

District Business & Advisory Services

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Cathy McKim, Manager-DBAS: 408-453-6588

Bulletin: 13-007

Date: July 11, 2012

To: District Fiscal Directors

From: Cathy McKim

Re: 2011-12 Annual Financial Audits

In accordance with Education Code (EC) Sections 41020 through 41020.8, all school districts are required to file their annual audit reports for the preceding fiscal year no later than December 15th with the Santa Clara County Superintendent of Schools (County Superintendent), the California Department of Education (CDE), and the State Controller's Office (SCO).

This bulletin outlines various aspects of the 2011-12 annual financial audit process and timelines, and the responsibilities of district auditors, school districts, and the Santa Clara County Office of Education (County Office).

The bulletin also outlines the report filing deadlines, the process for resolution of audit exceptions, and the recording of audit adjustments. The responsibilities and required actions are listed under the "Audit Timelines" section, and detailed explanations are provided in the remaining sections of this bulletin.

Audit Contracts

Please review the District Business & Advisory Services Informational Bulletin 12-109ⁱ, issued March 15, 2012, for the annual audit contract requirements and required submission to the DBAS. Your district's audit selection for fiscal year 2011-12 should have been submitted by April 1st, 2012. If you have questions relating to the annual audit contracts, please contact your advisor:

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Audit Report Filing

Audit reports for fiscal year 2011-12 must be filed with the appropriate agencies by December 15, 2012.

Audit Exceptions

EC Sections 41020 and 41020.3 specify the responsibilities of county superintendents of schools, school districts, and districts' independent auditors, as they relate to the resolution of audit exceptions. These responsibilities are as follows:

Actions Required of School District Auditors

School district auditors are required to:

- Code all audit exceptions to indicate whether the State or the County Office has the responsibility of correction follow-up
- Quantify the dollar value (questioned costs) of the audit exceptions
- Evaluate whether there is any doubt about the district's ability to continue as a "going concern" for a reasonable period of time
- Review all corrections or plans of correction for the previous year's audit to determine if the exceptions have been resolved
- Include management improvement recommendations in the audit report
- Notify the County Office and the CDE in the event that prior year audit exceptions are not Resolved, and restate the exceptions in the current audit report
- Upon request, provide the County Superintendent or the State Superintendent of Public Instruction with fiscal information on a district if the County Superintendent determines, pursuant to EC Section 42127.6, that the district may not be able to meet its fiscal obligations in the current or subsequent fiscal year (EC Section 41020.8).

Actions Required of School Districts

By January 31st of each year, the Governing Board of each school district must review the annual audit report for the prior fiscal year at a public meeting. According to EC Section 41020.3, the review shall include: ". . . the annual audit of the local education agency for the prior year, any audit exceptions identified in that audit, the recommendations or findings of any management letter issued by the auditor and any description of correction or plans to correct any exceptions or management letter issue."

When describing the corrections or the plans of correction, please include specific actions that are planned or that have been taken. General comments such as "will implement," "accepted the recommendation," or "will discuss at a later date," do not meet EC requirements. If inadequate descriptions such as these are used, additional information will be requested from districts at a later date, as required under the responsibilities of the County Superintendent.

Please note that the written description of the corrections or the plans of correction must address not only the items listed in the sections titled "Findings and Recommendations," "Findings and Questioned Costs," or similar headings, but also those comments contained in the management letter. The "Standards and Procedures" specifies that the management letter is considered an integral part of the "Findings and Recommendations" section of the audit report. EC Section 41020.3 indicates that management letter comments are subject to the same requirements for correction as items that appear in the findings section.

To ensure accuracy of account balances, the district is also required to make the appropriate reconciling entries to the district's financial accounting records, as specified in the reconciliation section of the audit report.

Actions Required of County Superintendent

The County Superintendent must:

- Review all audit exceptions contained in the district's audit report
- Request that the governing board of each school district provide the county superintendent with a description of all corrections or plans of correction by March 15
- Review the information provided for adequacy, request any additional information needed
- Certify to the superintendent of public instruction and the SCO by May 15, that the staff has:
 - Reviewed all audits of school districts under his or her jurisdiction for the prior fiscal year
 - Verified that all exceptions have been corrected or that the district has submitted an acceptable plan of correction
 - Required all districts with attendance-related audit exceptions to prepare and submit appropriate amended attendance reports for transmission to the CDE

Please note that the County Superintendent cannot certify reports of average daily attendance (ADA) if there are reasons to believe that any of the ADA is from programs with "apportionment significant noncompliance."

The County Superintendent is also authorized to waive any audit exceptions which districts receive as a result of noncompliance with the reporting requirements for: (1) the sufficiency of Instructional Materials per EC Section 60119 (e.g., public hearing and board resolution); (2) teacher misassignments per EC Section 44258.9; (3) the accuracy of information reported on the School Accountability Report Card per EC Section 33126 (EC Section 41344.4).

Recording Audit Adjustments Resulting from 2011-12 Audit

The 2011-12 annual financial audits, prepared by independent auditors, may differ from district-prepared unaudited financial information. The differences, if any, are usually listed in the audit report as supplementary information in the exhibit titled "Reconciliation of Annual Financial and Budget Report with Audited Financial Statements." This schedule shows the impact of the audit adjustments on the 2011-12 ending fund balance for each fund, and on the 2011-12 beginning fund balances.

Differences that impact the beginning balance for each fund, if any, require two separate adjustments in 2011-12: (1) budget revisions, and (2) audit adjustments. The required audit adjustments will change the district's beginning fund balance for the 2011-12 adopted budgets. Therefore, it is essential that the district submit corresponding **budget revisions** increasing or decreasing the components of the fund balance. These budget revisions must be adopted by the district's Governing Board, and submitted to the District Business & Advisory Services for approval.

Audit adjustments must be entered into QSS (or your business system), no later than January 31, 2013. This will ensure that January month end reports, which are used to prepare and satisfy legal requirements for the Second Interim Report, include audited beginning fund balance adjustments. Whether your audit adjustment has a positive or negative impact on the district, the corresponding budget adjustment should be filed at the same time.

For detailed information and examples on how to post your audit adjustment journals, we recommend that you refer to Procedure 215, Audit Adjustments, which is located in the California School Accounting Manual. The manual is posted on the following CDE site:

<http://www.cde.ca.gov/fg/ac/sa/documents/csam2011complete.pdf>

If you have any questions regarding the posting of audit adjustments, please contact either your advisor or myself. This bulletin and its attachments are posted on the Santa Clara County Office of Education Web site at the following address:

Please share this information as deemed appropriate.

Audit Timelines

The timelines for the 2011-12 annual financial audit process are as follows:

<i>Due Dateⁱⁱ</i>	<i>Responsible Party</i>	<i>Action</i>
✓ <i>April 1, 2012</i>	<i>District</i>	Provide for 2011-12 annual audit (select audit firm from the SCO directory), and submit contract to the County Office (EC Section 41020[b] [3]).
✓ <i>May 1, 2012</i>	<i>County</i>	Provide for annual audit, if district has not done so (EC Section 41020[b] [1]).
<i>November 22, 2012</i>	<i>District</i>	Extension request for audit completion due date must be received by the County Office for processing to the SCO (EC Section 41020.2[a][i]).
<i>December 15, 2012</i>	<i>Auditor</i>	Audit completed.
<i>December 15, 2012</i>	<i>Auditor</i>	Audit report and management letter, if any, submitted to the SCO, CDE, and County Office (EC Section 41020[h]). (Coordination between district and auditor may be required.)
<i>January 31, 2013</i>	<i>District</i>	Governing Board review of audit report, exceptions, adjustments made, and plan of correction (EC Section 41020.3).
<i>January 31, 2013</i>	<i>District</i>	Final day to input audit adjustments in the QSS Financial System .
<i>February 15, 2013</i>	<i>County</i>	Send letters, if necessary, regarding audit exceptions, corrections made, and plan of correction to district for response.
<i>March 15, 2013</i>	<i>District</i>	Corrections made and plan of correction ⁱⁱⁱ sent to County Office in response to County Office letter.
<i>May 15, 2013</i>	<i>County</i>	Certification sent to the CDE and the SCO (EC Section 41020[k]).

Note: The County Office must **approve** audit contracts for school districts that have had a disapproved budget, a negative interim report certification, or have been identified as “not a going concern” in the current or either of the two preceding fiscal years (EC Section 41020[b][2]).

ⁱ Bulletin 12-109 dated March 15, 2012 Selection of Auditors for the Annual District Audit for Fiscal Year 2011-12
http://www.sccoe.org/docs/DBASBulletins/12-109%20Audit%20Selection-%20Final_0.6918604.pdf

ⁱⁱ If the statutory due date occurs on a Saturday, Sunday or holiday, the reporting due date shall be on the following workday.

ⁱⁱⁱ The certification of correction for Fiscal Year 2011-12 Audit Findings can be found on the following SCCOE web site:
<http://www.sccoe.org/depts/dbas/portal/docs.asp>