

HOW TO READ YOUR SCHOOL'S AUDIT REPORT

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What is an audit?

- An audit is the process by which an independent accountant reviews your financial records and procedures in order to express an opinion of the fair presentation of your financial statements.
- An audit is not designed to detect fraud.
- An audit is not designed to make your life miserable.

What do auditors do?

Plan the audit

Test the accounting records

Verify account balances

Prepare the audit report

Planning the Audit

- ▣ Audit Planning Form Completion
- ▣ Internal Control Questionnaire Completion
- ▣ Risk and Control Assessment
- ▣ Tests of Controls Assessment
- ▣ Substantive Testing of Financial Data

Why do we have an audit?

- ▣ Required by state law.
- ▣ Required by federal law.
- ▣ Required by debt agreements.
- ▣ Required by bonding companies.
- ▣ Citizens like them.
- ▣ Evaluation of the performance of management.

The Audit Report

- ▣ Independent Auditor's Report
- ▣ Report on Internal Control
- ▣ Report on Compliance
- ▣ Management Letter
- ▣ Balance Sheet
- ▣ Statement of Revenues and Expenditures
- ▣ Budget to Actual
- ▣ Notes to Financial Statements
- ▣ Supplemental Information – Capital Assets, Federal Expenditure Schedule, Schedule of Findings, Federal Programs, Selected Information

Independent Auditor's Report

- ▣ Types of Audits
 - Governmental Accounting Standards (GASB)
 - Regulatory Basis

- ▣ Types of Auditor Opinions
 - Unqualified Opinion
 - Qualified Opinion
 - Adverse Opinion

Report on Internal Control

- ▣ What is Internal Control
- ▣ NOT an opinion on Internal Control
- ▣ Findings of material weaknesses in Internal Control over financial matters are referenced in this letter
- ▣ References Financial Items

Report on Compliance

- ▣ Reports on Compliance with Federal Programs
- ▣ NOT an opinion on Compliance
- ▣ Findings of material weaknesses in Internal Control over compliance issues are referenced in this letter
- ▣ References Federal Programs

Management Letter

- ▣ You may or may not have a Management Letter attached to your audit report.
- ▣ Not having a Management Letter is a good thing
- ▣ This letter is intended for use by Legislative Audit Committee, local School Board, District Management, ADE and Federal Regulatory Agencies
- ▣ Details any violations of Federal or State laws
- ▣ Is still a part of the public audit report

Balance Sheet

- ▣ Assets
 - Cash
 - Investments
 - Accounts Receivable
- ▣ Liabilities
 - Accounts Payable
- ▣ Fund Balances
 - Designated Fund Balances
 - Undesignated Fund Balances

Statement of Revenue and Expenditures

- ▣ Revenues
 - Property Taxes
 - State Foundation Funding
 - Other Revenue
- ▣ Expenditures
 - Salaries
 - Benefits
 - All Expenditures
 - Expenditures are shown by Programs
- ▣ Excess of Revenues Over (Under) Expenditures
- ▣ Beginning Fund Balance
- ▣ Ending Fund Balance

Budget to Actual

- ▣ Statement is a comparison of current year's budget amounts to actual revenue and expenditures
- ▣ Revenues
 - Property Taxes
 - State Foundation Funding
 - Other Revenue
- ▣ Expenditures
 - Expenditures shown by Programs
- ▣ Variance

Notes to Financial Statements

- ▣ Summary of Significant Accounting Policies
- ▣ Cash Deposits
- ▣ Accounts Receivable
- ▣ Commitments
- ▣ Accounts Payable
- ▣ Interfund Transfers
- ▣ Retirement Plans
- ▣ Risk Management
- ▣ Subsequent Events

Summary of Significant Accounting Policies

- ▣ Reporting Entity
- ▣ Description of Funds
- ▣ Measurement Focus and Basis of Accounting
 - Most Districts use Regulatory Basis of Accounting provided by A.C.A. 10-4-413(c) (Act 2201 of 2005)
- ▣ Revenue Recognition Policies
- ▣ Capital Assets
- ▣ Property Taxes
- ▣ Fund Balance Designations
- ▣ Budget and Budgetary Accounting

Cash Deposits

- ▣ This note lists a summary of cash deposits and a comparison of the carrying amount and the amount of bank collateralization.
- ▣ Lists both FDIC Insured amounts and the amount of collateralization provided by the various District banks
- ▣ Arkansas law requires all funds deposited in banks in excess of the FDIC limits to be collateralized by the bank
- ▣ Federal Obligations are used to collateralize District funds in excess of FDIC limits

Accounts Receivable

- ▣ This section of the Notes to Financial Statements gives the user information as to the funds that are owed to the District as of the Balance Sheet Date
- ▣ Most common Accounts Receivable
 - Federal Agencies
 - State Agencies
 - Other

Committments

- ▣ This section of Notes to Financial Statements provides the user with additional information on commitments of the District.
- ▣ Most Common Items
 - Long-Term Debt
 - ▣ List all bonds of the District
 - ▣ Lists the next five years of principal and interest payments due
 - Construction Contracts
 - Operating Leases
 - ▣ Lists all operating leases
 - ▣ Lists the operating lease payments for next 5 years

Accounts Payable

- ▣ This section discloses information about the accounts payable of the District as of the balance sheet date.
- ▣ Generally this section will contain only Vendor Payables, but other items could be included

Interfund Transfers

- ▣ This section lists information about transfers between District funds.

- ▣ Most common transfers include:
 - Transfers from General Fund to Debt Service Fund for Bond Payments
 - Transfers from General Fund to Building Funds

Retirement Plans

- ▣ This section discloses information concerning any retirement plans that the District offers its employees
- ▣ Most common retirement plans –
 - Arkansas Teacher Retirement System
 - ▣ Has both contributory and non-contributory members
 - ▣ Contributory Members Contribute 6% of their salaries
 - ▣ Districts contribute 14% of covered salaries
 - Arkansas Public Employees Retirement System
 - ▣ Has both contributory and non-contributory members
 - ▣ Contributory Members Contribute 5% of their salaries
 - ▣ Each District is required to contribute at a rate determined by the Board of Trustees. Contribution rate at June 30, 2010 was 5%

Risk Management

- ▣ This section discloses information concerning the various insurance policies and coverage of the District.
- ▣ Common Disclosures –
 - Property Coverage
 - ▣ ASBA – Risk Management Program
 - ▣ Arkansas Insurance Department – Risk Management Program
 - Worker’s Compensation Coverage
 - Fidelity Bond Coverage

Subsequent Events

- ▣ This section discloses information about events that occurred after the balance sheet date (the date of the financial audit) and the date of the issuance of the audit report.

- ▣ Common Examples –
 - Material contracts entered into after the audit date
 - Bonds issued after the audit date

Other Items

There may be other items covered in the Notes to Financial Statements that may have an impact on the financial health of a District

Contingency of Lawsuits

Possible Consolidation Issues

Fiscal Distress Issues

Academic Distress Issues

Any item that may have a potential adverse effect on the District

Supplement Information

Capital Assets

- ▣ This schedule lists the various types of capital assets (Land, Buildings, Construction in Progress, and Equipment) that are owned by the District
- ▣ Remember these are at historical cost values not current or replacement costs
 - A high school the District building in 1975 for \$1,000,000 but is now valued at \$ 8,000,000 is listed at the \$1,000,000 cost
- ▣ Accumulated depreciation, based on estimated life is listed
- ▣ Net Capital Assets

Supplemental Information

Federal Programs

This schedule lists the various Federal Programs and the amount of expenditures under those programs

- ▣ Most Common –
 - Child Nutrition
 - Title I
 - Special Education
 - ARRA Funds

Supplemental Information Findings and Questioned Costs

- ▣ Section I
 - This schedule summarizes the auditors findings and questioned costs
- ▣ Section II
 - This schedule lists the findings of the auditor on the Financial Statements of the District
 - ▣ Example – Internal Control
- ▣ Section III
 - This schedule lists the findings of the auditor on the Federal Programs of the District
 - ▣ Example – Cost Allocation
- ▣ Section IV
 - This schedule lists any findings on Federal Programs from prior years

Summary Analysis of Audit Findings
Division of Legislative Audit
For the Two Years Ended June 30, 2000

Fixed Asset Findings	113
Uncollaterized Bank Accounts	28
Federal Compliance	20
Legal Issues	4
Employee Records/Payments	29
Cash Shortages	7
Conflicts of Interest	8
Accounting Records	39
Activity Funds	16
Bids, Bonds, Architects	15
Self Construction	9
Burglary/Theft	6
Undocumented/Unauthorized Transactions	14
Deficit Fund Balance	1
Other	2

Summary Analysis of Audit Findings
Division of Legislative Audit
For the Year Ended June 30, 2009

Allowable Costs/Cost Principles	201
Internal Control	185
Misstatements Not Detected by Internal Control	16
Failure To Get A Bid Or Bond On A Project	10
Purchase or Act Without Board Approval	8
Clerical Error	6
Error In Calculation of 40% Pullback	5
Unauthorized Disbursements	5
Board Member/Administration Conflict of Interest	5
Misappropriation of Funds	4
Incorrect Employee Payroll	4
Excessive Uninsured and Collateralized Deposits	3
Davis-Bacon Act	3
Funds Not Separated or Set Up Properly	2
Capital Assets	2
Cash Reconciliation	2
Failure to Distribute Educational Excellence Funds Properly	1

Comparison of Findings

JUNE 30, 2000

1. Fixed Asset Findings
2. Accounting Records
3. Employee Records/
Payments
4. Uncollaterized Bank Accounts
5. Federal Compliance
6. Activity Funds
7. Bids, Bonds, Etc.
8. Unauthorized Transactions
9. Self Construction
10. Conflicts of Interest

JUNE 30, 2009

1. Federal Compliance
2. Internal Control
3. Bid, Bonds, Etc.
4. Unauthorized Transactions
5. Error In Calculation of 40%
Pullback
6. Conflicts of Interest
7. Misappropriation of Funds
8. Employee Records/
Payments
9. Uncollaterized Bank Accounts
10. Davis-Bacon Act

Supplemental Information Selected Info for Last 5 Years

- ▣ This schedule presents summarized information for the current year that was audited and for the preceding four years.
- ▣ This schedule can give you a quick review of the direction that your District is heading.

Things to Remember

Audit Reports have to be reviewed by the Board of Directors at the first regular board meeting after the audit report is received and appropriate action must be taken.

Annotated Code § 6-1-101. Audit Review

Things to Remember

Section 80.26(b)(3) of the U.S. Education Department General Administration Regulations (EDGAR) requires the Arkansas Department of Education (ADE) to ensure that when a public school district, open-enrollment charter school, or education service cooperative has an audit finding regarding an instance of noncompliance with federal laws or regulations, that an appropriate Corrective Action Plan (CAP) is implemented within six months after receipt of the audit report.

Things to Remember

To ensure compliance with federal and state requirements, the CAP shall be filed with the ADE Financial Accountability and Reporting Unit. The CAP shall include:

1. A statement of the findings.
2. The specific corrective actions to be taken to remedy each finding.
3. The person responsible for implementing the corrective actions.
4. The timeline for completion of the implementation of the corrective actions.
5. A specific explanation of the district's rebuttal to the finding, if appropriate.

Audit Reports

To obtain current and prior years audit reports of your school district, you can go to this website that is a part of the Arkansas Legislative Audit Division's website and download copies.

<http://arklegaudit.gov/#search>

Select the "Schools" tab then enter your school name in the search bar.

Thanks for your attendance

Always remember this

It is never too late to have a
happy childhood