EXTERNAL AUDIT GUIDANCE FOR SCHOOL DISTRICT OFFICIALS

The Five Point Plan for increasing school district financial oversight and accountability includes a provision to enhance the effectiveness of external audits by:

- Requiring CPAs to present audit results directly to school boards.
- Require a formal school district response to the management letter and a corrective action plan for any reportable conditions.
- Provide guidance on internal controls and audit testing, including specific types of testing and suggested level of detail.

The following list provides some specific examples of the audit guidance that will be helpful to school districts in working with their CPAs in order to enhance the effectiveness of the audit process and help assure school district officials that their annual independent audit is providing effective accountability. The list may be helpful to school board members and district officials as they participate in the annual financial audit process.

► Prudent use of taxpayer dollars

Goods and services are procured in a manner so as to assure the prudent and economical use of public moneys in the best interest of the taxpayers.

- A comprehensive test of cash disbursements that includes sample testing of procurements for compliance with laws, rules, regulations and policies/procedures for competitive purchasing, bidding or use of state or county contracts. Controls designed to prevent purchasing from businesses owned or controlled by officers, employees or other related parties should also be reviewed and tested. Tests of transactions are expected to include verification that goods or services were properly authorized, received by the district, charged to the proper appropriation accounts and audited prior to payment. This testing should include review of requisitions, purchase orders, receiving slips, vouchers, invoices, cancelled checks, and postings to the accounting records.
- A review of the district's policies and procedures for procuring goods and services that are not subject to competitive bidding requirements, including sample testing of cash disbursements to ensure the district complied with its procurement policies and acquired goods and services of maximum quality at the lowest possible cost under the circumstances. This test will also help assure the district's procedures guard against favoritism, fraud and corruption.
- Expense reimbursements or other payments to board members, administrators and other district personnel should be tested to verify compliance with board policies, reasonableness, appropriateness of payment, and documentation of expenses. Expenditures for meals and refreshments at meetings, cell phones and purchases with credit cards should be reviewed for reasonableness.
- A comprehensive test of payroll disbursements that includes verification of the existence of the employee, authorization, time worked, accuracy of rates,

overtime payments and distributions to appropriate expenditure categories by tracing from time records through the payroll records to the cancelled check. Testing of accounting records should also be performed such as payroll summaries and payments of taxes and other withholdings.

► Sound internal control structure

A sound internal control structure is in place and internal controls are appropriately designed and operating effectively.

- A sufficient understanding of the school district's system of internal controls including the district's control environment, control activities, system for risk assessment, information and communication, and monitoring. This audit procedure should also include a documented understanding of controls over the school district's computer systems that are significant to audit objectives.

- Testing of controls deemed significant to the audit's objectives. For example: observing district personnel actually performing the control procedures in the regular course of operations; examining documents and looking for evidence of approvals, sign-offs, etc.; and replicating a control procedure to test whether it was applied correctly.

- Analytical procedures should be performed to identify unusual trends, activities or transactions. Revenue and expenditure trends should be reviewed over a number of years, and significant budget variances investigated. Control and detail records for budget, revenue, payroll, procurement, capital project and capital asset activities should be scanned for questionable trends or entries, and unusual items investigated.

- A sample of budget amendments should be checked to verify they were completed before appropriations were over-expended to verify budget control over district expenditures.

- Documentation of how the evaluation of the district's control structure and the results of the analytical reviews will affect the audit approach for testing of controls and tests of transactions. This documentation should include the auditor's consideration of the risk of fraud, illegal acts, abuse, or violations of contract/grant provisions, and the impact these risks will have on audit testing.

► Assets are safeguarded

School district assets are safeguarded against loss, waste and abuse.

- Verification that a current asset inventory system is in place.

- Physical inspection of assets and personal property items, especially those items most susceptible to theft and abuse (e.g. computers, televisions, video equipment).

- Verification of adequacy of insurance coverage for assets and for employees with authorized access to those assets.