

HB 121-FN - AS AMENDED BY THE HOUSE

7Jan2026... 3086h
7Jan2026... 0044h

2025 SESSION

25-0090
02/09

HOUSE BILL **121-FN**

AN ACT relative to school district financial requirements and district probation processes.

SPONSORS: Rep. Cordelli, Carr. 7; Rep. M. Pearson, Rock. 34; Rep. Spillane, Rock. 2; Rep. Terry, Belk. 7; Sen. Carson, Dist 14; Sen. Gannon, Dist 23; Sen. Ward, Dist 8; Sen. Watters, Dist 4

COMMITTEE: Education Policy and Administration

AMENDED ANALYSIS

This bill:

I. Revises the audit process for towns, school districts, or village districts, including penalties for failures to comply.

II. Repeals the election of school district auditors.

III. Allows the state board of education to place a public school district on probationary status and to institute a remedial plan.

IV. Requires the department of education to hire an administrator to oversee a public school district that remains on probationary status and provides duties and powers to that role.

Explanation: Matter added to current law appears in **bold italics**.
Matter removed from current law appears ~~in brackets and struck through~~.
Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.

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STATE OF NEW HAMPSHIRE

In the Year of Our Lord Two Thousand Twenty Five

AN ACT relative to school district financial requirements and district probation processes.

Be it Enacted by the Senate and House of Representatives in General Court convened:

1 1 Department of Revenue Administration; Municipal and Property Division; Audit. Amend RSA
2 21-J:19 to read as follows:

3 21-J:19 Audit.

4 I. Any town, or school district, or village district or precinct, at the annual meeting or at a
5 special meeting, or the selectmen of any town, or the governing body of any city, or the school board
6 of any school district, or the commissioners of any village district or precinct, may hire a certified
7 public accountant or a public accountant licensed by the state under RSA **309-B** [~~309-A:8~~] to conduct
8 [~~such an audit within~~] **and complete such audit no later than** one year after the close of the
9 municipality's **or school district's** fiscal year in accordance with audit guidelines and applicable
10 statutes.

11 II. Every audit made by independent public accountants licensed under RSA **309-B** [~~309-~~
12 ~~A:8~~], except examinations for special limited purposes, shall cover the accounts and records of all
13 officials responsible for the receipt, custody, and disbursement of public funds. The audit reports
14 shall include a summary of findings and recommendations regarding compliance with applicable
15 statutory provisions of law, and the adequacy of accounting and business procedures pursued by the
16 unit of government examined. Management letters, so-called, shall be included as part of the official
17 audit findings and recommendations. Contracts executed between local units of government and
18 counties and independent public accountants shall stipulate that all accounts and funds of the
19 governmental unit are to be audited and a report of audit prepared in accordance with this section.
20 A written or printed report of every completed audit shall be made to the proper local officials
21 including a summary of the findings and recommendations of the auditors and a copy of such
22 summary shall be published in the next annual report following the fiscal year in which the audit
23 was completed. **A copy of the completed audit shall be posted on the governing body's**
24 **website and the findings and recommendations reviewed at the next public meeting of the**
25 **governing body.**

26 2 Department of Revenue Administration; Municipal and Property Division; Audit on Motion of
27 Commissioner. Amend RSA 21-J:20 to read as follows:

28 21-J:20 Audit on Motion of Commissioner. The commissioner may cause [~~an~~] **a financial or**
29 **forensic** audit to be made of the accounts of any city, town, school district, or village district or
30 precinct, [~~as often as once in 2 years, or~~] whenever conditions appear [~~to him~~] to warrant such audit.

1 *The commissioner shall consult with the commissioner of the department of education if*
2 *the conditions are related to a school district.* The accounts of all county officers shall be
3 audited annually by a certified public accountant, and a complete report of such audit shall be made
4 available to the public.

5 3 Department of Revenue Administration; Municipal and Property Division; Failure to
6 Complete Audit. RSA 21-J:20-a is repealed and reenacted to read as follows:

7 21-J:20-a Notification Required; Failure to Complete Audit.

8 I. Upon completion of an audit made pursuant to RSA 21-J:19 or RSA 21-J:20, each city,
9 town, school district, village district, county, or precinct shall provide notification to the department
10 of the completed audit and a copy of such audit shall be sent to the department. If a required audit
11 is not completed by the due date of such audit, the commissioner:

12 (a) May levy a fine of up to \$500 per day for every day of noncompliance, commencing 60
13 days after the department has provided written notice to the municipality, political subdivision,
14 school district, or county of the intent to levy such fine; and

15 (b) Shall not consider the unreserved fund balance of the municipality, political
16 subdivision, school district, or county when setting tax rates if the department questions the validity
17 of the financial data due to the lack of an audit.

18 II. The municipality, political subdivision, or county may petition the commissioner for
19 waiver of the fine in instances where the failure to complete a statutorily required audit by the due
20 date of such audit was due to reasonable cause. If a waiver is granted, the municipality, political
21 subdivision, or county shall within 90 days of receiving the waiver from the department provide the
22 department an executed contract binding the municipality, political subdivision, or county, to
23 conduct the required audit with an entity licensed and certified to do so, and within a time frame
24 approved by the commissioner. Fines collected by the department pursuant to this section shall be
25 deposited in the general fund. The department shall notify the commissioner of the department of
26 education of the completion or failure to complete the audit by the due date of such audit by each
27 school district or waiver granted by the commissioner. School districts failing to complete the audit
28 shall be listed on the department of education website and the chair of the state board of education
29 shall be notified.

30 III. The department shall adopt rules for the criteria to be used in the determination of
31 granting a waiver of fines, for issuing fines, and the amount of the fines.

32 4 Department of Revenue Administration; Municipal and Property Division; Publication of
33 Report of Audit. Amend RSA 21-J:21 to read as follows:

34 1-J:21 Publication of Report of Audit. A written or printed report of every completed audit shall
35 be made to the proper local officials including [~~a summary of~~] the findings and recommendations of
36 the auditors and a copy of such [~~summary~~] shall be published in the next annual report, ***a complete***
37 ***copy of the audit shall be posted on the governing body's website, and reviewed at the next***

1 **public meeting of the governing body** following the fiscal year in which the audit was completed.
2 If, in the opinion of the governing board of a city or the selectmen, school board, county or village
3 district commissioners, the whole report of audit should be published, the report may be published.
4 If such ~~summary of~~ findings and recommendations ~~is~~ **are** not so published, the commissioner, at
5 the expense of the county, city, town, or district affected thereby, may cause such ~~summary~~ to be
6 separately published and, **if available**, distributed or published in a newspaper having a general
7 circulation in said county, city, town, or district.

8 5 School Money; Penalty for Failure to File a Report. Amend RSA 198:4-f, I to read as follows:

9 I. A school district, city, chartered public school, or public academy shall file the reports due
10 under RSA 198:4-d~~[,III]~~ no later than September 1 of each year.

11 6 New Paragraph; School Money; Penalty for Failure to File Report. Amend RSA 198:4-f by
12 inserting after paragraph III the following new paragraph:

13 IV. A school district, city, chartered public school that is greater than 6 months late in
14 complying with the audit requirements pursuant to RSA 21-J:19 and RSA 194-B:10 may have state
15 aid withheld by the commissioner of the department of education for just cause. In determining just
16 cause, the commissioner of the department education, or designee, shall reach out to the auditor
17 performing the work and the auditee to determine if the auditee has caused unreasonable delays.
18 The commissioner of the department of education shall notify the governing body 30 days prior to
19 withholding state aid.

20 7 New Section; The State School Organization; State Probation. Amend RSA 186 by inserting
21 after section 5 the following new section:

22 186:5-a Public School District Probation.

23 I. After reasonable notice has been provided to all affected parties, the state board may place
24 a public school district on probationary status for up to 6 months under the following circumstances:

25 (a) The school commits a material violation of any of the conditions, standards, or
26 administrative rules.

27 (b) The school fails to meet generally accepted standards for fiscal management.

28 (c) The school significantly violates state or federal law.

29 (d) The school becomes insolvent or financially unstable.

30 (e) The school fails to comply with the reporting requirements in accordance with RSA
31 198:4-f.

32 (f) The school fails to comply with state or federal reporting requirements.

33 (g) The school fails to remedy the causes of its probation.

34 II. Notice of the placement on probation shall be provided in writing to the district's school
35 board members, superintendent or staff authorized to perform superintendent services, posted on
36 the district and department's website, the governor, commissioner of the department revenue

1 administration, senate president, speaker of the house, and the chairs of the senate and house
2 education funding and policy committees.

3 III. The department and state board shall consult with the district school board on the
4 development and implementation of a remedial plan to address specific areas of concern.

5 IV. The state board may place a public school district on probationary status for up to 6
6 months to allow the implementation of a remedial plan.

7 V. After the probationary period, if the remedial plan is unsuccessful in addressing the
8 concerns, the department shall appoint or hire an administrator to oversee the corrections identified
9 pursuant to RSA 186:5-a, I. The department may draw a warrant for payment of the administrator.
10 The state board may authorize the administrator, for a period of up to one year, to:

11 (1) Override any decisions of the school district's board or the school district
12 superintendent, or both, concerning the management and operation of the school district, and
13 initiate and make decisions concerning the management and operation of the school district.

14 (2) Attend any and all meetings of the school district's board and administrative
15 staff and provide updates on corrective actions being taken.

16 (3) Establish and implement a strategy designed to promote family and community
17 involvement.

18 (4) Supervise the day-to-day activities of the school district's staff, including
19 reassigning the duties and responsibilities of personnel in a manner that, in the determination of the
20 administrator, best suits the needs of the school district.

21 (5) Place on extended leave, suspend, or terminate for cause the school district's
22 superintendent or business manager, or both. The administrator is not authorized to provide a
23 severance or buyout package to the school district's superintendent or business manager if the school
24 district is placed into probation by the state board of education. A person terminated pursuant to
25 this paragraph may appeal the administrator's decision to the state board of education if an appeal
26 is filed with the state board within 30 days of receiving notice of the termination.

27 (6) Authorize pupils to transfer from schools operated by the school district to
28 schools operated by another school district that is not currently on probation, pursuant to RSA 193:3,
29 I(g).

30 (7) Appoint a staff person to perform superintendent services pursuant to RSA 194-
31 C:5, II(a).

32 (8) Appoint a chief fiscal officer who shall possess the powers and duties of the school
33 district's business manager and any other duties regarding budgeting, accounting, and other
34 financial matters that are assigned to the school district by law.

35 (9) Appoint a competent independent public accountant to audit the accounts of the
36 school district if not previously done by the department of revenue administration.

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1 (10) Reorganize the school district's financial accounts, management, and budgetary
2 systems to improve financial responsibility and reduce financial inefficiency within the district.

3 (11) Establish school district fiscal guidelines and a system of internal controls,
4 including internal administrative controls and internal accounting controls, with provisions for
5 internal audits.

6 (12) Provide monthly updates to the department and state board.

7 (13) Once the administrator's corrective actions have been completed, they shall
8 provide a verbal and written report to the department and state board outlining the actions taken,
9 needed steps forward, and monitoring recommendations.

10 8 Regular School Districts; Auditors. RSA 671:5 is repealed and reenacted to read as follows:

11 671:5 Auditors. School districts shall hire independent auditors pursuant to RSA 21-J:19.

12 9 Repeal. The following are repealed:

13 I. RSA 193-H:5, relative to power of the department of education to take control of daily
14 operations of local schools.

15 II. RSA 198:4-d, VI, relative to school money; reports required.

16 10 Effective Date. This act shall take effect upon its passage.

HB 121-FN- FISCAL NOTE
AS AMENDED BY THE HOUSE (AMENDMENTS #2025-3086h and #2026-0044h)

AN ACT relative to school district financial requirements and district probation processes.

FISCAL IMPACT: This bill does not provide funding, nor does it authorize new positions.

Estimated State Impact				
	FY 2026	FY 2027	FY 2028	FY 2029
Revenue	\$0	\$0	\$0	\$0
<i>Revenue Fund(s)</i>	None			
Expenditures*	\$0	<u>NHED Positions and Contract Costs</u> \$534K in FY 2027, \$461K in FY 2028, and \$484K in FY 2029 <u>Administrator(s) Cost</u> Indeterminable		
<i>Funding Source(s)</i>	General Fund			
Appropriations*	\$0	This bill provides warrant authority for NHED to pay for administrator(s), if needed		
<i>Funding Source(s)</i>	General Fund			

*Expenditure = Cost of bill

*Appropriation = Authorized funding to cover cost of bill

METHODOLOGY:

The Department of Education (NHED) states this bill:

- Requires all school districts to be audited by a licensed independent public accountant.
- Requires all audits to be posted on the governing body’s website and reviewed during a public meeting with the governing body.
- Authorizes the Department of Revenue Administration (DRA) to order a forensic audit after consultation with NHED.
- Clarifies and further defines the process in which DRA will issue fines on districts and municipalities without a timely audit.
- Authorizes NHED to withhold state aid for more than a six-month delay in completing an audit for just cause.
- Authorizes the State Board of Education to place a district on a six-month probation period for a variety of causes relative to material financial mismanagement. After the probation period has ended without a remedy, the State Board shall appoint or hire an administrator for a period of up to one year.

- This bill permits NHED to draw a warrant to pay for such administrator. This language should be clarified to allow for the Governor to draw such a warrant from funds not otherwise appropriated (if the intent is for it to be a general fund expense).

NHED states that currently, dozens of districts might qualify for being put on probation by the State Board of Education and over 40 school districts are not able to get an audit submitted to the DRA within 18 months. Under current law, NHED has no role and responsibility related to district audits. The DRA currently collects the audits but has no dedicated resources or capabilities related to the monitoring, analysis, or follow-up work relative to ensure disclaimed audit opinions are understood by all stakeholders and resolved timely. It is assumed the NHED Commissioner would be judicious in applying new audit standards NHED has never had to enforce nor districts have never been held accountable for achieving. However, to the extent that the NHED Commissioner determines audits are being delayed to the point that State aid needs to be withheld, this would increase State interest revenue and may increase local interest expenses. Furthermore, it is assumed the State Board of Education would also be judicious in placing districts on probation. Therefore, the number of districts with a failed remedial plan is expected to be minimal and avoided by the establishment of a preventive monitoring program by NHED. To the extent that the State Board of Education must hire an administrator for up to one year, the cost to the State could be approximately \$150,000 per failed remedial plan.

To implement this bill, NHED states it would need staff to process districts audits by collecting, reading, analyzing, and conducting follow-up work on district audits. NHED would be responsible for monitoring financial audits of 179 school districts and 35 charter schools and would enact both a general training program for those school board members and education leaders to understand the financial standards needed to avoid a probation status by the State and a targeted risk-based monitoring and training program for districts and charter schools appearing more susceptible to financial mismanagement or insolvency. NHED states it would also incur contract expenses to build a new module within existing software to track, review, and analyze district and charter school audits.

	FY 2027	FY 2028	FY 2029
Two (2) District Auditors*	\$320,000	\$318,000	\$334,000
One (1) Charter School Auditor*	\$139,000	\$143,000	\$150,000
Contract Expense	\$75,000	\$0	\$0
Total	\$534,000	\$461,000	\$484,000

* All positions SOC 13-09, Starting Step 9

This bill provides neither authorization nor funding for the positions or contract expenses identified in the table above.

AGENCIES CONTACTED:

Department of Education