

## 20XX-XX Audit Reports: Audit Exceptions

Education Code Section 41020 requires school districts to address audit exceptions identified in the annual district audit report. Each district superintendent is responsible for reviewing the audit exceptions noted in the following areas to determine whether the exceptions have been corrected or a plan of action to resolve corrections has been developed by the district:

- Attendance (code 10000)
- Inventory of Equipment (code 20000)
- Internal Control (code 30000)
- Miscellaneous Issues (code 60000)

Education Code Section 41020(g)(2) provides that, to the extent possible, descriptions of corrections taken (or plans of correction to be taken) shall be incorporated in the audit report for problems identified by the District's auditors. The descriptions of specific actions to be taken or that have been taken shall not solely consist of general comments such as "will implement"; "accepted the recommendation"; or "will discuss at a later date." Business Advisory Services will review all district audit reports and will:

- Notify districts when audit exception corrective action descriptions in the audit report are not adequate or do not include the specific corrective action taken or planned to be taken, and;
- Follow-up on district audit exceptions related to: attendance, inventory of equipment, internal control, issues and other miscellaneous issues (E.C. Section 41020(i)).
- NOTE: Beginning in Fiscal Year 2004-05, the county superintendent of schools audit reviews will also include those audit exceptions related to use of instructional materials program funds, teacher mis-assignments pursuant to Section 44258.9, information reported on the school accountability report card required pursuant to Section 33126 and shall determine whether the exceptions are either corrected or an acceptable plan of correction has been developed.

In accordance with Education Code 41020(m), the Superintendent of Public Instruction (SPI) shall be responsible for assuring that school districts have either corrected or developed a plan of correction for any or all of the following:

- (a) All federal and state compliance audit exceptions identified in the audit.
- (b) Any exceptions the county superintendent certifies as of May 15 that have not been corrected.
- (c) Any repeat audit exceptions. In accordance with Education Code Section 41020(n), the Controller annually shall select a sampling of county superintendent of schools and perform a follow-up of the audit resolution process of those county offices and report the results of that follow-up to the SPI and the county offices that were reviewed.

If you have any questions, please do not hesitate to contact Business Advisory Services.

## **DISTRICT RESPONSIBILITIES:**

- By December 15:  
*(postmarked or received)*
- Audit report for prior-year financial statements to be filed with the County Superintendent of Schools, the State Department of Education, and the State Controller's Office. Our office requests two copies of the annual audit report be sent to our office.
- Education Code Section 41020.2 provides for an extension of the filing deadline by the county superintendent of schools with the consent of the State Controllers Office (SCO) and the California Department of Education (CDE), but waivers are only granted under extraordinary circumstances and must be received no later than December 1<sup>st</sup> by both the CDE and SCO which means the request must be received by the county superintendent no later than November 22, 20XX.
- Education Code Section 42129 authorizes the SPI to direct the county auditor to withhold payment of any stipend, expenses or salaries to the district superintendent, county superintendent or members of the governing boards whenever an audit report is delayed more than 14 days beyond the filing deadline.
- By January 31:
- District governing board must review, at a public meeting, the audit report and any audit exceptions identified in the report, the recommendations or findings of any management letter issued by the auditor, and any description of corrections or district plans of action to correct any audit exceptions or management letter issues.
- By February 25:
- The COE will respond to the districts regarding the adequacy of the districts' audit finding corrections or plans for correction, identifying the areas that require further explanation, corrective action or a plan for correction.
- By March 15:
- Districts must submit written confirmation of audit exception corrections or corrective action plans to the County Superintendent of Schools, if not part of the original audit report. This includes copies of any updated written procedures, staff trainings provided, and revised attendance and/or other financial reports. Revised attendance reports submitted to comply with an audit report exception should be noted as such in the Reason Section of the revised report submission.
- Districts and ROPs receiving letters from the State Controller's Office (SCO) or California Department of Education (CDE) requesting additional documentation for state compliance issues should also send duplicate copies of the documentation submitted to these agencies to our office along with a copy of the SCO or CDE letters.

- By April 1 School district and ROP governing boards must provide for a 20XX-XX audit by this date and submit certification of auditor selection to the county superintendent of schools. If the district or ROP does not provide for an audit by April 1, the county superintendent of schools must make audit arrangements by May 1 of each fiscal year.
- By April 15 The COE will respond in writing to the districts regarding the adequacy of the audit finding corrections or plans for correction, identifying the areas that require further explanation, corrective action or a plan for correction.
- By May 15 The COE shall certify to the Superintendent of Public Instruction (SPI) that all district audits were reviewed and corrections were made, except as noted, or an acceptable plan was submitted. The COE shall also identify to the SPI the attendance-related findings that have a fiscal impact on the State.

**EDUCATION CODE CITATIONS RELATED TO THE ROTATION OF AUDIT FIRMS PROVIDING THE ANNUAL DISTRICT AUDIT:**

Education Code Section 41020(f)(2): “Commencing with the 2003-04 fiscal year and except as provided in subdivision (d) of Section 41320.1, it is unlawful for a public accounting firm to provide audit services to a local educational agency if the lead partner, or coordinating audit partner, having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local educational agency in each of the six previous fiscal years. The Education Audits Appeal Panel may waive the requirement if the panel finds that no otherwise eligible auditor is available to perform the audit.”

Education Code Section 41020 (f)(3): “It is the intent of the Legislature that, notwithstanding paragraph (2) of this subdivision, the rotation within public accounting firms conform to provisions of the Federal Sarbanes-Oxley Act of 2002 (P.L. 107-204; 15 U.S.C. Sec. 7201 et seq.), and upon release of the report required by the act of the Comptroller General of the United States addressing the mandatory rotation of registered public accounting firms, the Legislature intends to reconsider the provisions of paragraph (2).”

Education Code Section 41020(s): “Notwithstanding any other provision of law, a non-auditing, management, or other consulting service to be provided to a local education agency by a certified public accounting firm while the certified public accounting firm is performing an audit of the agency pursuant to this section, must be in accord with Government Accounting Standards, Amendment No. 3, as published by the United States General Accounting Office.”

If you are in doubt as to how this section of the law is implemented, please do not hesitate to ask your audit partner how the firm is managing this requirement.