Alum Rock Union School District

Auditor Rotation and Other Audit Requirements

PRESENTERS

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Public sector

Agenda

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- Uniform Guidance Requirements

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Introductions



Jen Aras
Partner

Jen is a Certified Public Accountant with more than 22 years of experience and serves as an Audit Partner in Crowe's California assurance practice, directing audits in accordance with Yellow Book, Uniform Guidance and/or the State of California's Audit Guide, among others. Jen dis also the office managing partner of Crowe's Sacramento office. In addition to K-12 school district audits, Jen audits public employee retirement systems and not-for-profit industries, among other governmental agencies.



Charles Raibley
Senior Manager

Charles is a Certified Public Accountant with over 19 years of experience in public accounting. As part of Crowe's Northern California team, Charles is responsible for managing external financial and compliance audits of government and nonprofit organizations across many diverse purposes. He has worked with K-12 public school districts for the entirety of his career, conducting audits in accordance with Yellow Book, Uniform Guidance and/or the State of California's Audit Guide, among others.

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Auditor Rotation Requirements

The California Education Code 41020 outlines the requirements for external financial audits of Local Education Agencies in California. Specifically, E.C. 41020 (f)(2) describes the requirements for rotations:

41020 (f) (1) The audits shall be made by a certified public accountant or a public accountant, licensed by the California Board of Accountancy, and selected by the local educational agency, as applicable, from a directory of certified public accountants and public accountants deemed by the Controller as qualified to conduct audits of local educational agencies, which shall be published by the Controller not later than December 31 of each year.

(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 audit 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 this requirement if the panel finds that no otherwise eligible auditor is available to perform the audit.

EDUCATION CODE LINK:
https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=EDC&sectionNum=41020.

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Auditor Rotation Requirements (Cont'd)

Alignment with SEC Requirements -

E.C. 41020 (f)(2) outlines Legislative intent to align with the Securities Exchange Commission and SOX 404 requirements.

On January 22, 2003, as required by the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission adopted final rules regarding auditor independence. (*See* SEC Release No. 33-8183, available at http://www.sec.gov/rules/final/33-8183.htm.) The new rules impose more rigorous standards of independence for the external auditors of SEC reporting companies than under existing SEC rules:

Partner Rotation

Lead and Concurring Partners

As mandated by Section 203 of the Sarbanes-Oxley Act, the new rules provide that an accounting firm will not be independent if **either the lead audit partner or the concurring partner perform audit services for more than five consecutive fiscal years of an audit client.** Extending beyond the mandate of Section 203, the final rules also require a five-year "time-out" period before a partner may return to a particular audit engagement.

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Auditor Rotation Requirements (Cont'd)

Crowe's Capacity For Compliance with Partner Rotation -

To ensure compliance with the requirements of E.C. 41020 (f)(2), Crowe manages and tracks the assigned Audit Partner to each Local Education Agency in California.

Fiscal Year 2024 – 25 will be Crowe's 14th year serving as the independent auditor of the District, during which 3 three different partners have served the District.

Crowe policy requires that every audit have an annual review by a secondary partner, focused on risk, audit quality and financial statement accuracy and disclosure.

- Three (3) K-12 Focused Audit Partners in rotation within Northern California practice
- Eight (8) additional Public-Sector Audit Partners nationally with capacity to serve

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Audit Guide Requirements

California Law established the Education Audit Appeals Panel, and requires that this entity issue an annual Audit Guide, in accordance with E.C. 14502.1(a). The Audit Guide provides auditors and LEAs with detailed requirements for the annual financial and compliance audit, as follows:

- AUDITING STANDARDS - Auditors must follow…
  - AICPA auditing standards,
  - *Government Auditing Standards*,
  - Part 200 of Title 2 of the Code of Federal Regulations-Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (aka "Uniform Guidance")
- REPORT COMPONENTS
  - Identifies all components which must be included in the Audit Report at completion of the audit

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Audit Guide Requirements (Cont'd)

- STATE COMPLIANCE AREAS :
  - Auditor's must test each of compliance area annually, if applicable and material to the LEA (*no rotation is allowed*). The following are applicable for FY2024-25 Audits:

COUNTY OFFICES & DISTRICTS ONLY

A. ATTENDANCE
B. TEACHER CERTIFICATION AND MISASSIGNMENTS
C. (Reserved)*
D. INDEPENDENT STUDY
E. CONTINUATION EDUCATION
F. INSTRUCTIONAL TIME
G. INSTRUCTIONAL MATERIALS
H. RATIO OF ADMINISTRATIVE EMPLOYEES TO TEACHERS
I. CLASSROOM TEACHER SALARIES
J. EARLY RETIREMENT INCENTIVE
K. GANN LIMIT CALCULATION
L. SCHOOL ACCOUNTABILITY REPORT CARD
M. JUVENILE COURT SCHOOLS
N. MIDDLE OR EARLY COLLEGE HIGH SCHOOLS OR PROGRAMS
O. K-3 GRADE SPAN ADJUSTMENT
P. (Reserved) *
Q. APPRENTICESHIP: RELATED AND SUPPLEMENTAL INSTRUCTION
R. COMPREHENSIVE SCHOOL SAFETY PLAN
S. DISTRICT OF CHOICE
TT. HOME TO SCHOOL TRANSPORTATION REIMBURSEMENT

ALL LOCAL EDUCATION AGENCIES (COUNTY OFFICES, DISTRICTS & CHARTERS)

T. PROPOSITION 28 ARTS AND MUSIC IN SCHOOLS
U. AFTER/BEFORE SCHOOL EDUCATION AND SAFETY PROGRAM
V. PROPER EXPENDITURE OF EDUCATION PROTECTION ACCOUNT FUNDS
W. UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS
X. LOCAL CONTROL AND ACCOUNTABILITY PLAN
Y. INDEPENDENT STUDY COURSE BASED
Z. IMMUNIZATIONS
AZ. EDUCATOR EFFECTIVENESS
BZ. EXPANDED LEARNING OPPORTUNITIES GRANT (ELO-G)
CZ. CAREER TECHNICAL EDUCATION INCENTIVE GRANT
DZ. EXPANDED LEARNING OPPORTUNITIES PROGRAM
EZ. TRANSITIONAL KINDERGARTEN
FZ. KINDERGARTEN CONTINUANCE

CHARTER SCHOOLS ONLY

AA. ATTENDANCE
BB. MODE OF INSTRUCTION
CC. NONCLASSROOM-BASED INSTRUCTION/INDEPENDENT STUDY
DD. DETERMINATION OF FUNDING FOR NONCLASSROOM-BASED INSTRUCTION
EE. ANNUAL INSTRUCTIONAL MINUTES - CLASSROOM BASED
FF. CHARTER SCHOOL FACILITY GRANT PROGRAM

** Held for potential new compliance audit areas, in future fiscal audits.*

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Uniform Guidance Requirements

In addition to the Financial Statement and State Compliance Audit, LEAs may be subject to a Federal Compliance audit. The Office of Management and Budget (OMB) established the **Uniform Guidance,** which, among other things, dictates all requirements for conducting compliance audits of federal awards… based on specific criteria:

When are LEAs required to undergo a Uniform Guidance Audit?

LEAs that expend $750,000* or more in federal awards, as reported on the Schedule of Expenditures of Federal Awards (SEFA), must receive a Uniform Guidance audit.

How much of the Federal expenditures are auditors required to test?

The auditor will test either 20% or 40% of total expenditures in the fiscal year, depending on the risk profile of the LEA. Auditors must consider the following for each of the two most recent fiscal years:

- Was a Uniform Guidance audit performed?
- Was the audit submitted timely to the Federal Audit Clearinghouse?
- Were the financial statements prepared in accordance with GAAP, and was the opinion on the SEFA unmodified?
- Were there any material weaknesses in internal control over financial reporting?
- Was there any substantial doubt about the ability to continue as a going concern?
- Were there any significant Federal program findings?

**Effective for fiscal years beginning October 1, 2024 (FY2025-26 for the District) , this threshold increases to $1 million.*

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Uniform Guidance Requirements (Cont'd)

How does the auditor select Federal programs for testing?

The auditor must examine the SEFA and classify programs, by total expenditures, as either "Type A" or "Type B", The Type A threshold varies based on total expenditures on the SEFA; however, for Alum Rock USD the Type A threshold is expected to be $750,000 for FY2024-25. Programs with expenditures greater than Type A are risk-assessed against the following:

- Federal program risk
  - Have there been recent oversight reviews with issues identified (at federal level)?
  - Has the OMB identified program as higher risk?
- Frequency of audits
  - **Was this program audited at the LEA within the last 2 fiscal years?**
- Audit findings
  - Were there findings in the past year?
- Federal agency determination
  - Has the Federal awarding agency identified program as higher risk?
  - Was the data collection form filed with the Federal Audit Clearinghouse within 30 days of the issuance of the audit report?

"Yes" answers to the above questions will require the program to be audited. Similar factors are also considered for Type B programs. *The result is a rotation of programs subject to audit based on size, whether they're recently audited, or known to be higher risk.*

**Auditors are not expected to perform risk assessments on programs below Type B threshold as those are considered relatively small Federal programs.*

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QUESTIONS?

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THANK YOU!

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