

CHAPTER 8

AUDITING

Annual Audit

The financial condition and transactions of all AEAs and all school offices in school districts shall be examined at least once each year. The audit of school districts [and AEAs] shall include an audit of all school funds including categorical funding provided by the state, the certified annual financial report (CAR-COA), and the certified enrollment as provided in Iowa Code section 257.6, supplementary weighting as provided in section 257.11, and the revenues and expenditures of any nonprofit school organization established pursuant to section 279.62. Differences in certified enrollment shall be reported to the department of management. The audit of school districts [and AEAs] shall include at a minimum a determination that the laws of the state are being followed, that categorical funding is not used to supplant other funding except as otherwise provided, that supplementary weighting is pursuant to an eligible sharing condition, and that postsecondary courses provided in accordance with section 257.11 and chapter 261E supplement, rather than supplant, school district courses. Examinations shall be made as determined by the governmental subdivision either by the auditor of state or by certified public accountants, certified in the state of Iowa, and they shall be paid from the proper public funds of the governmental subdivision **(11.6(1)(a))**.

The department of management shall adjust the enrollment of the school district for the audit year based upon reports filed under section 11.6, and shall further adjust the budget of the second year succeeding the audit year for the property tax and state aid portions of the reported differences in enrollments for the year succeeding the audit year **(257.6(1)"c")**.

A governmental subdivision contracting with certified public accountants shall do so in a reasonable manner on the basis of competence and qualification for the services required and for a fair and reasonable price utilizing procedures which include a written request for proposals (RFP) **(11.6(2))**.

In conjunction with the audit of the governmental subdivision required under section 11.6, the auditor shall also perform tests for compliance with the investment policy of the governmental subdivision. The results of the compliance testing shall be reported in accordance with generally accepted auditing standards (GAAS). The auditor may also make recommendations for changes to investment policy or practices. The AEA or school district is responsible for the remedy of reported noncompliance with its policy or practices **(11.6(1)"c"(1))**.

As part of its audit, the governmental subdivision is responsible for obtaining and providing to the auditor the audited financial statements and related report on internal control structure of outside persons, performing any of the following during the period under audit for the governmental subdivision:

- i. Investing public funds.
- ii. Advising on the investment of public funds.
- iii. Directing the deposit or investment of public funds.
- iv. Acting in a fiduciary capacity for the AEA or school district.

The audit under section 11.6 shall not be certified until all material information required by 11.6(1)"b"(2) is reviewed by the auditor **(11.6(1)"c"(2))**.

The auditor of state may at any time cause to be made a complete or partial reaudit of the financial condition and transactions of any governmental subdivision or an office of any governmental subdivision if one of the following conditions exists:

- 1) The auditor of state has probable cause to believe such action is necessary in the public interest because of a material deficiency in an audit of the governmental subdivision filed with the auditor of state or because of a substantial failure of the audit to comply with the standards and procedures established and published by the auditor of state.
- 2) The auditor of state receives from an elected official or employee of the governmental subdivision a written request for a complete or partial reaudit of the governmental subdivision.
- 3) The auditor of state receives a petition signed by at least one hundred eligible electors of the governmental subdivision requesting a complete or partial reaudit of the governmental subdivision. If the governmental subdivision has not contracted with or employed a certified public accountant to perform an audit of the fiscal year in which the petition is received by the auditor of state, the auditor of state may perform an audit required by subsection 1 or 3. **(11.6(4))**.

The director of the department of education shall request a state audit of the accounts of a school district, AEA, school official, or school employee handling school funds when it is apparent that an audit should be made **(256.9(19))**.

While either the state appeal board or the school budget review committee (SBRC) may amend a school district budget to avoid a misuse of management levy funds, the primary responsibility for identifying misuse of this levy rests with the audit function. When a misuse is disclosed in an audit or reaudit report, appropriate remedial action may be taken by affected taxpayers, the county attorney or the Attorney General. The Citizens' Aide may also pursue investigation as to whether a misuse of school district funds has occurred, making appropriate referrals if a misuse is found **(OAG #93-8-3)**.

The auditor of state may, within three years of filing, during normal business hours upon reasonable notice of at least twenty-four hours, review the audit work papers prepared [by a certified public accountant] in the performance of an audit or examination **(11.6(5))**.

The state auditor possesses discretion to conduct a complete or partial reaudit once statutory prerequisites are met. The state auditor determines the extent of the audit and means or methods to use **(OAG #92-1-2(L))**.

An audit required by 11.6 shall be completed within nine months following the end of the fiscal year that is subject to the audit. At the request of the governmental subdivision, the auditor of state may extend the nine-month time limitation upon a finding that the extension is necessary and not contrary to the public interest and that the failure to meet the deadline was not intentional **(11.6(6))**.

CPAs and governmental subdivisions shall immediately notify the auditor of state regarding any suspected embezzlement, theft, or other significant financial irregularities **(11.6(7))**.

The written report of the audit of a governmental subdivision shall include the auditor's opinion as to whether a governmental subdivision's financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles or with an other comprehensive basis of accounting. As a part of conducting an audit of a governmental subdivision, an evaluation of internal control and tests for compliance with laws and regulations shall be performed. **(11.11)**. *Note that this section does not relieve the auditor of the requirements in 11.6(1) "a"*. The audit of school districts shall include an audit of all school funds including categorical funding provided by the state, the certified annual financial report, the certified enrollment as provided in section 257.6, supplementary weighting as provided in section 257.11, the revenues and expenditures of any nonprofit school organization established pursuant to section 279.62, and entrepreneurial education funds established pursuant to section 298A.15. Differences in certified enrollment shall be reported to the department of management. The audit of school districts shall include at a minimum a determination that the laws of the state are being followed, that categorical funding is not used to supplant other funding except as otherwise provided, that supplementary weighting is pursuant to an eligible sharing condition, and that postsecondary courses provided in accordance with section 257.11 and chapter 261E supplement, rather than supplant, school district courses **(11.6(1) "a")**.

A written report of an audit or examination shall be provided to the governmental subdivision and filed with the auditor of state. All reports shall be open to public inspection, including copies on file in the office of the state auditor, and refusal on the part of any public official to permit such inspection when such reports have been filed with the state auditor shall constitute a simple misdemeanor. In addition, notice that the report has been filed shall be forwarded immediately to each newspaper, radio station, or television station located in the governmental subdivision that was audited or examined. However, if there is no newspaper, radio station, or television station located in the governmental subdivision, such notice shall be sent to the official newspapers of the county **(11.14)**.

The results of the annual audit of all district funds shall be made part of the official records of the board **(IAC 281--12.3(8))**.

Auditors shall have the right while conducting audits or examinations to have full access to all papers, books, records, and documents of any officers or employees and shall have the right, in the presence of the custodian or the custodian's designee, to have full access to the cash drawers and cash in the official custody of the officer or employee and, during business hours, to examine the public accounts of the department or governmental subdivision in any depository which has public funds in its custody pursuant to the law. If the information, records, instrumentalities, and properties sought by the auditor of state are required by law to be kept confidential, the auditor of state shall have access to the information, records, instrumentalities, and properties, but shall maintain the confidentiality of all such information and is subject to the same penalties as the lawful custodian of the information for dissemination of the information. However, the auditor of state shall not have access to the income tax returns of individuals **(11.41)**.

The school district or AEA, or the CPA or state auditor who performs the annual audit of the school district or AEA, shall provide an electronic copy of the annual audit report as well as any management letters to the following:

1. Office of the Auditor of State (two paper copies, one electronic copy, and filing fee).
2. Finance, Facilities and Operation Services, Iowa Department of Education (one electronic copy).

The audit report, including all management letters from the auditor, is to be submitted by March 31 following the cost of the fiscal year, unless an extension has been granted by the auditor of state. or within 30 days after issuance of the auditor's report to the auditee, whichever occurs first. A form may not be submitted in lieu of the audit report.

If an audit or examination discloses any irregularity in the collection or disbursement of public funds, in the abatement of taxes, or other findings the auditor believes represent significant noncompliance, a copy of the report shall be filed with the county attorney, and it shall be the county attorney's duty to cooperate with the state auditor, and, in proper cases, with the attorney general, to secure the correction of the irregularity **(11.53)**.

In the event an audit or examination discloses any grounds which would be grounds for removal from office, a copy of the report shall be provided and filed by the auditor of state in the office of the attorney general of the state, who shall thereupon take such action as, in the attorney general's judgment, the facts and circumstances warrant **(11.54)**.

Filing Fees

The auditor of state shall adopt rules to establish and collect a filing fee for the filing of each report of audit or examination conducted pursuant to subsections 1 through 3. The funds collected shall be maintained in a segregated account for use by the office of the auditor of state in performing audits conducted pursuant to subsection 4 and for work paper reviews conducted pursuant to subsection 5 **(11.6(10))**.

Performance or Operational Audits

A performance or operational audit is a systematic identification of ways to improve efficiency and effectiveness.

Claims Audits

The state appeal board may investigate and collect claims which the state has against municipal or political corporations in the state including school corporations **(25.6)**.

Compliance Audits

A compliance audit is a determination of whether transactions and activities of the entity conform with local, state, and federal laws and regulations. The auditor must evaluate whether a transaction or activity was unallowable, undocumented, unapproved, or unreasonable. Iowa school districts and AEAs are required to have an annual compliance audit. Regardless of federal funding level, these audits must be conducted in accordance with generally accepted auditing standards (GAAS); Standards for Audits of Governmental Organizations, Programs, Activities, and Functions (Yellow Book); Single Audit Act Amendments of 1996; OMB Circular A-133; and Chapter 11 of the Iowa Code.

A-133 Compliance

In addition to the review of work of independent CPAs conducted by the Office of the Auditor of State, the work of independent and state auditors and the accounting procedures used by school districts, AEAs, and community colleges are also reviewed by the department of education as the cognizant agency for federal funding. This is a requirement on the State of Iowa by the federal government in order for school districts, AEAs, and community colleges to receive federal assistance. In order to avoid a duplication of efforts, the department of education utilizes the existing review process of independent auditors' workpapers conducted by the Office of the Auditor of State for the review required by Circular A-133 of the work of independent CPAs. In the event that it is an audit prepared by a state auditor that is to be reviewed as required by Circular A-133, that review would be conducted by the department of education.

The Single Audit Act of 1984 was amended in 1996 by the U.S. Congress. The Office of Management and Budget (OMB) withdrew Circular A-128 and revised Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations," to include governmental entities previously covered by A-128. The circular regulates the implementation of the Single Audit Act Amendments of 1996 and is periodically revised.

Department of Education Audit Policy for LEAs and AEAs

All Iowa school districts, AEAs, and community colleges that expend a total of \$500,000 or more in federal awards in any fiscal year will have an annual audit conducted in accordance with OMB Circular A-133 as is required by the Single Audit Act Amendments of 1996.

Agencies expending less than \$500,000 in federal awards in any fiscal year will not be required to have their annual audits conducted in accordance with OMB Circular A-133. Instead, those agencies will have an annual audit which follows the requirements of Chapter 11 of the Code of Iowa.

Districts, AEAs, and community colleges may be selected for limited scope audits. These audits will be individualized for each agency. Auditors and agencies will be notified by the department of education of which agencies have been selected and what items are to be audited.

The audit report, including all management letters from the auditor, is to be submitted by March 31 following the cost of the fiscal year, unless an extension has been granted by the auditor of state, or within 30 days after issuance of the auditor's report to the auditee, whichever occurs first. A form may not be submitted in lieu of the audit report.

The exemption from conducting the annual audit in accordance with OMB Circular A-133 will not exempt an agency from compliance with any provision of a federal statute or regulation that requires the agency to maintain records concerning federal awards provided to it or that permits a federal agency, pass-through entity, or the Comptroller General access to such records.

The Director of OMB will review the threshold level of \$500,000 every two years to determine if an upward adjustment is appropriate.

Comprehensive Annual Financial Report (CAFR)

A CAFR is a general purpose report presentation on the government's activities, balances, and financial condition intended to meet the needs of a broad range of audiences. The report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes a financial overview, a discussion of the economy, and an organization chart. The Financial Section begins with the independent auditor's report and contains management's discussion and analysis (MD&A), audited government-wide financial statements, fund financial statements, notes to the financial statements, required supplementary information, combining financial statements, and schedules. The Statistical Section sets forth selected unaudited economic, financial trend, and demographic information for the government on a multi-year basis.

District and AEA Review for Special Education

Each agency shall maintain sufficient records and reports for audit by the department. Records and reports shall include at a minimum: licensure (certification) and endorsements or recognition requirements for all special education personnel under rules 281—41.401(256B,34CFR300) to 281—41.403(256B); all IEP and IFSP meetings and three-year reevaluations for each eligible individual; and data required for federal and state reporting (**IAC 281—41.901**).

The department reserves the right to audit the records of any agency providing special education for eligible individuals and utilizing funds generated under Iowa Code chapters 256B, 273 and 282 (**IAC 281—41.902**).

District Accreditation Review

The state board shall adopt rules under chapter 17A and a procedure for accrediting all public and nonpublic schools in Iowa offering instruction at any or all levels from the prekindergarten level through grade twelve. The rules of the state board shall require that a multicultural, gender fair approach is used by schools and school districts. The educational program shall be taught from a multicultural, gender fair approach. Global perspectives shall be incorporated into all levels of the educational program (**256.11**).

The state board shall establish an accreditation process for school districts and nonpublic schools seeking accreditation pursuant to this subsection and subsections 11 and 12. By July 1, 1989, all school districts shall meet standards for accreditation. For the school year commencing July 1, 1989, and school years thereafter, the department of education shall use a two-phase process for the continued accreditation of schools and school districts (**256.11(10)**).

Phase I

Phase I shall consist of annual monitoring by the department of education of all accredited districts for compliance with accreditation standards. The Phase I monitoring requires that districts annually complete accreditation compliance forms and file them with the Department. Phase I monitoring requires a comprehensive desk audit of the district including review of accreditation compliance forms, accreditation visits reports, methods of administration reports, and reports submitted in compliance with section 256.7, subsection 21, paragraph “a,” and section 280.12. The Department shall conduct site visits to schools and school districts to address accreditation issues identified in the desk audit. Such a visit may be conducted by an individual departmental consultant or may be a comprehensive site visit by a team of departmental consultants and other educational professionals. The purpose of the comprehensive site visit is to determine that a district is in compliance with minimum standards and to provide a general assessment of educational practices in a school or school district and make recommendations in regard to the visit findings for the purposes of improving educational practices above the level of minimum compliance. The department shall establish a long-term schedule of site visits that includes visits of all accredited school and school districts as needed **(256.11(10)”a”)**.

Phase II

Phase II requires the use of an accreditation committee, appointed by the director to conduct an on-site visit to an accredited district if any of the following conditions exist:

- a) Either the annual monitoring or the biennial on-site visit of Phase I indicates that the district is deficient and fails to be in compliance with accreditation standards.
- b) A petition is filed with the director requesting such a visitation that is signed by eligible electors residing in the district equal in number to at least twenty percent (20%) of the registered voters of the district.
- c) A petition is filed with the director requesting such a visitation that is signed by 20 percent (20%) or more of the parents or guardians who have children enrolled in the district.
- d) At the direction of the State Board of Education.
- e) The School Budget Review Committee (SBRC) submits to the department a recommendation for a fiscal review pursuant to section 257.31, subsection 18 **(256.11(10)”b”(1))**.

After visiting the school district, the accreditation committee shall determine whether the accreditation standards have been met and shall make a report to the director, together with a recommendation on whether the district should remain accredited. If the recommendation is that a school district not remain accredited, the accreditation committee shall provide the school district with a report that includes a list of all of the deficiencies, a plan prescribing the actions that must be taken to correct the deficiencies, and a deadline date for completion of the prescribed actions. The accreditation committee shall advise the school district of available resources and technical assistance to improve areas of weakness. The district shall be provided the opportunity to respond to the accreditation committee’s report. The director shall review the accreditation committee’s report and the response of the school district and shall provide a report to the state board along with copies of the accreditation committee’s report, the response to the accreditation committee’s report, and other pertinent information. At the request of the school district, the school district may appear before the state board and address the state board directly regarding any part of the plan specified in the report. The state board may modify the plan. During the period of time specified in the plan for its implementation by a school district, the district shall remain accredited **(256.11(10)”b”(5))**.

The accreditation committee shall revisit the district and shall determine whether the deficiencies in the standards have been corrected. The accreditation committee shall make a report and recommendation to the director and the state board. The committee recommendation shall specify whether the district shall remain accredited, and if so, under what conditions. The conditions may include, but are not limited to, providing temporary oversight authority, operational authority, or both oversight and operational authority to the Director and state board for some or all aspects of the district in order to bring the district into compliance with minimum standards. The state board shall review the report and recommendation, may request additional information, and shall determine whether the deficiencies have been corrected. If the deficiencies have not been corrected, and the conditional accreditation alternatives contained in the report are not mutually acceptable to the state board and the local board, the state board shall deaccredit the school district and merge the territory of the district with one or more contiguous districts at the end of the school year (July 1). The state board may place a district under receivership for the remainder of the school year. The receivership shall be under the direct supervision and authority of the AEA in which the district is located. The decision of whether to deaccredit the district or to place the district under receivership shall be based upon a determination by the state board of the best interests of the students, parents, residents of the community, teachers, administrators, and school district board members and upon the recommendations of the accreditation committee and the director **(256.11(11))**.

Fiscal Reviews in Conjunction with a Phase II Accreditation Visit

If a school district exceeds its authorized budget or carries a negative unspent balance for two or more consecutive years, the School Budget Review Committee (SBRC) may recommend that the Department of Education implement a Phase II on-site visit to conduct a fiscal review. **(256.11(10), 257.31(18))**

AEA Accreditation Review

The Department of Education shall develop, in consultation with the AEAs, and establish an accreditation process for AEAs by July 1, 1997. At a minimum, the accreditation process shall consist of the following:

- a. The timely submission by an AEA of information required by the department on forms provided by the department.
- b. The use of an accreditation team appointed by the director of the Department of Education to conduct an evaluation, including an on-site visit of each AEA **(273.10(1))**.

Prior to a visit to an AEA, the accreditation team shall have access to that AEA's program audit report filed with the department. After a visit to an AEA, the accreditation team shall determine whether the accreditation standards for a program have been met and shall make a report to the director and the state board, together with a recommendation as to whether the programs of the AEA should receive initial accreditation or remain accredited. The accreditation team shall report strengths and weaknesses, if any, for each accreditation standard and shall advise the AEA of available resources and technical assistance to further enhance the strengths and improve areas of weakness. An AEA may respond to the accreditation team's report **(273.10(2))**.

The state board of education shall determine whether a program of an AEA shall receive initial accreditation or shall remain accredited. Approval of AEA programs by the state board shall be based upon the recommendation of the director of the department of education after a study of the factual and evaluative evidence on record about each AEA program in terms of the accreditation standards adopted by the state board. Approval, if granted, shall be for a term of 5 years. However, the state board may grant conditional approval for a term of less than 5 years if conditions warrant **(273.10(3))**.

If the state board of education determines that an AEA's program does not meet accreditation standards, the director of the department of education, in cooperation with the board of directors of the AEA, shall establish a remediation plan prescribing the procedures that must be taken to correct deficiencies in meeting the program standards, and shall establish a deadline date for correction of the deficiencies. The remediation plan is subject to the approval of the state board **(273.10(4))**.

The AEA program shall remain accredited during the implementation of the remediation plan. The accreditation team shall visit the AEA and shall determine whether the deficiencies in the standards for the program have been corrected and shall make a report and recommendation to the director and the state board of education. The state board shall review the report and recommendation and shall determine whether the deficiencies in the program have been corrected **(273.10(5))**.

If the deficiencies in an AEA program have not been corrected, the agency board shall take one of the following actions within 60 days from removal of accreditation:

- 1) Merge the deficient program with a program from another accredited AEA.
- 2) Contract with another AEA or other public educational institution for purposes of program delivery **(273.10(6))**.