



ARIZONA HOUSE OF REPRESENTATIVES

Fifty-seventh Legislature
First Regular Session

House: ED DPA 7-5-0-0

HB 2167: school districts; records; noncompliance; penalties

Sponsor: Representative Gress, LD 4

Caucus & COW

Overview

Establishes training requirements and penalties for a school district that fails to correct a deficiency in the Uniform System of Financial Records (USFR) within 18 months. Prevents a school district that fails to correct a deficiency in the USFR within 90 days from calling an election for a district additional assistance (DAA) override or the issuance of bonds as specified. Creates the School Financial Transparency Portal Fund (Transparency Portal Fund).

History

The Arizona Auditor General (OAG), in conjunction with the Arizona Department of Education (ADE), establishes the USFR for all school districts to use each fiscal year. The USFR prescribes the minimum internal control policies and procedures to be used by school districts for accounting, financial reporting, budgeting, attendance reporting and other compliance requirements ([USFR](#)).

The OAG must inform in writing a school district that fails to maintain the USFR of the school district's deficiencies and give the school district 90 days to correct the deficiencies. The OAG must also report to ADE and the State Board of Education (SBE) any school district that fails to establish and maintain the USFR or fails to correct deficiencies within 90 days after receiving notice of the deficiencies. SBE, on report from the OAG, must determine whether school districts are maintaining the USFR. If SBE determines that a school district is not in compliance or has failed to correct a deficiency within 90 days after receiving notice from the OAG, SBE must direct the Superintendent of Public Instruction (SPI) to withhold up to 10% of the school district's apportionment of state monies for each violation until the OAG reports the school district complies with the USFR. During the withholding, the OAG and ADE must assist the school district to achieve compliance (A.R.S. §§ [15-271](#) and [15-272](#)).

A school district governing board (governing board) must order a DAA override in order to adopt a budget that includes an amount for capital purposes that exceeds the DAA budget limit. If the DAA override is approved by the voters, a school district may assess secondary property taxes for capital projects ([A.R.S. § 15-481](#)).

A governing board may, or on petition of 15% of the school district's electors, call an election to decide whether: 1) school district bonds should be issued and sold for prescribed capital purposes; or 2) to change the list of capital projects or the purposes authorized by a previous vote to issue bonds. If the question to issue bonds is approved by the voters, the school district may assess secondary property taxes to redeem bonds and pay interest ([A.R.S. § 15-491](#)).

<input type="checkbox"/> Prop 105 (45 votes)	<input type="checkbox"/> Prop 108 (40 votes)	<input type="checkbox"/> Emergency (40 votes)	<input type="checkbox"/> Fiscal Note
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[Laws 2021, Chapter 404](#) directs the Arizona Department of Administration (ADOA) to contract with a third party to develop a transparent and easily accessible School Financial Transparency Portal (Transparency Portal). The Transparency Portal must include specified school level financial data for charter schools, individual schools operated by a school district and school districts ([A.R.S. § 15-747](#)).

Provisions

Sanctions for USFR Noncompliance

1. Instructs SBE, if a school district fails to correct a deficiency in the USFR within 18 months after receiving notice from the OAG, to consult with ADE to determine the amount of training and other interventions necessary or appropriate to assist the school district to achieve compliance. (Sec. 1)
2. Directs SBE, if a school district fails to correct a deficiency in the USFR within 18 months after receiving notice from the OAG, to direct the SPI to:
 - a) provide the training and interventions to the school district within six months;
 - b) impose a civil penalty, beginning the 18th month, against the school district in an amount equal to 1% of the school district's adopted or revised budget for each month until the OAG reports the school district's compliance with the USFR; and
 - c) deposit the collected civil penalty monies in the Transparency Portal Fund. (Sec. 1)
3. Specifies the training must be provided to the school district superintendent, business manager, chief financial officer and any other administrator or executive identified by SBE or ADE. (Sec. 1)
4. Requires ADE to notify SBE when the training and interventions are completed. (Sec. 1)

DAA Override and Bond Elections

5. Prohibits a governing board, if the school district fails to correct a deficiency in the USFR within 90 days after receiving notice from the OAG, from doing the following until the school district has corrected any deficiencies and complied with the USFR for at least 12 months:
 - a) ordering an election for a DAA override; or
 - b) calling an election to issue school district bonds or to change the list of capital projects or the purposes authorized by a previous vote to issue bonds (Sec. 3, 4)
6. Specifies, for the purposes of the prohibition on ordering a DAA override or bond election, the school district has corrected any deficiencies beginning the date that the OAG reports that the school district is in compliance with the USFR. (Sec. 3, 4)

Transparency Portal Fund

7. Establishes the Transparency Portal Fund and states that:
 - a) the Fund consists of the civil penalty monies imposed on a school district that fails to correct a deficiency in the USFR within 18 months of notice from the OAG;
 - b) the Fund is administered by ADE; and
 - c) Fund monies are continuously appropriated and exempt from lapsing. (Sec. 5)
8. Authorizes ADE to use Transparency Portal Fund monies for the costs of the Transparency Portal, including reimbursing ADOA for the costs of the contractor selected to develop the Transparency Portal. (Sec. 5)

Miscellaneous

9. Makes technical changes. (Sec. 1, 3, 5)
10. Makes conforming changes. (Sec. 1, 2, 3, 4, 5)

Amendments

Committee on Education

1. Requires ADE, rather than the SPI, to provide the required training and interventions.
2. Authorizes ADE to contract with a third party to provide the required training and interventions.
3. Requires the school district to pay for any costs incurred by ADE to provide the required training and interventions.
4. Calculates the 1% civil penalty based on the school district's most recent general budget limit, rather than adopted or revised budget.
5. Transfers all the following matters relating to the Transparency Portal from ADOA to ADE on the general effective date:
 - a) contracts executed by ADOA;
 - b) rules adopted by ADOA; and
 - c) property, records, data, investigative findings and obligations.
6. Specifies the transfer of matters relating to the Transparency Portal maintain the same status with ADE.
7. Transfers all appropriated monies that are unspent and unencumbered of ADOA for the Transparency Portal to the Transparency Portal Fund.