

1 State of Arkansas As Engrossed: S1/16/04 S1/16/04 S1/17/04 S1/20/04 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

7

8

9

## For An Act To Be Entitled

10

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

11

12

13

## Subtitle

14

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

15

16

17

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:*

21

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 September 1 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, the education service cooperatives, and the Legislative Joint  
6 Auditing Committee.

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

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

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

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

26 (A) Total Expenditures;

27 (B) Instructional Expenditures;

28 (C) Administrative Expenditures;

29 (D) Extracurricular Expenditures;

30 (E) Capital Expenditures; and

31 (F) Debt Service Expenditures;

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

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

1 law.

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

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

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

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

18  
19 6-20-2204. Required training.

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

25 (A) School laws of Arkansas;

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

28 (C) Ethics; and

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

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

1           (3)(A) The instruction may be received from an institution of  
2 higher education in this state, from instruction sponsored by the Department  
3 of Education, or by an in-service training program conducted by the Arkansas  
4 Association of School Business Officials, or from another provider.

5           (B) To satisfy the training and requirements under this  
6 subsection (a), any provider, other than the department, shall apply for and  
7 receive pre-approval by the department as to the form and content of the  
8 training and instruction before it is offered as training and instruction to  
9 comply with the provisions of this subsection (a).

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

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

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

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

35           (b)(1) A school district, local education agency, or education service  
36 cooperative board of directors is authorized to pay per diem and reimburse

1 the expenses of a person required to obtain training under this section.

2 (2) The expenses must be incurred in attending in-service  
3 workshops, conferences, and other courses of training and instruction  
4 necessary for completing the hours of instruction required under this  
5 section.

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

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

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

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

16  
17 6-20-2205. Penalties.

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

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

24  
25 6-20-2206. Miscellaneous provisions.

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

33 (b) Each school district, local education agency, and education  
34 service cooperative shall prepare an annual statement of the financial  
35 conditions and transactions of the school district, local education agency,  
36 or education service cooperative as of June 30 of each year in accordance

1 with generally accepted accounting principles.

2 (c) In order for a school district, local education agency, or  
3 education service cooperative to be entitled to state aid as provided by law,  
4 each school district, local education agency, and education service  
5 cooperative shall satisfy the following requirements:

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

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

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

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

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

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

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

34 (d) School districts may not include the cost of substitute teachers,  
35 extended contracts for extracurricular activities, or supplementary pay for  
36 extracurricular activities in meeting the expenditures requirement for



1 student classroom teacher salaries.

2 (e) Any licensed classroom teacher or administrator of a school,  
3 school district, a local education agency, or education service cooperative  
4 that provides false expenditure information may have his or her license  
5 placed on probation, suspended, or revoked pursuant to rules promulgated by  
6 the State Board of Education.

7  
8 6-20-2207. Rule-making authority.

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

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

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

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

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

32  
33 6-20-2208. Monitoring of expenditures.

34 (a) The General Assembly determines that although funds may be  
35 distributed to school districts under this subchapter, it is the duty and  
36 responsibility of the State of Arkansas to monitor such expenditures to

1 ensure that each public school child in Arkansas is provided with an adequate  
2 education.

3 (b) Each school district shall ensure that funds distributed by the  
4 State of Arkansas to the district are utilized in an efficient manner in  
5 order to provide an adequate education.

6 (c) Each school district shall:

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

9 (2)(A) Expend the sums allocated to the school district under  
10 § 6-20-2005(b) for salaries and other instructional aid components to benefit  
11 students in the special needs categories within the school district unless  
12 other expenditures are allowed by law or rule of the State Board of Education  
13 or Department of Education.

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

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

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

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

25 (6) Expend state and local revenues on gifted and talented  
26 programs:

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

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

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

36 (2) The data shall be timely, accurate, and in the format

1 required by rules promulgated by the State Board of Education.

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

4 (4) Reports for each school district shall be developed by the  
5 department and transmitted to the Governor, the Senate Interim Committee on  
6 Education, and the House Interim Committee on Education.

7  
8  
9 SECTION 2. Arkansas Code § 6-1-101, concerning the audit of publicly  
10 funded educational institutions, is amended to add a new subsection to read  
11 as follows:

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

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

22  
23 /s/ Mahony  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36