

By: Representative Brown

To: Education

HOUSE BILL NO. 1119  
(As Sent to Governor)

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; TO AMEND SECTION 5 OF SENATE BILL NO. 2604, 2006  
21 REGULAR SESSION, TO CLARIFY THAT THE AMENDMENTS IN THE BILL ARE  
22 CONTROLLING; AND FOR RELATED PURPOSES.

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

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

26 37-3-11. \* \* \*

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

30 (a) To serve as secretary for the State Board of  
31 Education;

32 (b) To be the chief administrative officer of the State  
33 Department of Education;

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

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

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

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

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

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

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

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

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

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

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

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

92 1. Total Student Expenditures:

93 a. Instruction (1000s);

94 b. Other Student Instructional  
95 Expenditures (2100s, 2200s);

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

97 3. School Administration (2400s);

98 4. Other Expenditures (2600s, 2700s, 2800s,  
99 3100s, 3200s); and

100 5. Nonoperational Expenditures (4000s, 5000s,  
101 6000s);

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

105                    (iv) County and district levies for each school  
106 district and agricultural high school;

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

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

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

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

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

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

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

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

161 (a) Approve or disapprove all expenditures and all  
162 financial obligations of the district;

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

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

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

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

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

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

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

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

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

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

230 37-61-9. (1) On or before the fifteenth day of August of  
231 each year, the local school board of each school district, with  
232 the assistance of the superintendent of schools, shall prepare and  
233 file with the levying authority for the school district, as

234 defined in Section 37-57-1, at least two (2) copies of a budget of  
235 estimated expenditures for the support, maintenance and operation  
236 of the public schools of the school district for the fiscal year  
237 commencing on July 1 of such year. Such budget shall be prepared  
238 on forms prescribed and provided by the State Auditor and shall  
239 contain such information as the State Auditor may require.

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

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

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

267 expenditure functions as defined in the MISSISSIPPI PUBLIC SCHOOL  
268 DISTRICT FINANCIAL ACCOUNTING MANUAL:

269       2300 =     Support Services - General Administration  
270           2310 =     Board of Education Services  
271           2320 =     Executive Administration Services  
272           2330 =     Special Area Administration Services  
273           2500 =     Business Services  
274           2510 =     Fiscal Services  
275           2520 =     Purchasing Services  
276           2530 =     Warehousing and Distributing Services  
277           2540 =     Printing, Publishing and Duplicating Services  
278           2590 =     Other Support Services - Business

279     \* \* \*

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

294       The State Auditor shall ensure that functions in all  
295 expenditure categories to which this administrative limitation  
296 applies shall be properly classified.

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

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

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

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

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

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

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

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

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

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

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

382         **SECTION 7.** Section 5 of Senate Bill No. 2604, 2006 Regular  
383 Session, is amended as follows:

384         Section 5. This act shall take effect and be in force from  
385 and after its passage. The amendments to Section 37-151-7,  
386 Mississippi Code of 1972, contained in this Senate Bill No. 2604,  
387 2006 Regular Session, shall supersede the amendments to that  
388 section contained in House Bill No. 563, 2006 Regular Session.

389         **SECTION 8.** This act shall take effect and be in force from  
390 and after July 1, 2006.