

## SB 639: Education Funding Transparency

It is important to note that G.S. 115C-429(c)<sup>1</sup> already requires local boards of education to provide, upon the request of county commissioners, “all books, records, audit reports and other information bearing on the financial operation” of the school district. It is not clear, given this statutory requirement, why this bill is necessary.

Before addressing the specifics of the bill, it is important to understand the complications in developing school budgets in NC. School budgets are primarily comprised of three pots of funding: local, state, and federal. The federal fiscal year begins October 1, so school districts do not receive their federal funds until after that date. The State and local fiscal years both begin on July 1. However, since the General Assembly does not typically adopt the state budget until around July 1 (and some years substantially later), school boards must develop their budget, which must be submitted to county commissioners by May 15, based upon planning allotments provided by the NC Department of Public Instruction.

It should also be noted that Section 1111 of ESSA provides fiscal transparency by requiring States to include in the report cards “per-pupil expenditures of federal, state and local funds, including actual personnel expenditures and actual non-personnel expenditures of Federal, State and local funds, disaggregated by source of funds for each local education agency and each school in the State for the preceding year.” This new federal requirement will be implemented for the 2018-19 school year. Given this new requirement, it is not clear what additional information will be gleaned that will not already be available through the report card process.

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*Section 1:* This section changes the standard uniform budget format provided by the State Board of Education. Currently, school districts do not necessarily budget by school. Some functions within a school district do not lend themselves to being assigned to individual schools like transportation. Schools are typically allotted teaching positions but not specific dollars to go along with the position, since the State guarantees the State salary for a State paid teacher regardless of where they are on the salary schedule. Additionally, school districts may have several hundred unique local report codes that would need to be standardized across the State to comply with this section.

It is important to think about the necessity of this section in light of the new reporting requirement under ESSA that is described above.

*Section 2:* This section requires the Superintendent to “describe projected expenditures by program report code and object code” in the proposed budget. This requirement would impose a tremendous amount of detail on the budget process. The Uniform Chart of Accounts for state and federal funds lists

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<sup>1</sup> G.S. 115C-429. Approval of budget; submission to county commissioners; commissioners' action on budget.

(c) The board of county commissioners shall have full authority to call for, and the board of education shall have the duty to make available to the board of county commissioners, upon request, all books, records, audit reports, and other information bearing on the financial operation of the local school administrative unit.

19,620 fields of information at the fund/purpose/program code/object code level. The CTE program (Purpose 5120), for example, has 38 program report codes (PRCs) and 727 potential fields. These numbers (19,620 and 727) do not include any of the hundreds if not thousands of local codes.

In many of our districts the finance team in the LEA is extremely small and may be as few as 2 people. If would be a tremendous amount of work to produce a budget request down to this level of detail. Additionally, given the likelihood of numerous changes after State and federal funds are approved, it does not appear to be a wise use of limited resources.

*Section 3:* The first part of this section would require that the budget submitted by the board of education to the county commission report “projected expenditures by program report code and object code.” This requirement would inundate commissioners with budget detail. Again, G.S. 115C-429 (c) already gives the county commission authority “to call for, and the board of education shall have the duty to make available to the board of county commissioners, upon request, all books, records, and other information bearing on the financial operation of the local school administrative unit.” Furthermore, under G.S. 115C-436(a)(4) the School Finance Officer is required to prepare and file a statement of the financial condition of the local school administrative unit as often as requested by the superintendent, and when requested in writing with a copy to the superintendent by the board of education or the board of county commissioners.” This section would require a level of budget specificity that most county commissions do not have the desire to get to, and for those that do, there are other mechanisms at their disposal.

The second part of this section expands the authority of county commissioners to appropriate funds by program report code (PRC). Currently, the county commission may appropriate funds at the purpose and function levels. The PRC is the next level of specificity. Coupled with the next section (see below), this could restrict school districts from being nimble and responsive to the needs to the district.

*Section 4:* This section would require that if there is an increase or decrease of 25% or more within any program report code (PRC) that the county commissioners would need to approve such a change. Under current law this requirement is only if the change is at 25% or more at the purpose or function level. Schools boards would first have to approve the budget transfer and then get approval from the county commissioners. Dependent upon the timing of the county commission meeting schedule, this could tie the hands of the school board from making necessary and time sensitive decisions that impact the operations of a school or school system.

*Sections 5:* These section makes changes to the school district audits. There are already very strict auditing standards put in place across the nation that are approved by the Governmental Accounting Standards Board (GASB). Under current standards, the Local Government Commission (LGC) along with DPI have chosen a higher standard for NC local governments, including schools, to include major Special Reserve Funds as part of the basic financial statement as opposed to being supplementary information. This means that each “major fund” gets audited and is specifically opinionated by the auditors. The requirement that the audit be performed to the object code level would substantially increase the expense and time required to complete the audit.

It is my further understanding that GASB is in the process of rewriting the standards for governmental fund reporting. It is likely they are going to eliminate budgetary comparisons as part of the basic financial statements. This means that the language in this section would not be allowed to be covered in the regular audit. If this is passed and GASB changes are made as currently being discussed and

expected this level of auditing would have to be conducted as a separate engagement. Our best guess is that this would be cost upwards of \$10,000 for an average size LEA.

*Section 6:* This section requires the local board to provide a copy of the audit to the State Board of Education within 60 days and that the Department of Public Instruction post it on its website. Currently, the LGC already provides an electronic copy of the audit to DPI. It is my understanding that DPI does not want the audits until they have been through the LGC's review process. At times the LGC requests changes or corrections to the reports.

In summary, this amendment would create a substantial increase in cost and workload for an already taxed central office finance department. As a duly elected governing body, school boards need to be able to act nimbly to address the financial needs within a school district to best serve the needs of the students in the community. New federal reporting requirements by the federal government should provide additional transparency. If and when there is a need by county commissioners for additional information, a sufficient mechanism is already statutorily in place.