

CHAPTER 25. FINANCE
SUBCHAPTER 5. BUDGETING AND BUSINESS MANAGEMENT
PART 1. IMPLEMENTATION

210:25-5-5. Auditing

(a) The statutes of the State of Oklahoma require the board of education of each school district to cause an annual audit of the district's financial activity. The audit must be made in accordance with State Statutes, State Board of Education Regulations and Federal Office of Management and Budget (OMB) Circular A-133. ~~Audits may be performed only by those auditors possessing basic legal qualifications and admitted to the list of auditors approved by the State Board of Education. The State Board of Education has the option to deny the following year's application of any auditor or audit firm for noncompliance with the "School Audit Law." The auditor or audit firm may make application to be included on the approved list of auditors after one year's suspension.~~ The State Board of Education shall examine each audit report and demand corrections of any existing deficiencies. It is mandatory that State Aid payments be withheld during noncompliance with the "School Audit Law."

(b) Auditing is process of examining documents, reports, systems of internal control, accounting and financial procedures, and other evidence to ascertain:

- (1) That the statements prepared from the accounts present fairly the financial position and results of financial operations of each of the school's funds;
- (2) That the school administration has properly complied with statutory requirements and the rules and regulations of the State Board of Education in the conduct of its financial transactions;
- (3) That the school's financial transactions have been conducted with mathematical accuracy and have been properly recorded;
- (4) That the school has complied with the terms of grants and special agreements;
- (5) That adequate stewardship has been exercised by the school board, its officers and employees in the conduct of their duties in the administration of school assets.

(c) The audit must encompass all of the school district's funds. The requirements in (b) of this Section form the basis for the reporting of the school's general, special revenue, capital projects and debt service funds. School activity funds, including school lunch funds, and other trust or fiduciary funds must also be included in the audit report.

(d) The accounting principles by which all audits will be performed are as follows:

- (1) The school district's accounting system must conform with the laws of the State of Oklahoma and the rules and regulations of the State Board of Education.
- (2) The school district's accounting system shall make it possible to demonstrate compliance with legal provisions.
- (3) The school district's accounting system shall clearly reflect the financial operations of the school district.
- (4) If accounting principles, procedures, or standards conflict with legal or regulatory provisions, the legal or regulatory provisions shall take precedence.
- (5) The accounting system shall be kept in the manner prescribed by the State Board of Education or in the manner of an accounting system approved by the State Board of Education.

(6) The school district shall establish the funds prescribed or authorized by law and necessitated by sound financial judgment. The classification of funds shall be faithfully followed in the Estimate of Needs, Accounting System and Financial Reports.

(7) A complete self-balancing group of accounts shall be established for each fund. Each such group will include all the accounts necessary to set forth the financial operations of the fund and to reflect compliance with legal and regulatory provisions.

(8) If a fixed asset fund is maintained, the accounts shall be kept on the basis of original cost, or the estimated cost if the original cost is not available, or in the case of gifts, the appraised value at the time received.

(9) The accounting system shall provide for budgetary control for both revenues and expenditures, and the financial statements will reflect, among other things, budgetary information.

(10) The accounts, except activity funds, shall be maintained on a modified cash basis in accordance with the laws of the State of Oklahoma or a school district may elect to file an application with the State Board of Education to convert to Generally Accepted Accounting Principles (GAAP) accounting. The State Board of Education will approve or reject the application based on the district's ability to implement the practice.

(11) Revenue and expenditures shall be classified in accordance with State Board of Education regulations in order to provide uniform accounting and consistent statistics.

(12) A cost accounting system is required. Cost accounting is in addition to a required financial accounting system, however, and must not be allowed to interfere with its uniform application. Although depreciation is not included in a required accounting system, it should be considered in determining unit cost when a cost accounting system is used.

(13) A common terminology and classification based upon that prescribed by State Board of Education rules and regulations, shall be used consistently throughout the estimate of needs, accounts, and financial reports.

(e) Primary audit procedures will consist of the following:

(1) Each Local Education Agency (LEA) will engage an independent auditor, approved by the Oklahoma State Board of Education, to examine its financial statements. Each LEA superintendent shall notify the State Board of Education, prior to the end of the fiscal year to be audited, of the independent auditor who has been engaged to conduct the audit.

(2) Where there are differences in state and federal standards due to the statutory and regulatory requirements in both levels of government, the LEA and the auditor will examine and adhere to both in order to be in total compliance.

(3) The Oklahoma State Department of Education will establish and maintain a monitoring system to assure that federal and state audit requirements are met. The Oklahoma State Department of Education will review each audit report and notify the appropriate federal program administrator of any deficiencies reported by the independent auditor regarding federal programs. The administrator will implement the procedures deemed necessary to resolve the exceptions noted by the auditor. The final result of the action taken will be filed with the audit report no later than 90 days after the program administrator has been advised of the auditor's findings.

(4) The State Board of Education may make inquiries and request additional documentation and response related to exceptions, recommendations or comments noted by an auditor.

(f) Audit report requirements are as follows:

(1) Audit reports may be presented in the following formats:

(A) Schools which have obtained prior approval from the State Board of Education to use generally accepted accounting principles (GAAP), must use a straight GAAP Governmental Accounting Standards Board (GASB) No. 34 compliant presentation.

(B) Schools using the regulatory basis of accounting as defined by Oklahoma Statutes may use GASB 34 compliant audit report presentations.

(C) Schools using the regulatory basis of accounting as defined by Oklahoma Statutes may use another comprehensive basis of accounting as prescribed by the Oklahoma State Department of Education. An example of a school district single audit report presented in conformity with another comprehensive basis of accounting as prescribed by the Oklahoma State Department of Education is available in the Financial Accounting Section, State Department of Education. Schools need only present the funds and note disclosures that apply to the specific district. The example is not intended to take precedence over professional reporting standards and requirements.

(2) Informational statements will specify

(A) Board members and officers

(B) Statutory bonds

(C) Other fidelity or honesty bonds

(D) Insurance coverage

(E) Other desirable statements

(3) Size of audit report will conform to the specified dimensions:

(A) Length = Maximum, 11"

(B) Width = Maximum, 8 1/2"

(4) Each audit report shall be presented to and reviewed with the local board of education in a public meeting as required by law. Each audit report must contain a signed Acknowledgement Page on a form supplied by the State Department of Education. The Acknowledgement Page will verify the date the audit was reviewed with the local school board as well as the school board's acknowledgement that as the governing body of the district responsible for the district's financial and compliance operations the audit findings and exceptions have been presented to them.

(g) Requirements specific to Federal programs must be included in each audit.

(1) Federal regulations (OMB Circular A-133, and Compliance Supplement) require a financial and compliance audit of programs receiving federal funds. These regulations (in accordance with P.L. 98-502) ensure that audits be made on an organization-wide basis rather than a grant-by-grant basis and according to the standards and procedures expressed therein. The Oklahoma State Department of Education shall serve as the recipient agency for A-133 purposes for the local education agencies. Overclaim assessments may be levied where necessary when there has been a lack of compliance and treated as a current expenditure.

(2) This rule and the adoption of the standards and regulations for audits of local boards of education does not limit the authority of federal or state agencies to make audits of programs in the local education agencies, and is in keeping with OMB Circular A-133. Some state and local governmental units in Oklahoma prepare their financial statements in conformity with a comprehensive basis of accounting other than generally accepted accounting principles. A-133 does not prohibit such practice; nonetheless, it requires, as do generally accepted auditing standards, that auditors state in their report the departures from generally accepted accounting principles. However, any additional audit work must build on the work already done.

(3) The auditor should clearly understand that A-133 audits require the expression of opinions and inclusion of comments in audit reports which go beyond the standard opinions and comments usually presented. Specifically, the audit report shall include:

(A) Financial statements, including footnotes, of the recipient organization.

(B) The auditors' comments on the financial statements which should:

(i) Identify the statements examined, and the period covered.

(ii) Identify the various programs under which the organization received Federal funds, and the amount of the awards received.

(iii) Identify by a schedule showing receipts and disbursements for each grant program.

(iv) State that the audit was done in accordance with the "General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," the "Guidelines for Financial and Compliance Audits of Federally Assisted Programs," any compliance supplements approved by OMB, and generally accepted auditing standards established by the American Institute of Certified Public Accountants.

(v) Express an opinion as to whether the financial statements are fairly presented in accordance with generally accepted accounting principles. If an unqualified opinion cannot be expressed, state the nature of the qualification.

(C) The auditors' comments on compliance and internal control should:

(i) Include comments on weaknesses in and noncompliance with the systems of internal control, separately identifying material weaknesses.

(ii) Identify the nature and impact of any noted instances of noncompliance with the terms of agreements and those provisions of Federal law or regulations that could have a material effect on the financial statements and reports.

(iii) Contain an expression of positive assurance with respect to compliance with requirements for tested items, and negative assurance for untested items.

(D) Comments on the accuracy and completeness of financial reports and claims submitted to state or federal agencies for federal fund advances or reimbursements.

(E) Comments on corrective action taken or planned by the recipient.

(F) Comments as to whether the indirect cost rates are appropriately calculated and applied.

(4) These requirements are common to nearly all state and local funds and federal programs:

- (A) Funds disbursed by other governments were received and properly identified.
- (B) Interest earned on idle funds was credited to the proper funds.
- (C) Unexpended funds or unearned federal funds advanced or overpaid were correctly accounted for.
- (D) A system of encumbrance accounting was maintained which reported the amount obligated, disbursed, remaining unobligated balance, and outstanding unliquidated obligations for each fund and program.
- (E) Obligations reported were actually incurred during the fiscal year or approved program period, and, upon liquidation, were properly adjusted.
- (F) Payments reported: Were actually made to the vendors, contractors and employees; were supported by adequate evidence of delivery of goods or performance of services; and conformed to applicable laws and regulations, including procurement requirements.
- (G) Refunds, discount, etc., were properly applied as reductions of the gross expenditures of the specific funds or programs.
- (H) Costs, direct and indirect, were correctly prorated to the proper funds or programs.
- (I) The same expenditure was not claimed under more than one program or reported as an expenditure for two fiscal or program years.
- (J) Inventory requirements for materials and equipment purchased with federal funds were maintained.