

Legal Compliance and Program Compliance Standards for Audits of Local Boards of Education

(Updated July, 2009 Due to Passage of Act 2009-760)



**Developed by
Department of Examiners of Public
Accounts**

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MEMORANDUM

TO: All Private Certified Public Accounting Firms
Local Boards of Education

FROM: Ronald L. Jones, Chief Examiner
Department of Examiners of Public Accounts

DATE: May 18, 2006

SUBJECT: Legal Compliance and Program Compliance Guidelines for Audits of
Local Boards of Education

The Department of Examiners of Public Accounts as required by Act Number 2006-196, Acts of Alabama, has developed the following legal compliance and program compliance standards. These standards are effective for the fiscal year ending September 30, 2006.

Introduction

In accordance with the provisions of Act Number 2006-196, Acts of Alabama, the Department of Examiners of Public Accounts (the “Department”) is required to prescribe standards for legal compliance audits and program compliance audits conducted by private certified public accounting firms (the “Firm”) of local boards of education, other than those required by law to be audited by the Department. The Department in accordance with the provisions of this act has developed uniform standards that must be followed by private certified public accounting firms conducting legal compliance and program compliance audits of local boards of education.

These standards should not be viewed as a substitute for audits conducted in accordance with generally accepted auditing standards or *Government Auditing Standards*. Nor should they be viewed as a substitute for auditor judgment.

We have included some references to sections of the *Code of Alabama* to assist the Firm in locating some of the laws that are applicable to local boards of education. However, the Firm should not view these references as the only source of information they will need to conduct appropriately designed legal compliance and program compliance audits.

The standards contained in this document may be amended from time to time at the discretion of the Department. It is the responsibility of the Firm to ensure that their legal compliance and program compliance audits are conducted in accordance with the latest revised standards of the Department. The Department undertakes no responsibility to notify the Firm of any changes and/or revisions to these standards. However, the Department will ensure that these standards and any revisions thereto are available upon request, or on its website at [Examiners of Public Accounts](http://www.examiners.alabama.gov) (<http://www.examiners.alabama.gov>)¹.

¹ Revised July 15, 2009.

Responsibilities of the Local Board of Education

The local board of education (the “Board”) shall ensure that contracts with private accounting firms include provisions for program and legal compliance audits conducted in accordance with these standards.

The Board shall be responsible for notifying the Department of any form of financial intervention by the State Department of Education.

The Board shall furnish the State Superintendent a copy of the audit report for review and shall notify the State Superintendent of the time, place, and location of the meeting in which the Firm will present the findings to the Board.

The Board shall furnish a copy of the audit report to the Department of Examiners of Public Accounts (Act 94-414, Acts of Alabama).

The Board shall also ensure that copies of the audit report are available to the public upon request.

Responsibilities of Private Certified Public Accounting Firms

Private Certified Public Accounting Firms shall perform as part of their yearly financial audit of the books and accounts of any local board of education a legal compliance audit and program compliance audit. The legal compliance and program compliance audits conducted by the Firm shall adhere to the standards promulgated by the Department of Examiners of Public Accounts set forth in this document.

The Firm shall maintain and retain working papers to support the audit procedures performed for a period of five years from the audit report release date, or as may otherwise be prescribed by law. The Firm shall make the working papers available for review by the Chief Examiner or his designee.

The Firm shall report all adverse findings in its audit report and to the State Department of Education.

The Firm shall report adverse findings involving the misappropriation or theft of funds of the local board of education to the local district attorney and the Attorney General of the State of Alabama.

The Firm shall present the findings of its legal compliance and program compliance audits to the local board of education in a board meeting.

Legal Compliance Audit Standards

The Firm shall determine through appropriately designed audit procedures whether the local board of education has adopted fiscal management policies that comply with generally accepted accounting principles. Audit procedures should include, but are not limited to the following:

1. Tests to determine whether the local board of education has prepared and filed the required financial documents and reports. (*Code of Alabama 1975*, Sections 16-6B-7, 16-6B-10, 16-13-140, 16-11-24, 16-13-143, 16-13-144, 16-13A-1, 16-1-33)
 - a. Does the local board of education have a legally adopted budget?
 - i. Was the budget filed within the time required by law or regulation?
 - ii. Were public hearings held as required?
 - b. Does the budget contain all the elements required by law?
 - c. Were the financial documents and reports published as required by law or regulation?
2. Tests to determine whether the amounts expended by the local board of education are in accordance with the legally adopted and approved budget.

The Firm shall incorporate in its audit procedures steps to test the expenditures of the local board of education to ensure that the expenditures comply with the policies and procedures adopted by the local board of education and serve a public educational purpose.

The Firm shall determine through appropriately designed audit procedures that any borrowings (bonds, notes, warrants, etc.) by the local board meet applicable legal requirements. (*Code of Alabama 1975*, Sections 16-11-19, 16-13-70 through 16-13-121, 16-13-109, 16-13-210 through 16-13-217)

The Firm shall determine through appropriately designed audit procedures that revenues received by the local board of education through special tax levies, local laws, etc., have been properly accounted for and expended in accordance with laws and regulations.

The Firm shall determine through appropriately designed audit procedures that the deposits and investments of the local board of education comply with applicable laws and regulations. (*Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14, 19-3-120 and 19-3-120.1.)

The Firm shall determine through appropriately designed audit procedures whether the expenditures of the local board of education comply with all applicable general laws of the State of Alabama and local laws applicable to the local board of education. Audit procedures should include, but are not limited to the following:

1. Tests to determine whether the compensation of school board members has been calculated in accordance with state and local laws. (*Code of Alabama 1975*, Section 16-1-26)
2. Tests to determine whether board employees and officials have met the minimum required criteria for their position.
 - a. Have employees received the required training, certifications for the position?
 - b. Are the employees properly bonded?
3. Tests to determine whether the compensation provided to local board employees complies with the salary schedules adopted by the local board of education, board established policy and state and local laws. These tests should include procedures to determine whether teachers who have passed the National Board of Professional Teaching Standards (NBPTS) have received an additional \$5,000 in compensation for completion of the certification (*Code of Alabama 1975*, Section 16-22-13).
4. Tests to determine whether the benefits provided to local board employees comply with board established policies and state and local laws and regulations, i.e., determine that employees of the local board accumulate sick leave in accordance with the *Code of Alabama 1975*, Section 16-1-18.1., travel expenses are in accordance with the *Code of Alabama 1975*, Section 36-7-1, et. seq.
5. Tests to determine whether employees of the local board that are paid from state appropriations work under the direct supervision and control of the local board of education. (See annual appropriations bill.)
6. Tests to determine that expenditures have been bid in accordance with the Alabama Competitive Bid Law (*Code of Alabama 1975*, Section 16-13B-1, et. seq).²
7. Tests to determine that expenditures related to public works contracts comply with the Public Works Law (the *Code of Alabama 1975*, Section 39-1-1, et. seq).
8. Tests to determine whether the amounts expended by the local board were for purposes allowable under state and local laws.
9. Tests to determine whether legislative appropriations received by the local board of education were expended in accordance with the law.

The Firm shall report as an audit finding instances in which the local board of education has not complied with state and local laws and regulations. The Firm shall also follow-up

² Revised July 15, 2009. See Act Number 2009-760, Acts of Alabama.

on prior audit findings and report as a current audit finding those findings that have not been corrected.

Program Compliance Audits Standards

The local board of education receives revenues from state and local sources to support specific programs of the local board of education. The local board of education is required in many instances to comply with certain requirements to participate in the program or to receive state and/or local funds. The Firm should design appropriate audit procedures to test local board of education's compliance with the requirements for participation in the program. These programs include, but are not limited to the following: transportation program; vocational/technical education program; foundation program and textbook program.

The Firm shall through appropriately designed audit procedures determine:

1. Whether the local board of education meets the requirements for participation in the state funded transportation program (*Code of Alabama 1975*, Section 16-13-233).
 - a. Does the local board of education own its buses?
 - b. Were fleet renewal funds used to purchase buses?
 - c. Were fleet renewal funds used to pay debt related to the acquisition of buses?
 - d. Are fleet renewal funds maintained in a separate fund?
2. Whether the local board of education textbook program complies with applicable state laws and regulation (See Code of Alabama 1975, Section 16-36-68).
3. Whether the local board of education has met vocational education requirements (See *Code of Alabama 1975*, Section 16-6B-8(c)).
4. Whether the local board of education has met the requirements of the at-risk program (*Code of Alabama 1975*, Section 16-6B-3(a)). {The Education Appropriation Act contains information related to the expenditure of funds in this area. Please refer to the yearly approved act. (Note- for FY 2005-2006, refer to the Acts of Alabama 2005-173 which can be downloaded from the Secretary of State's website at: <http://www.sos.alabama.gov>. Click the **Government Records** tab and then select **Legislative Acts**.³
5. Whether the local board of education that is receiving Foundation Program Funds meets all requirements for participation in the program (i.e, Minimum School Term, Salary Matrix, etc.).

³ Revised July 15, 2009.

- a. Does the local board of education receive required tax receipts to participate in the program?
 - b. Is the length of school term the same for all schools?
 - c. Does the length of the school term meet the required minimum term?
 - d. Are teachers' salaries in accordance with the properly approved salary schedule?
 - e. Is average daily membership (ADM) determined and supported by school records?
 - f. Are instructional support funds (library enhancement, student materials, professional development, technology, common purchases, and other classroom instructional support) budgeted as required and used for their intended purposes?
 - g. Are student material funds made available to and expended by the teachers as required by the *Code of Alabama 1975*, 16-1-8.1.
6. Whether fully funded Foundation Program state-mandated and state funded salary increases and fringe benefits for Child Nutrition program workers are subsequently fully funded at the local board of education.
 7. Whether appropriations received from the State to the local board of education have been used for the benefit of the local board and that the appropriations have not been passed through to another entity.
 8. Whether all other programs of the local board of education comply with the requirements/regulations for participation in the program.

The Firm shall report as an audit finding instances in which the local board of education has not complied with program laws and regulations. The Firm shall also follow-up on prior audit findings and report as a current audit finding those findings that have not been corrected.

Conclusion

The Department has determined that certain state laws if not followed could have a significant impact on the financial operations of the Board. The Firm should keep in mind that there may also be local laws that are applicable to a local board of education. The Department assumes no responsibility to inform the Firm of applicable local laws. The Firm should consult the *Acts of Alabama* and any interpretations of the law by the Attorney General for additional guidance in this area.

In addition, the Firm should understand that in some instances audit issues related to program compliance and legal compliance may overlap. If an instance of this nature should occur, the firm should include an appropriately worded finding describing both the legal compliance and program compliance problem.