

State of Arkansas
94th General Assembly
Regular Session, 2023

A Bill

HOUSE BILL 1571

By: Representative Gazaway

By: Senator D. Wallace

For An Act To Be Entitled

AN ACT TO AMEND ARKANSAS LAW CONCERNING AUDITS OF
COUNTIES AND MUNICIPALITIES; AND FOR OTHER PURPOSES.

Subtitle

TO AMEND ARKANSAS LAW CONCERNING AUDITS
OF COUNTIES AND MUNICIPALITIES.

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

SECTION 1. Arkansas Code § 10-4-412 is amended to read as follows:

10-4-412. Audits of counties and municipalities – Definitions.

(a) As used in this section:

(1) "Required report" means a report prepared by a licensed certified public accountant or a licensed accountant in public practice in good standing with the Arkansas State Board of Public Accountancy and filed with the Legislative Auditor under:

(A) Subdivision (b)(2)(A) of this section; or

(B) Subdivision (d)(3) of this section; and

(2) "Turnback funds" means:

(A) General revenue turnback funds, as defined in the Revenue Stabilization Law, § 19-5-101 et seq.; and

(B) Highway revenue turnback funds, as distributed under § 27-70-207.

~~(a)(1)(b)(1)~~ Except as provided in subdivision ~~(a)(2)(b)(2)~~ of this section, the Legislative Auditor shall audit counties and municipalities in the state.



(2)(A)(i) Any municipality may retain the services of a licensed certified public accountant or a licensed accountant in public practice in good standing with the Arkansas State Board of Public Accountancy to conduct a financial audit as prescribed in subsection ~~(b)(c)~~ of this section.

(ii) All reports of the annual financial audit shall be filed with the Legislative Auditor within ten (10) days of issuance of the audit report.

(B) Nothing in subdivision ~~(a)(2)(A)(b)(2)(A)~~ of this section limits the authority of the Legislative Auditor to conduct an audit of any municipality.

~~(b)(c)~~ Financial Audits.

(1)(A) For purposes of this subsection, a financial audit shall be planned and conducted, and the results of the work reported in accordance with auditing standards generally accepted in the United States and the Government Auditing Standards issued by the Comptroller General of the United States.

(B) The report shall include a report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with the Government Auditing Standards.

(2) Regulatory Basis.

(A) For county and municipal financial audits, the financial statements shall be presented on a fund-basis format with, at a minimum, the general fund and the street or road fund presented separately, and all other funds included in the audit presented in the aggregate.

(B) The financial statements shall consist of the following:

- (i) A balance sheet;
- (ii) A statement of revenues (receipts), expenditures (disbursements), and changes in fund equity (balances);
- (iii) A comparison of the final adopted budget to the actual expenditures for the general fund and street or road fund of the entity; and
- (iv) Notes to the financial statements.

(C) The report shall include as supplemental information a schedule of capital assets, including:

- (i) Land;
- (ii) Buildings; and
- (iii) Equipment.

(3) Alternative Basis. As an alternative to the basis prescribed in subdivision ~~(b)-(2)~~(c)(2) of this section, the governing body of a municipality or a county may adopt an annual resolution requiring its annual financial audit to be performed and financial statements presented in accordance with the standards prescribed by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants, and the United States Government Accountability Office, if applicable.

~~(e)~~(d) Agreed-Upon Procedures and Compilation Reports.

(1) As an alternative to a financial audit, the Legislative Auditor may conduct an agreed-upon procedures and compilation engagement of the records and accounts of all municipal or county offices, officials, or employees.

(2) For purposes of this subsection, agreed-upon procedures and compilation engagements shall be conducted in accordance with standards established by the American Institute of Certified Public Accountants and subject to the minimum procedures prescribed by the Legislative Joint Auditing Committee.

(3)(A) Unless otherwise provided by law, the governing body of a municipality may choose and employ accountants in public practice who are licensed and in good standing with the Arkansas State Board of Public Accountancy to conduct agreed-upon procedures and compilation engagements.

(B) All reports shall be filed with the Legislative Auditor within ten (10) days of issuance.

(e)(1) If a required report is not filed with the Legislative Auditor on behalf of the municipality within eighteen (18) months after the end of a fiscal year that the required report covers, the Legislative Joint Auditing Committee may give notice of that fact to the Treasurer of State, who shall then withhold the municipality's turnback funds in escrow until notified by the Legislative Joint Auditing Committee that all required reports covering periods through the most recent fiscal year have been filed, at which time the escrowed turnback funds shall be released to the municipality.

(2) If the Treasurer of State holds a municipality's turnback funds under this subsection longer than twelve (12) months:

(A) The turnback funds shall be redistributed to all other municipalities receiving turnback funds; and

(B) The municipality shall not accrue additional turnback funds until the Legislative Joint Auditing Committee notifies the Treasurer of State that all required reports covering periods through the most recent fiscal year ended have been filed.

SECTION 2. Arkansas Code § 14-71-101(b)(2)(A), concerning the accounting method for county budget and treasury audit purposes, is amended to read as follows:

(2)(A) For county government and the regulatory basis of accounting under ~~§ 10-4-412(b)(2)~~ § 10-4-412(c)(2), “modified accrual accounting basis” is defined as an accounting system that recognizes revenues at the time revenues become available and measurable and expenditures at the time liabilities are incurred.

SECTION 3. Arkansas Code § 14-234-120 is amended to read as follows:
14-234-120. Filing of report ~~– Withholding of turnback funds –~~
Definition.

(a) As used in this section, "turnback funds" means:

(1) General revenue turnback funds, as defined in the Revenue Stabilization Law, § 19-5-101 et seq.; and

(2) Highway revenue turnback funds, as distributed under § 27-70-207.

(b)(1) Within thirty (30) days of completion of the audit report or the agreed-upon procedures and compilation report, the accountant performing the audit or agreed-upon procedures and compilation shall submit the report to the Legislative Auditor.

(2) The report shall be submitted in an electronic media format approved by the Legislative Auditor.

(c)(1) If the report for a municipal water or sewer system is not submitted to the Legislative Auditor on behalf of the municipality within eighteen (18) months after the end of a fiscal year that the report covers, the Legislative Joint Auditing Committee may give notice of that fact to the Treasurer of State, who shall then withhold any turnback funds due the municipality in escrow until notified by the Legislative Joint Auditing

Committee that all reports covering periods through the most recent fiscal year have been filed, at which time the escrowed turnback funds shall be released to the municipality.

(2) If the Treasurer of State holds a municipality's turnback funds under this subsection longer than twelve (12) months:

(A) The turnback funds shall be redistributed to all other municipalities receiving turnback funds; and

(B) The municipality shall not accrue additional turnback funds until the Legislative Joint Auditing Committee notifies the Treasurer of State that all reports under this section covering periods through the most recent fiscal year ended have been filed.

(3) The withholding of turnback funds under this subsection (c) is in addition to penalties that may be assessed under § 14-234-122.

SECTION 4. DO NOT CODIFY. EFFECTIVE DATE. This act is effective on and after June 30, 2024.

APPROVED: 4/4/23