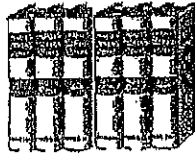


Laws that Effect the Budget and Fiscal Administration



The School Code gives local boards the authority to conduct the financial affairs of the district. It contains provisions that are mandatory, permissive and prohibited. The district is also subject to commonwealth statutes such as the Municipal Code (53 Purdon's), the Fiscal Code (72 Purdon's) and other laws that apply to governmental entities.

Act 16 – Mandate Waivers
AFR Standards
GAOP
Section 2.218 of School Code

Budget statutes

- Must approve an annual budget prior to the start of the fiscal year.
- Section 687 of the School Code requires that a proposed budget be prepared at least 30 days prior to adoption of the budget for the following fiscal year in a formula stipulated by the Department of Education.
- The *Notice of Proposed Budget* must be published at least once in a newspaper of general circulation within the community at least 10 days before the adoption of a final budget. The notice must include the time and place of the meeting at which the final budget will be adopted and a statement that the proposed budget is available for public inspection.
- Section 508 of the School Code requires a majority vote of the board to adopt the annual budget and to levy and assess taxes. The vote must be by a duly recorded (roll call) vote that records how each member voted. Failure to have five affirmative votes renders their action void and unenforceable.

- Failure to adopt a budget by July 1 causes the district to lose authority to expend funds for the new fiscal year.
- Section 687 of the School Code requires that a certified copy of the adopted budget must be provided to the PDE. It also prohibits deficit financing in public schools. The total amount of the adopted budget may not exceed the amount of funds, including the proposed annual tax levy and state appropriations, available to the district.
- The commonwealth has established a mandatory accounting system that must be used by every school entity, based on Generally Accepted Accounting Principles (GAAP), consistent with state and federal laws.
- Section 2932 of the Municipal Code allows for the operation of a Capital Reserve Fund. Monies in this fund must be kept in a special account, separate from any other fund. The monies in the Capital Reserve Fund may be expended only for capital improvements and for replacement of and/or additions to public works and improvements, and for deferred maintenance thereof, as approved by the board of school directors. Specific projects must be identified, together with the year of proposed completion.
- Section 511 of the School Code allows for the establishment of the Athletic Fund to account for revenues generated through gate receipts incurred by the interscholastic athletic program.
- Section 609 of the School Code allows school districts to receive and expend state and federal revenues for the purposes for which they are intended, whether or not they were included in the adopted budget.



Bidding and purchasing statutes

- Section 801 of the School Code requires boards to purchase and provide all furniture, equipment, textbooks, school supplies and other items for the use of the district to maintain the educational environment.
- Section 807.1 (as amended by Act 30 of 1990) sets the requirement for competitive bidding at \$10,000 or more. Purchases of \$10,000 or more require public notice by advertisement once a week for three consecutive weeks in not less than two newspapers of general circulation. Any purchase of \$4,000 but less than \$10,000 requires three price quotations. The board must accept the lowest responsible bid (where kind, quality and material are equal). Boards may reject any and all bids or select a single item from any bid.
- Section 521 of the School Code permits purchases to be made through intergovernmental cooperative agreements (joint purchase agreements). School entities may also "piggyback" on state or other government contracts following appropriate legal requirements.

Cash Management and Investments Statutes

- Section 440.1 of the School Code permits the investment of funds in specifically designated areas.



BID THRESHOLD INCREASES

Section 807.1 (as amended by Act 30 of 1990 and Act 97 of 2011)

Beginning January 2012 the Department of Labor and Industry (Department) is required to publish changes to the base amounts for public bids, telephonic bids or separate bids for certain contracts, or both. The Department is required to announce the percentage change in the Consumer Price Index for All Urban Consumers for the United States city average for the 12-month period ending September 30 of each year. The Department utilizes data as published by the United States Bureau of Labor Statistics.

Effective January 1, 2014, no advertising or competitive bidding or price quotations will be required for contracts below \$10,300. Written or telephonic price quotations are required for contracts between \$10,300 and \$19,100. Advertising and competitive bidding is required for contracts over \$19,100.

Bid threshold limits are updated annually up to a 3 percent cap. The percentage change for the 12-month period ending September 30, 2013, is 1.2%; as published in The Pennsylvania Bulletin, Saturday, December 14, 2013, <http://www.pabulletin.com/secure/data/vol43/43-50/2332.html>.

NOTICES

DEPARTMENT OF LABOR AND INDUSTRY

Consumer Price Index Adjustment of Base Amounts on Bids Effective January 1, 2014

[43 Pa.B. 7352]
[Saturday, December 14, 2013]

Each year the Department of Labor and Industry (Department) is required by the following statutes to publish changes to the base amounts triggering the requirement for public bids, telephonic bids or separate bids for certain contracts, or both. The Department is required to announce the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U): All Items CPI-U for the United States city average for the 12-month period ending September 30 of each year. The Department utilizes the most current nonseasonally adjusted series, as published by the United States Bureau of Labor Statistics (BLS), which at present uses 1982-1984 as the index base period (set equal to 100). The percentage change for the 12-month period ending September 30, 2013, is 1.2%.

The change to the base rate is determined as follows:

1) Calculate the percentage change in CPI-U (I) from September 2012 to September 2013. This is derived as $I = (CPI_{13} - CPI_{12}) / CPI_{12}$, where the subscripts refer to September 2013 and 2012 values of CPI-U. As reported by the BLS these values are $(234,149 - 231,407) / 231,407 = 2,742 / 231,407 = 1,1849\%$, which when rounded to 1 decimal place = 1.2%. (This was also reported as 1.2% in Table A of the BLS news release on the Consumer Price Index Summary for September 2013.)

2) The legislation puts a floor of 0 and a cap of 3% on the percentage change to be utilized in the calculations (technically these restrictions are on the Preliminary Adjusted Base (PAB), defined in step 4, however this is mathematically equivalent). The truncated value of the percentage change to be used in the adjustment formula is denoted as PC, resulting in:

- a) $PC = I$, for $0 \leq I \leq 3\%$,
- b) $PC = 0$, for $I < 0$ and
- c) $PC = 3\%$, for $I > 3\%$.

3) The base value (either original for new legislation or the prior year's PAB) is designated as B and the product of B and PC (determined previously) is P. (There are different values of the base depending on the entity and the type of bid, so technically B could be designated with 2 subscripts. For illustration purposes, the subscripts are omitted.) Then $P = PC * B$. A common value for the base amount in 2013 for a public bid is \$18,870. (The other two prior PABs, which are this year's bases for a variety of bid types, were \$10,200 and \$25,500.) For example, using $B = 18,870$, results in $P = 18,870 * 1.2\% = 226.44$.

4) Then the preliminary adjusted base, $PAB = P + B$, which reduces to $226.44 + 18,870 = 19,096.44$.

5) The final adjusted base amount, FAA, (which is used as the limit for the next year, that is 2014), is the PAB rounded to the nearest 100. Therefore the $FAA = 19,100$.

Entity and Legislation	Final Adjusted Base Amount for Use in 2014			
	Public Bid	Written/ Telephonic Bid	Separate Bids	Concessions & Small Purchases
The County Code (16 P.S. §§ 1801—1803 and 2317)	19,100.00	10,300.00	19,100.00	
Second Class County Code (16 P.S. §§ 3112, 5001, 5511-A and 5517)	19,100.00	10,300.00	19,100.00	
Public School Code (24 P.S. §§ 1-120, 7-751 and 8-807.1)	19,100.00	10,300.00	19,100.00	
Public School Code, Thaddeus Stevens College of Technology (24 P.S. § 19-1913.1-B)	19,100.00			
Public School Code, State System of Higher Education (24 P.S. §§ 20-2003-A.1 and 20-2010-A)	19,100.00			
Prevention and Control of Floods, Flood Control Districts (32 P.S. §§ 662 and 662.1)	19,100.00			
Housing Authorities (35 P.S. § 1551)	19,100.00	10,300.00		
Intergovernmental Cooperation (53 Pa.C.S. §§ 2308, 2311 and 2312)	19,100.00	10,300.00		
General Municipal Law, Flood Control (53 P.S. § 2863)	19,100.00	10,300.00		
Political Subdivisions Joint Purchases	19,100.00	10,300.00		

Law (53 P.S. § 5432)			
Parking Authorities (53 Pa.C.S. § 5511)	25,800.00	10,300.00	
Municipal Authorities (53 Pa.C.S. § 5614)	19,100.00	10,300.00	
Public Auditorium Authorities Law (53 P.S. § 23851)	19,100.00	10,300.00	
Third Class City Code (53 P.S. §§ 36901, 36902, 36903.1 and 36909)	19,100.00		19,100.00
The Borough Code (53 P.S. §§ 46402 and 46405)	19,100.00	10,300.00	19,100.00
Incorporated Towns (53 P.S. §§ 53202, 53202.1, 53203, 53203.1 and 53205)	19,100.00	10,300.00	19,100.00
First Class Township Code (53 P.S. §§ 56802, 56803 and 56805)	19,100.00	10,300.00	19,100.00
Second Class Township Code (53 P.S. §§ 68102 and 68107)	19,100.00	10,300.00	19,100.00
Economic Development Financing Law (73 P.S. § 382)	19,100.00	10,300.00	
Metropolitan Transportation Authorities (74 Pa.C.S. § 1750)	25,800.00		19,100.00

JULIA K. HEARTHWAY,
Secretary

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Payment of Financial Obligations

- Section 439 of the School Code requires that all payments be approved by the board of school directors. An order to pay must be signed directly or through facsimile signature by the board president.
- Section 607 requires that proper school orders be drawn prior to payment, that there be sufficient funds in the treasury and that a separate order be drawn for each account or payment. Boards are also permitted to establish policy regarding process and procedures for the disbursements of school funds, including such matters as payments prior to board approval.
- The Fiscal Code of the commonwealth (as amended by Act 138 of 1994) also requires political subdivisions, including school entities, to pay interest penalties to certain qualified small businesses for regular, every day, normal goods and services when payments are more than 15 days past due.
- The Public Works Contract Regulation Law (as amended by Act 142 of 1994) regulates the payment to contractors and subcontractors working on public construction projects. Under the law, school districts are required to make payment or incur interest penalties.

Construction of Facilities

- State Board of Education Regulations and PDE standards provide specific requirements for buildings and grounds.
- Act 34 of 1973 (the *Taj Mahal Law*) requires school boards to conduct public hearings regarding building projects. A second hearing is required if the bids received for a construction project exceed the initial Department of Education approved estimates by 8%. It requires voter approval of any building project that exceeds pre-pupil cost figures that are revised annually to reflect changes in the cost of living. Alterations to existing buildings are excluded from this requirement.

Audits of Financial Records

- All school districts are required to have an annual audit of financial records, completed by an independent certified public accountant. The audit must be prepared in accordance with GAAP to insure consistency. Completion of the audit and issuance of the audit report mark the end of the budget cycle for a single year.
- Section 2553 of the School Code requires the comptroller of the Department of Education to perform regular, field and specific audits.
- The state Fiscal Code requires the auditor general's office to audit the accounts and records of all school districts. The purpose is to verify that the monies received from the commonwealth were properly paid and that the district properly complied with all laws and regulations. The Bureau of School Audits of the auditor general's office has also published specific guidelines for the audit of student activity funds (Agency Funds).



Audits and Auditors

Nothing in school finance is more misunderstood than audits. While generally there is a recognized requirement for review of financial transactions, the purpose and use of audits and related reports is vague.

Pursuant to the School Code, all school districts are required to have an annual audit. In districts of the first class, the audit is to be conducted by the city comptroller; all other districts must have audits completed by a certified public accountant. Selection and payment of auditors is the responsibility of the district.

An audit is the evaluation of the financial condition of a school district - the final grade for the year. The examination of the various records of the district is referred to as audit tests, which can be viewed as being similar to tests given to the district's students.

In addition to the district's audit, Section 2553 of the School Code requires the comptroller of the Department of Education to perform regular audits and field audits and may, at his or her discretion, perform special audits to verify allocations of receipts and expenditures. Such audits usually are limited to specific use of program funds given for state and federal projects.

The state fiscal code requires the auditor general's office to audit the accounts and records of all school districts. This function is performed by the auditor general's Bureau of School Audits. The audit includes the receipts and expenditures related to state payments for public education to verify that the monies received from the commonwealth were properly paid. The audit also examines district compliance with all laws and regulations. Audit reports, listing discrepancies, will be furnished to the school district.

Selection of Auditors

Audits are considered a professional service and bidding is not required. The important aspect of auditing is maintaining independence of an auditor. No matter how satisfied district officials may be with the performance of the auditor, it is advisable to limit the consecutive length of time an auditor is with the district. A number of different approaches are used to limit an auditor's employment. Typically, the length of employment is five or six years, and changing auditors requires finding a replacement. Length of service by an auditor is local choice and should be included in the district's policies. Securing audit services can be accomplished effectively through the use of a request for proposal (RFP).

Different Types of Audits

There are four types of audits:

- financial
- compliance (also referred to as a performance audit)
- special purpose
- fraud
- forensic

The RFP is generally used for the financial or compliance (may also be referred to as a performance) audit. Fraud audits generally occur only if conditions indicate a need and usually are an expansion of the other two types. The forensic audit is a sub-specialty of the fraud audit.

Financial audits are an examination of the books and records of the accounting system. Compliance or performance audits examine the financial records plus the delivery of services in accordance with specific contracts. An intermediate unit or a vocational school might have performance audits to ensure that terms and conditions of service delivery for various school districts comply with contract requirements.

Fraud audits occur only if the other two types of audits indicate missing funds or supplies. Fraud audits are the most detailed and time consuming of the three types. The scope of a fraud audit is determined by the extent of missing funds or supplies. This type of audit also is the most expensive. The sub-specialty forensic audit is generally associated with missing or destroyed records that need to be reconstructed.

Purpose of Audits

Except for fraud audits, audits are designed to independently measure the accuracy of the records maintained by the district. Also integral to the audit is a review of internal controls. Audits are designed to determine if the reports fairly and accurately reflect the financial condition of the district. Auditors do not prepare the financial statements, they verify the data contained in them. Verification of the data is accomplished by testing the financial records. Testing accounting systems is achieved by statistical sampling of the various transactions.

Audits also review and evaluate internal control procedures. Internal control procedures are designed to ensure that there are reasonable safeguards to protect the resources of the district. A couple of examples of internal control are two signatures required on all checks and required approval of bills for payment.

Compliance audits expand financial audits by incorporating into the review process a verification that the transactions comply with various laws and regulations. Compliance may include a review of the minutes of board meetings. Reviewing the minutes assures that the board, at a public meeting, approved actions or payments as required by law. Compliance audits also incorporate reviews of contracts and nonfinancial documents.

Fraud audits normally are employed when the situation warrants such action. Fraud audits include a 100% review of the relevant transactions. Because of the extensive review of all records, fraud audits are associated with substantial cost. Because of the intensive review required by fraud audits costs are substantially greater than the other types of audits and are performed only when the need arises.