

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.