



# School Finance Accountability Team

*Our students deserve schools their communities trust. Financial oversight and accountability builds the community confidence schools need to be successful.*

## **Problem**

There is a gaping hole in our accountability system. The last time the Office of the State Auditor (OSA) completed a financial audit of a school district or charter school was in the year 2002. After significant layoffs in 2003, we no longer had any staff that had school audit experience.

This session, the OSA is prioritizing response to three key risks that contribute to waste, fraud, and abuse: complexity, tight budgets, and small staffs. School districts and charter schools experience each of these risks, and the pandemic has increased the level of risk in each area.

In the course of recent investigations of school fraud and petitioned audits of school districts, we have seen opportunities to increase the quality of the audits conducted by private firms with reviews of their work.

## **Solution**

Add six OSA FTE's to conduct voluntary school audits at no cost to schools for a period of four years. This is the least disruptive way to rebuild a team of school auditors who will be able to conduct not only financial audits, but also petition audits, desk reviews, work paper reviews of school districts, and statewide audit analyses. This work will rebuild the oversight system Minnesotans expect us to maintain.

## **Appropriation**

The language in the bill provides an exception to billing for audits for school districts for an initial cycle of three annual audits, without changing the billing rules for petition audits outlined in section 6.54. The appropriation is needed to cover fees normally collected from the auditee that would have offset the salaries and related costs of the six auditors.

## **Language**

**STATE AUDITOR; SCHOOL FINANCE ACCOUNTABILITY TEAM; APPROPRIATION:** *\$743,000 in fiscal year 2022 is appropriated from the general fund to the state auditor for a school finance accountability team in the audit practice division. The base for this appropriation is \$744,000 in fiscal year 2023. Notwithstanding Minnesota Statutes, section 6.56, the state auditor may not bill a school district for any work conducted by the school finance accountability team prior to July 1, 2025.*



## Stakeholders

The State Auditor and her staff met several times with school finance officials, school board members, and the organizations that represent them about this team. Those stakeholders presented three main concerns. We list them below with the response we shared with them:

**Expertise:** Stakeholders asked if we had the expertise to handle these audits. Though our staff already conducts audits that are as complicated and high stakes as school audits, we will be hiring auditors with specific experience in this area and use the year to set up the team to ensure our team's skills and training are up to date.

**Timeliness:** School districts rely on timely audits to qualify for key federal and other funding streams so they want to be sure we can hit their deadlines. That is also true for the other entities we audit, so we are used to ensuring audits are completed by early federal deadlines. Because school audit deadlines fall during less busy times for our office, we are able to shift additional staff to ensure audits are completed on time.

**Cost:** Stakeholders do not want surprise costs due to our audits. Since these audits would serve as our sample on which to base our other quality control measures, it makes sense that the costs of these audits are not borne by only the auditees. That is the main reason these initial audits would be cost free.

**Choice:** Stakeholders did not want to see the current system where districts choose their annual auditor change. These audits would preserve that local control by being voluntary. In fact, this team would increase the choices available to school districts by ensuring our office has an experienced team a school district could pick to complete their audit.

## Amendment

To increase confidence in this new program, the OSA can agree to the following amendment proposed by the Minnesota School Board Association (MSBA) and Minnesota Association of School Business Officials (MASBO):

*\$743,000 in fiscal year 2022 is appropriated from the general fund to the state auditor for a school finance accountability team in the audit practice division to allow for the audits of school districts that have volunteered with and been selected by the Office of the State Auditor to have their annual audit performed by the state auditor at no cost to the district. The State Auditor will establish a selection process.*