

MEMORANDUM

TO: Honorable Members of Senate Education Committee, Senate Finance Committee and Senate Appropriations Committee

FROM: Rebecca Holcombe, Secretary of Education

SUBJECT: H.876 Section 36, House Amendment to Repeal District Annual Audits

DATE: April 9, 2014

The House amended the miscellaneous education bill (H. 876 Sec. 36) by striking the provision that required school districts to have annual financial statement audits and only requires an audit once every three years. The Agency of Education opposes this change and seeks your support to retain the annual audit provision found in 16 V.S.A. § 323. Our opposition is based on the following state and federal issues.

STATE ISSUES

1. When the legislature adopted the annual audit provision in 2012, (Act No. 129 of 2012) it also eliminated the requirement that each district have locally elected auditors to review school district accounts in interim years. The amendment to H.876 passed by the House does not restore that provision and districts will have no oversight of accounts in the interim two year period.
2. Each year, districts close out with either a surplus or deficit. Without an annual audit to confirm the fund balance amount the certainty of the fund balance will be in question and could negatively impact future years.
3. Districts are no longer locally funded. The state's Education Fund now pays for about 88% of district expenditures. Eliminating annual audits reduces the state's accountability to its taxpayers and represents poor internal control over state finances.

FEDERAL COMPLIANCE ISSUES

1. Expenditure and revenue data collected by the federal government for each school district is required to be audited. This information is used to determine the allocations of its education assistance programs such as Title I, Improving the Academic Achievement of the Disadvantaged, of the Elementary and Secondary Education Act.

2. Federal law requires the Agency of Education to confirm that districts are in compliance with “maintenance of effort” standards to receive federal grant
3. funds. To carry this out we must use audited financial data from the districts or risk being subject to sanctions including loss of funds.

We agree that annual audits represent a significant expenditure for small districts but we also believe they should be held to the same level of accountability for the use of state funds as all of the other districts. Districts with small schools receive the Small Schools and Financial Stability Grant to help offset such costs as annual audits.

The argument that small districts have limited resources and capacity makes the need for annual audits that much stronger, not the other way around. Many of the honest mistakes, financial indiscretions, and embezzlements brought to public attention have occurred in small districts and were discovered as part of the audit process. These problems have generally occurred *due to* the lack of resources and capacity and have a significantly greater impact on the taxpayers of small communities.

For these reasons the House amendment to Title 16 Section 323 per Section 36 of H.876 is opposed by the: Vermont Agency of Education, Vermont Department of Finance and Management, Vermont Department of Taxes and the Vermont State Auditor’s Office.

Again, I seek your assistance by **striking Section 36 of H.876** now before the Senate. Please feel free to contact me any time with questions or concerns.