

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.