

HOUSE REVENUE COMMITTEE
FEBRUARY 24, 2003 8:30 AM STATE CAPITOL BUILDING

Members Present: Representative Lane Shetterly, Chair
Representative Wayne Scott, Vice Chair
Representative Joanne Verger, Vice Chair
Representative Phil Barnhart
Representative Vicki Berger
Representative Pat Farr
Representative Mark Hass
Representative Elaine Hopson
Representative Max Williams

Witness Present: Rep. Tom Butler, Representative of House District 60
Chuck Hibner, Oregon Audits Division
Bill Hopkins, Oregon Audits Division
John Marshall, Oregon School Board's Association
Mike Schofield, Clackamas Education Service District
Doug Parham, Oregon Certified Public Accountant,
Certified Municipal Auditor
Parry Ankensen, CPA, Pauly, Rogers and Co., P.C.
Velma Hartwig, Harlan, Lincoln County, Oregon
Ozzy Rose, Confederation of School Administrators
Kandace Allen, Senior Class President, Glendale High School
Danyel Ashby, Social Chairman, Glendale High School
Shiloh Mantzouranis, Parliamentarian, Glendale High School
Dr. Brian Metke, Superintendent, Glendale High School

Staff Present: Paul Warner, Legislative Revenue Officer
Steve Meyer, Legislative Revenue Office
Kathy Tooley, Committee Assistant

TAPE 53, SIDE A

004 Chair Shetterly Calls meeting to order at 8:35 a.m.

OPENED PUBLIC HEARING ON HB 2423

030 Steve Meyer Provided history on HB 2423 and -1 amendments. (Exhibit 1)

057 Rep. Hass The intention of the -1 amendment is to replace HB 2423, (Exhibit 2). The goal is to add more credibility to the education system, cited recent State Audits Division audit of the Lottery, (Exhibit 3). The -1 amendment would enable state auditors to begin looking at Oregon School Districts as well.

105 Rep. Tom Butler Spoke in opposition to HB 2423 and the -1 amendment. Cited concerns by certified public accountants regarding codes of performance and municipal audit certificate requirements.

162 Rep. Hass This amendment would not create a new bureaucracy and is much different from legislation opposed in prior sessions.

196	Rep. Butler	Has not had an opportunity to thoroughly review the -1 amendment, but said to the extent that it sets up an account for the state to do performance audits, it is a step backwards.
194	Chair Shetterly	Describes the scope of the -1 amendment.
220	Rep. Butler	Concern that creation of a new bureaucracy would take resources and control from local education community to the state supervised program.
227	Rep. Hass	An independent voice is exactly how you find accountability and efficiency, citing lottery audit.
234	Rep. Butler	Any auditor that is not independent will suffer the revocation of their license.
257		Questions and discussion regarding the nature of financial audits including timing, performance, and scope
295	Rep. Williams	When school district hires an auditor it is not typically to criticize policy choices, but to ensure they are meeting generally accepted accounting practices.
340	Rep. Butler	Discusses the difference between a financial audit and a performance audit. Suggests the scope and funds of an audit could be expanded to include performance issues using the existing auditor rather than adding a state auditor starting from scratch.
422	Chair Shetterly	Stated with the state having 70% of the funding responsibility for schools, there should be state audit responsibilities. Where is the line between the state's audit responsibility for agencies and for school districts?
456	Rep. Butler	At present, SOS is constitutionally required to audit state agencies periodically, the concern is optional audits outside the mandate and if SOS auditors are technically competent to conduct performance audits for school districts.

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047	Chuck Hibner	Spoke in favor of HB 2423 and the -1 amendment. Cited performance-based work with the Department of Education oversight of K-12 spending. Also cited recent compliance audits with the State Lottery, and contracting practice of the Department of Human Services, where auditors noted changes in process that could detect and prevent unwanted expenditures.
80		Discussed Florida audits that returned savings (Exhibit 4).
100		Questions and answers regarding lottery audit.
107	Rep. Hopson	Clarifies this amendment has nothing to do with current fiscal audits schools currently use.
110	Chair Shetterly	It is a different focus.
112	Hibner	Discusses differences between fiscal and program audits.
121	Rep. Hopson	Would this eliminate one of the audits, or would school districts be faced with two?
125	Hibner	There would be two audits, the required fiscal audit; the amendment adds a

program performance audit, not necessarily on an annual basis.

- 140 Rep. Hopson Would SOS staff be adequately trained to do an audit on school district mission and accountability?
- 144 Hibner Answered affirmatively.
- 148 Rep. Berger Could this be done by strengthening the management letter and adding performance function as well?
- 155 Hibner Discussed the function of the auditor and CPA.
- 171 Rep. Berger If a school asked for this in their audit, could they and would it cost more?
- 174 Hibner Not sure, it would depend on work requested. Regarding additional costs, with additional audit hours there would be additional costs.
- 181 Rep. Barnhart School districts would have to pay out of their own funds if the SOS were to conduct an audit today. Correct?
- 187 Hibner That is the opinion of the Department of Justice, the focus of the audit pays.
- 190 Rep. Barnhart Does the SOS have the authority today to go into a school district and say they are going to do a performance audit and send you a bill?
- 196 Hibner I believe so.
- 200 Questions and discussion about scope of performance audits in a school district context.
- 235 Questions and discussion regarding ramp up time to educate state auditors, and what is involved in developing audit criteria.
- 252 Questions and discussion regarding audit costs.
- 270 Chair Shetterly Clarifies that the cost of the -1 amendment would not be born directly by the district being audited, but by the state through the state school fund.
- 278 Hibner It comes out of the school fund before distribution.
- 280 Rep. Verger Is the idea of having the SOS perform the audit, and help with the cost, because of the credibility issue and the acceptability of that audit to the public?
- 278 Rep. Hass That's correct, if Portland, Beaverton, or Salem-Keizer were a state agency, it would be one of the largest state agencies, and there is a responsibility to ensure an independent performance audit of expenditures.
- 298 Questions and discussion regarding the SOS and agency opportunity for response in audit.
- 335 Chair Shetterly Section 4 of -1 amendment expands the performance audit of schools to the purview of the Joint Legislative Audit Committee. Does the SOS contract out parts of its performance audits?
- 351 Hibner It has, but with mixed results.
- 400 John Marshall Concerns with the -1 amendment:

- Removal of \$500,000 from state school fund.
- Scope of audit, having elected officials value judgments second-guessed based solely on economics.
- Concerns also for district time, a single audit would take 2000 hours, requiring assistance from staff and costs.
- Review and comment by agency in advance of publication.

TAPE 53, SIDE B

070	Marshall	<p>Recommendations:</p> <ul style="list-style-type: none"> • Use advisory committee approach from the original bill to advise SOS on the scope. • A separate appropriation to the SOS instead of removal of \$500,000 from the state school fund. • Consideration be given local auditors to do performance audits by expanding the scope of local audits, eliminating need for second audit.
085	Rep. Hass	Clarifies that state auditors communicate with schools before audit is complete, and includes the agency's response when it is publicly released so there are no surprises.
090	Hibner	Discussed standards for audits which include agency input, before released to public.
099	Rep. Berger	Inquired about scope of the audits, and expenses.
110	Hibner	In planning process auditors try to emphasize one to two issues, that is worthy of audit at a particular time. May select issue that can translate over a number of districts in order to get the best value for recommendations made.
130	Rep. Verger	An audit suggesting a school closure, doesn't require a district to do so?
136	Hibner	Audits are advisory, no other power than to recommend.
140	Chair Shetterly	An audit informs political decision-making, there could be other community interest factors, history, culture, overriding factors that preclude closure.
158	Mike Schofield	As an auditor in a rural area, opposed amendment. Described current audits, "Description and Purpose of Audits", (Page 1, Exhibit 5), and presented "Recommendations and Observations", (Page 2, Exhibit 5).
255	Rep. Barnhart	Commented Oregon does a better job of education than the average state, and should continue regardless of what other states are doing.
333	Doug Parham	Spoke in opposition to HB 2423, believes the current process works, although not familiar with -1 amendment. Discussed scope of audits, suggested changes in minimum standards might be better way to address, encouraged utilizing resources currently available.

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010	Parry Ankersen	The -1 amendment has merit, performance audits are efficiency and effectiveness-oriented, (Exhibit 6). There was a bill two years ago of this nature, urged Committee to review the history and scope. Need to consider
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where the funds are coming from, and if the timing is right when school districts are doing much of the work themselves?

Questions and discussion interspersed.

- 077 Velma Hartwig Spoke in favor of HB 2423, gave experience in Lincoln County where the school board was recalled for \$2 million discrepancy. Feels her county would benefit from an in depth audit, and the SOS office should oversee the audit, (Exhibit 7)
- 130 Ozzy Rose Opposed the -1 amendment, citing importance of local value judgments; \$500,000 would cover very few audits. 85% of expenditures have been on salaries/benefits, most of balance is maintenance and supply. There is little extra that turns up as in lottery audit. The return on the audit doesn't justify the involvement of the state in this process.
- 210 Rep. Barnhart May want to consider a sunset provision for the bill, requiring further review.
- 218 Chair Shetterly Closed public hearing on HB 2423
- 221 Chair Shetterly **MOTION: MOVES INTRODUCTION OF LC 1225 (Exhibit 8), HB 2374 (Exhibit 9), HB 2375 (Exhibit 10), HB 2567 (Exhibit 11), HB 2848 (Exhibit 12).**
- 226 Chair Shetterly Clarifies the bills are entered as Committee Bills, but does not indicate support or opposition by the members of the Committee.
- 231 Chair Shetterly **ORDER; THERE BEING NO OBJECTION THE CHAIR SO ORDERS. Members present: Shetterly, Verger, Scott, Barnhart, Berger, Farr, Hass, Scott, Williams.**
- 234 Chair Shetterly **MOTION: MOVES INTRODUCTION OF LC 2853 (Exhibit 13) AT THE REQUEST OF LANE COUNTY COMMISSIONER BILL DWYER.**
- 235 Chair Shetterly **ORDER; THERE BEING NO OBJECTION THE CHAIR SO ORDERS. Members present: Shetterly, Verger, Scott, Barnhart, Berger, Farr, Hass, Scott, Williams.**
- 236 Chair Shetterly Clarifies the bill is entered as Committee Bills, but does not indicate support or opposition by the members of the Committee.

OPENED PUBLIC HEARING ON HB 2394

- 255 Kandace Allen Presented history of HB 2394.
- 275 Danyel Ashby Described the scope of HB 2394.
- 326 Shiloh Mantzouranis Spoke in favor of HB 2394, which is intended to improve accountability of schools. The class worked with former Senator Hanby, and former Governor Atiyeh on the concept of the bill.
- 390 Dr. Brian Metke Described HB 2394 as a transition bill to replace existing school funding formula for schools, providing a system for implementation.
- 400 Dr. Metke Discussed process and input given to bill

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120	Dr. Metke	Presented slide show presentation (Exhibit 14), (Exhibit 15).
327	Hartwig	Testified in opposition of HB 2394, citing need for local control. (Exhibit 16).
413	Chair Shetterly	Meeting adjourned at 10:50 a.m.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant Reviewed by Kim Taylor James

Exhibit Summary:

1. Meyer, "-1 Amendment HB 2423", 7 pages
2. Hass, "Testimony on HB 2423", 1 page
3. Hass, "2003 Legislature, Statesman Journal.com", 2 pages
4. Hibner, Oppaga Fiscal Impact Report No. 03-04, 15 pages
5. Schofield, "Description and Purpose of Audits", 2 pages
6. Ankersen, "Testimony HB 2423", 2 pages
7. Hartwig, "Testimony HB 2423", 1 page
8. Chair Shetterly, "LC 1225", 8 pages
9. Chair Shetterly, "LC 2374", 2 pages
10. Chair Shetterly, "LC 2375", 32 pages
11. Chair Shetterly, "LC 2567", 1 page
12. Chair Shetterly, "LC 2848", 4 pages
13. Chair Shetterly, "LC 2853", 64 pages
14. Dr. Metke, "School Planning and Management, 8 pages
15. Dr. Metke, "Oregon Constitution", 2 pages
16. Hartwig, "Testimony on HB 2394", 1 page
17. Rep. Morgan, "Testimony on HB 2394", 9 pages