

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: CS/HB 227 & 251a

49th Legislature, 2nd Session, 2010

Tracking Number: .181605.2

Short Title: School Board Finance & Audit Committees

Sponsor(s): Representatives Jimmie C. Hall and Rhonda S. King

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**HOUSE EDUCATION COMMITTEE SUBSTITUTE FOR
HOUSE BILLS 227 & 251**

AS AMENDED

The House Appropriations and Finance Committee amendments allow a local board with more than five members to appoint more than two board members to its audit subcommittee.

Original Bill Summary:

CS/HB 227 & 251 creates a new section of the *Public School Code* to require each local school board and charter school governing authority to appoint at least two members of the board as a finance subcommittee to assist the board in carrying out its budget and finance duties by:

- making recommendations to the local school board in the following areas:
 - financial planning, including reviews of the school district's revenue and expenditure projections;
 - review of financial statements and periodic monitoring of revenues and expenses;
 - annual budget preparation and oversight; and
 - procurement; and
- serving as an external monitoring committee on budget and other financial matters.

The bill further requires that each local school board appoint an audit committee that consists of:

- two board members;
- one volunteer member who is a parent of a student attending that school district; and
- one volunteer member who has experience in accounting or financial matters.

The superintendent and the school district business manager must serve as ex-officio members of the committee.

CS/HB 227 & 251 requires the audit subcommittee to:

- evaluate the request for proposals for annual financial and audit services;

- recommend the selection of the financial auditor;
- attend the entrance and exit conference for annual and special audits;
- meet with external financial auditors at least monthly after audit field work begins until the conclusion of the audit;
- be accessible to the external financial auditors as requested to facilitate communication with the board and the superintendent;
- track and report progress on the status of the most recent audit findings and advise the local school board on policy changes needed to address audit findings;
- provide other advice and assistance as requested by the local school board; and
- be subject to the same requirements regarding the confidentiality of audit information as those imposed upon the local school board by the *Audit Act* and rules of the State Auditor.

Fiscal Impact:

CS/HB 227 & 251 does not make an appropriation.

The Fiscal Impact Report for HB 251 by the Legislative Finance Committee (LFC) states that the bill does not appear to have any fiscal impact on school districts.

Substantive Issues:

The provisions in CS/HB 227 & 251 may lead to more efficient use of state funding for public schools by contributing to:

- improved and more transparent school district finances;
- increased community involvement in school district operations; and
- more timely submission of school district audits.

The LFC's *FY 11 Budget Recommendations – Policy and Performance Analysis* states that the Public School Capital Outlay Council (PSCOC) has required that school districts submit timely audits to be eligible to receive standards-based school construction awards; and reports the following regarding public school audits:

- As of March 22, 2009, 23 school districts were out of compliance with statutory requirements to have timely audits submitted to the State Auditor.
- By September 30, 2009, with considerable pressure being applied by the State Auditor and Public Education Department (PED) this number was reduced to 12 districts.
- The State Auditor notified the LFC in September 2009 that he considers these school districts to be “at risk” for employee fraud and embezzlement.
- While some districts were late in submitting their audits by only a few months, other districts were late by up to four years. One of these districts, Jemez Mountain Public Schools, terminated its chief financial officer for allegedly embezzling more than \$3.8 million in district funds. As a result, PED has suspended the district's board of finance and taken over the district's finances. The district may require a short-term loan to meet its second quarter debt service obligations.

During the 2009 interim the LFC conducted a performance evaluation of five medium-size school districts. The evaluation identified operational and financial practices indicating that the

financial systems and accountability of school district operations are sometimes affected by inadequate financial planning, management, oversight, and accounting systems.

Background:

At its January meeting, the Legislative Education Study Committee (LESC) endorsed:

- legislation to require each local school board to appoint a finance committee to assist the board in carrying out its budget and finance duties, and to require that this committee include members of the community with experience in accounting or financial matters; and at least one parent; and
- a related joint memorial (SJM 24, *Study School District Finances & Operations*) calling for a work group to examine current policy and practice, statutory powers, and duties of local school boards and state agencies; legal concepts pertaining to public schools, finance and budget, and other matters deemed relevant; capacity and financial practices at the state and local level; the education and training of school district and charter school officials, including local school board members, members of the governing bodies of charter schools, and school finance personnel; and safeguards against fraud, waste, and abuse.

Related Bills:

SJM 24 *Study School District Finances & Operations*