

**REVENUE:** No revenue impact

**FISCAL:** Fiscal statement issued

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| <b>Action:</b>        | Do Pass as Amended and Be Printed Engrossed                         |
| <b>Vote:</b>          | 8 - 0 - 0   |
| <b>Yeas:</b>          | Conger, Dembrow, Frederick, Huffman, Komp, Parrish, Gelser, Wingard |
| <b>Nays:</b>          | 0   |
| <b>Exc.:</b>          | 0   |
| <b>Prepared By:</b>   | Victoria Cox, Committee Administrator                               |
| <b>Meeting Dates:</b> | 3/30, 4/11  |

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**WHAT THE MEASURE DOES:** Allows either Department of Education (ODE) or Secretary of State (SOS) to initiate financial audit or performance audit of school district or education service district (ESD) based on factors identified by rule. Specifies procedures for notice to districts and opportunity for districts to respond before commencement of audit. Provides for ODE to contract with SOS or private entity to conduct audit and allows for recovery of portion of audit costs from district. Establishes that audit reports are to be provided to school boards upon completion. Declares emergency, effective on passage.

**ISSUES DISCUSSED:**

- History of problems with certain education service districts
- Potential cost savings possible with earlier intervention
- Original intent of legislation to identify best practices
- Appropriateness of affected statute to instigation of forensic audits
- Costs to the Oregon Department of Education and ESDs
- Protections against unwarranted audits

**EFFECT OF COMMITTEE AMENDMENT:** Replaces the original measure.

**BACKGROUND:** Recent issues with financial practices at some education service districts have raised concerns about the authority of the SOS Audits Division and ODE to audit districts. A program currently exists that allows school districts and education service districts to volunteer for audits of their business practices. Such audits may only be conducted pursuant to a contract with the Department of Education. This statute was originally enacted to encourage the development and sharing of best business practices among districts. House Bill 2280-A, in its original form, expanded this statute to remove the discretion of districts to volunteer for performance audits.

Amendments to House Bill 2280-A, developed with input from education stakeholders, replaced the original measure with provisions to extend authority to both ODE and the SOS Audits Division to initiate financial and performance audits. In either case, the target district is to be given notice of the intent to audit and an opportunity to submit materials and information prior to commencement of the audit. If ODE initiates an audit, it may either contract with SOS or a private entity to conduct the audit; if SOS initiates an audit, it may perform the audit or contract with a private entity. Rules will be developed by SOS and the State Board of Education to establish factors and standards to be considered in the decision to initiate an audit. A portion of audit costs may be recovered from audited districts by either SOS or ODE. Audit reports are to be submitted to ODE and the audited district's governing board.