

**RULES OF THE
AUDITOR GENERAL**



CHAPTER 10.850

**AUDITS OF
CHARTER SCHOOLS AND SIMILAR ENTITIES**

EFFECTIVE 06-30-08

RULES OF THE AUDITOR GENERAL
CHAPTER 10.850

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PREFACE TO RULES

Audits of charter schools and charter technical career centers are required by Section 218.39, Florida Statutes.* Audits of the Florida Virtual School are required by Section 1002.37(6)(d), 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. Hence, knowledge of legal provisions governing charter schools is the responsibility of individual auditors.

These Rules are intended to and do implement, interpret, or make specific, certain statutory provisions which 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 references to Florida Statutes are to Florida Statutes (2007).**

History: New 07-01-99
 Amended 06-30-08

10.851 PURPOSE

- (1) Charter schools and charter technical career centers are required by Florida law (Sections 218.39(1)(e) and (f), Florida Statutes) to provide for 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 annual 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) 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* (2003 Revision), and amendments thereto.
- (4) The Auditor General has adopted the auditing standards set forth in *Government Auditing Standards* (2003 Revision) as the standards for auditing charter schools, charter technical career centers, and the Florida Virtual School pursuant to Florida law. (See Section 11.45(1)(c), Florida Statutes.) 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.
- (5) 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.
- (6) 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.
- (7) These Rules will also form the basis of the review of charter school and charter technical career center audits pursuant to Section 11.45(7)(b), Florida Statutes.

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

History: New 07-01-99
Amended 06-30-08

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* as promulgated by the Governmental Accounting Standards Board and pronouncements issued by the Governmental Accounting Standards Board effective for fiscal years ended June 30, 2008, or earlier.
- (2) *Codification of Statements on Auditing Standards* as promulgated by the American Institute of Certified Public Accountants and *Statements on Auditing Standards* issued by the Auditing Standards Board effective for fiscal years ended June 30, 2008, or earlier.
- (3) *Government Auditing Standards* (2003 Revision) published by the Comptroller General of the United States, effective for fiscal years ended June 30, 2008, or earlier.
- (4) *Audit and Accounting Guide - State and Local Governments* promulgated by the American Institute of Certified Public Accountants, effective for fiscal years ended June 30, 2008, or earlier.
- (5) *Audit and Accounting Guide - Not-for-Profit Organizations* promulgated by the American Institute of Certified Public Accountants, effective for fiscal years ended June 30, 2008, or earlier.
- (6) The Federal *Single Audit Act Amendments of 1996*, Public Law 104-156 (31 U.S.C.A., ss. 7501 to 7507).
- (7) *Audit Guide – Government Auditing Standards and Circular A-133 Audits* promulgated by the American Institute of Certified Public Accountants, effective for the fiscal years ended June 30, 2008, or earlier.
- (8) United States Office of Management and Budget (OMB) *Circular No. A-133*.
- (9) Statements and interpretations issued by the Financial Accounting Standards Board effective for fiscal years ended June 30, 2008, or earlier.

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

History: New 07-01-99

Amended 06-30-08

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, charter technical career center, or the Florida Virtual School to perform a financial audit pursuant to Sections 218.39(1)(e) or (f), Florida Statutes, or Section 1002.37(6)(d), Florida Statutes.
 - (b) "Deteriorating financial condition" means a circumstance determined as of the fiscal year end that significantly impairs a charter school'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 generally accepted accounting principles, as defined by the *Codification of Statements on Auditing Standards*, AU Section 411, applicable to State and local governmental entities and not-for-profit entities.
 - (d) "Government auditing standards" means those audit standards set forth in the publication *Government Auditing Standards (2003 Revision)* issued by the Comptroller General of the United States.
 - (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 corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, not otherwise addressed in the auditors report pursuant to Rule 10.856(2)(b)2.
 - 2. A statement as to whether or not the charter school has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. [See also Rule 10.857(1).]
 - 3. Any recommendations to improve the school or center's financial management.
 - 4. Violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential.

5. For matters that are inconsequential to the determination of financial statement amounts considering both quantitative and qualitative factors, the following may be reported based on professional judgment:
 - a. Violations of laws, rules, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred.
 - b. Improper expenditures or illegal acts that would have an immaterial effect on the financial statements.
 - c. Control deficiencies that are not significant deficiencies, including, but not limited to:
 - 1) Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
 - 2) Failures to properly record financial transactions.
 - 3) Inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.
6. The name or official title of the school or center.
7. For charter schools only:
 - a. A statement that the auditor applied financial condition assessment procedures pursuant to Rule 10.855(10).
 - b. If deteriorating financial conditions are noted, a statement that the charter school'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 has met one or more of the financial emergency conditions specified in Section 218.503(1), Florida Statutes (Sec. (1)(e)2. above), this statement shall indicate whether such financial emergency condition resulted from a deteriorating financial condition. Findings regarding deteriorating financial condition shall be prepared in accordance with Rule 10.856(3)(c).

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

History: New 07-01-99

Amended 06-30-08

10.855 SCOPE OF THE ANNUAL 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, and to the Florida Virtual School required to be audited pursuant to Section 1002.37(6)(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, changes in financial position, and, where applicable, cash flows of each opinion unit in those financial statements 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 Organizations*, 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 which 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 which operated the charter school. The auditor's report on the special purpose financial statements should be prepared in accordance with Codification of Statements on Auditing 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 Governmental Accounting Standards Board *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 Organizations*, and the provisions of Section 1002.34(15), Florida Statutes, a charter technical career center 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).
- (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 Governmental Accounting Standards Board *Codification of Governmental Accounting and Financial Reporting Standards*, and (2) other required supplementary information, as identified by Section 2200.102(c) of the Governmental Accounting Standards Board *Codification of Governmental Accounting and Financial Reporting Standards*.

- (8) The scope of the audit shall also include any additional activities necessary to establish compliance with the term "financial audit" as defined and used in *Government Auditing Standards* (2003 Revision).
- (9) When applicable, the scope of an annual 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 Office of Management and Budget (OMB) *Circular No. A-133*; and other applicable Federal law.
- (10) For charter schools, the scope of the 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 06-30-08

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 Section 218.39(8), Florida Statutes, 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* (2003 Revision) issued by the Comptroller General of the United States.
 2. Internal controls 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, contracts, and grant agreements; and
 - c. The results of those tests, including (1) deficiencies in internal control that are considered to be significant deficiencies or material weaknesses; (2) instances of fraud and illegal acts that have an effect on the determination of financial statement amounts that is not clearly inconsequential; and (3) violations of laws, regulations, contracts or grant agreements, or abuse that have a direct and material effect on the determination of financial statement amounts.

- (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 Office of Management and Budget (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.
 - (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).
- (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 Office of Management and Budget (OMB) *Circular No. A-133*.
 - (b) If the auditor has reason to believe that fraud or other illegal acts have occurred involving other governmental resources, the auditor shall be guided by the procedures for notification described in *Government Auditing Standards (2003 Revision)*.
 - (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 deficiency identified in the audit finding.
 3. Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings 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 be quantified in terms of dollar value.
 4. The possible asserted effect to provide sufficient information to the school or center, State agency, or pass-through entity.

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.

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

History: New 07-01-99
Amended 06-30-08

10.857 DELIVERY OF AUDIT RESULTS AND REPORT, AND MANAGEMENT'S RESPONSE

- (1) When financial audits reveal a state of financial emergency as defined in Section 218.503(1), Florida Statutes, the governing body of the charter school should be notified within seven working days after finding that a state of financial emergency exists. (Section 1002.33(9)(g), 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 deficiencies cited in the auditor's reports and management letter, a written statement of explanation or rebuttal concerning the deficiencies, including corrective action to be taken, must be filed with the governing body of the school or center and the school 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, the written statement shall include corrective actions taken, or to be taken, regarding a financial emergency condition 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 reported pursuant to Rule 10.854(1)(e)7. (See Sections 218.39(6) and 218.39(8), Florida Statutes.)
- (3) The auditor shall deliver a copy of the audit report to management, each member of the governing body of the school or center, to the school or center's sponsor, and to the head of the governing body of all component units included in the audit. For charter schools with audit committees, the auditor shall deliver a copy to each member of the committee.
- (4) Two paper copies 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 school's or center's governing body, but no later than 12 months after the end of the fiscal year of the school or center. The date that the audit report was delivered to the governing body of the school or center must be indicated by the school or center in correspondence accompanying the audit report submitted to the Auditor General. (Section 218.39(8), Florida Statutes.)

General Authority and Law Implemented - Sections 11.45, and 1002.33(9)(g), Florida Statutes.

History: New 07-01-99
Amended 06-30-08

10.858 EFFECTIVE DATE

These Rules, as amended, shall take effect for fiscal years ending June 30, 2008, and thereafter.

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

History: New 07-01-99
 Amended 06-30-08