

## **Annual Audit-Selection of Audit Firm**

Districts are reminded of the necessity to engage an auditor, or arrange with the County Superintendent of Schools to provide for the annual audit of their financial records and accounts. Education Code Section 41020 states that if a district does not provide for the audit by April 1, the County Superintendent shall provide for the audit by May 1 of that fiscal year.

As soon as the auditor has been selected, a contractual agreement should be entered into. Attached are three (3) copies of a contract that can be used: one copy for the district, one for the auditing firm, and one copy to be returned to the County Superintendent of Schools, attention: Xxxxxx Xxxxx, by April 15.

One significant aspect that should be noted in the contract is that districts must withhold 10% of the audit fee until certification.

AB 2834 (Chapter 1128)/2002 established a limit of six consecutive years for any firm where the partner in charge of the audit and the reviewing partner have been the same in each of those years. At the end of the sixth year, the firm could rotate these responsibilities among the partners, but the partners cannot just switch roles. The law allows the six-year limitation to be waived by the Education Audit Appeals Panel if it finds that no other eligible auditor is available to perform the audit. Because of this requirement the attached form asks for the names of both the partners in charge and the reviewing partner.

Enclosed is the information form that should be completed and returned by March 31, notifying Business Advisory Services of the district's intention of auditor selection.

If you have any questions, please contact Business Advisory Services.

**County Office Header**

**District’s Intention to Provide for Annual Audit by April 1, 20XX**

Attention: \_\_\_\_\_

\_\_\_\_\_ School District has contracted with the firm listed below to provide for the annual school audit in accordance with Education Code Section 41020:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

City/State/Zip: \_\_\_\_\_

Phone: \_\_\_\_\_

Partner in Charge: \_\_\_\_\_

Reviewing Partner: \_\_\_\_\_

\_\_\_\_\_ School District authorizes the \_\_\_\_\_ County Superintendent of Schools to provide for the annual audit of its school funds.

School District: \_\_\_\_\_

Signed: \_\_\_\_\_

Position: \_\_\_\_\_

Date: \_\_\_\_\_

This form is due to County Superintendent by March 31, 20XX.

## Sample Audit Contract

20XX-20XX

This Agreement is made and entered into on \_\_\_\_\_, 20XX, between the \_\_\_\_\_ School District of \_\_\_\_\_ County, State of California, and \_\_\_\_\_ CPA/PA (Auditor).

### Recitals

- A. Section 41020 of the Education Code provides in part:

“Not later than the first day of May of each fiscal year each county superintendent of schools shall provide for an audit of all funds under his jurisdiction and control and the governing board of each district shall either provide for an audit of the books and accounts of the district, including an audit of school district income and expenditures by source of funds, or make arrangements with the county superintendent of schools having jurisdiction over the district to provide for such auditing. In the event the governing board of a school district has not provided for an audit of the books and accounts of the district by April 1, the county superintendent of schools having jurisdiction over the district shall provide for the audit.”

“Not later than December 15 a report of each audit for the preceding fiscal year shall be filed with the county superintendent of schools of the county in which the district is located, the Department of Education, and the Controller. The submission date shall not be extended beyond this date. The Superintendent of Public Instruction shall make any adjustments necessary in future apportionments of all state funds to correct any audit exceptions revealed by such audit reports.”

- B. District intends to comply with these provisions by contracting with a Certified Public Accountant/Public Accountant.
- C. Auditor is a Certified Public Accountant/Public Accountant duly authorized to practice and licensed as such by the State Board of Accountancy.

### Agreement

In consideration of the following mutual covenants, conditions, and promises, the parties agree as follows:

#### 1. Audit Procedure and Scope

THE AUDIT shall be made in accordance with generally accepted municipal auditing standards, and shall include, to the extent applicable, the audit procedures recommended by the Controller of the State of California as detailed in the latest edition of the Standards and Procedures for Audits of California Local Agencies, and such other publications on school district and county superintendent audit procedures of the Controller’s Office as have been or shall be issued during the period of this contract. The scope of the audit shall not be limited to the provided in these publications in the event that in the opinion of the auditor particular circumstances warrant extension of the audit.

“Each audit shall include all funds of the district including the student body and cafeteria funds and accounts, and any other funds under the control or jurisdiction of the district; funds of regional occupational centers and programs maintained by the county superintendent of schools, a school district, or pursuant to a joint powers agreement. Each audit shall also include an audit of attendance procedures.”

THE PERIOD to be audited under this contract is the fiscal year beginning July 1, 20XX, and ending June 30, 20XX, July 1, 20XX through June 30, 20XX and July 1, 20XX through June 30, 20XX.

If the above paragraph provides for multi-year services, and if for any subsequent year to the prior year’s audit the auditor is declared ineligible by the State Controller to conduct LEA audits, this multiyear contract becomes null and void.

IN CASES WHERE the auditor can and does rely upon the work of a State agency, another individual accountant or firm of certified public accountants or public accountants, he shall state in this report the extent of that reliance and shall name the agency, accountant or accountants upon whose work he relies. This paragraph shall not limit the responsibility of the auditor or obligate him to accept or perform work which is not in compliance with the specifications of the engagement.

## **2. Form and Contents of Reports**

FORM AND CONTENT of the audit report shall conform to the extent practicable with the form and content prescribed by the Controller of the State of California under Section 41020 of the Education Code, and as detailed in the latest edition of the publication titled, “Standards and Procedures for Audits of California Local Educational Agencies”.

ACCESS TO WORKING PAPERS shall be provided to the California State Controller.

IN THE EVENT that circumstances disclosed by the audits indicate that more detailed verification is required in addition to that which would be sufficient under ordinary circumstances, it is agreed that the auditor shall furnish all relevant information with their recommendation as to any extended verification or services that are required. This additional work shall be subject to special contract or contracts upon a fee basis to be mutually agreed upon between the respective parties to this agreement.

## **3. Beginning Work**

THE AUDITOR shall begin work on this engagement as soon as practicable after the execution of this contract. Work to be performed in the district shall be done at a time to be mutually agreed upon by both parties.

## **4. Rendering Reports**

TIME IS OF essence in this agreement. The audit shall be completed and the audit report shall be filed as required in Section 6 not later than December 15 after the school year ending June 30. Legislation does not provide for an extension of this filing date.

If the completed report is not submitted by the deadline, the district shall not be obligated to accept the report or to pay for it or for any work done in its preparation. Under these circumstances, the district may immediately engage the services of another auditor.

THE AUDITOR agrees to discuss the final report with the administration office of the district prior to its final preparation and, if requested, to personally present the final audit report to the Board of Trustees in order that the audit might be fully understood and nay questions answered.

IT IS AGREED that the auditor, as a result of the audit, will provide reasonable counseling and guidance with respect to more acceptable and effective methods of accounting for the district.

**5. Compensation**

AUDITING SERVICES under this agreement may be performed by the auditor with the assistance of accountants and clerical employees employed and paid by the auditor. Amounts for such services shall be computed at the following hourly rates:

Supervision Accountant	\$ _____
Senior Accountant	\$ _____
Assistant Accountant	\$ _____
Typist and Other Clerical	\$ _____

In addition to this payment for personnel services, the auditor shall be reimbursed for necessary travel expenses at the rate of \$ \_\_\_\_\_ per mile.

The total amount which shall be paid to the auditor for his own services and the services of his agents or employees under this agreement shall not exceed the sum of \_\_\_\_\_ (\$ \_\_\_\_\_) per year.

THE FEE shall include any consultations on the audit report, or any revisions, or the furnishing of any additional data, as may be required by the Controller of the State of California.

THIS FEE shall include any consultations on the audit report, or any revisions, or the furnishing of any additional data, as may be required by the Controller of the State of California.

IN ACCORDANCE with the Education Code 14505(a), ninety percent (90%) of the fees shall be paid by the district to the auditor upon satisfactory and timely completion of all contract provisions including delivery of copies of the audit report. The remaining ten percent (10%) of the audit fee shall be paid to the auditor when the California State Controller certified the audit report conforms to the reporting provisions of the “Standards and Procedures for Audits of California Local Educational Agencies”.

IN ACCORDANCE with Education Code 14505(b), the district shall withhold fifty percent (50%) of the audit fee for any subsequent year of a multi-year contract if the prior year’s audit report was not certified as conforming to reporting provisions of the audit guide.

THE DISTRICT shall provide adequate office facilities (exclusive of equipment, supplies or services) for conduct of work under this agreement without charge to the auditor.

**6. Filing of Reports**

COPIES OF THE REPORT OF EXAMINATION required by this agreement to be made shall be prepared and substantially bound by the auditor and filed with each of the following offices and department on or before December 15:

1. County Superintendent of Schools
2. State Controller
3. Department of Education, Bureau of Management Services
4. School District \_\_\_\_\_ copies

School District \_\_\_\_\_

By: \_\_\_\_\_  
Authorized Agent

Auditor \_\_\_\_\_

By: \_\_\_\_\_  
Authorized Agent

(K-12)