



ARKANSAS DEPARTMENT OF EDUCATION

Management Principles to Support School District Fiscal Health

Resource & Technical Assistance Manual

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Resource & Technical Assistance Manual

The Arkansas Department of Education provides leadership, support, and service to schools, districts, and communities so every student graduates prepared for college, career, and community engagement.

The purpose of this document is to assist school districts in their financial practices to meet the needs of the students they serve.

School districts were created with the purpose of educating students. As such, they are funded with a combination of local, state, and federal funds. Those funds are to be used for the betterment of the students in those districts. While it is important for districts to be good stewards of those funds by being efficient, the purpose of those funds is to be used in a manner to increase student achievement. Districts must be effective with their use of funds as measured by meeting the needs of their students. Using efficient practices allows districts to be more effective in ensuring every student graduates prepared for college, career, and community engagement.

The Management Principles to Support School District Fiscal Health are intended to assist district leaders, operating as financial stewards of public funds, in achieving and maintaining the fiscal health and integrity of Arkansas school districts. The tool includes six (6) fiscal principles and related expectations that support each principle. The principles and expectations are aligned to effective practices, Arkansas state law, and rules promulgated by the Arkansas Division of Elementary and Secondary Education (DESE). They are intended to guide districts' fiscal administration, decision-making, and strategic planning to educate students.

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Principle 1: Fiscal Planning

The district creates an annual budget to guide spending throughout the school year.

1A. Needs Assessments are used to identify priorities and allocated resources to support student success.

What is a needs assessment?

Needs assessments encourage districts and their schools to systematically examine performance gaps and identify, understand, and prioritize the needs that must be addressed to improve outcomes for all students. It is important to ensure that the district budget is aligned to the district's priorities and goals established through the needs assessment process.¹

Many districts may have individual school-level needs assessments that inform each individual school improvement plan. The district should use the results from all needs assessments to guide the district budget as well as the district improvement plan, federal programming, and the use of categorical funds.

How does a needs assessment influence a district's budget process?

A needs assessment can assist a district in understanding how it is currently allocating resources to address specific schools or student groups. A needs assessment provides answers to questions such as:

- How do students' needs vary across schools in the district?
- How does performance vary for specific schools and student groups?
- Do students have access to the interventions and supports to meet their specific learning needs (e.g., students with disabilities, English learners) at the time in which they need them?
- How is the district currently allocating its resources to address specific schools or student groups? How might that need to shift to align to the identified needs of students and families in the district?
- What is the effectiveness of current school or district selected programs? Are the funds invested to support those programs resulting in goal accomplishment?
- If a district has completed a needs assessment and has determined that additional funds are needed, how does the district pursue additional funding?

¹ U. S. Department of Education. (2020, September). [School Improvement: Needs Assessment](#). From Office of Elementary & Secondary Education.

Resources: Historical and current unrestricted budget and expenditures (Local), District and School-Level Improvement Plans (Local), Needs Assessment Results (Local), [Needs Assessment Process](#), [Arkansas School Finance Manual](#), [ADE Grants](#)

1B. Enrollment trends are used to inform decision making and resource allocation.

Why should a district monitor change in enrollment?

- Enrollment, as measured by the previous year 3-quarter ADM, is a determinant of a district's foundation funding, a vital unrestricted resource for base expenditures.
- Enrollment is correlated with important district financial measures, such as the amount of funding available to meet identified needs.
- Proper enrollment projections help reduce the risk of overstaffing.
- Proper enrollment projections also help to reduce the need to hire staff at the start of the school year due to unanticipated enrollment increases.
- In conjunction with enrollment, revenue and expenditure trends allow a district to properly budget.

What resources exist to help a district monitor their enrollment trends?

- DESE projections conducted by the Division of Public School Academic Facilities and Transportation (DPSAFT)
- Local knowledge of factors affecting enrollment such as housing or economic development.

Resources: [Enrollment Projections Worksheet](#), [My School Info](#), CFAM: 211 Growth Funding, CFAM: 601 Quarterly ADM, CFAM: 602 State ADA/ADM Rank

1C. Staffing is analyzed and adjusted at least annually based on the Standards for Accreditation, local needs assessment, and enrollment trends.

How does staffing impact my district's budget processes and fiscal health?

Personnel compensation – made up of salary and benefits – comprise the largest part of a district's budget and may often account for the largest differences in school-by-school per-student expenditures. Once a budget is approved, it can be difficult to make mid-year staffing changes. It is important for districts to understand how requirements in state law and policies intersect with the district's strategic

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plan, enrollment projections, funding levels, and the needs of their students. Districts should consider the following questions related to staffing when monitoring and developing their budget:

- What processes are in place to project student enrollment for the upcoming year?
- What reports are used by the district routinely to monitor staffing? How is this information used to engage district leadership in decision-making?
- How does the district monitor staffing to meet state requirements for maximum class size and how is this used to engage district leadership in decision-making?
- What are the current and historical staffing ratios?
- Staffing ratios are calculated by dividing the number of students by the staff. This can be done for all staff or type of staff (teachers, counselors, instructional aides, etc.).
- How does the district allocate staff between schools and how does this process consider the needs of students in each school?

Maximum class size may be efficient, but it may also limit outcomes, opportunities, and therefore, not meet the needs of the students. This is where the district must consider the balance of effectiveness and efficiency.

What does the state require for staffing levels?

- [Class size rules](#): State law sets a maximum class size based on grade level, with some exceptions made for large group instruction.²
- The 2022 [Standards for Accreditation](#) are the minimum requirements and processes required by Arkansas public schools. Reference these rules for information on the accreditation process and the required standards related to:³
 - Academics
 - Student Support Services
 - District Operations and Fiscal Governance
 - Human Capital
 - Stakeholder Communication/Family and Community Engagement

How can my district implement this expectation?

² Arkansas Division of Elementary and Secondary Education. [Rules Governing Class Size and Teaching Load](#).

³ Arkansas Division of Elementary and Secondary Education. [Rules Governing Standards for Accreditation of Arkansas Public Schools and School Districts](#).

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- Adopt and implement a schedule to run staffing reports to monitor vacancies, staffing ratios, and budget-to-actuals for salary and benefit expenditures.
- Agree upon a process for how the district allocates its staff to schools that reflects the goals of the district's strategic plan and addresses the concerns identified in the needs assessment.
 - Example: If a needs assessment finds that class sizes are too large and students are not able to schedule the classes they request, the district may consider a staff allocation change. It could identify the number of staff needed to accommodate for the students' needs and allocate the necessary resources in the budget.
- Districts should monitor their staffing trends in accordance with various state and local projections by using historical enrollment and staffing information.
 - DESE provides a staffing projection template for certified staff in meeting the Standards for Accreditation.
 - DFPSAFT provides a staffing worksheet for custodial services.
 - DESE Child Nutrition provides a meals-per-labor-hour worksheet for food service employees.
 - District needs assessment based on student outcomes and interests.
 - Community-driven needs assessments based on workforce, housing, economic development, and other factors.
- Staffing ratios should be considered for districts that are similar in terms of size, demographics, or geography. Information can be found on My School Info. It is important to consider and incorporate into the analysis if districts are utilizing purchased services for staffing and economy of scale when making comparisons.

Resources: Historical and current unrestricted budget and expenditures, [Enrollment Projections Worksheet](#), [Staffing Projection Template](#), [Salaries and FTE Pages 36-36](#), [Meals Per labor Hour](#), [Needs Assessment Process](#), [My School Info](#), CFAM: 851 Fiscal Analysis of Matrix Revenues & Expenditures, CFAM: 120 Matrix Map

1D. Revenues and expenditures are budgeted in the proper fund.

How does ensuring revenues and expenditures are budgeted in the proper fund support district budgeting practices?

When expenditures are budgeted in the proper funds, it is easier for a district to establish processes for linking priorities and programs to spending and outcomes. This also enables the district to meet reporting requirements. Additionally, proper budgeting and coding allows districts to track expenditures and allowable funds throughout the year.

Why are revenues and expenditures maintained in separate, distinct funds?

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Fund accounting is organized around a set of funds where each fund is created for a specific purpose. Each fund maintains a complete set of self-balancing accounts which show its assets, liabilities, reserves, fund balances and expenditures. [State of Arkansas Financial Accounting Handbook](#) provides an outline and instructions for districts to effectively manage their funds.

#	Title	Description
1	Teacher salary fund	Expenditures for payment of salaries for certified personnel, certified substitutes, and tuition, as defined by statute 6-17-908. Certified personnel salaries from federal program funds are excluded.
2	Operating fund	Receipts and expenditures for current operating expenses other than those that relate to the purposes set out for the other funds listed. Note: Activity, federal, food service, and dedicated millages are examples of funds that are not coded to fund 2001.
3	Building fund	Receipts and expenditures of specific building projects.
4	Debt service fund	Local tax receipts and expenditures for the retirement of bonded debt
5	Capital Outlay/Dedicated Maintenance & Operation fund	Receipts and expenditures of building projects funded by millages voted and passed specifically for capital outlay and dedicated M&O purposes.
6	Federal grants fund	Receipts and expenditures restricted to federally sponsored projects. This includes revenues, expenditures, and salaries from federal grant funds.
7	Activity fund	Receipts and expenditures for pupil activities.
8	Food service fund	Receipts and expenditures of the food service operations.
9	Fixed Asset fund/LT Debt.	Set of self-balancing accounts indicating the investment in fixed assets.

What strategies could my district adopt to implement this expectation?

- Districts should carefully analyze their approved annual budgets and make adjustments, where appropriate.

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- Districts should carefully analyze their federal budgets and expenditures to ensure revenue and expenditures are properly budgeted for and monitored.
- Conduct an internal review of booked revenue to the proper fund by cross-checking grant or revenue award agreement letters.
- Consider assigning additional codes in your expenditure tracking to programs or services to enable easier reporting.

Resources: Historical and current unrestricted budget and expenditures, [State of Arkansas Financial Accounting Handbook](#), Summary Expenditure Status Report - Board Format (COGNOS)

1E. Salary expenditures meet state requirements.

What are some of the requirements the state of Arkansas has related to salary, wages and benefits?

- Minimum salary schedules: Arkansas state law requires the board of directors in each district to pay classroom teachers on a minimum salary schedule with a base salary of \$50,000.
- Minimum wage: Arkansas state law A.C.A. § 11-4-210 requires that, beginning January 1, 2021 the rate of not less than eleven dollars (\$11.00) per hour except as otherwise provided in this subchapter.
- Educational Excellence Trust Fund (EETF): Under A.C.A. § 6-5-307 any increase in EETF allocation for teacher salaries shall be used by districts to provide salary increases for current licensed personnel positions and for no other purpose, except that required social security and teacher retirement matching required to be paid by the districts may be paid from the funds. The Trust Fund amount on the final State Aid Notice for the current school year must be expended in the form of salaries, social security, and retirement matching for current licensed personnel positions. The Arkansas School Funding Guide provides information on the EETF and a tool created by DESE to assist districts in determining whether they are required to give salary increases to meet the EETF requirement.

What practices can my district adopt to implement this expectation?

Districts should ensure that any changes to the salary schedule are consistent with law and have a base salary of \$50,000.

What budget considerations are related to salary expenditures?

- What will be the cost to raise the salaries of teachers (and associated benefits and retirement contributions) and how will the district account for that additional cost?
- How does the district's teacher salary schedule compare to nearby or competitive districts?
- Using application, staffing vacancy, retention, and attrition information, does the district's salary schedule attract and retain educators?

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- How do any increases in state funding for teacher compensation impact the district's budget for retirement contributions and other benefits?

Resources: [Statewide Salary Reports](#), [Arkansas School Funding Guide](#), [My School Info](#), CFAM: 615 Teacher Salary Schedule Chart, CFAM: 616 Teacher Salary Schedule Scatter

1F. Budgeting and expenditures requirements are met.

What does Arkansas state law require related to budgets and expenditures of state dollars for education?⁴

Arkansas state law requires districts to ensure funds are distributed in an efficient manner to provide an adequate education.

Districts must meet expenditure requirements in the following areas, without limitation:

- Gifted and Talented - Each school district shall expend in an amount equal to fifteen hundredths (0.15) of the foundation funding amount multiplied by five percent (5%) of the school district's average daily membership for the previous year.
- Maintenance and Operations – Each district must dedicate 9 percent (9%) of its foundation funding exclusively to the payment of utilities and costs of custodial, maintenance, repair, and renovation activities for public school facilities.
- ESA – Districts cannot carryover more than 15 percent (15%) of their current year allocation.
- Categorical (ESA, ALE, ELL, PD) – Districts cannot carryover more than 20 percent (20%) of their current year allocation.
- Legal Balance - Districts cannot carryover more than 20 percent (20%) of their Net Legal Revenue

How can my district ensure that budgeting and expenditure requirements are met?

District should ensure they have proper procedures in place for budgeting and reporting of expenditures and are using restricted funds as required by state and federal law. See Expectation 1D for an explanation of the fund codes and segregating revenues and expenditures by purpose.

⁴ A. C. A. § 6-20-2305 Public School Funding Act of 2003, relative to School Funding; A. C. A. § 6-20-2208 Arkansas Educational Financial Accounting and Reporting Act of 2004, relative to Monitoring of Expenditures; A. C. A. § 6-21-808(d)(1)(A) Arkansas Public School Academic Facilities Program Act, relative to Public School Facilities Custodial, Maintenance, Repair, and Renovation Manual.

Resources: Historical and current unrestricted budget and expenditures, [Reports on APSCN webpage](#), Summary Expenditure Status Report - Board Format (COGNOS). CFAM: 301 Board Report, 351 Budget Buster, 352 Budget Planning-Expenditures, 353 Budget Planning-Revenue, 355 Annual Budget with Transfers

1G. Federal fund applications and budgets adhere to timeline and expenditure requirements.

What processes should a district have in place to meet deadlines in conjunction with budget submissions for federal funds?

Federal program coordinators at a district should be aware of the annual calendar for grant applications and work in conjunction with district finance/budget staff to ensure projections for incoming funds are part of the budget process. Districts should ensure that their federal program staff are resourced in a way to adhere to the deadlines, processes, and contracts for all federal funds, such as Title funds, Perkins, Child Nutrition, ESSER, etc.

What resources are available to help my district create a plan for meeting the timeline and expenditure requirements?

Various resources are available dependent upon the funds being utilized.

Resources: [Office of Information Technology Calendar](#), [DESE Spending Handbook for ESEA/ESSA Funds](#), Federal guidance [2 CFR § 200.308\(f\)](#), CFAM: 130 Federal Funds by Function

Principle 2: Fiscal Accounting

The district expends funds appropriately and maintains detailed documentation.

2A. General operational expenditures do not exceed current year revenues.

What processes should a district have in place to ensure expenditures do not exceed current year revenues?

Districts should strive to ensure they have a large enough net-legal balance to cover expenditures prior to new revenue being received.

- Intentional awareness of large expenditures such as debt service, construction, and lease agreements should be considered.
- Districts should monitor expenditures in relation to budgeted amounts and have a process in place to ensure proper budgeting and expending of funds.
- Establishing a minimum net-legal balance that allows districts to bridge a temporary cash flow timing gap due to an unexpected event such as a natural disaster.

Resources: Historical and current unrestricted budget and expenditures, [Reports on APSCN webpage](#), A.C.A. § 6-20-2210(b), Summary Expenditure Status Report - Board Format (COGNOS), CFAM: 851 Fiscal analysis of matrix expenditure/revenue, CFAM:120 Matrix Map

2B. Expenditures are incurred for business related activities.

No money or property belonging to the public-school fund, or to this State, for the benefit of schools or universities, shall ever be used for any other than for the respective purposes to which it belongs.⁵

Resources: [Audit results](#), CFAM: 109 Expenditure Status Report, CFAM: 101-106 Expense 1-6

2C. Clear, itemized documentation is maintained for all expenditures.

What are good practices to ensure appropriate documentation of expenditures?

⁵ <https://law.justia.com/constitution/arkansas/article-14/section-2/>

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- **Proper Coding:** Ensuring that each district uses and maintains accurate account codes for expenditures is integral for not only tracking current year funds, but also in comparing year-over-year balances. Centralized record keeping for codes is important for facilitating new hire training, whether in central offices or in schools.
- **Internal controls** and procedures are in place that establish the documentation necessary for all expenditures as required by the annual audit.
 - Invoices, receipts, and purchase orders
 - Contracts
 - Board minutes
 - Procurement adherence (sole source letters, copies of bids, emergency declaration, TIPS / TAPS contracts)
 - Inventory records
 - Timesheets

Resources: Audit results, [State of Arkansas Financial Accounting Handbook](#)

2D. Salaries and benefits paid to employees align to district salary schedules and benefits rate tables, and do not exceed contracted amounts.

What steps should be taken regarding payment of employees?

- Certified staff must be paid based on the approved salary schedule for the district.
- All employees are paid based on polices including stipends and any additional pay.
- Signed contractual amounts align to payout for each employee.

What considerations should be taken regarding benefit rate tables?

- Employee benefits such as health and dental insurance, paid leave, life and disability insurance, and retirement contributions account for a significant share of a district's total employee compensation costs.
- The current and anticipated costs of district contributions to each of these benefits and the impact to the district's budget.
- Competitive benefits may be used as a potential tool for recruitment and retention.
- Current requirements of the Fair Labor Standards Act.

Resources: [Audit results](#), A.C.A. 6-17-2403, A.C.A. 6-17-204, A.C.A. 6-17-2201 et.seq., [Blended Overtime Template](#)

2E. Procurement laws and policies are followed.

How does a district comply with state law for procurement and bidding?

Arkansas state law requires purchases of commodities by districts school year to be procured through a bidding process if the purchase amount exceeds a predetermined threshold. A.C.A. § 6-21-301, et. seq. details the process by which a district must notify bidders and contractors, collect responses, and address grievances related to the bidding process.

Districts may also consider the use of sole source providers, purchasing agreements such as TIPS and emergency procurement to satisfy the requirements under law.

Local school boards have the authority to set policies regarding bidding thresholds and board approval.

When bidding for construction, specific criteria must be adhered to including, but not limited to: bid bonds, contract licensure, and bidding requirements. For federal bidding requirements, districts should reference [EDGAR](#).

Resources: [Audit results](#), A.C.A. § 6-21-304, A.C.A. §22-9-201 et. seq., [Edgar](#).

2F. Activity funds are clearly defined and used only for the purpose in which they were established.

What processes are important for ensuring activity funds are handled appropriately?

Activity funds may pose a higher risk for misuse or theft due to the inherent nature of non-centralized cash transactions. It is imperative to document all activities related to each fund such as sponsors, point of contact, purpose, expenditures, receipts, and bank deposits. Each fund should have a designated contact for a clear, delineated set of internal controls (i.e., the same person handling the receipt of the funds such as at a concession stand is not the same and only person responsible for making the bank deposit). Additionally, funds established for a certain purpose must only be used for the intended and documented purpose.

District staff should conduct training for activity fund fiduciaries.

Resources: [Audit results](#), District Financial Procedures (Local), District Financial Policies (Local), CFAM: 109 Expenditure Status Report, CFAM: 101-106 Expense 1-6

2G. Federal funds must be necessary and reasonable in accordance with program requirements.

What does necessary, reasonable, and allocable mean?

Allowable expenditures shall be both necessary and reasonable in cost (nature and amount).

When determining whether a cost is necessary, consideration may be given to:

- Whether the cost is identified in the approved budget or application.
- Whether there is an educational benefit associated with the cost.
- Whether the cost aligns with results and findings from a needs assessment.
- Whether the cost addresses program goals and objectives based on data.
- Whether the cost is necessary to achieve an important program objective
 - Example: The agency may deem transportation to and from an after-school program to be necessary, and allowable since the school does not provide transportation to students.

When determining reasonableness of a cost, consideration must be given to:

- Whether the cost is ordinary and necessary for the proper and efficient performance of the grant.
- Sound business practices; arm's-length bargaining; federal, state, and other laws and regulations; and any terms and conditions of the grant itself.
- Market prices for comparable goods or services for the geographic area.
- Whether the operating agency significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the MEP award's cost (2 CFR, Section 200.404).^{[i]6}

Resources: [Audit results](#)

⁶ Arkansas Department of Education. 2021-2022 Spending Handbook for ESEA/ESA Funds. From the Division of Elementary and Secondary Education.

Principle 3: Internal Controls

The district has established procedures and controls to ensure financial transactions are conducted properly.

3A. The district has a systemic plan to identify areas of high-risk regarding school funds.

What are areas of high risk for a district?

The most common audit findings for districts are:

- Theft/Criminal Activity
- Unallowed Costs
- Lack of bank reconciliations
- Expenditures charged to the program not included in approved budget
- Lack of supporting documentation for expenditures
- Lack of separation of duties
- Improper oversight of compliance with applicable federal regulations

Additional items to consider:

- Susceptibility to theft or fraudulent reporting.
- Complex accounting or calculations.
- Personnel's knowledge, experience, and training.
- Difficulty in creating timely disclosures.
- Size and volume of accounts balance or transactions.

Resources: Policies (Local), Procedures Manual (Local), Organization Chart (Local), Job Duties/Responsibilities (Local)

3B. The district has written internal controls that are implemented with fidelity and reviewed annually.

What are internal controls?⁷

Internal Controls Defined According to EDGAR 2 C.F.R 200.61: Internal Controls means a process, implemented by a district, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a. Effectiveness and efficiency of operations;
- b. Reliability of reporting for internal and external use; and
- c. Compliance with applicable laws and regulation.

Why is it important that a district operate with clear processes for internal controls?

Districts must create clear processes related to accounting and financial reporting to not only ensure smooth district wide operations, but also to ensure compliance. This system of internal controls allows for the procurement and disbursement of goods/services in a timely/effective manner, allows for employees to be compensated in a timely manner, and allows for transactions to be reviewed/authorized by appropriate parties, to name a few. Each part of the process is integral to the operation of the system.

What are steps a district can take to ensure it is implementing internal controls properly?

The district has clearly defined job duties and responsibilities written for staff who are involved with financial transactions such as purchasing, payroll, and depositing of funds. District also has procedures and practices in place such as:

- Segregation of financial duties to prevent errors or fraudulent activity.
- Written procedures for all financial transactions including cash management, purchasing, and credit card use.
- Internal controls are revised to address audit findings.

The superintendent is responsible for ensuring that current practice, policies, and procedures are aligned.

⁷ United States Government Accountability office. "Standards for Internal Control in the Federal Government." Available <https://wested.ent.box.com/file/938263385481> pages 53 and 74.

Resources: [See this example of setting up an internal controls process in a district.](#) Policies (Local), Procedures Manual (Local), Organization Chart (Local), Job Duties/Responsibilities (Local), "[Green Book](#)" Standards for Internal Control in the Federal Government.

3C. The district ensures appropriate staff receive financial training.

What financial training is required of district staff?

Tier I training is required annually by the superintendent and staff member(s) whose job responsibilities include preparing the budget or overall accounting responsibility, such as school business officials.

Tier II training is required annually to site and department administrators who have purchasing authority. Training may be provided by district staff who have participated in Tier I training.

What additional financial training should be considered within a district?

Beyond Tier I and II training, any staff member that has financial responsibilities should be trained on internal control processes and policies. Additionally, a centralized method to keep track of delegations of authority – i.e., if staff members are on leave, who is the next level of authority? – should be adopted.

Where can I find more information and resources on financial training for district staff?

ADE will annually publish a Commissioner's memo listing Tier 1 training locations, dates, and times.

Resources: District documentation of any financial training including, but not limited to: Tier 1, Tier 2, Policies, and Procedures

3D. The district is organized and prepared for an annual audit.

What purpose do annual audits serve for districts?

The intent of an audit is to improve the district and its operations. This could mean identifying weaknesses in procedures. Audits reveal day-to-day efficiencies, or lack thereof, and other facets to ensuring districts are operating effectively.

Resources: [Audit results](#), [Annual Audit Process](#)

Principle 4: Fund Balances

The district maintains fund balances in accordance with state and federal regulations.

Fund balances refers to the ending balances at the end of a fiscal year.

4A. At the close of the fiscal year, the district's net legal balance does not exceed 20 percent (20%) of the current year net legal revenue.

How is net legal balance carryover calculated?

If at the close of the fiscal year a public school district has a net legal balance that exceeds twenty percent (20%) of the public school district's current year net legal balance revenues, the public school district shall within five (5) years reduce its net legal balance to no more than twenty percent (20%) of the public school district's current year net legal balance revenues. ACA § 6-20-2305

Why should net legal balance not exceed 20 percent (20%)?

When balances exceed 20 percent (20%) of the allocation provided by the state, this indicates that a district is not adequately spending down their funds which can impact the resources that students and schools receive. A district may not be fully expending their allocated funds due to issues such as inefficient processes or vacancies, which are issues that should be addressed to ensure students and schools are receiving adequate resources.

How can a district reduce its net legal balance?

Examining the difference between total revenues and total expenditures may show whether a district is operating with a deficit or surplus in any given year. A comparison of fund balances from year to year can do the same.

If a district wants to reduce its net legal balance, it can increase its expenditures to align with revenues and even gradually increase spending. A district may do this by identifying areas where it is underspending its budget. For example, transfers to the Operating Fund may indicate that the district is balancing its ongoing budget by borrowing from other funds. Transfers into other funds may mean that Operating Fund revenues are subsidizing other operations, such as the child nutrition program.

Additionally, a district can reduce its net legal balance by transferring funds into the Building Fund. A.C.A. § 6-20-2210.

A district can ensure it maintains a healthy fund balance without exceeded 20 percent (20%) of allocations by:

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- Adopting process of ongoing reporting of revenues vs. expenditures.
- Identifying programs or budgets that have traditionally underspent their allocated budget. For example, if a department has maintained multiple vacancies for the past several years, it may be time to reevaluate whether allocating funds in the budget for that department is necessary or if the dollars should be reallocated to other needs.
- Proactively preparing and monitoring the net legal balance.

Resources: Historical and current unrestricted budget and expenditures, A.C.A. § 6-20-2210(b). [Reports on ASPCN website](#). Summary Expenditure Status Report - Board Format (COGNOS), CFAM: 410 20% Net Legal Balance, 411 20% Filtered Net Legal Balance (for districts with QZAB Bonds)

4B. Sufficient cash resources are maintained to support current and projected obligations at the end of the fiscal year.

How can a district avoid spending down its fund balances?

Oftentimes, programs that were intended to be temporary become recurring expenses with salary and benefits for personnel. Districts may be tempted to dip into their fund balances (deficit spend) in cases where:

- Revenues drop due to a decrease in enrollment or shift in demographics without an accompanying realignment in staffing and resources or
- Expenses increase due to economic conditions, compensation increases, or new initiatives.

Districts can avoid dipping into their fund balances in the case of declining revenue by carefully monitoring revenues, expenditures, and enrollment and by adjusting school sites, staffing, and programming accordingly. Additionally, fund balances for each fund should be reviewed prior to approval of any expense. Districts can avoid using their fund balances to cover reoccurring expenses by:

- Evaluating the cost and impact of increased spending on salaries and programs against established priorities, and
- Allowing the district to allocate resources away from less impactful programs toward more successful or more aligned initiatives, and
- Proactively budgeting responsibly with consideration to fund balances.

What does it mean to have sufficient resources to support current and projected obligations by the end of the fiscal year?

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As stewards of taxpayer dollars, district officials must ensure that the district is able to meet its financial obligations each year. While pressure may exist to invest in new programs or provide raises to employees, it is important that district leaders first affirm that their adopted budget is fiscally sound to be able to support such new initiatives and expenditures.

Arkansas does not currently have a minimum required fund balance, but local school boards may implement their own minimum fund balance requirements. Having a healthy fund balance allows districts to bridge a temporary cash flow timing gap, while maintaining services, and improve the district's bond rating reducing interest costs.

Why is it important to have sufficient resources to support current and projected obligations?

Ultimately, not having sufficient resources can interrupt the educational services provided to students. Not maintaining sufficient fund balances may be an indicator of fiscal distress.

Resources: Historical and current unrestricted budget and expenditures, Summary Expenditure Status Report - Board Format (COGNOS), A.C.A. 6-13-1027, CFAM: 301 Board Report, 851 Fiscal analysis of matrix expenditure/revenue, 401 Fund Balance, 412 Legal Balance, 414 Unrestricted Legal Balance

4C. By the close of the fiscal year, the minimum amount of funds as outlined in rule or legislation has been expended.

What is the minimum expenditure of funds as outlined in rule or legislation?

- Gifted and Talented - Each district is required to expend an amount of state and local revenues that equals fifteen percent (15%) of the Foundation Funding amount multiplied by five percent (5%) of the school district's prior year three quarter average daily membership (3 QTR ADM) on Gifted and Talented Programs.
- Maintenance and Operations – Each district must dedicate 9 percent (9%) of its foundation funding exclusively to the payment of utilities and costs of custodial, maintenance, repair, and renovation activities for public school facilities.
- ESA – Districts cannot carryover more than 15 percent (15%) of their current year allocation.
- Categorical (Enhanced Student Achievement - ESA, Alternative Learning Environment - ALE, English Language Learners - ELL, Professional Development - PD) – Districts cannot carryover more than 20 percent (20%) of their current year allocation.
- Legal Balance - Districts cannot carryover more than 20 percent (20%) of their Net Legal Revenue.

Additional, expenditure and carryover limitations apply to federal funds.

How can my district ensure it is meeting the minimum expenditure of funds as outlined in rule or legislation?

Districts should carefully plan for and track the spenddown of all federal and state grants to ensure they are spending at least the minimum required percentage. Refer to Principle 1 and Principle 2 for effective practices in planning for and monitoring expenditures. Districts should also prioritize fund spending and strategize the best ways to effectively spend down funds that have more rigid requirements. As an example, knowing that 85 percent (85%) of Title funds must be expended or else there are potential repercussions of funds being withheld, these funds may be seen as more of a priority to expend first. This may require looking at processes and procurement methods for these funds specifically.

Frequent monitoring of expenditures and fund balances throughout the course of the year, helps the district to ensure they are spending the proper amounts of funds.

Resources: [Rules for Student Special Needs Funding](#), Summary Expenditure Status Report - Board Format (COGNOS), CFAM: 552 ESA/Categorical Requirement

Principle 5: Superintendent

The superintendent is responsible for the financial operations of the district.

5A. The superintendent is knowledgeable of the purpose and allowable use of all funds allocated to the district.

What are the most common funds and their purpose?

Funding	Purpose
<p>Operating Funds: State Foundation Funding</p>	<p>Unrestricted fund that is intended to provide the needed resources to operate the district in accordance with Standards for Accreditation and Arkansas laws.</p>
<p>State Categorical Funds: English Language Learners (ELL), Alternative Learning Environment (ALE), Enhanced Student Achievement (ESA), Professional Development (PD)</p>	<p>Restricted funds intended to supplement funding for schools as provided by the state for the intent to support specialized populations.</p>
<p>Additional State Funding: Declining Enrollment, Teacher Salary Equalization, Enhanced Transportation, Student Growth, Isolated & Special Needs Isolated, LEARNS Teacher Minimum Salary and Raise Fund</p>	<p>Supplemental funding for schools as provided by the state for the intent to support specialized initiatives.</p>
<p>Federal Title Funds: Title I, II, III, IV, VI Migrant, Delinquent, Neglected, School Improvement, Recent Immigrant, Student Support and Academic Enrichment, Special Education School Age, Preschool Special Education, Homeless Children & Youth, Carl Perkins, REAP, SIG, Special Education</p>	<p>Restricted federal funds intended to supplement funding for schools as provided by the state for the intent to support specialized populations.</p>

Resources: [Arkansas School Funding Guide](#), [DESE Spending Handbook for ESEA/ESSA Funds](#)

5B. The superintendent is knowledgeable of how all revenue is generated and utilized to maintain the fiscal integrity of the district.

How is revenue generated and calculated for each district?

Revenues are determined by various factors, ranging from local taxes, enrollment averages, base funding, specialized populations, etc. Refer to your State Aid Notice for a breakdown of each district's funding calculation.

Resources: [Arkansas School Funding Guide](#), [Arkansas State Aid Notices](#), [Local Tax by Mill Type Calculator](#)

5C. The superintendent monitors expenditures and fund balances at least monthly.

Why is it important to monitor expenditures and fund balances?

Superintendents should ensure they are spending funds to meet the needs of the students. Additionally, districts should be monitoring how effectively schools spend allocated funds. This process can assist in determining whether funds should be moved from one category to another (ex. supplies to professional development, etc.), or reimaged/repurposed. This also allows for more proactive collaboration across departments to ensure funds are spent to meet the needs of the students.

What should districts consider when reviewing non-personnel fund balances?

Districts should review high balances for non-personnel spending to determine if funds are being expended efficiently and/or if there are internal controls issues impacting spend down of funds. Another reason to review high balances for non-personnel spending is to determine if there are more effective ways to procure goods/services. Districts may consider reviewing their procurement processes to maximize economies of scale if it is difficult or time consuming to procure at the school or department level.

Resources: See [Commonly Used Financial Reports in eFinance](#), Historical and current unrestricted budget and expenditures, Summary Expenditure Status Report - Board Format (COGNOS), Board Report. CFAM: 401 Fund Balance, 412 Legal Balance, 414 Unrestricted Legal Balance, 403 Exp Budget Balance, 210 Rev Budget Balance, 351 Budget Buster, 352 Exp Budget Planning, 353 Rev Budget Planning 355 Annual Budget w/xfers

5D. The superintendent monitors district contracts (and requirements) with outside vendors.

Why is it important to monitor contracts?

Monitoring contracts ensures that services are being provided adequately to best serve students and staff. Monitoring contracts allows finance office personnel to plan and forecast, as well as to embed processes that consider efficiencies and economies of scale. If several schools or departments utilize the same contractor/vendor for services, there may be price breaks that can be reached with an aggregated contractual agreement. This may also allow for effective practices to be adopted at a more wide-spread level.

What questions should be considered when evaluating contracts?

- What current contracts is the district obligated to?
- What are the timelines for existing contracts and when do they end?
- What are the requirements for the contracts?
- What mechanisms does the district have in place to evaluate the effectiveness or need for continuing or renewing this contract?
- What is the district policy for bid requirements?

Resources: [A.C.A. § 6-21-301](#), [A.C.A. § 19-11-201](#)

5E. The superintendent or designee provides official monthly reports to the local school board regarding the financial status of the district.

What reports should be reported to the local school board?

The school board is responsible for monitoring district reports to ensure fiscal soundness. These reports vary and include updates on staffing and student attendance, year-to-date accounting, and projections of future expenses. These reports can also reveal potential cash flow problems. Common financial reports include:

- Board Report (Detailed Statement of Changes in Fund Balances)
- Historical and current unrestricted budget and expenditures
- Budget Control Status
- Expenditure Audit Trail
- Vendor Payment History Report

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- Expenditure Status Report
- Revenue Status Report

Based upon local needs, each school board may determine the relevant information and reports to best monitor the fiscal operations of the district.

See [Commonly Used Financial Reports in eFinance](#) for descriptions of each report and information on how to access in eFinance.

Resources: Board Report, Historical and current unrestricted budget and expenditures, Summary Expenditure Status Report - Board Format (COGNOS), CFAM: 301 Board Report, 851 Fiscal analysis of matrix expenditure/revenue, 401 Fund Balance, 412 Legal Balance, 414 Unrestricted Legal Balance

5F. The superintendent develops and implements a corrective action plan in response to audit findings.

What is the audit process?

Each district is audited by a Certified Public Accountant (CPA) or the Arkansas Legislative Audit. The audit process and reports must be filed within 9 months of the end of the fiscal year. Districts that do not file their audit report within these 9 months are considered in fiscal distress.

Upon completion of the audit, the auditor will conduct an exit conference with the superintendent. Each audit finding must have a corrective action plan. This plan must be submitted within 30 days of the exit conference. The audit report and the recommendations will be reviewed by the school board.

What components are part of the corrective action plan?

Corrective action plans detail the district's response to audit findings. Upon receiving the audit findings, each finding needs three planned components:

1. The corrective action,
2. The identified person responsible for implementing the corrective action, and
3. The completion date.

Resources: See [Sample Corrective Action Plan](#) and guidance on the [Annual Audit Process](#).

5G. Financial reports are submitted accurately, and in a timely manner, to the Division of Elementary and Secondary Education as required by state law.

What are the primary financial reports submitted to DESE?

- [Annual Financial Budget](#) (AFB) - annual budget of expenditures and receipts
 - Deadline: September 30th
 - Notes: Each district submits a board approved budget for the current school year.
- [Salaries & FTE Report](#) - annual report of salaries and FTEs by fund source (general operating fund, food service fund, general salary fund, federal grants fund, matrix operating fund, and matrix salary fund) and gender
 - Deadline: July 31st
 - Notes: During Cycle 8 Submission, each district will submit a salaries and FTEs report for all classified and certified staff
- [Annual Financial Report](#) (AFR) - annual report of financial information
 - Deadline: August 31st
 - Notes: Each district closes its fiscal year after submission of the AFR. Closing activities include balancing the bank statements, all reconciliations, journal entries required, etc.

What else should a superintendent know about submitting financial reports to DESE?

Annually, by February 15. A review of a district's FTE and Average Salaries, AFR, and AFB are conducted. If there is more than 10 percent (10%) variance from the correct data, this is considered a material misstatement, which the LEA will have 30 days to respond to said errors with a proposed corrective action plan among other actions. Financial reports will be submitted by LEAs in the Arkansas Public School Computer Network (APSCN) and DESE has the right to withhold state funds if an LEA fails to file its budget or other required financial documentation.

Resources: [Report Cycles](#), A.C.A. § 6-10-129, [Data Reporting Rules](#)

5H. The superintendent recommends to the school board the proper course of action in fiscal matters to ensure the district does not incur debt that would have a negative impact on the continuation of educational services.

Long term financial planning is crucial when considering incurring debt, so that current and future educational services are not hindered.

- Awareness of new debt payment schedules and the impact on the district's budget.
- Balloon payments and lease agreements should be carefully considered prior to obligating district resources.

5I. The superintendent demonstrates transparency and follows ethical standards related to business practices.

At a minimum, all required postings can be found on the district "State Required" website.

Resources: Online training courses are provided by [Arkansas IDEAS](#), [Arkansas Ethical Guidelines and Prohibitions](#), [Website Posting Requirements](#). CFAM: 505 Indebtedness, 501 Debt Payment, 810 Statewide Outstanding Debt, 851 Fiscal analysis of matrix expenditure/revenue

5J. The superintendent ensures that district funds deposited in a bank are insured and collateralized.

Why is it important to ensure deposits are insured and collateralized?

A.C.A. § 6-20-222 states: "(a) All general deposits of school funds in banks shall be secured by general obligation bonds of the United States, by bonds, notes, debentures, or other obligations issued by an agency of the United States Government, by bonds of the State of Arkansas, or by bonds of a political subdivision thereof which has never defaulted on any of its obligations, in an amount at least equal to the amount of the deposit, or by a bond executed by a surety company authorized to do business in the State of Arkansas, the surety on the bond to be approved by the Commissioner of Elementary and Secondary Education.

(b) If the bank selected by the school district board of directors as a depository of its funds shall be unable to secure the school deposit as set out in this section, it shall be authorized to accept the funds as a preferred deposit, and in the event of insolvency, the preferred deposit shall be paid in full before other bank deposits are paid."

Districts should be aware of the limitations of their banks prior to depositing any funds, especially large amounts, such as bonds. Prior correspondence with the bank should occur prior to any large deposit to ensure the funds are insured and collateralized.

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District may require monthly written assurance from the financial institution documenting that collateralization has occurred.

Resources: A.C.A. § 6-20-222

Principle 6: Local Board Responsibility

The local school board is aware of the district's financial status and makes policy decisions accordingly.

6A. The local school board annually approves a budget of expenditures and receipts.

What is the timeline for the budget approval process?

Budgets are first due as part of Cycle 1 and must be approved by the local school board. These can be amended throughout the year.

Resources: A.C.A. § 6-20-2202, CFAM: 403 Exp Budget Balance, 210 Rev Budget Balance, 351 Budget Buster, 352 Exp Budget Planning, 353 Rev Budget Planning 355 Annual Budget w/xfers

6B. The local school board reviews and approves written fiscal policies annually.

Where can my district find resources related to policy language and development?

The [Arkansas School Boards Association](#) provides model policies for school board use. It is the responsibility of each district to develop a timeline for board policy reviews and make updates as necessary based on changes to state law or state board rules.

Resources: [Arkansas School Boards Association](#)

6C. The local school board reviews the results of the annual audit.

What is the process for the school board's review of the annual audit?

After receiving the official audit report, the report and accompanying comments and recommendations shall be reviewed at the first regularly scheduled board of directors meeting following receipt of the audit report if the audit report is received by the board prior to ten (10) days before the regularly scheduled meeting. If the audit report is not received within ten (10) day of the regularly scheduled board meeting, the audit report may be reviewed at the next regularly scheduled meeting after the ten-day period. The review of the audit by the board of education should be reflected in board meeting minutes.

Resources: See [Annual Audit Process](#) for more information. A.C.A. § 6-1-101

6D. All members of the local school board of directors attend training annually as required by law, including training to understand and interpret audit report findings.

What sort of trainings do school board members attend?

Trainings are facilitated at the local level or at school board conferences via ASBA.

Resources: See [Annual Audit Process](#) for more information.