ASBA NEW BOARD MEMBER BOOTCAMP

FUNDAMENTALS OF FISCAL OVERSIGHT & AUDIT TRAINING FOR NEW BOARD MEMBERS

KAREN WALTERS, SUPERINTENDENT BRYANT SCHOOLS

DECEMBER 11, 2019
PURPOSE OF THE SESSION

• FISCAL DUTIES AND RESPONSIBILITIES
• REINFORCE BASIC FISCAL KNOWLEDGE OF SCHOOL FUNDING
• BUDGET
• WHAT YOU NEED TO KNOW (AND ASK)
• WARNING SIGNS
• FISCAL DISTRESS
• FISCAL SUPPORT AND SERVICES
• AUDIT
• QUESTIONS
POWERS & DUTIES OF BOARD

• ATTEND MEETINGS OF SCHOOL BOARD.
• DETERMINE MISSION AND DIRECTION OF DISTRICT.
• ADHERE TO STATE AND FEDERAL LAWS.
• ENACT, ENFORCE AND OBEY POLICIES.
• EMPLOY STAFF.
• UNDERSTAND AND OVERSEE SCHOOL DISTRICT FINANCES.
• MANAGE FACILITIES.
• APPROVE CURRICULUM AND ENSURE THAT IT IS TAUGHT.
• VISIT DISTRICT SCHOOLS AND CLASSROOMS.
• OBTAIN TRAINING AND PROFESSIONAL DEVELOPMENT.
• DO “ALL OTHER THINGS NECESSARY AND LAWFUL.”
UNDERSTAND AND OVERSEE SCHOOL DISTRICT FINANCES REQUIRED BY LAW TO ENSURE ALIGNMENT WITH THE SCHOOL DISTRICT’S ACADEMIC AND FACILITY NEEDS AND GOALS, INCLUDING WITHOUT LIMITATION:

(A) REVIEWING, ADOPTING AND PUBLISHING THE SCHOOL DISTRICT’S BUDGET;

(B) OVERSEEING AND MONITORING THE SCHOOL DISTRICT FINANCES, INCLUDING:
REVENUES
EXPENDITURES
INVESTMENTS
DEBTS
OBLIGATIONS
INVENTORY
REAL PROPERTY
(C) BORROWING MONEY AS NECESSARY, BUT IN NO CASE SHALL THE SCHOOL BOARD OF DIRECTORS PERMIT THE SCHOOL DISTRICT TO END THE FISCAL YEAR WITH A NEGATIVE LEGAL BALANCE;

(D) ENTERING INTO CONTRACTS FOR GOODS AND SERVICES NECESSARY TO OPERATE THE SCHOOL DISTRICT;

(E) BUYING, SELLING, RENTING, AND LEASING REAL PROPERTY AND PERSONAL PROPERTY ON BEHALF OF THE SCHOOL DISTRICT;

(F) RECEIVING, REVIEWING, AND APPROVING EACH ANNUAL FINANCIAL AUDIT REPORT AND PRESENTING IT TO THE PUBLIC.

§ 6-13-620 A.C.A
All Sources of Funding Are Important!
LOCAL REVENUE

• AD VALOREM PROPERTY TAXES
  • CURRENT TAXES
  • HOMESTEAD EXEMPTION FUNDS
  • DELINQUENT TAXES
  • EXCESS COMMISSIONS

• OTHER LOCAL REVENUE
  • PAYMENTS IN LIEU OF TAXES
  • INTEREST
  • MINERAL LEASES
  • CONTRIBUTIONS
PROPERTY TAXES

• REAL (HOUSES AND LAND)

• PERSONAL (VEHICLES, MOTORCYCLES, FOUR WHEELERS, BOATS, SKI BOATS, FARM EQUIPMENT, MOBILE HOMES, TRAILERS, AND INVENTORY).

• UTILITY - ASSESSED ON UTILITY COMPANY ASSETS - NUCLEAR REACTOR, COAL FIRE GENERATING PLANTS, TELEPHONE POLES, LENGTH OF CABLES, CELL PHONE TOWERS
  • ASSESSMENT IS SET BY THE PSC – “PUBLIC SERVICE COMMISSION”

• TAX RATE
  • AMENDMENT 74 UNIFORM RATE OF TAX (URT) - 25 MILLS
  • ADDITIONAL MAINTENANCE AND OPERATION MILLS
  • DEBT SERVICE MILLS

• COLLECTION RATE
CALCULATING PROPERTY TAXES

- APPRAISED VALUE VS. ASSESSED VALUE
  - APPRAISED VALUE X 20% X MILLAGE RATE = TAXES DUE AND PAYABLE.

- ASSUME A HOUSE WITH AN APPRAISED VALUE OF $100,000 IN A SCHOOL DISTRICT WITH A MILLAGE RATE OF 36 MILLS.

- THE ASSESSED VALUE IS $20,000 (20%)

- $20,000 X .036 =$720 DUE IN PROPERTY TAXES

- DOES NOT INCLUDE ADDITIONAL PROPERTY TAXES ASSESSED BY THE CITY OR COUNTY.
PROPERTY TAXES

• FISCAL YEAR VS. CALENDAR YEAR
  • FISCAL YEAR FOR STATE ENTITIES IS JULY 1 – JUNE 30
  • PROPERTY TAXES ARE COLLECTED IN A CALENDAR YEAR

• TAX COLLECTOR’S BOOKS ARE OPENED ON MARCH 1

• TAXES ARE PAID ANNUALLY – DUE AND PAYABLE ON OCTOBER 15 OF EACH YEAR
  • PAID ONE YEAR IN ARREARS. IN 2019, YOU WILL PAY TAXES THAT ARE DUE FOR THE 2018 CALENDAR YEAR
PROPERTY TAX CONSIDERATIONS

- LOCAL ASSESSMENT
  - PROPERTY CLASSIFICATION
  - HOMESTEAD EXEMPTION – ONE PER HOUSEHOLD
  - CHALLENGES TO ASSESSMENT

- REASSESSMENT OF PROPERTY
  - REQUIRED REAPPRAISALS—3 VS. 5 YEAR CYCLE
  - ASSESSMENT GROWTH CAPS
  - FROZEN ASSESSMENT FOR THOSE 65 AND OLDER – DOES NOT PERTAIN TO FUTURE MILLAGE INCREASES OR IMPROVEMENTS TO PROPERTY
  - AMENDMENT 59 ROLLBACKS
BRAIN BREAK!
STATE REVENUE

• PLANNED TO ADDRESS ADEQUACY AND EQUITY ISSUES RELATIVE TO THE SUPPORT OF ARKANSAS SCHOOLS

• ACCOMPLISHED THROUGH A FORMULA TO PROVIDE A “FOUNDATION” OF SCHOOL SUPPORT

• TARGETED FUNDS BASED ON NEEDS WHICH VARY FROM DISTRICT-TO-DISTRICT

• WHERE DOES THE REVENUE PRODUCED AT THE STATE LEVEL COME FROM?
  • INCOME TAX
  • SALES TAX
  • CORPORATE TAX
  • FEES & PERMITS, ETC.
ADEQUACY

DEFINITION: PROVIDING SUFFICIENT RESOURCES TO ACCOMPLISH EDUCATIONAL GOALS AS DEFINED BY THE ARKANSAS CONSTITUTION.

- DEFINED BY CONSULTANTS
- ADOPTED BY THE GENERAL ASSEMBLY IN 2004
- APPROVED BY THE ARKANSAS SUPREME COURT
- REVIEWED BIENNIALLY BY GENERAL ASSEMBLY
- RECENTLY, LEGISLATURE HAS CONSIDERED NEW STUDY (AS OF THIS PRESENTATION, MOTIONS HAVE FAILED)
DEFINITION: PROVIDING SUBSTANTIALLY THE SAME FUNDING FOR EACH STUDENT IN CONSIDERATION OF NEEDS.

HORIZONTAL AND VERTICAL EQUITY

• CONSISTENT WITH LEGAL PRECEDENTS
• ADOPTED BY THE GENERAL ASSEMBLY
• APPROVED BY THE ARKANSAS SUPREME COURT
• ACCEPTED BY ARKANSAS SCHOOLS
MOST FUNDING IS BASED ON STUDENTS

FOUNDATION AID IS DEFINED BY THE AVERAGE DAILY MEMBERSHIP (ADM) FOR THE FIRST THREE QUARTERS OF THE PRIOR YEAR.

**GROWING DISTRICTS RECEIVE AID BASED ON QUARTERLY COMPARISON OF CURRENT YEAR WITH PRIOR YEAR. (PAST)**

INFORMATION ABOUT A DISTRICT’S FOUNDATION AID CAN BE FOUND ON THE STATE AID NOTICE
FOUNDATION FUNDING

FOR 2019-20, EVERY SCHOOL DISTRICT IN ARKANSAS WILL BE GUARANTEED TO RECEIVE $6,899 PER ADM (AVERAGE DAILY MEMBERSHIP) FROM THE FIRST THREE QUARTERS OF 18-19 SCHOOL YEAR.
STATE AID NOTICES
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>27. The 2017-18 ADM (Qtrs. 1-3 Avg.)</td>
<td>$390,474</td>
<td>6-20-2303, 6-20-2305, Act 667</td>
<td>Yes</td>
<td>3370</td>
</tr>
<tr>
<td>28. English Language Learners (§345)</td>
<td>$1,836,266</td>
<td>6-20-2303, 6-20-2305, Act 667</td>
<td>Yes</td>
<td>3281</td>
</tr>
<tr>
<td>29. ESA Transitional Funding* (Rate Vari) - R</td>
<td>0</td>
<td>6-20-2305, Act 1083</td>
<td>Yes</td>
<td>3281</td>
</tr>
<tr>
<td>30. ESA Funding Withholding*</td>
<td>0</td>
<td>6-20-2305, Act 1083</td>
<td>Yes</td>
<td>3281</td>
</tr>
<tr>
<td>31. Professional Development (§27.40)</td>
<td>$248,625</td>
<td>6-20-2303, 6-20-2305, Act 667</td>
<td>Yes</td>
<td>3225</td>
</tr>
<tr>
<td>32. Bonded Debt Assistance (§18.03) - R</td>
<td>133,711</td>
<td>6-20-2303, 6-20-2305</td>
<td>Yes</td>
<td>3201</td>
</tr>
<tr>
<td>33. Isolating Fund*</td>
<td>0</td>
<td>6-20-2305, Act 1083</td>
<td>Yes</td>
<td>3281</td>
</tr>
<tr>
<td>34. Bonded Debt Assistance - R</td>
<td>133,711</td>
<td>6-20-2303, 6-20-2305, Act 667</td>
<td>Yes</td>
<td>3225</td>
</tr>
<tr>
<td>35. Declining Enrollment Funding*</td>
<td>0</td>
<td>6-20-2305, Act 1083</td>
<td>Yes</td>
<td>3281</td>
</tr>
<tr>
<td>36. Student Growth - PYQtr.4 + CYQtr.1.2 &amp; 3* - R</td>
<td>0</td>
<td>6-20-2305, Act 1083</td>
<td>Yes</td>
<td>3281</td>
</tr>
</tbody>
</table>

1) Miscellaneous funds are defined and calculated as per ACGA § 6-20-2303 (12), ACGA § 6-20-2306, and ACGA § 6-20-2303 (a) (3).
2) Negative funding amounts for 95% of URT X assessment less net revenues indicate funds owed to the state. For those districts receiving SFFA, the negative amount is deducted from SFFA.
3) Educational excellence trust funds are included in foundation funding and are restricted pursuant to ACGA § 6-20-307, as amended by Act 170 of 2019. Emergency rules effective July 20, 2019.
4) If the funding is for the current school year, the fund is part of the current school year's funding. If the funding is for the next school year, the fund is part of the next school year's funding.
5) Eligible school districts shall receive the higher of student growth funding and special needs (isolated/district transportation) funding. The initial FY20 state aid notice provides declining enrollment fund and special needs (isolated/district transportation) fund. Information regarding the calculation of student growth funding pursuant to ACGA § 6-20-2303 (c) (2) will be published in a separate commissioner's memo and on the Arkansas Department of Education website (Publications and Reports > Miscellaneous) when available.
CALCULATING STATE FOUNDATION AID

$114,220,419 (TOTAL ASSESSED VALUE)
X .025 (URT)
X 98%
+PY MISCELLANEOUS FUNDS @100% ($131,369)
÷ 1490.79 (PY 3 QTR ADM)
= $1965.25 LOCAL REVENUE PER STUDENT

$6899 - $1965.25 =

$4933.75 PER STUDENT OF FOUNDATION FUNDING
VERTICAL FUNDING – AKA CATEGORICAL FUNDS

• ALTERNATIVE LEARNING ENVIRONMENT (ALE)
  $4,700/FTE/ADM IN ALE  RESTRICTED

• ENGLISH LANGUAGE LEARNERS (ELL)
  $345/ELL  RESTRICTED

• ENHANCED STUDENT ACHIEVEMENT (FORMERLY KNOWN AS NSLA)
  $526/1,051/1,576  RESTRICTED

• SECONDARY VOCATIONAL CENTER AID
  $3,250  RESTRICTED

AMOUNTS REFLECTED ARE FOR THE 19-20 SCHOOL YEAR

SPENDING IS RESTRICTED BY STATUTE AND ADE RULES AND REGULATIONS.

HAS A MAXIMUM CARRYOVER AT THE END OF THE YEAR
OTHER STATE FUNDING

• PROFESSIONAL DEVELOPMENT FUNDING
  • 27.40 PER STUDENT    RESTRICTED

• FACILITY FUNDING-ACADEMIC FACILITIES
  • FUNDS SUPPORT APPROVED PROJECTS CONSISTENT WITH THE FACILITY PLAN IN ACCORDANCE WITH DESIGN AND COST STANDARDS APPROVED BY THE DIVISION OF ACADEMIC FACILITIES AND TRANSPORTATION.

• PARTNERSHIP FUNDING PERCENTAGE IS BASED ON A WEALTH INDEX CALCULATED ANNUALLY.
FEDERAL FUNDS - (RESTRICTED)

• NATIONAL SCHOOL LUNCH AND BREAKFAST (USDA)
• ELEMENTARY AND SECONDARY EDUCATION ACT (EVERY STUDENT SUCCEEDS ACT)
  • TITLE I, II, III, IV
  • OTHERS AS ELIGIBLE
• INDIVIDUALS WITH DISABILITIES ACT (IDEA) (VI-B)
• CARL PERKINS ACT
• ASSORTED SCHOOL IMPROVEMENT INITIATIVES
FEDERAL FUNDS – STRICT REQUIREMENTS

• FUNDS ARE RESTRICTED TO THE SPECIFIC PURPOSES SET FORTH IN FEDERAL REGULATIONS AND ADE GUIDELINES.
• TIMELINES FOR FUND OBLIGATION MUST BE MET.
• RECORDS MUST DOCUMENT FUNDS AND PROGRAM ELEMENTS REQUIRED BY AUDIT STANDARDS.
• PROPERTY RECORDS AND USE MUST CONFORM TO FEDERAL STANDARDS.
• LIMITED ON AMOUNT OF ALLOTMENT THAT CAN BE CARRIED OVER AT THE END OF THE YEAR
BRAIN BREAK!
WHAT IS A BUDGET?

• A BUDGET IS A FINANCIAL PLAN

• A BUDGET IS A PLAN FOR RAISING AND SPENDING MONEY

• A BUDGET REFLECTS THE VALUES AND CULTURE OF THE ORGANIZATION. (STRATEGIC PLAN)

• IT IS VIRTUALLY IMPOSSIBLE FOR YOUR ENDING STATEMENTS TO AGREE WITH THE BEGINNING BUDGET

• IF YOU DON’T HAVE A BUDGET OF SOME KIND, HOW WILL YOU KNOW WHEN TO STOP SPENDING MONEY?
TYPES OF BUDGET FUNDS

1. TEACHER SALARY FUND
2. OPERATING FUND
3. BUILDING FUND
4. DEBT SERVICE FUND
5. CAPITAL OUTLAY FUND
6. FEDERAL FUND
7. ACTIVITY FUND
8. FOOD SERVICE FUND
KEY COMPONENTS TO BUDGETING PROCESS

• EXPENDITURE - SET VS. VARIABLE EXPENDITURES
  • SET
    • DEBT SERVICE
    • SALARIES AND BENEFITS
    • UTILITIES
  • VARIABLE
    • SUPPLIES
    • EQUIPMENT
    • BUSES
    • MAINTENANCE PROJECTS
TYPES OF EXPENDITURES

• SALARIES/BENEFIT  
  (70-80% OF A DISTRICT’S TOTAL OPERATING BUDGET IS IN PERSONNEL)

• SUPPLIES/EQUIPMENT/CAPITAL EXPENDITURES

• DEBT SERVICE.

• ONE-TIME EXPENDITURES

• RECURRING EXPENDITURES
UPPS AND DOWNS OF REVENUE/EXPENDITURES

Revenue
Expenditures

July
August
September
October
November
December
January
February
March
April
May
June

1,000,000.00
2,000,000.00
3,000,000.00
4,000,000.00
5,000,000.00
6,000,000.00
7,000,000.00
8,000,000.00
9,000,000.00

Revenue
Expenditures
KEY BUDGETING QUESTIONS

• HOW DID WE DO LAST YEAR?
  • DID WE SPEND MORE THAN WE EXPECTED?
  • DID WE RECEIVE LESS THAN EXPECTED?

• WHAT TYPE OF PROPERTY TAX GROWTH HAVE WE SEEN IN OUR DISTRICT OVER THE LAST SEVERAL YEARS? IS THAT TREND DATA USED TO PROJECT THIS YEAR’S REVENUE?

• ARE WE LOSING STUDENTS? IS SO, HAVE WE REDUCED STAFF?

• WHAT IS THE DISTRICT’S TREND RELATED TO THE LEGAL ENDING BALANCE?

• WHAT ARE OUR NEW PERSONNEL REQUIREMENTS OR REQUESTS?

• WHAT ARE PLANS FOR FUTURE CONSTRUCTION/RENOVATIONS?
SUBMITTING BUDGET TO ADE

• BUDGET MUST BE SUBMITTED TO ADE VIA APSCN BY SEPTEMBER 30
• BEFORE IT IS SUBMITTED, THE LOCAL SCHOOL BOARD MUST APPROVE THAT BUDGET
• THE FORMAT THAT YOUR SUPERINTENDENT OR BUSINESS MANAGER Chooses TO GIVE TO YOU IS NOT SET BY LAW
• WHILE IT IS NOT DUE UNTIL SEPTEMBER 30, DON’T WAIT UNTIL THE LAST MINUTE TO BEGIN.

START EARLY!
FINANCIAL RESPONSIBILITIES

• BE INFORMED ABOUT FINANCIAL ISSUES—ASK QUESTIONS

• SELECT QUALIFIED STAFF TO PERFORM FINANCIAL TASKS
  • SUPERINTENDENT OF SCHOOLS
  • BUSINESS MANAGER/BOOKKEEPER
  • APPROVE ADEQUATE PERSONNEL TO COMPLETE REQUIRED TASKS

• REVIEW MONTHLY FINANCIAL REPORTS—ASK QUESTIONS

• REVIEW ANNUAL AUDIT REPORT—ASK QUESTIONS

• IF FINANCIAL INFORMATION IS UNCLEAR—ASK QUESTIONS

TRUST, BUT VERIFY!
SPECIFIC FINANCIAL REQUIREMENTS BEYOND OUR CONTROL

• SPEND “RESTRICTED FUNDS” AS MANDATED.

• SPEND AN AMOUNT EQUAL TO 9% OF FOUNDATION AID FOR FACILITY MAINTENANCE AND OPERATION ANNUALLY AS OUTLINED IN STATUTES AND ADE RULES.

• MEET SPENDING REQUIREMENTS FOR GIFTED/TALENTED PROGRAMS.

• MEET SPENDING REQUIREMENTS FOR SPECIAL EDUCATION PROGRAMS.
WHAT NUMBERS MATTER?

• THE NUMBER 1 MOST IMPORTANT NUMBER YOU NEED TO LOOK AT IS

  • **UNRESTRICTED LEGAL ENDING BALANCE**
    • RESTRICTED VS. UNRESTRICTED
    • WHY IS THIS NUMBER IMPORTANT?
      • FISCAL DISTRESS
      • “BANKRUPTCY”

• ALL OTHER NUMBERS LEAD TO THIS ONE AND EVERY NUMBER IMPACTS THIS NUMBER.

LEGAL BALANCE

• A PERCENTAGE OF THE TOTAL OPERATING BUDGET – USUALLY 6 TO 10%
• SHOULD GROW AS YOUR BUDGET GROWS
• THE LARGER THE BUDGET, THE LOWER THE PERCENTAGE MAY NEED TO BE.
WHAT NUMBERS MATTER?

• STUDENT ADM
  • GROWING DISTRICT
  • LOSING DISTRICT

• PERSONNEL
  • # OF STAFF MEMBERS VS. STANDARDS
  • PUPIL/TEACHER RATIO
  • TEACHER FAIR DISMISSAL ACT
    • RETIREMENTS/ATTRITION WHEN POSSIBLE

• ASSESSED VALUE
  • GROWING OR STEADY?
  • HOW MUCH IS IT GROWING?
REVENUE = EXPENDITURES

- EXPENDITURES THAT CONSISTENTLY EXCEED REVENUE WILL LEAD TO DECLINING BALANCES AND FISCAL DISTRESS
- SALARIES AND BENEFITS ARE THE BULK OF A BUDGET – YOU MUST REVIEW PERSONNEL IF CUTS ARE NEEDED
- CONSIDER PLACING CARRYOVER (EXCESS MONEY OVER PROJECTED LEGAL BALANCE) IN THE BUILDING FUND
- LOOK AT MULTI-YEAR TRENDS
FISCAL DISTRESS

• INDICATORS OF FISCAL DISTRESS:
  • A DECLINING BALANCE DETERMINED TO JEOPARDIZE THE FISCAL INTEGRITY OF THE SCHOOL DISTRICT
  • MATERIAL FAILURE TO PROPERLY MAINTAIN SCHOOL FACILITIES
  • MATERIAL VIOLATION OF LOCAL, STATE, OR FEDERAL CONSTRUCTION CODE PROVISIONS OR LAW
  • MATERIAL STATE OR FEDERAL AUDIT EXCEPTIONS OR VIOLATIONS
  • MATERIAL FAILURE TO PROVIDE TIMELY AND ACCURATE LEGALLY REQUIRED FINANCIAL REPORTS TO THE DEPARTMENT OF EDUCATION, ARKANSAS LEGISLATIVE AUDIT, THE GENERAL ASSEMBLY, OR THE INTERNAL REVENUE SERVICE
FISCAL DISTRESS

• INDICATORS OF FISCAL DISTRESS (CONTINUED):
  • INSUFFICIENT FUNDS TO COVER PAYROLL, SALARY, EMPLOYMENT BENEFITS, OR LEGAL TAX OBLIGATIONS
  • MATERIAL FAILURE TO MEET LEGALLY BINDING MINIMUM TEACHER SALARY SCHEDULE OBLIGATIONS
  • MATERIAL FAILURE TO COMPLY WITH STATE LAW GOVERNING PURCHASING OR BID REQUIREMENTS
  • MATERIAL DEFAULT ON ANY SCHOOL DISTRICT DEBT OBLIGATION
  • MATERIAL DISCREPANCIES BETWEEN BUDGETED AND ACTUAL SCHOOL DISTRICT EXPENDITURES
INDICATORS OF FISCAL DISTRESS (CONTINUED):

- MATERIAL FAILURE TO COMPLY WITH AUDIT REQUIREMENTS
- MATERIAL FAILURE TO COMPLY WITH ANY PROVISION OF THE ARKANSAS CODE THAT SPECIFICALLY PLACES A SCHOOL DISTRICT IN FISCAL DISTRESS BASED ON NONCOMPLIANCE
- MATERIAL FAILURE TO COMPLY WITH LEGAL REQUIREMENTS CONCERNING THE MINIMUM QUALIFICATIONS FOR A GENERAL BUSINESS MANAGER
- MATERIAL FAILIURE TO COMPLY WITH REPORTING, DEBT APPROVAL, OR OTHER REQUIREMENTS PLACED ON A PUBLIC SCHOOL DISTRICT THAT HAS BEEN RETURNED TO LOCAL CONTROL FOLLOWING A PERIOD OF FISCAL DISTRESS
- ANY OTHER FISCAL CONDITION OF A SCHOOL DISTRICT DEEMED TO HAVE A DETRIMENTAL NEGATIVE IMPACT ON THE CONTINUATION OF EDUCATIONAL SERVICES BY THE SCHOOL DISTRICT
FISCAL DISTRESS

• BY NOVEMBER 1 OF EACH YEAR:
  • DEPARTMENT NOTIFIES SUPERINTENDENT IF DEPARTMENT IS AWARE THAT THE DISTRICT HAS EXPERIENCED TWO OR MORE NONMATERIAL INDICATORS OF FISCAL DISTRESS
  • SUPERINTENDENT NOTIFIES THE DEPARTMENT IF THE SUPERINTENDENT IS AWARE THAT THE DISTRICT HAS EXPERIENCED TWO OR MORE NONMATERIAL INDICATORS OF FISCAL DISTRESS
  • DEPARTMENT IDENTIFIES SUPPORT IT CAN PROVIDE TO THE DISTRICT – DISTRICT MAY NOT INCUR ANY DEBT WITHOUT THE PRIOR WRITTEN APPROVAL OF THE DEPARTMENT
FISCAL DISTRESS

• FISCAL DISTRESS IDENTIFICATION PROCESS:
  • DEPARTMENT NOTIFIES SCHOOL DISTRICT BY JUNE 30 THAT THE SCHOOL DISTRICT HAS BEEN IDENTIFIED AS A SCHOOL DISTRICT IN FISCAL DISTRESS
  • NOTIFICATION MAY COME AFTER JUNE 30 IF DEPARTMENT DISCOVERS THAT A FISCAL CONDITION OF A SCHOOL DISTRICT NEGATIVELY IMPACTS THE CONTINUATION OF EDUCATIONAL SERVICES BY THE SCHOOL DISTRICT
  • FISCAL DISTRESS PLAN REQUIRED; NO FURTHER DEBT WITHOUT DEPARTMENT APPROVAL
• SCHOOL DISTRICT MAY APPEAL TO STATE BOARD WITHIN 30 DAYS OF NOTICE FROM THE DEPARTMENT
• STATE BOARD WILL HEAR THE APPEAL WITHIN 60 DAYS OF THE DATE OF THE APPEAL
FISCAL DISTRESS

- FISCAL DISTRESS CLASSIFICATION (IF STATE BOARD FINDS THAT FISCAL DISTRESS IS PRESENT):
  - A SCHOOL DISTRICT MAY NOT REMAIN IN FISCAL DISTRESS FOR MORE THAN FIVE CONSECUTIVE SCHOOL YEARS
  - SCHOOL DISTRICTS IN FISCAL DISTRESS MUST RECEIVE ON-SITE TECHNICAL EVALUATION AND ASSISTANCE FROM THE DEPARTMENT
  - REPORT ON FISCAL DISTRESS TO STATE BOARD EVERY SIX MONTHS
  - STATE BOARD CAN CONSOLIDATE, ANNEX, OR RECONSTITUTE THE SCHOOL DISTRICT AT ANY TIME
  - AMONG OTHER RESPONSES TO FISCAL DISTRESS, THE STATE MAY REMOVE THE SUPERINTENDENT AND BOARD, SCHOOLS MAY BE CLOSED, STAFF MAY BE TERMINATED OR REASSIGNED
FISCAL SUPPORT & SERVICES

• ONCE RETURNED TO LOCAL CONTROL OR REMOVED FROM FISCAL DISTRESS:
  • DEPARTMENT WILL MONITOR FISCAL OPERATIONS AND ACCOUNTS FOR THREE YEARS
  • DEPARTMENT WILL PROVIDE SUPPORT REGARDING MAINTAINING FISCAL INTEGRITY AND BEST FINANCIAL MANAGEMENT PRACTICES
  • MAY IMPOSE VARIOUS REPORTING REQUIREMENTS ON THE SCHOOL DISTRICT
  • STATE REVIEWS BUDGETS AND STAFFING
  • NO DEBT WITHOUT APPROVAL OF THE DEPARTMENT
  • MUST USE LEGISLATIVE AUDIT FOR AUDIT PURPOSES
DON’T WAIT UNTIL THE END OF THE YEAR

• ENDING BALANCE IS THE MOST IMPORTANT CHECK POINT BUT YOU SHOULD LOOK AT INTERMEDIATE REPORTS TO VERIFY WHETHER YOUR BUDGET IS ON TARGET OR NOT

• CLOSELY REVIEW YOUR MONTHLY BOARD REPORTS.
DIFFERENT TYPES OF MONTHLY REPORTS

• YOU SHOULD BE RECEIVING A REPORT EACH MONTH FROM THE SUPERINTENDENT OR BUSINESS MANAGER THAT GIVES YOU A GOOD LOOK AT THE DISTRICT’S CURRENT FINANCIAL POSITION.

• DON’T BE AS CONCERNED (YET) WITH THE DETAILS BUT DO BE CONCERNED ABOUT THE BIG NUMBERS AND THE BIG TRENDS.

• BIG BUDGET NUMBERS – NOT THE SMALLER BUDGET UNITS

• STATEMENT OF REVENUE

• STATEMENT OF EXPENDITURES

• FUND BALANCES

• CHECK REGISTRY

• YEAR-TO-DATE
  • YEAR-TO-DATE COMPARED TO BUDGET
  • YEAR-TO-DATE COMPARED TO LAST YEAR.
SUPERINTENDENT/BOARD RELATIONS

• A GOOD RELATIONSHIP BETWEEN THE SUPERINTENDENT AND THE SCHOOL BOARD BEGINS WITH MUTUAL TRUST.

• A TRUSTING RELATIONSHIP BETWEEN THE SUPERINTENDENT AND SCHOOL BOARD IS IMPERATIVE TO THE FINANCIAL HEALTH OF A DISTRICT.

REMEMBER, YOU ARE DOING THIS FOR KIDS!
BRAIN BREAK!
AUDIT TRAINING
AUDIT TRAINING REQUIREMENT

- ANNOTATED CODE 6-13-629
- THERE IS NO HOURLY REQUIREMENT
- THERE IS NO REQUIREMENT AFTER THE INITIAL TRAINING

NOTE: ASBA strongly suggests subsequent training in this area in order to keep abreast of auditing changes and to sustain continued growth of knowledge.
WHAT IS AN AUDIT?

AN AUDIT IS THE PROCESS BY WHICH AN INDEPENDENT ACCOUNTANT REVIEWS YOUR FINANCIAL RECORDS AND PROCEDURES IN ORDER TO EXPRESS AN OPINION OF THE FAIR PRESENTATION OF YOUR FINANCIAL STATEMENTS.

AN AUDIT IS NOT DESIGNED TO DETECT FRAUD.
WHAT DO AUDITORS DO?

Plan the Audit
Test the Accounting Records
Verify the Account Balances
Prepare the Audit Report
WHY DO WE HAVE AN AUDIT?

- REQUIRED BY STATE LAW.
- REQUIRED BY FEDERAL LAW.
- REQUIRED BY DEBT AGREEMENTS.
- REQUIRED BY BONDING COMPANIES.
- PATRONS LIKE THEM.
- EVALUATION OF THE PERFORMANCE OF MANAGEMENT.
DISTRICT RESPONSIBILITY

• WHILE THE AUDITOR DOES “PREPARE THE REPORT” THE DISTRICT IS RESPONSIBLE FOR THE PREPARATION OF THE FINANCIAL STATEMENTS.

• THE DISTRICT NEEDS TO DESIGNATE A QUALIFIED INDIVIDUAL TO BE RESPONSIBLE FOR THE OVERSIGHT OF THE FINANCIAL STATEMENTS FOR THE AUDITOR (USUALLY BUSINESS MANAGER OR THE SUPERINTENDENT).

• THE AUDITOR IS TO REPORT ON HOW FAIRLY THE FINANCIAL STATEMENTS ARE PRESENTED AND TO WHAT EXTENT THE DISTRICT COMPLIED WITH LAWS AND REGULATIONS.
THE AUDIT REPORT

- INDEPENDENT AUDITOR’S REPORT
- REPORT ON INTERNAL CONTROL
- REPORT ON COMPLIANCE
- MANAGEMENT LETTER
- BALANCE SHEET
- STATEMENT OF REVENUES AND EXPENDITURES
- BUDGET TO ACTUAL
- NOTES TO FINANCIAL STATEMENTS
- SUPPLEMENTAL INFORMATION – CAPITAL ASSETS, FEDERAL EXPENDITURE SCHEDULE, SCHEDULE OF FINDINGS, FEDERAL PROGRAMS, SELECTED INFORMATION
INDEPENDENT AUDITOR’S REPORT

- TYPES OF AUDITS
  - GOVERNMENTAL ACCOUNTING STANDARDS (GASB)
  - REGULATORY BASIS

- TYPES OF AUDITOR OPINIONS
  - UNQUALIFIED OPINION
  - QUALIFIED OPINION
  - ADVERSE OPINION
MANAGEMENT LETTER

- You may or may not have a management letter attached to your audit report.
- This letter is intended for use by legislative audit committee, local school board, district management, ADE and federal regulatory agencies.
- Details any violations of federal or state laws.
- Is still a part of the public audit report.
REPORT ON INTERNAL CONTROL

- WHAT IS INTERNAL CONTROL?
- NOT AN OPINION ON INTERNAL CONTROL
- FINDINGS OF MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL MATTERS ARE REFERENCED IN THIS LETTER
- REFERENCES FINANCIAL ITEMS
THINGS TO REMEMBER

• AUDIT DEADLINE: THE AUDIT REPORT IS DUE TO BE PRESENTED TO THE BOARD NO LATER THAN NINE MONTHS AFTER THE CLOSE OF THE FISCAL YEAR (END OF MARCH)
THINGS TO REMEMBER

➢ AUDIT REPORTS HAVE TO BE REVIEWED BY THE BOARD OF DIRECTORS AT THE FIRST REGULAR BOARD MEETING AFTER THE AUDIT REPORT IS RECEIVED AND APPROPRIATE ACTION MUST BE TAKEN.

➢ REVIEWED BUT NOT VOTED ON.

➢ ANNOTATED CODE § 6-1-101.
SECTION 80.26(B)(3) OF THE U.S. EDUCATION DEPARTMENT GENERAL ADMINISTRATION REGULATIONS (EDGAR) REQUIRES THE ARKANSAS DEPARTMENT OF EDUCATION (ADE) TO ENSURE THAT...

WHEN A PUBLIC SCHOOL DISTRICT, OPEN-ENROLLMENT CHARTER SCHOOL, OR EDUCATION SERVICE COOPERATIVE HAS AN AUDIT FINDING REGARDING AN INSTANCE OF NONCOMPLIANCE WITH FEDERAL LAWS OR REGULATIONS, THAT AN APPROPRIATE CORRECTIVE ACTION PLAN (CAP) IS IMPLEMENTED WITHIN SIX MONTHS AFTER RECEIPT OF THE AUDIT REPORT.
TO OBTAIN CURRENT AND PRIOR YEARS AUDIT REPORTS OF YOUR SCHOOL DISTRICT, YOU CAN GO TO THE ARKANSAS LEGISLATIVE AUDIT’S WEBSITE AND DOWNLOAD COPIES.
ACKNOWLEDGEMENTS

MOST MATERIAL WAS OBTAINED FROM PAST PRESENTATIONS BY:

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