

ASSEMBLY BILL NO. 5847

To the General Assembly:

Pursuant to Article V, Section I, Paragraph 14 of the New Jersey Constitution, I am returning Assembly Bill No. 5847 with my recommendations for reconsideration.

This bill would extend the deadlines for the completion and submission of a school district's 2024-2025 financial audit from November 30 and December 5, respectively, to January 10 and January 15, respectively.

The bill is modeled after the deadline extension provided under P.L.2023, c.305 ("Chapter 305"), which amended the audit timelines for the 2022-2023 and 2023-2024 school years, as follows:

- the deadline for audit completion was moved from November 30 to January 10;
- the deadline for audit summary submission was moved from December 5 to January 1; and
- the deadline for the public-school accountant to submit the audit report was moved from December 5 to January 15.

Importantly, Chapter 305 also required the Department of Education ("department") to issue a report evaluating the impacts of extending these deadlines under the law. The department's report notes that the purpose of Chapter 305 was to provide "a short-term solution to logistical, staffing, and operational challenges, particularly those brought on by Coronavirus disease 2019 (COVID-19)." After a thorough review, the department recommended maintaining the existing statutory audit deadlines.

As detailed in the department's report, school districts' annual audits play a central role in shaping district budgets. Data from these audits is critical to developing responsible local budgets, informing the State budget, and helping the department

identify school districts that may be experiencing or at risk of experiencing financial distress. The information contained in these audits is critical to formulating and executing the State's spending plan for the fiscal year, on both the revenue and expenditure side, as it can shed light on any potential need for financial assistance and whether any prior disbursements may merit recapture by the State. Timely submission of local audits enables the department to identify school districts operating under tight financial conditions earlier in the school year when there is still time for course correction.

The report concluded that continuation of audit deadline extensions would result in decreased fiscal oversight, have negative impacts on education funding decisions, and reduce transparency in school district finance systems. Moreover, such extensions could compromise New Jersey's ability to timely and accurately comply with federal reporting requirements, potentially placing millions in federal education funds at risk.

I applaud the sponsors for their efforts to provide relief for those school districts that continue to face challenges in meeting financial audit deadlines. Rather than another one-time, across-the-board extension of the audit deadlines, however, I am recommending amendments that will provide the Commissioner of Education ("Commissioner") the ability to respond directly and promptly to evolving conditions. My changes explicitly allow the Commissioner flexibility to adjust audit timelines or permit modified audit submissions under certain circumstances, including when districts or their public accountants are able to document hardship in meeting the deadlines; when a State, federal, or other entity delays in providing necessary information; or when the Commissioner otherwise identifies extenuating circumstances that

would present substantial difficulty or hardship for one or more school districts or public school accountants. My amendments also require the Commissioner to annually determine whether certain information that is integral to the audit may nevertheless be omitted or deferred.

Finally, I am recommending changes designed to make the audit process operate more efficiently, obviating the need for further statutory extensions. These include requiring school districts to begin the audit process on July 1, directing the department to evaluate whether technical modifications to the audit process can facilitate earlier data collection, and requiring the department to implement feasible modifications within two years.

I am confident these changes will facilitate timely submission of school district audits and the critical information they provide, while also ensuring the department has the flexibility to work with school districts to make necessary adjustments in the event of unforeseen circumstances.

Therefore, I herewith return Assembly Bill No. 5847 and recommend that it be amended as follows:

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| <u>Page 2, Title, Line 1:</u> | After "districts" insert "and supplementing Title 18A of the New Jersey Statutes" |
| <u>Page 2, Section 1, Lines 6-7:</u> | Delete "Notwithstanding the provisions of N.J.S.18A:23-1 or any other law, rule, or regulation to the contrary, the" and insert "The" |
| <u>Page 2, Section 1, Line 8:</u> | Delete "complete" and insert "make all necessary financial books, accounts, and records available to the public school accountant by July 1 of each year for the purposes of completing" |
| <u>Page 2, Section 1, Line 10:</u> | Delete "for the 2024-2025 school year no later than the" |
| <u>Page 2, Section 1, Lines 11-17:</u> | Delete in their entirety |
| <u>Page 2, Section 1, Line 18:</u> | Delete "Notwithstanding the provisions of N.J.S.18A:23-3" |

or any" and insert "A district that fails to comply with the provisions of this section shall be subject to a reduction or reductions related to one or all of the fiscal management, operations, and governance scores in the New Jersey Quality Single Accountability Continuum evaluation system under section 10 of P.L.1975, c.212 (C.18A:7A-10), as determined by the Commissioner of Education."

Page 2, Section 1, Lines 19-28:

Delete in their entirety

Page 2, Section 1, Line 30:

After "2." Insert "a. The Commissioner of Education may allow limited flexibility as to the deadlines established under N.J.S.18A:23-1 and N.J.S.18A:23-3 when a school district or public school accountant, as applicable, demonstrates hardship based on documented, extenuating circumstances, or based on the provisions of subsection b. of this section.

b. (1) If in any year, the furnishing by a State entity of information required to be included in the report of the annual audit of a school district's accounts and financial transactions based on the standards for accounting and financial reporting issued by the Governmental Accounting Standards Board, including, but not limited to, those for postemployment benefits other than pensions, does not occur on or before four months after the end of the school fiscal year, the commissioner may allow the district or the accountant, or both, as applicable, to submit the portions of the audit including information from the most recent year available. The district and the accountant shall identify the portions of and the information in the audit that may need to be updated when the necessary information becomes available.

(2) Annually, the commissioner shall determine whether certain information required to be included in the annual audit report based on

the standards for accounting and financial reporting issued by the Governmental Accounting Standards Board is integral to provide an accurate and complete statement of the financial condition of the school district. The commissioner shall advise school districts or public school accountants of any information that meets this standard that may be omitted from the audit or submitted on a delayed timeline as outlined by the commissioner.

(3) If in any year, the furnishing by a federal or other entity of information required for the completion of the annual audit of a school district's accounts and financial transactions does not occur within an appropriate time, as determined by the commissioner, after the end of the school fiscal year, the commissioner may allow additional time for the district or the accountant, or both, as applicable, to submit the portions of the audit including information from the most recent year available. The district and the accountant shall identify the portions of and the information in the audit that may need to be updated when the necessary information becomes available.

(4) If in any year, the commissioner identifies extenuating circumstances that present or would present hardship or substantial difficulty for one or more school districts or public school accountants, as applicable, to complete or file the report of the annual audit of a school district's accounts and financial transactions, the commissioner may allow the district or the accountant, or both, as applicable, to submit the portions of the audit including information as identified by the commissioner from the most recent year available. The district and the accountant shall identify the portions of and the information in the audit that

may need to be updated when the necessary information becomes available.

c. The commissioner shall evaluate whether technical modifications to the annual school audit process can facilitate earlier data collection, including the feasibility of streamlining reporting fields and adding flexibility to digital tools, and shall implement feasible modifications within two years of the effective date of this act, P.L. , c. (C.) (pending before the Legislature as this bill).

d. A decision or determination of the commissioner pursuant to this section shall not be considered a final agency action.

e. The commissioner may adopt rules and regulations as are necessary to implement the provisions of this act, P.L. , c. (C.) (pending before the Legislature as this bill), which rules and regulations shall be effective immediately upon filing with the Office of Administrative Law for a period not to exceed 18 months, and shall thereafter be adopted or readopted pursuant to the provisions of the Administrative Procedure Act, P.L.1968, c.410 (C.52:14B-1 et seq.).

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Respectfully,

/s/ Philip D. Murphy

Governor

Attest:

/s/ Kate E. McDonnell

Chief Counsel to the Governor