTRAL  
14 SUPPORT SERVICES; TO AMEND SECTION 37-61-21, MISSISSIPPI CODE OF  
15 1972, TO REQUIRE SCHOOL BOARDS TO FILE YEAR-END FINANCIAL DATA  
16 WITH THE STATE DEPARTMENT OF EDUCATION; TO AMEND SECTIONS 37-37-1  
17 AND 37-61-23, MISSISSIPPI CODE OF 1972, TO TRANSFER CERTAIN DUTIES  
18 RELATED TO THE FINANCIAL ACCOUNTING MANUAL FOR SCHOOL DISTRICTS  
19 FROM THE STATE AUDITOR'S OFFICE TO THE STATE DEPARTMENT OF  
20 EDUCATION; AND FOR RELATED PURPOSES.

21 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MISSISSIPPI:

22 **SECTION 1.** Section 37-3-11, Mississippi Code of 1972, is  
23 amended as follows:

24 37-3-11. \* \* \*

25 \* \* \* The State Superintendent of Public Education shall  
26 perform the duties assigned to him by the State Board of  
27 Education, and he shall have the following duties:

28 (a) To serve as secretary for the State Board of  
29 Education;

30 (b) To be the chief administrative officer of the State  
31 Department of Education;

32 (c) To recommend to the State Board of Education, for  
33 its consideration, rules and regulations for the supervision of  
34 the public free schools and agricultural high schools of the state  
35 and for the efficient organization and conduct of the same;

36           (d) To collect data and make it available to the state  
37 board for determining the proper distribution of the state common  
38 school funds;

39           (e) To keep a complete record of all official acts of  
40 the state superintendent and the acts of the State Board of  
41 Education;

42           (f) To prepare, have printed and furnish all officers  
43 charged with the administration of the laws pertaining to the  
44 public schools, such blank forms and books as may be necessary to  
45 the proper discharge of their duties, which printing is to be paid  
46 for out of funds provided by the Legislature;

47           (g) To have printed in pamphlet form the laws  
48 pertaining to the public schools and publish therein forms for  
49 conducting school business, the rules and regulations for the  
50 government of schools that the state superintendent or the board  
51 of education may recommend, and such other matters as may be  
52 deemed worthy of public interest pertaining to the public schools,  
53 which printing is to be paid for out of funds provided by the  
54 Legislature;

55           (h) To meet all superintendents annually at such time  
56 and place as the state superintendent shall appoint for the  
57 purpose of accumulating facts relative to schools, to review the  
58 educational progress made in the various sections of the state, to  
59 compare views, discuss problems, hear discussions and suggestions  
60 relative to examinations and qualifications of teachers, methods  
61 of instruction, textbooks, summer schools for teachers, visitation  
62 of schools, consolidation of schools, health work in the schools,  
63 vocational education and other matters pertaining to the public  
64 school system;

65           (i) To advise all superintendents upon all matters  
66 involving the welfare of the schools, and at the request of any  
67 superintendent, to give an opinion upon a written statement of  
68 facts on all questions and controversies arising out of the

69 interpretation and construction of the school laws, in regard to  
70 rights, powers and duties of school officers and superintendents,  
71 and to keep a record of all such decisions. Before giving any  
72 opinion, the superintendent may submit the statement of facts to  
73 the Attorney General, and it shall be the duty of the Attorney  
74 General forthwith to examine such statement and suggest the proper  
75 decision to be made upon such fact;

76 (j) To require annually, and as often as the state  
77 superintendent may deem proper, of all superintendents, detailed  
78 reports on the educational business of the various districts;

79 (k) On or before January 10 in each year to prepare,  
80 under the direction of the State Board of Education, and have  
81 printed the annual report of the board to the Legislature showing:

82 (i) The receipts and disbursements of all school  
83 funds handled by the board;

84 (ii) Reports of expenditures for public schools,  
85 which, upon request, must be made available on an individual  
86 school district basis by the State Department of Education. The  
87 reports must show the same level of detail as reports completed  
88 before the 2006 fiscal year and must be divided into the following  
89 categories and function codes:

90 1. Total Student Expenditures:

91 a. Instruction (1000s);

92 b. Other Student Instructional  
93 Expenditures (2100s, 2200s);

94 2. General Administration (2300s and 2500s);

95 3. School Administration (2400s);

96 4. Other Expenditures (2600s, 2700s, 2800s,  
97 3100s, 3200s); and

98 5. Nonoperational Expenditures (4000s, 5000s,  
99 6000s);

100                   (iii) The number of school districts, school  
101 teachers employed, school administrators employed, pupils taught  
102 and the attendance record of pupils therein;

103                   (iv) County and district levies for each school  
104 district and agricultural high school;

105                   (v) The condition of vocational education, a list  
106 of schools to which federal and state aid has been given, and a  
107 detailed statement of the expenditures of federal funds and the  
108 state funds that may be provided, and the ranking of subjects  
109 taught as compared with the state's needs; and

110                   (vi) Such general matters, information and  
111 recommendations as relate, in the board's opinion, to the  
112 educational interests of the state;

113                   (1) To determine the number of educable children in the  
114 several school districts under rules and regulations prescribed by  
115 the State Board of Education; and

116                   (m) To perform such other duties as may be prescribed  
117 by the State Board of Education.

118                   **SECTION 2.** Section 37-9-18, Mississippi Code of 1972, is  
119 amended as follows:

120                   37-9-18. (1) The superintendent of schools shall furnish to  
121 the school board a financial statement of receipts and  
122 disbursements, by funds, on or before the last working day of the  
123 following month covering the prior month. The school board shall  
124 be authorized to investigate and audit all financial records of  
125 the superintendent of schools at any and all times.

126                   (2) The State Auditor, in his discretion, shall audit the  
127 financial records of school districts. The State Auditor shall  
128 give reasonable notice to school districts regarding the times  
129 during which he will perform such audits. In any fiscal year in  
130 which the State Auditor is not scheduled to perform an audit, the  
131 school board shall cause all the financial records of the  
132 superintendent of schools to be audited by a certified public

133 accountant licensed to practice accounting in the State of  
134 Mississippi. If the school board so elects by resolution adopted  
135 each year, the audit shall be performed by the State Auditor.  
136 Contracts for the audit of public school districts shall be let by  
137 the school board in the manner prescribed by the State Auditor.  
138 The audit shall be conducted in accordance with generally accepted  
139 auditing standards and generally accepted accounting principles,  
140 and the report presented thereon shall be in accordance with  
141 generally accepted accounting principles. If the Auditor's  
142 opinion on the general purpose financial statements is a  
143 disclaimer, as that term is defined by generally accepted auditing  
144 standards, or if the State Auditor determines the existence of  
145 serious financial conditions in the district, the State Auditor  
146 shall immediately notify the State Board of Education. Upon  
147 receiving the notice, the State Superintendent of Public Education  
148 shall direct the school district to immediately cease all  
149 expenditures until a financial advisor is appointed by the state  
150 superintendent. However, if the disclaimer is a result of  
151 conditions caused by Hurricane Katrina 2005 and applies to fiscal  
152 years 2005 and/or 2006, then the Superintendent of Education may  
153 appoint a financial advisor, and may direct the school district to  
154 immediately cease all expenditures until a financial advisor is  
155 appointed. The financial advisor shall be an agent of the State  
156 Board of Education and shall be a certified public accountant or a  
157 qualified business officer. The financial advisor shall, with the  
158 approval of the State Board of Education:

159           (a) Approve or disapprove all expenditures and all  
160 financial obligations of the district;

161           (b) Ensure compliance with any statutes and State Board  
162 of Education rules or regulations concerning expenditures by  
163 school districts;

164           (c) Review salaries and the number of all district  
165 personnel and make recommendations to the local school board of

166 any needed adjustments. Should such recommendations necessitate  
167 the reduction in local salary supplement, such recommended  
168 reductions shall be only to the extent which will result in the  
169 salaries being comparable to districts similarly situated, as  
170 determined by the State Board of Education. The local school  
171 board, in considering either a reduction in personnel or a  
172 reduction in local supplements, shall not be required to comply  
173 with the time limitations prescribed in Sections 37-9-15 and  
174 37-9-105 and, further, shall not be required to comply with  
175 Sections 37-19-11 and 37-19-7(1) in regard to reducing local  
176 supplements and the number of personnel;

177 (d) Work with the school district's business office to  
178 correct all inappropriate accounting procedures and/or uses of  
179 school district funds and to prepare the school district's budget  
180 for the next fiscal year; and

181 (e) Report frequently to the State Board of Education  
182 on the corrective actions being taken and the progress being made  
183 in the school district. The financial advisor shall serve until  
184 such time as corrective action and progress is being made in such  
185 school district as determined by the State Board of Education with  
186 the concurrence of the State Auditor, or until such time as an  
187 interim conservator is assigned to such district by the State  
188 Board of Education under Section 37-17-6. The school district  
189 shall be responsible for all expenses associated with the use of  
190 the financial advisor. If the audit report reflects a failure by  
191 the school district to meet accreditation standards, the State  
192 Board of Education shall proceed under Section 37-17-6.

193 (3) (a) When conducting an audit of a public school  
194 district, the Auditor shall test to insure that the school  
195 district is complying with the requirements of Section  
196 37-61-33(3)(a)(iii) relating to classroom supply funds. The audit  
197 must include a report of all classroom supply funds carried over  
198 from previous years. Based upon the audit report, the State

199 Auditor shall compile a report on the compliance or noncompliance  
200 by all school districts with the requirements of Section  
201 37-61-33(3)(a)(iii), which report must be submitted to the  
202 Chairmen of the Education and Appropriations Committees of the  
203 House of Representatives and Senate.

204 (b) When conducting an audit of a public school  
205 district, the State Auditor shall test to insure correct and  
206 appropriate coding at the function level. The audit must include  
207 a report showing correct and appropriate functional level  
208 expenditure codes in both budgeting and expenditures by the school  
209 district. Based upon the audit report, the State Auditor shall  
210 compile a report on the compliance or noncompliance by all public  
211 school districts with correct and appropriate coding at the  
212 function level, which report must be submitted to the Chairmen of  
213 the Education and Appropriations Committees of the House of  
214 Representatives and Senate.

215 (4) In the event the State Auditor does not perform the  
216 audit examination, then the audit report of the school district  
217 shall be reviewed by the State Auditor for compliance with  
218 applicable state laws before final payment is made on the audit by  
219 the school board. All financial records, books, vouchers,  
220 cancelled checks and other financial records required by law to be  
221 kept and maintained in the case of municipalities shall be  
222 faithfully kept and maintained in the office of the superintendent  
223 of schools under the same provisions and penalties provided by law  
224 in the case of municipal officials.

225 **SECTION 3.** Section 37-61-9, Mississippi Code of 1972, is  
226 amended as follows:

227 37-61-9. (1) On or before the fifteenth day of August of  
228 each year, the local school board of each school district, with  
229 the assistance of the superintendent of schools, shall prepare and  
230 file with the levying authority for the school district, as  
231 defined in Section 37-57-1, at least two (2) copies of a budget of

232 estimated expenditures for the support, maintenance and operation  
233 of the public schools of the school district for the fiscal year  
234 commencing on July 1 of such year. Such budget shall be prepared  
235 on forms prescribed and provided by the State Auditor and shall  
236 contain such information as the State Auditor may require.

237 (2) In addition, on or before the fifteenth day of August of  
238 each year, the local school board of each school district, with  
239 the assistance of the superintendent of schools, shall prepare and  
240 file with the State Department of Education such budgetary  
241 information as the State Board of Education may require. The  
242 State Board of Education shall prescribe and provide forms to each  
243 school district for this purpose.

244 (3) Prior to the adoption of a budget pursuant to this  
245 section, the school board of each school district shall hold at  
246 least one (1) public hearing to provide the general public with an  
247 opportunity to comment on the taxing and spending plan  
248 incorporated in the proposed budget. The public hearing shall be  
249 held at least one (1) week prior to the adoption of the budget  
250 with advance notice. After final adoption of the budget, a  
251 synopsis of such budget in a form prescribed by the State  
252 Department of Audit shall be published in a newspaper having  
253 general circulation in the school district on a date different  
254 from the date on which the county or any municipality therein may  
255 publish its budget.

256 (4) \* \* \* There shall be imposed limitations on budgeted  
257 expenditures for certain administration costs, as defined  
258 hereinafter, in an amount not greater than One Hundred Fifty  
259 Thousand Dollars (\$150,000.00) plus four percent (4%) of the  
260 expenditures of all school districts each year. For purposes of  
261 this subsection, "administration costs" shall be defined as  
262 expenditures for salaries and fringe benefits paid for central  
263 administration costs from all sources of revenue in the following

264 expenditure functions as defined in the MISSISSIPPI PUBLIC SCHOOL  
265 DISTRICT FINANCIAL ACCOUNTING MANUAL:

- 266       2300 =     Support Services - General Administration
- 267           2310 =     Board of Education Services
- 268           2320 =     Executive Administration Services
- 269           2330 =     Special Area Administration Services
- 270           2500 =     Business Services
- 271           2510 =     Fiscal Services
- 272           2520 =     Purchasing Services
- 273           2530 =     Warehousing and Distributing Services
- 274           2540 =     Printing, Publishing and Duplicating Services
- 275           2590 =     Other Support Services - Business

276     \* \* \*

277       Any costs classified as "administration costs" for purposes  
278 of this subsection which can be demonstrated by the local school  
279 district to be an expenditure that results in a net cost savings  
280 to the district that may otherwise require budget expenditures for  
281 functions not covered under the definition of administration costs  
282 herein may be excluded from the limitations imposed herein. The  
283 local school board shall make a specific finding of such costs and  
284 spread such finding upon its minutes, which shall be subject to  
285 the approval of the Office of Educational Accountability of the  
286 State Department of Education. Any school district required to  
287 make expenditure cuts, as a result of application of this  
288 subsection, shall not be required to reduce such expenditures more  
289 than twenty-five percent (25%) in any year in order to comply with  
290 this mandate.

291       The State Auditor shall ensure that functions in all  
292 expenditure categories to which this administrative limitation  
293 applies shall be properly classified.

294       This section shall not apply to central administration with  
295 five (5) or less full-time employees, or to those school districts  
296 which can substantiate that comparable reductions have occurred in

297 administrative costs for the five-year period immediately prior to  
298 school year 1993-1994. In the event the application of this  
299 section may jeopardize the fiscal integrity or operations of the  
300 school district, have an adverse impact on the ability of the  
301 district to deliver educational services, or otherwise restrict  
302 the district from achieving or maintaining a quality education  
303 program, the State Board of Education shall be authorized to  
304 exempt the application of this section to such school district  
305 pursuant to rules and regulations of the State Board of Education  
306 consistent with the intent of this section.

307 **SECTION 4.** Section 37-61-21, Mississippi Code of 1972, is  
308 amended as follows:

309 37-61-21. (1) If it should appear to the superintendent of  
310 schools or the school board of any school district that the  
311 amounts to be received from state appropriations, taxation or any  
312 other source will be more than the amount estimated in the budget  
313 filed and approved, or if it should appear that such amounts shall  
314 be less than the amount estimated, the school board of the school  
315 district, with assistance from the superintendent, may revise the  
316 budget at any time during the fiscal year by increasing or  
317 decreasing the fund budget, in proportion to the increase or  
318 decrease in the estimated amounts. If it should appear to the  
319 superintendent of schools or the school board of a school district  
320 that some function of the budget as filed is in excess of the  
321 requirement of that function and that the entire amount budgeted  
322 for such function will not be needed for expenditures therefor  
323 during the fiscal year, the school board of the school district,  
324 with assistance from the superintendent, may transfer resources to  
325 and from functions and funds within the budget when and where  
326 needed; however, no such transfer shall be made from fund to fund  
327 or from function to function which will result in the expenditure  
328 of any money for any purpose different from that for which the  
329 money was appropriated, allotted, collected or otherwise made

330 available or for a purpose which is not authorized by law. No  
331 revision of any budget under the provisions hereof shall be made  
332 which will permit a fund expenditure in excess of the resources  
333 available for such purpose. The revised portions of the budgets  
334 shall be incorporated in the minutes of the school board by  
335 spreading them on the minutes or by attaching them as an addendum.  
336 Final budget revisions, pertinent to a fiscal year, shall be  
337 approved on or before the date set by the State Board of Education  
338 for the school district to submit its financial information for  
339 that fiscal year.

340 (2) On or before the fifteenth day of October of each year,  
341 the local school board of each school district, with the  
342 assistance of the school district superintendent, shall prepare  
343 and file with the State Department of Education year-end financial  
344 statements and any other budgetary information that the State  
345 Board of Education may require. The State Board of Education  
346 shall prescribe and provide forms to each school district for this  
347 purpose. No additional changes may be made to the financial  
348 statements after October 15 of each year.

349 **SECTION 5.** Section 37-37-1, Mississippi Code of 1972, is  
350 amended as follows:

351 37-37-1. The State Department of Education is hereby  
352 authorized and directed to prescribe and formulate for use by all  
353 school districts of this state, including municipal separate  
354 school districts, adequate accounting systems and other essential  
355 financial records which shall be uniform for all of the school  
356 districts of this state. Such uniform system shall include a  
357 method of accounting for and keeping records of all funds  
358 received, handled and disbursed by such school district, whether  
359 derived from taxation or otherwise, including funds derived from  
360 donations, athletic events and other special activities of the  
361 school district. The uniform system of accounts so prescribed and  
362 formulated by the State Department of Education shall be

363 distributed and disseminated to all of the school districts of  
364 this state and it shall be mandatory that the boards of trustees  
365 of all such school districts install, utilize and follow said  
366 uniform system of accounts in keeping the financial records of the  
367 school district. At the request of the Mississippi Department of  
368 Education, the Office of the State Auditor shall provide advice  
369 for implementation of this section.

370       **SECTION 6.** Section 37-61-23, Mississippi Code of 1972, is  
371 amended as follows:

372       37-61-23. The superintendent of schools of each school  
373 district shall open and keep regular sets of books, as prescribed  
374 by the State Department of Education, which shall be subject to  
375 inspection during office hours by any citizen so desiring to  
376 inspect the same. The books for each fiscal year shall be kept  
377 separately and same shall be safely preserved by the  
378 superintendent of schools.

379       **SECTION 7.** This act shall take effect and be in force from  
380 and after July 1, 2006.