

Audit Review Process 2021-2022






Includes:

- Timeline/Deadlines
- Review Checklist
- Audit Adjustments
- Audit Findings
- Glossary of terms

TIMELINE Audit Activities

****** *Note for 2020-21 Audits: AB 167 extended the due date for LEAs to submit 2020-21 annual audit reports to January 31, 2022.*

Deadline	Audit Activity	Responsibility
April 1	Notify SCOE of auditor selection and approval of audit contract EdC 41020(b)(1) & (3), EdC 41020e	CBO
Summer through early Fall	Auditor conducts audit work including field visit. CBO conducts exit interview with auditor at end of field work.	Auditor CBO
Sept 15	Unaudited Actuals is Board approved and submitted to SCOE EdC 42100(a), 47604.33(a)(5), 42100(b)	Board
Late Nov – early Dec	Receive draft copy of audit report from auditor. Review document and communicate to auditor any questions or document changes.	CBO
Jan 31 **	Audit report filed with State Controller’s Office (SCO), California Department of Education (CDE), and SCOE EdC 41020, 47605(m),41020(h)	Auditor
Feb 28 – board meeting	Prepare board presentation to review: <ul style="list-style-type: none">  The annual audit  Audit exceptions, adjustments  Findings, corrective action plans 	CBO
* Feb 28	Board accepts audit report at meeting EdC 41020.3	Board
* March 15	Signed Audit Certification due to SCOE	Board
*April 15	Signed Certification of Corrective Actions due to SCOE (if applicable) EdC 4120(j)(2) & (3)	Board
Various	Respond to questions from SCOE and/or SCO on corrective action plans for findings if further explanations are required (if applicable)	CBO
Second Interim, at the latest, or immediately following board approval.	Journal any audit adjustments so that the adjusted beginning balance is correctly reported on Second Interim reports (if applicable)	CBO

**The above dates are in statute. If your audit is not complete by the statutory date, please submit at the next available board date and to SCOE immediately following.*

The Audit Report Process



Reviewing the Draft

Review report & communicate to auditor any questions or changes that are needed to the draft.

Steps for the Entire Document

<input type="checkbox"/>	The Audit Report	Read the entire report thoroughly
<input type="checkbox"/>	Review the financial statements and graphics	Is all the information accurate and consistent with the Unaudited Actuals (UA)? Are there any incorrect data entries?

Additional Steps by Section

Financial Section

<input type="checkbox"/>	Independent Auditor's Report on the Financial Statements	Determine the type of opinion and any qualifications
<input type="checkbox"/>	Management Discussions and Analysis	This is your section. Edit it carefully.
<input type="checkbox"/>	Basic Financial Statements	Compare with the Unaudited Actuals
<input type="checkbox"/>	Notes to the Financial Statements	

Supplementary Information

Numerous schedules in this section. In your review include detailed checking of the following:

<input type="checkbox"/>	Schedule of ADA	Compare to ADA reports submitted to SCOE
<input type="checkbox"/>	Combining Statements & Individual Fund Statements	Compare fund balances with the Unaudited Actuals
<input type="checkbox"/>	Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	Were there Audit Adjustments or Restatements? Verify that these are incorporated in next Interim Report

Other Independent Auditor Reports

<input type="checkbox"/>	Report on State Compliance	Verify report states all procedures that were either performed or not applicable
<input type="checkbox"/>	Report Internal Controls Over Financial Reporting and on Compliance ...	Review and note any instances of noncompliance or material weakness in internal controls
<input type="checkbox"/>	Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance	Review the opinion on compliance with federal contracts and internal control requirements

Findings and Recommendations

<input type="checkbox"/>	Schedule of Findings and Questioned Costs	Review the findings and causes in detail. Evaluate recommendations and district response. Corrective action plans must be board certified.
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Audit Adjustments

At the completion of the audit, the auditors must meet with the management of the LEA to discuss any proposed audit adjustments. It is the responsibility of the LEA to prepare all of the financial statements, notes, and schedules that are the subject of the audit. Even if these are prepared for the LEA by the auditors, they remain the responsibility of the LEA. **Therefore, the LEA must agree to any adjustments identified by the auditors before the adjustments are made to the financial statements.**

California School Accounting Manual (CSAM) Excerpt - Procedure 215 Audit Adjustments

The LEA and the auditors have the following responsibilities in relation to the audit adjustments:

The LEA	The Auditors
1. Review all audit adjustments proposed by the auditors.	1. Discuss all proposed audit adjustments with the management of the LEA.
2. Reach agreement with the auditors on the adjustments to be made to the financial statements.	2. Reach agreement with the management of the LEA on the adjustments that will be made to the financial statements.
3. Record in the following year's general ledger the audit adjustments agreed on.	3. Provide the LEA with a complete set of entries that support the "Reconciliation of Annual Financial and Budget Report With Audited Financial Statements." <i>Usually referred to as "working papers."</i>
4. Provide information to the auditors on the disposition of the audit adjustments.	

For further accounting details and steps to complete your audit adjustment, see the CSAM at: <https://www.cde.ca.gov/fg/ac/sa/>

Review Audit for Adjustments (See **EXAMPLE A #1**)

- Audit adjustments can be found in the LEAs bound audit reported dated, June 30, 20XX under the section titled, *Reconciliation of Annual Financial and Budget Report with Audited Financial Statements*.
- Fund adjustments not in agreement with the Annual Financial & Budget Reports will be listed by Fund.
- Only those Funds within the Escape financial system will require system entries to adjust the current year beginning Fund balance(s).

In order to present accurate fund balances to their boards, LEAs should complete their adjustments prior to the SACS extract for the 2nd Interim Report.

How to complete an audit adjustment in Escape (Two Steps) (See *Example B*)

Obtain from the auditors the detailed entries that support the summary entries, (working papers) on the "Reconciliation of Annual Financial and Budget Report with Audited Financial Statements." The detailed entries should show the account numbers. **They are shown from the viewpoint that they are being made in the audit year, even though by the time they are made the books have already been closed.**

Step 1: To increase or decrease beginning fund balance in the Actuals column

- Initiate Journal Entry
- Use applicable resource
 - Note: If to a deferred balance resource see your SCOE Advisor. These resources do not allow beginning balances, and an offsetting entry should've been made to keep balance at zero. Advisor may suggest you not make an entry, as it will correct itself in the current year.
- Using the auditor's working papers:
 - Make an entry to **Debit** (decrease to ending fund balance) or **Credit** (increase to ending fund balance) **object 9793** Audit Adjustment
 - Make an entry to Debit or credit offsetting revenue or expense object
- Select Task "Submit"
- Run a Fiscal 13 checking the results on the last page to ensure the entry posted as expected

Step 2: To increase or decrease beginning fund balance in the Revised Budget column

- Initiate Budget Transfer
- Use applicable resource
 - see note in Step 1 regarding deferred balance resources
- Using the auditor's working papers and matching the Step 1 entry to Actuals:
 - Make an entry to Decrease **or** Increase **object 9793** Audit Adjustment
 - 2 options for other side of this entry depending on the current status of the revenue/expense budget affected:
 - **Option 1**: If the LEA has **not** adjusted the current year rev/exp budget to **account for** the effect of the audit adj.
 - Make an entry to Increase **or** Decrease the revenue or expense object budget, as per the auditor's working papers
 - **Option 2**: If the LEA **has** adjusted the current year rev/exp budget to **account for the effect** of the audit adjustment.

- Make an entry to Increase **or** Decrease object 9790.

- Select Task "Submit"
- Run a Fiscal 13 checking the results on the last page to ensure the entry posted as expected

It's recommended that you consult with your SCOE Fiscal Management Adviser before completing audit adjustments.

Reclassification of Fund Balance (See **EXAMPLE A #2)**

If the LEA separately reports activity in Special Revenue Funds the auditor may restate the ending fund balance to the General Fund in order to comply with GASB54. Restatement of Fund balances for presentation purposes will not require Escape system entries to adjust the ending Fund balance(s).

EXAMPLE A (pulled from an Audit Report)

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20 XX**

	General Fund	Special Revenue - Special Reserve Fund
June 30, 20 XX Annual Financial and Budget Report Fund Balances	\$ 696,901	\$ 288,763
Adjustments Increasing (Decreasing) Fund Balance:		
Overstatement of State Aid Revenue	(7,838)	
Understatement of Capital Outlay Expenditures	(77,826)	
Overstatement of Debt Service - Principal	25,588	
Reclassification Increasing (Decreasing) Fund Balance:		
Reclassification of Fund Balance	288,763	(288,763)
Net Adjustments and Reclassifications	228,687	0
June 30, 2015 Audited Financial Statements Fund Balances	\$ 925,588	\$ 0

#1 Example of an Audit Adjustment: This example reflects three General Fund adjustments to the Financial and Budget Reported Fund Balance. A CURRENT YEAR ADJUSTMENT TO ESCAPE BEGINNING BALANCE IS REQUIRED.

#2 Example of an Audit Reclassification: In this example the Fund balances of the General Fund and Special Revenue - Special Reserve Fund 17 have been combined for financial reporting purposes in accordance with GASB 54. NO AUDIT ADJUSTMENT REQUIRED.

SEE NOTES TO SUPPLEMENTARY INFORMATION

EXAMPLE B - After Adjustments
Have Been Made

Fiscal13a

Financial Statement

Fund 21 - Building Fund						
Description	Adopted Budget	Revised Budget	Encumbrance	Actual	Budget Balance	% of Budget
Revenues, Expenditures, and Changes in Fund Balance						
A. Revenues	14,308.00	67,182.00		79,743.01	12,561.01-	118.70
B. Expenditures	503,041.00	661,906.86		226,046.75	435,860.11	34.15
C. Subtotal (Revenue LESS Expense)	488,733.00-	594,724.86-		146,303.74-	448,421.12-	
D. Other Financing Sources and Uses						
Sources		1,860,000.00		1,860,000.00		100.00
LESS Uses						
E. Net Change in Fund Balance	488,733.00-	1,265,275.14		1,713,696.26	448,421.12-	
F. Fund Balance:						
Beginning Balance (9791)	4,454,859.00	5,191,561.78	1	5,191,561.78		
Audit Adjustments (9793)		53,722.00-	2	53,722.00-		
Other Restatements (9795)						
Adjusted Beginning Balance	4,454,859.00	5,137,839.78	3	5,137,839.78		
G. Calculated Ending Balance	3,966,126.00	6,403,114.92		6,851,536.04		
*Components of Ending Fund Balance						
Legally Restricted (9740)						
Other Designations (9780)						
Undesig/Unapprop (9790)	3,966,126.00	6,403,114.92		1,713,696.26		
Other						

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 20xx**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	Building Fund
FUND BALANCE	
Balance, June 30, 20 , Unaudited Actuals	\$ 5,191,562 (1)
Increase in:	
Accounts payable	(53,722) (2)
Balance, June 30, 20 , Audited Financial Statements	\$ 5,137,840 (3)

Entries Made for this adjustment:

Step 1:

General Journal - \$53,722

Debit: 21-0000-0- - 9793-

Credit: 21-0000-Expense Acct.

Adjusts Beginning Balance of the Actual Budget column

Step 2:

Budget Revision - \$53,722

Chg/Dec: 21-0000-0- - 9793-

Chg/Dec: 21-0000-Expense Acct.

Adjusts Beginning Balance of the Revised Budget column

Audit Findings

The auditor's job is to examine documents, records, and accounts for the purpose of determining the propriety of transactions, ascertaining whether all transactions are recorded properly, and determining whether statements that are drawn from accounts reflect an accurate picture of financial operations and financial status for a given period of time.

The scope of the audit is determined by the *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prepared by the Education Audit Appeals Panel which can be found at <https://eaap.ca.gov/>

What is an audit exception (finding)?

- An audit finding is a weakness in internal controls or an instance of noncompliance with applicable laws and regulations that is presented in the audit report.

How do I know if my audit contains an audit finding(s)?

- Before the end of the auditor's visit, the district should be aware of any finding(s) that will be included in their audit. Findings should be discussed with the appropriate personnel.

If an audit exception is made the auditor is required to report the exception (finding) in the Schedule of Findings and Questioned Costs section of the annual audit report.

The auditors code all findings by category

AB 3627 Finding Category Types	
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

When the auditors present the audit exceptions in the audit report, they typically include the following elements for each:

1. Criteria, Condition, Effect, Questioned Cost, and Cause for the Finding
2. Recommendation for corrective action
3. Response from the LEA

The audit guide requires the LEA to provide a corrective action plan for each finding. The LEA must prepare this corrective action plan for inclusion in the audit report, and in some instances, the LEA will have already corrected the problem by the time the audit report is issued. In these situations, the LEA will note that the problem has been corrected in the Response from the LEA section of the audit report.

Steps for dealing with audit findings *(Dates may vary for 2020-21 audits. See timeline notes.)*

- 1) Discuss with your Board the audit findings and corrective actions necessary (at the February meeting).
- 2) Complete the Certification of Corrective Action and the Audit Finding Corrective Action sheets, after resolution of all findings, and send to your SCOE Fiscal Management Advisor By **April 15th**.

Certification of Corrective Action: See the attached example. This is a certification from the LEA's Superintendent that all corrective actions(s) specified have been reviewed by the district's Governing Board and assures that corrective procedures have been implemented and will be used in the ensuing years.

(Ref. EC 41020)

Note: This certification is in addition to the "Audit Certification"

Audit Finding Corrective Action: See the attached example. This form is where the LEA describes the specific corrective action(s) used in resolving the audit finding. This may or may not be the same response as in the audit. Typically the response in the audit states what corrective action(s) will be taken, and the Corrective Action response says what corrective action has been taken. You may include any reports, which are part of the plan of correction. These can include payroll timesheets, bank statements, records of meetings, etc.

On June 15, 2022, SCOE must notify the Superintendent of Public Instruction (SPI) and the State Controller's Office (SCO) that the county staff have reviewed the audits, reviewed the audit exceptions, and that all exceptions have been corrected or the LEA has submitted an acceptable plan.

(Ref. EC41020(k))

What if I receive a letter from the State Controller's Office?

If the LEA receives a request for a response to a particular audit finding from the SCO, they will need to respond separately to them by the date specified. The County Office will also be notified as to the request, and will follow up to make sure the LEA responded to the SCO.

EXAMPLE OF OVERSTATED ADA FINDING

20XX-XX AUDIT FINDING CORRECTIVE ACTION

*due to SCOE by March 15, 20xx, or for 2020-21
audit report, by April 15, 2022.*

District: _____

Finding Category: _____ (see list at bottom of page)

Finding Number: _____ **Page Number:** _____

- A. Describe below specific corrective action(s) used in resolving the audit finding.
 B. Specifically address each individual item within the finding. Be certain that your responses are clear and concise. You will need to provide all documentation which supports the specific action taken toward resolving the finding; i.e., copies of amended reports, corrective action plans, etc.

Auditor Recommendation:

The district should establish appropriate procedures to ensure that students, who are granted early admittance into the transitional kindergarten program under Ed. Code Section 48000(c), do not generate apportionment credit until they attain the age of five.

District Response:

The district has implemented the appropriate procedure for identifying the Early Admittance students in the student information system (School Wise) to properly generate ADA. These students will now be identified in School Wise in "Pre-TK" class and will not generate ADA, until their 5th birthday. Kindergarten Continuance forms will be processed and on file in the cums. In October 20XX, revised P-2 and Annual attendance reports, with the audited ADA figures, were submitted to the CDE. (P-2 Certificate #BC123456 and Annual Certificate #8765CE12).

C. Did this finding require a corrective report? → <i>P-2 Certificate #BC123456 and Annual Certificate #8765CE12 (see attached)</i> If yes, attach a copy of an acceptable plan of correction.	Yes	
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AB 3627 Finding Category Types	
10000	Attendance
20000	Fixed Assets
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card



CERTIFICATION OF CORRECTIVE ACTION

20xx-xx AUDIT FINDINGS AND RECOMMENDATIONS

District Name _____
Sonoma County, California

- 20xx-xx Certification of Corrective Action is hereby filed by the Governing Board of the school district.

Clerk/Secretary of the Governing Board Date of Meeting

- 20xx-xx Certification of Corrective Action

The Superintendent certifies that all corrective action(s) specified in the attached page(s) have been reviewed by the district's Governing Board and assures that corrective procedures have been implemented and will be used in the ensuing years.

District Superintendent Date

For additional information

Contact: _____ Phone: _____

Submit original of the Certification of Corrective Action together with each Audit Finding Corrective Action form and corresponding documentation by **March 15, 20xx**, or for 2020-21, by **April 15, 2022** to your **SCOE Fiscal Management Advisor** at: Sonoma County Office of Education
5340 Skylane Boulevard
Santa Rosa, CA 95403

Glossary of Terms

The following are definitions for some of the terms you may find in your audit report.

Adverse	An audit opinion that the financial statements as a whole are <u>not in conformity</u> with GAAP.
Audit adjustment	A correction of a financial information misstatement identified by the auditor, whether recorded or not.
Audit documentation	Records or working papers kept by the auditor of procedures applied, tests performed, information obtained, and pertinent conclusions reached in the engagement. The documentation provides the principal support for the auditor's report.
Audit risk	A combination of the risk that material errors will occur in the accounting process and the risk the errors will not be discovered by audit tests. Audit risk includes uncertainties due to sampling (sampling risk) and to other factors (nonsampling risk).
Auditor's report	A letter accompanying the financial statements that presents the auditor's opinion whether the statements are presented fairly in conformity with Generally Accepted Accounting Principles.
Disclosure	Revealing information. Financial statement footnotes are one way of providing necessary disclosures.
Except for	A qualified opinion. An auditor can qualify the audit opinion for both departures from U.S. GAAP in the financial statements and restrictions on the scope of the audit. The opinion paragraph of the qualified report is worded "In our opinion, except for..."
GAAP	"Generally Accepted Accounting Principles."
Going concern	A term that assumes the LEA is fiscally healthy and able to meet its financial obligations. Conversely, if an LEA is showing fiscal distress or it is deemed to have risk of insolvency than the LEA is not a going concern or has lack of going concern.
Implementation of internal control	Means the auditor determines that the relevant controls exist and that the entity is using them.
Internal control	A plan of organization under which employees' duties are so arranged and records and procedures so designed as to make it possible to exercise effective accounting control over assets, liabilities, revenues and expenditures.
Internal control weakness	A defect in the design or operation of internal controls.
Management's Discussion & Analysis (MD&A)	A narrative explanation in which management provides a brief, objective, and easily readable analysis of the entity's financial performance for the year and its financial position at year-end.

Material weakness	A deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
Opinion paragraph	The paragraph in the audit report that expresses the auditor's conclusions. The wording of the standard, unqualified opinion paragraph is: "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XYZ Company at December 31, year A, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles."
Qualified (qualify)	An audit opinion that the financial statements as a whole are presented in conformity with U.S. GAAP, <u>with the exceptions noted</u> .
Segregation of duties	Means assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. Segregation of duties reduces the opportunities for one person to both perpetrate and conceal errors or fraud.
Significant deficiency	A deficiency, or combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness yet important enough to merit attention by those responsible for oversight of the entity's financial reporting.
Significant risk	An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.
Sufficiency (sufficient)	A measure of the quantity of audit evidence. The independent auditor's objective is to obtain sufficient appropriate evidence to provide a reasonable basis for an opinion.
Unqualified	Statements are presented in conformity w/GAAP
Working papers	Records kept by the auditor of procedures applied, tests performed, information obtained, and pertinent conclusions in the engagement. These are written audit documentation.