

**RULES  
OF THE  
AUDITOR GENERAL**



**CHAPTER 10.850**

**AUDITS OF  
CHARTER SCHOOLS AND SIMILAR ENTITIES,  
FLORIDA VIRTUAL SCHOOL, AND VIRTUAL  
INSTRUCTION PROGRAM PROVIDERS**

**EFFECTIVE 06-30-12**

RULES OF THE AUDITOR GENERAL  
CHAPTER 10.850

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## PREFACE TO RULES

Annual financial audits of charter schools and charter technical career centers are required by Section 218.39, Florida Statutes. An audit of the Florida Virtual School is required by Section 1002.37(6)(d), Florida Statutes. Audits of virtual instruction program providers are required by Section 1002.45(2)(a)9., 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 charter schools and similar entities. Hence, knowledge of legal provisions governing charter schools and similar entities, the Florida Virtual School, and virtual instruction program providers 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.**

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

## 10.851 PURPOSE

- (1) Charter schools and charter technical career centers located in Florida are required by Florida law (Sections 218.39(1)(e) and (f), 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, a charter school or charter technical career center may also be required to have an audit of Federal awards.
- (2) Under the provisions of Section 1002.37(6)(d), Florida Statutes, these Rules are made applicable to the Florida Virtual School established pursuant to Section 1002.37, Florida Statutes.
- (3) Under the provisions of Section 1002.45(2)(a)9., Florida Statutes, these Rules are made applicable to the virtual instruction program providers approved to offer virtual instruction programs pursuant to Section 1002.45(2), Florida Statutes.
- (4) 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*.
- (5) The Auditor General has adopted the auditing standards set forth in *Government Auditing Standards* as the standards for auditing charter schools, charter technical career centers, the Florida Virtual School, and the virtual instruction program providers 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.
- (6) 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.
- (7) The purpose of these Rules is to implement, interpret, or make specific various provisions of Sections 11.45, 218.39, and 1002.37(6)(d), Florida Statutes.
- (8) These Rules will also form the basis of the review of charter school and charter technical career center audit reports pursuant to Section 11.45(7)(b), Florida Statutes.

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General Authority and Law Implemented - Sections 11.45 and 1002.37(6)(d), Florida Statutes.

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

**10.852      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.

## 10.853 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 the fiscal year 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 and Accounting Guide - Not-for-Profit Entities* promulgated by the American Institute of Certified Public Accountants, effective for the fiscal year ended June 30, 2012.
- (6) *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.
- (7) The Federal *Single Audit Act Amendments of 1996*, Public Law 104-156 (31 U.S.C.A., ss. 7501 to 7507).
- (8) United States Office OMB Circular No. A-133, effective for the fiscal year ended June 30, 2012.
- (9) *Accounting Standards Codification* promulgated by the Financial Accounting Standards Board effective for the fiscal year ended June 30, 2012.
- (10) *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.

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

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

## 10.854 DEFINITIONS

- (1) As used in these Rules, the term:
- (a) "Auditor" means an independent certified public accountant licensed pursuant to Chapter 473, Florida Statutes, and retained and paid by a charter school or charter technical career center pursuant to Sections 218.39(1)(e) or (f), Florida Statutes; the Florida Virtual School pursuant to Section 1002.37(6)(d), Florida Statutes; or virtual instruction program providers pursuant to Section 1002.45(2), Florida Statutes.
  - (b) "Deteriorating financial condition" means a circumstance determined as of the fiscal year end that significantly impairs a charter school's or center's ability to generate enough revenues to meet its expenditures without causing a condition described in Section 218.503(1), Florida Statutes, to occur.
  - (c) "Generally accepted accounting principles" means those accounting principles generally accepted in the United States, as defined by FASB *Accounting Standards Codification*, Topic 105 *Generally Accepted Accounting Principles* or the GASB *Codification of Governmental Accounting and Financial Reporting Standards*, Section 1000 *The Hierarchy of Generally Accepted Accounting Principles*, as applicable.
  - (d) "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.<sup>1</sup>
  - (e) "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 10.856(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 10.856(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

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<sup>1</sup> 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 charter school or center has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met.<sup>2</sup> (See also Rule 10.857(2).)
3. Any recommendations to improve financial management.
4. 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.
5. 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.
6. The name or official title of the entity.
7. For charter schools and centers only:
  - a. A statement that the auditor applied financial condition assessment procedures pursuant to Rule 10.855(10).
  - b. If a deteriorating financial condition(s) is noted, a statement that the charter school's or center's financial condition is deteriorating and a description of conditions causing the auditor to make this conclusion. If the auditor has reported that the charter school or center has met one or more of the conditions specified in Section 218.503(1), Florida Statutes (See (1)(e)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 10.856(3)(c).

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

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

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<sup>2</sup> 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.



## 10.855 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 charter schools and charter technical career centers pursuant to Sections 218.39(1)(e) and (f), Florida Statutes; to audits of the Florida Virtual School pursuant to Section 1002.37(6)(d), Florida Statutes; and to audits of virtual instruction program providers pursuant to Section 1002.45(2), 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) Section 1002.33(12)(i), Florida Statutes, provides that a charter school shall be organized as, or be operated by, a nonprofit organization. A charter school also may be operated by a municipality or other public entity. Based on the guidance provided in the American Institute of Certified Public Accountants *Audit and Accounting Guide - Not-for-Profit Entities*, and the provisions of Section 1002.33(8), Florida Statutes, an individual charter school established as a separate legal entity (i.e., organized as a separate nonprofit organization) generally is a governmental organization for financial reporting purposes. In these circumstances, the financial statements referred to in subparagraph (2)(a) should be prepared following the hierarchy of generally accepted accounting principles (GAAP) applicable to state and local governments (governmental accounting model).

If the individual charter school is not organized as a separate legal entity (i.e., it is operated by a nonprofit organization that operates other charter schools or carries on other functions or is operated by a municipality or other public entity), special purpose financial statements for the charter school should be prepared in accordance with the GAAP hierarchy required for the entity that operated the charter school. The auditor's report on the special purpose financial statements should be prepared in accordance with *AICPA Professional Standards*, AU Section 623.

- (4) For a charter school organized as a separate legal entity and reporting under the governmental accounting model, the financial statements referred to in subparagraph (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.* For other charter schools, the financial statements referred to in subparagraph (2)(a) above are special purpose financial statements that do not constitute a complete presentation of the organization that operates the charter school but otherwise constitute financial statements in conformity with generally accepted accounting principles. The special purpose financial statements, as described in subparagraph (2)(a) above, should present the charter school's financial position including the charter school's current and capital assets and current and long-term liabilities, and net assets; changes in financial position; and cash flows.

- (5) Section 1002.34(7), Florida Statutes, provides that a charter technical career center shall be organized as a nonprofit organization and is a body corporate and politic. Based on the guidance provided in the American Institute of Certified Public Accountants *Audit and Accounting Guide - Not-for-Profit Entities*, and the provisions of Sections 1002.34(9) and (15), Florida Statutes, a charter technical career center generally is a governmental organization for financial reporting purposes. In these circumstances, the financial statements referred to in subparagraph (2)(a) should be prepared following the hierarchy of GAAP applicable to state and local governments (governmental accounting model).
- (6) Section 1002.37(2), Florida Statutes, provides that the Florida Virtual School shall be governed by a board of trustees appointed by the Governor and the board of trustees shall be a public agency. Also, Section 1002.37(2)(l), Florida Statutes, provides that the financial records and accounts of the school shall be maintained under the uniform system of financial records and accounts for the schools of the State. Based on the guidance provided in the American Institute of Certified Public Accountants *Audit and Accounting Guide - Audits of State and Local Governments*, and the provisions of Section 1002.37, Florida Statutes, the Florida Virtual School would be considered a governmental organization for financial reporting purposes. In these circumstances, the financial statements referred to in subparagraph (2)(a) should be prepared following the hierarchy of GAAP applicable to state and local governments (governmental accounting model).
- (7) For those charter schools, charter technical career centers, and the Florida Virtual School that follow the governmental accounting model, 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*.

- (8) Section 1002.45, Florida Statutes, establishes requirements for each school district to offer virtual instruction programs to public school students within its boundaries. To be approved by the Florida Department of Education as a virtual instruction program provider, Section 1002.45(2), Florida Statutes, requires a provider to document adherence to a number of criteria, one of which is to provide for an annual financial audit. Financial statements of virtual instruction program providers subjected to audit should be prepared in conformity with the *Accounting Standards Codification* promulgated by the Financial Accounting Standards Board effective for the applicable fiscal year.
- (9) 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.
- (10) 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.
- (11) For charter schools and centers, 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.

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

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

## **10.856 AUDIT REPORT**

- (1) Each audit report shall comply with the applicable reporting standards as contained in the publications referenced in Rule 10.853.
- (2) Each audit report submitted pursuant to law and this Chapter, shall be a single document and contain at least the following:
  - (a) A table of contents.
  - (b) The auditor's reports on:
    1. The financial statements. The report must include at a minimum:
      - a. A statement as to whether the 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 10.854(1)(e).
  - (e) The basic financial statements and required supplementary information required by generally accepted accounting principles.
  - (f) The written statement of explanation or rebuttal required by Rule 10.857(2). 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 10.856(3)(c)7.)
- (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 represents 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 a school or center when there is disagreement with the audit findings, to the extent practical.
7. Reference numbers for each audit finding to allow for easy references of the audit findings during follow-up. The reference number should indicate the fiscal year in which the finding initially occurred.

## **10.857 DELIVERY OF AUDIT REPORT AND MANAGEMENT'S RESPONSE**

- (1) When financial audits reveal that one or more of the conditions specified in Section 218.503(1), Florida Statutes, have occurred or will occur if action is not taken to assist the charter school or center, the auditor must notify the governing body of the charter school or center, the sponsor, and the Commissioner of Education within seven business days after the finding is made. (Section 1002.345(2)(a)1., Florida Statutes.)
- (2) 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, and with the charter school's or center's sponsor, 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. For charter schools and centers, the written statement shall include corrective actions taken, or to be taken, regarding one or more conditions reported by the auditor pursuant to Rule 10.854(1)(e)2. or 10.857(1), and determined to be the result of a deteriorating financial condition(s) reported pursuant to Rule 10.854(1)(e)7.
- (3) The auditor shall deliver a copy of the audit report to management, each member of the governing body, to the charter school's or center's sponsor, each member of an audit committee charged with governance as defined in *AICPA Professional Standards*, AU Section 380, the Florida Department of Education, and the head of the governing body of all component units included in the audit. For the Florida Virtual School, the auditor shall deliver a copy of the audit report as specified in Section 1002.37(6), Florida Statutes, and to management, each member of the governing body, and each member of an audit committee charged with governance as defined in *AICPA Professional Standards*, AU Section 380. For virtual instruction program providers, the auditor shall deliver a copy of the audit report to management, each member of the governing body, and each member of an audit committee charged with governance as defined in *AICPA Professional Standards*, AU Section 380.
- (4) One paper copy and one electronic copy of the audit report required by Rule 10.856, including management's responses thereto, must be submitted to the Auditor General within 45 days after delivery of the audit report to the governing body, but no later than 9 months after the end of the fiscal year.

The date that the audit report was delivered to the governing body must be indicated in correspondence accompanying the audit report submitted to the Auditor General.



**10.858 EFFECTIVE DATE**

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

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General Authority and Law Implemented - Section 11.45, Florida Statutes.  
History: New 07-01-99  
Amended 06-30-12