

1 State of Arkansas
2 94th General Assembly
3 Regular Session, 2023

A Bill

HOUSE BILL 1571

4
5 By: Representative Gazaway
6 By: Senator D. Wallace

For An Act To Be Entitled

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

Subtitle

14 TO AMEND ARKANSAS LAW CONCERNING AUDITS
15 OF COUNTIES AND MUNICIPALITIES.

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

19
20 SECTION 1. Arkansas Code § 10-4-412 is amended to read as follows:

21 10-4-412. Audits of counties and municipalities - Definitions.

22 (a) As used in this section:

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

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

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

29 (2) "Turnback funds" means:

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

32 (B) Highway revenue turnback funds, as distributed under §
33 27-70-207.

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



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

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

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

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

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

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

21 (2) Regulatory Basis.

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

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

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

35 (C) The report shall include as supplemental information a
 36 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:

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

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

7
 8 SECTION 2. Arkansas Code § 14-71-101(b)(2)(A), concerning the
 9 accounting method for county budget and treasury audit purposes, is amended
 10 to read as follows:

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

16
 17 SECTION 3. Arkansas Code § 14-234-120 is amended to read as follows:
 18 14-234-120. Filing of report ~~- Withholding of turnback funds -~~
 19 Definition.

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

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

23 (2) Highway revenue turnback funds, as distributed under § 27-
 24 70-207.

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

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

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

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

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

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

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

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

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

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19 **APPROVED: 4/4/23**
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