

**RULES
OF THE
AUDITOR GENERAL**



CHAPTER 10.800

**AUDITS OF
DISTRICT SCHOOL BOARDS**

EFFECTIVE 06-30-12

RULES OF THE AUDITOR GENERAL
CHAPTER 10.800

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PREFACE TO RULES

Annual financial audits of district school boards are required by Section 218.39, Florida Statutes. Auditors are cautioned that, in general, these Rules do not repeat nor paraphrase the various laws, rules, and regulations governing the operations of the district school boards. Hence, knowledge of legal provisions is the responsibility of individual auditors.

These Rules are intended to and do implement, interpret, or make specific certain statutory provisions that are within the authority of the Auditor General to implement, interpret, or make specific. However, the Rules are not intended to supersede, nor do the Rules impinge on, the authority of the Board of Accountancy in the regulation of the practice of accountancy as authorized by Chapter 473, Florida Statutes.

Note: All statutory references are to 2012 Florida Statutes.

History: New 07-01-99
 Amended 06-30-12

10.801 PURPOSE

- (1) District school boards located in Florida are required by Florida law (Section 218.39(1)(d), Florida Statutes) to have an annual "financial audit." Under the Federal *Single Audit Act Amendments of 1996* and United States Office of Management and Budget (OMB) Circular No. A-133, the district school boards are also required to have an audit of Federal awards.
- (2) The Comptroller General of the United States has adopted professional auditing standards for the audit of entities receiving Federal awards. These standards are contained in the publication entitled *Government Auditing Standards*.
- (3) The Auditor General has adopted the auditing standards set forth in *Government Auditing Standards* as the standards for auditing district school boards pursuant to Florida law. Hence, the same auditing standards are applicable to both Federal awards audits and financial audits required by Florida law and should eliminate duplication of audit activity.
- (4) There are statutory differences between Federal and Florida audit requirements as to what is to be audited. There may also be differences in the way similar terms are defined in Federal law and Florida law. Auditors must preserve these distinctions.
- (5) The purpose of these Rules is to implement, interpret, or make specific various provisions of Sections 11.45 and 218.39, Florida Statutes.
- (6) These Rules will also form the basis of the review of district school board audit reports pursuant to Section 11.45(7)(b), Florida Statutes.

10.802 RULES OF CONSTRUCTION

- (1) Applicable provisions of Florida law and expressed provisions of these Rules shall prevail over conflicting provisions of material incorporated by reference.
- (2) Audits of non-Federal resources shall be guided by Florida law and these Rules, and audits of Federal awards shall be guided by Federal law and applicable provisions of Florida law.

10.803 PUBLICATIONS INCORPORATED BY REFERENCE

For purposes of these Rules, the following material is incorporated by reference and shall be followed when applicable.

- (1) *Codification of Governmental Accounting and Financial Reporting Standards* promulgated by the Governmental Accounting Standards Board (GASB) effective for fiscal years ended June 30, 2012.
- (2) *AICPA Professional Standards* promulgated by the American Institute of Certified Public Accountants effective for the fiscal year ended June 30, 2012.
- (3) *Government Auditing Standards* (July 2007 Revision) issued by the Comptroller General of the United States.
- (4) *Audit and Accounting Guide – State and Local Governments* promulgated by the American Institute of Certified Public Accountants, effective for the fiscal year ended June 30, 2012.
- (5) *Audit Guide – Government Auditing Standards and Circular A-133 Audits* promulgated by the American Institute of Certified Public Accountants, effective for the fiscal year ended June 30, 2012.
- (6) The Federal *Single Audit Act Amendments of 1996*, Public Law 104-156 (31 U.S.C.A., ss. 7501 to 7507).
- (7) United States OMB Circular No. A-133 effective for the fiscal year ended June 30, 2012.
- (8) *Accounting Standards Codification* promulgated by the Financial Accounting Standards Board (FASB) effective for the fiscal year ended June 30, 2012.
- (9) *Financial and Program Cost Accounting and Reporting for Florida Schools* and amendments thereto, as published by the Florida Department of Education effective for the fiscal year ended June 30, 2012.

General Authority and Law Implemented - Section 11.45, Florida Statutes.

History: New 07-01-99
Amended 06-30-12

10.804 DEFINITIONS

- (1) As used in these Rules, the term:
- (a) "Affidavit" means the affidavit required by Section 163.31801, Florida Statutes, for district school boards that had an impact fee adopted by ordinance on their behalf.
 - (b) "Auditor" means an independent certified public accountant licensed pursuant to Chapter 473, Florida Statutes, and retained and paid by a district school board to perform a financial audit pursuant to Section 218.39(1)(d), Florida Statutes.
 - (c) "Deteriorating financial condition" means a circumstance determined as of the fiscal year end that significantly impairs a district school board's ability to generate enough revenues to meet its expenditures without causing a condition described in Section 218.503(1), Florida Statutes, to occur.
 - (d) "Generally accepted accounting principles" means those accounting principles generally accepted in the United States, as defined by the *GASB Codification of Governmental Accounting and Financial Reporting Standards*, Section 1000 *The Hierarchy of Generally Accepted Accounting Principles*.
 - (e) "Government auditing standards" means those audit standards set forth in the publication *Government Auditing Standards* (July 2007 Revision) issued by the Comptroller General of the United States for fiscal years ended before December 15, 2012.¹
 - (f) "Management letter" means a statement of the auditor's comments and recommendations. This letter must be prepared and included as a part of each financial audit report pursuant to Section 218.39(4), Florida Statutes, and Rule 10.806(2). The management letter shall include, but not be limited to:
 - 1. A statement as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding financial audit report, not otherwise addressed in the auditor's report pursuant to Rule 10.806(2)(b)2. If the audit findings in the preceding financial audit report are uncorrected, the auditor must identify those that were also included in the second preceding fiscal year financial audit report. Any such findings must be clearly referenced to the

¹ The requirements described in these rules are those required by *Government Auditing Standards* (July 2007 Revision). For fiscal years ending on or after December 15, 2012, the requirements of *Government Auditing Standards* (2011 Revision) apply.

corresponding findings included in each of the two preceding financial audit reports.

2. A statement as to whether or not the district school board has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met.² (See also Rule 10.807(1).)
3. A statement as to whether or not the district school board complied with Section 218.415, Florida Statutes, regarding the investment of public funds.
4. Any recommendations to improve the district school board's financial management.
5. Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential.
6. For matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors, the following may be reported based on professional judgment:
 - a. Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse.
 - b. Deficiencies in internal control that are not significant deficiencies.
7. The following information regarding the auditor's application of financial condition assessment procedures pursuant to Rule 10.805(6):
 - a. A statement that the auditor applied financial condition assessment procedures pursuant to Rule 10.805(6).
 - b. If a deteriorating financial condition(s) is noted, a statement that the district school board's financial condition is deteriorating and a description of conditions causing the auditor to make this conclusion. If the

² Effective July 1, 2012, Chapter 2012-38, Laws of Florida, eliminated the condition formerly specified in Section 218.503(1)(e), Florida Statutes; however, this condition has been added as Section 218.39(5)(b), Florida Statutes, and requires the auditor to notify each member of the governing body of any local governmental entity that meets the condition.

auditor has reported that the district school board has met one or more of the conditions specified in Section 218.503(1), Florida Statutes (see (1)(f)2., above), this statement shall indicate whether such condition(s) resulted from a deteriorating financial condition(s). Findings regarding deteriorating financial conditions shall be prepared in accordance with Rule 10.806(3)(c).

8. A statement as to whether or not the district school board complied with transparency requirements (i.e., included a link on its Web site to the Florida Transparency Web site). (Section 11.45(7)(i), Florida Statutes, and Section 2, Specific Appropriations 116 through 130 of Chapter 2010-152, Laws of Florida)

10.805 SCOPE OF THE FINANCIAL AUDIT

- (1) It is the intent of these Rules to make "government auditing standards" applicable in the State of Florida to audits of district school boards pursuant to Section 218.39(1)(d), Florida Statutes.
- (2) The scope of a "financial audit" shall include:
 - (a) An examination of financial statements to express an opinion on the fairness with which they present financial position and changes in financial position in conformity with generally accepted accounting principles.
 - (b) An examination to determine whether operations are properly conducted in accordance with legal and regulatory requirements.
 - (c) An examination of any additional financial information necessary to comply with generally accepted accounting principles.
- (3) The financial statements referred to in paragraph (2)(a) above are the basic financial statements as identified by Section 2200.102(b) of the GASB *Codification of Governmental Accounting and Financial Reporting Standards*. In addition, the basic financial statements should be accompanied by: (1) management's discussion and analysis, as identified by Section 2200.102(a) of the GASB *Codification of Governmental Accounting and Financial Reporting Standards* and (2) other required supplementary information, as identified by Section 2200.102(c) of the GASB *Codification of Governmental Accounting and Financial Reporting Standards*.
- (4) The scope of the financial audit shall also include any additional activities necessary to establish compliance with the term "financial statement audit" as defined and used in government auditing standards.
- (5) When applicable, the scope of the financial audit shall encompass the additional activities necessary to establish compliance with the Federal *Single Audit Act Amendments of 1996*, Public Law 104-156 (31 U.S.C.A., ss. 7501 to 7507); United States OMB Circular No. A-133; and other applicable Federal law.
- (6) The scope of the financial audit shall include the use of financial condition assessment procedures in determining whether deteriorating financial conditions exist pursuant to Section 218.39(5), Florida Statutes.

General Authority and Law Implemented - Section 11.45, Florida Statutes.

History: New 07-01-99
Amended 06-30-12

10.806 AUDIT REPORT

- (1) Each audit report shall comply with the applicable reporting standards as contained in the publications referenced in Rule 10.803.
- (2) Each audit report submitted pursuant to Section 218.39(7), Florida Statutes, and this Chapter must be a single document and contain at least the following:
 - (a) A table of contents.
 - (b) The auditor's reports on:
 1. The basic financial statements. The report must include at a minimum:
 - a. A statement as to whether the basic financial statements are presented in accordance with generally accepted accounting principles;
 - b. Expression of opinions regarding the basic financial statements, or an assertion to the effect that an opinion(s) cannot be expressed including the reasons therefor; and
 - c. A statement that the audit was conducted in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in government auditing standards.
 2. Internal control and compliance. The report must include at a minimum:
 - a. The scope of the auditor's testing of internal control over financial reporting;
 - b. The scope of the auditor's testing of compliance with laws, regulations, and provisions of contracts or grant agreements; and
 - c. The auditor's findings and recommendations resulting from those tests, including (1) material weaknesses in internal control; (2) significant deficiencies in internal control; (3) instances of fraud and illegal acts unless inconsequential to the financial statements; and (4) violations of provisions of contracts or grant

agreements, or abuse that could have a material effect on the financial statements.

- (c) Any other auditor's reports and related financial information required pursuant to the Federal *Single Audit Act Amendments of 1996*, Public Law 104-156 (31 U.S.C.A., ss. 7501 to 7507); United States OMB Circular No. A-133; and other applicable Federal law.
 - (d) The "management letter" required by Section 218.39(4), Florida Statutes, and defined in Rule 10.804(1)(f).
 - (e) The basic financial statements and other required supplementary information as described in Rule 10.805(3). The notes to financial statements shall include the disclosures required by Section 2300 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*.
 - (f) The written statement of explanation or rebuttal required by Rule 10.807(1). Such written statement of explanation or rebuttal should include the finding reference number used by the auditor in the auditor's report. (See also Rule 10.806(3)(c)7.)
 - (g) For district school boards that had an impact fee adopted by ordinance on their behalf, an affidavit signed and sworn to by the Chief Financial Officer before an officer authorized to administer oaths (e.g., notary public) stating that the ordinance complied with the requirements of Section 163.31801, Florida Statutes.
- (3) Other reporting requirements:
- (a) Known fraud or other illegal acts that have occurred affecting a Federal award shall be included as an audit finding in the Schedule of Findings and Questioned Costs for Federal Awards, unless the auditor confirms the fraud was reported to appropriate officials outside of the auditor's report, as prescribed by United States OMB Circular No. A-133.
 - (b) If the auditor has reason to believe that fraud or other illegal acts have occurred, the auditor shall be guided by the procedures for notification described in government auditing standards.
 - (c) Audit findings contained in reports, schedules, and management letters must include the following specific information:
 - 1. The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation.

2. The condition found, including facts that support the condition identified in the audit finding.
3. The cause, or the reason or explanation for the condition or the factor(s) responsible for the difference between the situation that exists (condition) and the required or desired state (criteria).
4. The effect or potential effect (i.e., outcome or consequence) of the condition. This should include information to provide proper perspective for judging the prevalence and consequences of the audit finding, such as whether the audit finding represented an isolated instance or a systemic problem. Where appropriate, instances identified shall be related to the universe and the number of cases examined, and shall be quantified in terms of dollar value.
5. Recommendations to prevent future occurrences of the deficiency identified in the audit finding.
6. Views of responsible officials of the district school board when there is disagreement with the audit findings, to the extent practical.
7. Reference numbers for each audit finding to allow for easy referencing of the audit findings during follow-up. The reference number should indicate the fiscal year in which the finding initially occurred.

10.807 DELIVERY OF AUDIT REPORT AND MANAGEMENT'S RESPONSE

- (1) To promote uniformity in the conduct of financial audits and to provide the public with management's explanations of corrective action designed to prevent recurrence of any findings in the auditor's reports and management letter, a written statement of explanation or rebuttal concerning the auditor's findings and recommendations, including corrective action to be taken, must be filed with the governing body of the district school board within 30 days after delivery of the auditor's findings to be included in the auditor's report or management letter prepared pursuant to Section 218.39(4), Florida Statutes. The written statement must include corrective actions taken, or to be taken, regarding one or more conditions reported by the auditor pursuant to Rule 10.804(1)(f)2., or a deteriorating financial condition(s) reported pursuant to Rule 10.804(1)(f)7.b. (Section 218.39(6) and (7), Florida Statutes.)
- (2) The auditor shall deliver a copy of the audit report to management, each member of the governing body of the district school board, each member of the audit committee charged with governance as defined in *AICPA Professional Standards*, AU Section 380, and the head of the governing body of all component units included in the audit.
- (3) One paper copy and one electronic copy of the audit report required by Rule 10.806, including management's responses thereto, must be submitted to the Auditor General within 45 days after delivery of the audit report but no later than 9 months after the end of the fiscal year of the district school board. The date that the audit report was delivered to the district school board must be indicated by the district school board in correspondence accompanying the audit report submitted to the Auditor General. (Section 218.39(7), Florida Statutes.)

General Authority and Law Implemented - Section 11.45, Florida Statutes.

History: New 07-01-99
Amended 06-30-12

10.808 EFFECTIVE DATE

These Rules, as amended, shall take effect for fiscal years ending June 30, 2012, and thereafter.