

1 State of Arkansas *As Engrossed: S1/16/04 S1/16/04 S1/17/04* Call Item 4

2 84th General Assembly **A Bill**

3 Second Extraordinary Session, 2003 HOUSE BILL 1094

4

5 By: Representatives Mahony, Walters

6 By: Senators Bryles, Broadway, Bisbee

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9 **For An Act To Be Entitled**

10 THE ARKANSAS EDUCATIONAL FINANCIAL ACCOUNTING AND
11 REPORTING ACT OF 2004.

12

13 **Subtitle**

14 THE ARKANSAS EDUCATIONAL FINANCIAL
15 ACCOUNTING AND REPORTING ACT OF 2004.

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18 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

19

20 *SECTION 1. Arkansas Code Title 6, Chapter 20, is amended to add the*
21 *following subchapter:*

22 6-20-2201. Title.

23 This subchapter shall be known and may be cited as the "Arkansas
24 Educational Financial Accounting and Reporting Act of 2004".

25

26 6-20-2202. Budget and expenditure report.

27 (a)(1) The board of directors of each school district, local education
28 agency, and education service cooperative shall annually prepare a budget of
29 expenditures and receipts that shall be filed with the Department of
30 Education by September 1 of each year pursuant to the provisions of this
31 subchapter.

32 (2) Each budget shall be approved by the board of directors of
33 each school district, local education agency, and education service
34 cooperative at a legally held meeting and shall be signed by the president of
35 the board and the ex officio financial secretary of each school district,
36 local education agency, and education service cooperative. The budget shall



1 contain the information and be prepared in an electronic format prescribed by
2 rules of the State Board of Education governing financial accounting for
3 Arkansas school districts, local education agencies, and education service
4 cooperatives.

5 (b)(1)(A) Warrants or checks of a school district, local education
6 agency, or education service cooperative issued after the date required by
7 subsection (a) of this section shall be invalid unless a budget has been
8 filed as required by this subchapter and in compliance with appropriate
9 rules.

10 (B) The ex officio financial secretary of a school
11 district, local education agency, or education service cooperative and his or
12 her surety shall be liable for any warrants or checks countersigned after the
13 date required by subsection (a) of this section if a budget has not been
14 filed.

15 (2) Distribution of all grants and aids from the state for which
16 the school district, local education agency, or education service cooperative
17 may be eligible shall be suspended until the requirements of this subchapter
18 are met.

19 (c)(1) School district, local education agency, and education service
20 cooperative budgets filed pursuant to this section shall be reviewed by the
21 auditors of the financial accountability office of the department to
22 determine if the requirements of state law and the rules of the state board
23 regarding the use of school, local education agency, and education service
24 cooperative funds and expenditure requirements are being met.

25 (2) Upon approval by the auditors, copies of the approved budget
26 shall be filed with the school district, local education agency, education
27 service cooperative, the county treasurer if serving as school treasurer, and
28 the department.

29 (d)(1) The ex officio financial secretary of each school district,
30 local education agency, and education service cooperative shall keep a record
31 of the daily expenditures and receipts of the school district, local
32 education agency, or education service cooperative in the manner and on the
33 forms as may be specified by rules of the state board. An annual record
34 shall be filed by August 15 of each year with the department.

35 (2) If the auditors of the financial accountability office of
36 the department determines that the financial records of any school district,

1 local education agency, or education service cooperative are not properly
2 maintained or that the financial affairs of the school district, local
3 education agency, or education service cooperative are not administered in
4 accordance with state law or state board rules, grants and aids from the
5 state to which the school district, local education agency, or education
6 service cooperative may be entitled shall be withheld until it is determined
7 that the fiscal records of the school district, local education agency, or
8 education service cooperative are in order or that the financial affairs are
9 being properly administered as established by statute or by rule promulgated
10 by the board, provided that the department has met all deadlines for
11 providing information to school districts, local education agencies, or
12 education service cooperatives. The Division of Legislative Audit may assist
13 the auditors of the department upon request of the department.

14 (e)(1) The department may withhold state aid from any school district,
15 local education agency, or education service cooperative that fails to file
16 its budget or any other required report with the department by the deadline
17 established by statute or by rule promulgated by the state board, provided
18 that the department has met all deadlines for providing pertinent information
19 to school districts, local education agencies, or education service
20 cooperatives.

21 (2) The department shall submit a list of all required financial
22 accountability reports along with due dates to each school district, local
23 education agency, and education service cooperative by July 1 of each year.

24 (f) The state board shall promulgate the necessary rules to fully
25 implement the provisions of this section.

26 (g) The Treasurer of State shall withhold the monthly distribution of
27 county aid provided under § 19-5-602(b) from any county that fails to provide
28 in a timely manner information to the department concerning the annual
29 abstract of assessment for each school district located wholly or in part in
30 the county.

31
32 6-20-2203 Uniform budget and accounting system required.

33 (a) The State Board of Education shall adopt by rule a uniform budget
34 and accounting system consistent with the Handbook IIR2 or future revisions
35 as published by the U.S. Department of Education, Office of Educational
36 Research and Improvements, for school districts, local education agencies,

1 education service cooperatives, and open enrollment charter schools. The
2 rules shall be developed by the Department of Education in cooperation with
3 representatives from the Arkansas Association of School Administrators, the
4 Arkansas Association of School Business Officials, the Arkansas Education
5 Association, and the Legislative Joint Auditing Committee.

6 (b) The definitions contained in the Federal Handbook IIR2 shall be
7 used for school districts, local education agencies, and education service
8 cooperatives in Arkansas and shall be used to allow for valid comparisons of
9 expenditures among schools, school districts, and education service
10 cooperatives.

11 (c) In addition the State Board of Education shall adopt by rule
12 "Arkansas Revisions" to the Federal Handbook IIR2. The rules shall be
13 developed by the Department of Education in cooperation with representatives
14 from the Arkansas Association of School Administrators, the Arkansas
15 Association of School Business Officials, The Arkansas Education Association,
16 and the Legislative Joint Auditing Committee, and education service
17 cooperatives. Arkansas Revisions shall include but not be limited to:

18 (1) Categories to allow for the gathering of data on separate
19 functions and programs;

20 (2) Categories and descriptions of expenditures that each school
21 or school district shall report on its annual school performance report
22 authorized by the School Performance Report Act, § 6-5-1401 et seq. The
23 reported expenditures shall include, but not be limited to, the following
24 categories:

25 (A) Total Expenditures;

26 (B) Instructional Expenditures;

27 (C) Administrative Expenditures;

28 (D) Extracurricular Expenditures;

29 (E) Capital Expenditures; and

30 (F) Debt Service Expenditures;

31 (3) Categories and descriptions of school and school district
32 expenditures that allow for the gathering of data on separate functions and
33 programs provided by law; and

34 (4) Categories and descriptions of expenditures that each
35 education service cooperative shall report on its annual report authorized by
36 law.

1 (d) A handbook for education service cooperatives shall be developed
2 by the State Board of Education that contains appropriate format and codes
3 for expenditures for education service cooperatives. Rules shall be
4 developed by the Department of Education.

5 (e) The department shall have the authority to analyze and inspect the
6 financial records of any school, school district, or education service
7 cooperative, in order to verify that a school, school district, or education
8 service cooperative is correctly and accurately reporting expenditures.

9 (f) By November 1 of each year, the Department of Education shall
10 submit a report to the State Board of Education, the Governor, and the Senate
11 and House Interim Committees on Education concerning public school and public
12 school district expenditures required by law.

13 (g) All rules, regulations, and revisions adopted under this
14 subchapter shall be adopted and published prior to the start of any fiscal
15 year for which they are applicable and shall allow for an implementation
16 schedule consistent with the method outlined in § 6-20-2207.

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18 6-20-2204. Required training.

19 (a)(1) Any person whose job responsibility includes preparing the
20 budget or recording expenditures of a school, school district, local
21 education agency, or education service cooperative shall obtain training and
22 instruction necessary to demonstrate basic proficiency, as determined by the
23 Department of Education, in, including, but not limited to:

24 (A) School laws of Arkansas;

25 (B) Laws and rules governing the expenditure of public
26 education funds, fiscal accountability, and school finance;

27 (C) Ethics; and

28 (D) Financial accounting and reporting of local education
29 agency and education service cooperative expenditures.

30 (2) Each year thereafter, any person whose job responsibility
31 includes preparing the budget or recording expenditures of a school, school
32 district, or education service cooperative shall obtain by December 31 of
33 each calendar year, additional hours of training and instruction as required
34 by the department in order to maintain basic proficiency in the topics
35 described in subdivision (a)(1) of this section.

36 (3)(A) The instruction may be received from an institution of

1 higher education in this state, from instruction sponsored by the Department
2 of Education, or by an in-service training program conducted by the Arkansas
3 Association of School Business Officials, or from another provider.

4 (B) Any instruction provider other than the department
5 shall request pre-approval as to form and content by the department.

6 (4)(A) If a person fails to obtain the required training by the
7 end of the calendar year and fails to cure the deficiency by March 1 of the
8 following calendar year without filing a request for extension of time, as
9 determined from the records of the department, the department shall
10 immediately notify the superintendent of the employing school district or the
11 director of the education service cooperative by certified mail, return
12 receipt requested, with a copy to the board president.

13 (B) The superintendent or education service cooperative
14 director shall notify the person by certified mail, return receipt requested,
15 and the person shall be unable to continue in his or her position from the
16 date of receipt of notification by the superintendent or education service
17 cooperative director.

18 (5) If the person fails to obtain all required training by
19 December 31, this failure shall constitute one (1) citation against the
20 school district as measured by the Standards for Accreditation of Arkansas
21 Public Schools issued by the department or an admonishment to the education
22 service cooperative by the department.

23 (6) If the person is unable to obtain the required training
24 because of military service or illness as verified by a written sworn
25 statement of the person's attending physician, the department shall grant an
26 extension permitting the person additional time to obtain the required
27 training. The issuance of an extension shall not constitute a citation
28 against the school district as measured by the Standards for Accreditation of
29 Arkansas Public Schools issued by the department or the education service
30 cooperative and shall not operate to remove the person from his or her job.

31 (b)(1) A school district, local education agency, or education service
32 cooperative board of directors is authorized to pay per diem and reimburse
33 the expenses of a person required to obtain training under this section.

34 (2) The expenses must be incurred in attending in-service
35 workshops, conferences, and other courses of training and instruction
36 necessary for completing the hours of instruction required under this

1 section.

2 (3) Payments may be made from funds belonging to the school
3 district.

4 (c) The State Board of Education shall modify the Standards for
5 Accreditation of Arkansas Public Schools issued by the department as may be
6 required by this section.

7 (d) It is the responsibility of the department to receive and maintain
8 records of instructional hours obtained by any individual covered under this
9 section.

10 (e) The state board is authorized to promulgate rules and regulations
11 consistent with the provisions of this section.

12
13 6-20-2205. Penalties.

14 (a) Any school district or local education agency that does not follow
15 the provisions of this subchapter shall be placed in fiscal distress as
16 provided by law.

17 (b) Any education service cooperative that does not follow the
18 provisions of this subchapter shall be sanctioned by the State Board of
19 Education.

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21 6-20-2206. Miscellaneous provisions.

22 (a) If the Department of Education determines that an overpayment has
23 been made to a school district, local education agency, or education service
24 cooperative in any funding category authorized by law, the department is
25 authorized to withhold the overpayment from future funding of the school
26 district, local education agency, or education service cooperative and is
27 authorized to transfer the amount withheld for the overpayment to the line
28 item appropriation from which the overpayment was initially made.

29 (b) Each school district, local education agency, and education
30 service cooperative shall prepare an annual statement of the financial
31 conditions and transactions of the school district, local education agency,
32 or education service cooperative as of June 30 of each year in accordance
33 with generally accepted accounting principles.

34 (c) In order for a school district, local education agency, or
35 education service cooperative to be entitled to state aid as provided by law,
36 each school district, local education agency, and education service

1 cooperative shall satisfy the following requirements:

2 (1) Expenditures for any fiscal year shall not exceed the legal
3 revenues for that year;

4 (2) The school district, local education agency, and education
5 service cooperative shall maintain such records and make such reports
6 relative to attendance, receipts, and disbursements and other reports as
7 required by the rules and regulations of the State Board of Education;

8 (3) The school district, local education agency, and education
9 service cooperative shall maintain proper financial records in accordance
10 with the state's school accounting manual and regulations promulgated by the
11 State Board of Education;

12 (4) The school district, local education agency, and education
13 service cooperative shall file annually with the State Board of Education a
14 salary schedule for its certified employees which recognizes a minimum level
15 of training and experience. This schedule shall reflect the actual pay
16 practices of the school district, local education agency, or education
17 service cooperative, including all fringe benefits and supplemental salary
18 schedules. Salary increments for experience or education, or both, shall be
19 identified on the schedule; and

20 (5)(A) All pupil attendance records shall be kept in their
21 original form and shall be public records.

22 (B) Pupil attendance records shall be kept according to
23 law and regulations, on paper or electronic forms either furnished or
24 approved by the department.

25 (C) Original pupil attendance records shall be kept on
26 file in the office of the superintendent of schools after the school term is
27 ended for a period of three (3) years and these records shall be available
28 for monitoring purposes during any day of the school term by the teachers or
29 other persons designated to keep attendance.

30 (d) School districts may not include the cost of substitute teachers,
31 extended contracts for extracurricular activities, or supplementary pay for
32 extracurricular activities in meeting the expenditures requirement for
33 student classroom teacher salaries.

34 (e) Any licensed classroom teacher or administrator of a school,
35 school district, a local education agency, or education service cooperative
36 that provides false expenditure information may have his or her license

1 placed on probation, suspended, or revoked pursuant to rules promulgated by
2 the State Board of Education.

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4 6-20-2207. Rule-making authority.

5 (a)(1) Before the 2004-2005 school year, the State Board of Education
6 shall promulgate rules governing and providing compliance with an established
7 uniform chart of accounts for budgeting of school, school district, and
8 education service cooperative revenues and expenditures and financial
9 reporting in order for school districts and education service cooperatives to
10 comply with § 6-20-2202.

11 (2) These rules shall be applied to all school districts, local
12 education agencies, and education service cooperatives on a pilot basis for
13 the 2004-2005 school year.

14 (b) Beginning with the 2005-2006 school year, the Department of
15 Education shall amend the rules provided for in subsection (a) of this
16 section as necessary and before the beginning of a school year in order for
17 school districts to comply with this subchapter.

18 (c) Any school district, local education agency, or education service
19 cooperative that fails to comply with state law or rules governing and
20 providing a uniform chart of accounts for budgeting of revenues and
21 expenditures and financial reporting shall be deemed to be in fiscal distress
22 and subject to the applicable enforcement provisions as provided by law.

23 (d) Any school district, local education agency, or education service
24 cooperative that fails to comply with the expenditure requirements of any
25 public school, public school district, or education service cooperative
26 funding law shall be deemed to be in fiscal distress and subject to the
27 applicable enforcement provisions as provided by law.

28
29 6-20-2208. Monitoring of expenditures.

30 (a) The General Assembly determines that although funds may be
31 distributed to school districts under this subchapter, it is the duty and
32 responsibility of the State of Arkansas to monitor such expenditures to
33 ensure that each public school child in Arkansas is provided with an adequate
34 education.

35 (b) Each school district shall ensure that funds distributed by the
36 State of Arkansas to the district are utilized in an efficient manner in

1 order to provide an adequate education.

2 (c) Each school district shall:

3 (1) Expend sums for teacher salaries in order to meet the
4 requirements of Arkansas law;

5 (2)(A) Expend the sums allocated to the school district under
6 § 6-20-2005(b) for salaries and other instructional aid components to benefit
7 students in the special needs categories within the school district unless
8 other expenditures are allowed by law or rule of the State Board of Education
9 or Department of Education.

10 (B) The school district shall further ensure that those
11 sums are used to improve the educational opportunity of those children, with
12 a primary emphasis on improving each student's proficiency;

13 (3) Expend other sums as may be allocated under this subchapter
14 and as may be required by law in order to provide an equal opportunity for an
15 adequate education;

16 (4) Ensure that sums appropriated by law and allocated to the
17 school district are used to meet standards for accreditation and to provide
18 the required curriculum for all students in the district;

19 (5) Ensure that sums allocated for facilities or other capital
20 needs are spent in accordance with law; and

21 (6) Expend state and local revenues on gifted and talented
22 programs:

23 (A) In an amount equal to fifteen hundredths (0.15) of the
24 foundation funding amount multiplied times five percent (5%) of the school
25 district's average daily membership for the previous year; and

26 (B) Only upon gifted and talented programs in accordance
27 with rules promulgated by the State Board of Education.

28 (d)(1) During the appropriate Arkansas public school computer network
29 reporting cycle each year, each school district shall submit appropriate data
30 to the Department of Education establishing the school district's compliance
31 with this section.

32 (2) The data shall be timely, accurate, and in the format
33 required by rules promulgated by the State Board of Education.

34 (3) The data reported shall reflect the expenditure of each
35 category of additional education categories.

36 (4) Reports for each school district shall be developed by the

1 department and transmitted to the Governor, the Senate Interim Committee on
2 Education, and the House Interim Committee on Education.

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4
5 SECTION 2. Arkansas Code § 6-1-101, concerning the audit of publicly
6 funded educational institutions, is amended to add a new subsection to read
7 as follows:

8 (e) In addition to any other requirements in this section, the
9 Legislative Joint Auditing Committee may establish additional compliance or
10 financial reporting requirements for audits of publicly funded educational
11 institutions performed by the Division of Legislative Audit or by an
12 independent person licensed to practice accounting by the Arkansas State
13 Board of Public Accountancy.

14 (f) Education service cooperatives shall be subject to the same
15 financial management practices, reviews, and designations as provided for
16 school districts under Arkansas Code § 6-15-2101 as added by Act 35 of the
17 Second Extraordinary Session of 2003.

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19 /s/ Mahony
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