

Legal Compliance and Program Compliance
Standards for Audits of Local Boards of
Education

Revised, June 2021



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TO: Users of Department of Examiners of Public Accounts Legal Compliance and Program Compliance Standards for Audits of Local Boards of Education

This document provides standards for legal compliance audits and program compliance audits of local boards of education as required by *Ala. Code* § 16-13A-7(b). The objective of the standards provided herein is to promote better, more consistent accounting and audits of the stewardship of Alabama taxpayers' money and to ensure that officials uphold the public trust.

Updates and revisions were made throughout this document in order to bring the standards and guidance provided current with applicable law. Suggestions for improvements to these guidelines are welcomed and may be submitted to info@examiners.alabama.gov or by calling (334) 242-9200.

Sincerely,

Rachel Laurie Riddle
CHIEF EXAMINER

Table of Contents

| | <u>Page Number</u> |
|--|--------------------|
| Introduction | 1 |
| Responsibilities of the Local Board of Education | 2 |
| Responsibilities of Private Certified Accounting Firms | 3 |
| Legal Compliance Audit Standards | 4 |
| Program Compliance Audit Standards | 6 |
| Additional Compliance Audit Standards | 7 |
| Conclusion | 8 |

Introduction

In accordance with the provisions of Alabama's School Fiscal Accountability Act, *Ala. Code* § 16-13A-1, *et seq.*, the Department of Examiners of Public Accounts (the "Department") is required to prescribe standards for legal compliance audits and program compliance audits conducted by private certified public accounting firms (the "Firm") of local boards of education, other than those required by law to be audited by the Department. The Department, in accordance with the provisions of this Act, has developed uniform standards that must be followed by Firms conducting legal compliance and program compliance audits of local boards of education.

These standards should not be viewed as a substitute for audits conducted in accordance with generally accepted auditing standards or *Government Auditing Standards*. Nor should they be viewed as a substitute for auditor judgment.

The standards provided herein include some references to sections of the *Code of Alabama* to assist the Firm in locating some of the laws that are applicable to local boards of education. However, the Firm should not view these references as the only source of information they will need to conduct appropriately designed legal compliance and program compliance audits.

The standards contained in this document may be amended from time to time at the discretion of the Department. It is the responsibility of the Firm to ensure that their legal compliance and program compliance audits are conducted in accordance with the latest revised standards of the Department. The Department undertakes no responsibility to notify the Firm of any changes and/or revisions to these standards. However, the Department will ensure that these standards and any revisions thereto are available upon request, or on its website at www.examiners.alabama.gov.

Responsibilities of the Local Board of Education

The local board of education (the “Board”) shall ensure that contracts with Firms include provisions for program and legal compliance audits conducted in accordance with these standards.

The Board shall be responsible for notifying the Department of any form of financial intervention by the State Department of Education as such intervention results in a required audit by the Department. *Ala. Code § 16-13A-7(a)(3)*.

The Board shall furnish the State Superintendent a copy of the audit report for review and shall notify the State Superintendent of the time, place, and location of the meeting in which the Firm will present the findings to the Board. *Ala. Code § 16-13A-7(e)*.

The Board shall furnish a copy of the audit report to the Department of Examiners of Public Accounts (Act 94-414, Acts of Alabama).

The Board shall also ensure that copies of the audit report, which are public record, are available to the public upon request. *Ala. Code § 16-13A-7(e)*.

Responsibilities of Private Certified Public Accounting Firms

Firms shall perform, as part of their yearly financial audit of the books and accounts of any local board of education, a legal compliance audit and program compliance audit. The legal compliance and program compliance audits conducted by the Firm shall adhere to the standards promulgated by the Department of Examiners of Public Accounts as set forth in this document.

The Firm shall maintain and retain working papers to support the audit procedures performed for a period of five years from the audit report release date, or as may otherwise be prescribed by law. The Firm shall make the working papers available for review by the Chief Examiner or his or her designee.

The Firm shall report all adverse findings in its audit report to the State Superintendent of Education. *Ala. Code* § 16-13A-7(a)(3).

The Firm shall report adverse findings involving the misappropriation or theft of funds of the Board to the local district attorney and the Attorney General of the State of Alabama. *Ala. Code* § 16-13A-7(a)(3).

The Firm shall present the findings of its legal compliance and program compliance audits to the Board in a board meeting. *Ala. Code* § 16-13A-7(e).

Legal Compliance Audit Standards

The Firm shall determine through appropriately designed audit procedures whether the Board has adopted fiscal management policies that comply with generally accepted accounting principles. Audit procedures should include, but are not limited to the following:

1. Tests to determine whether the Board has prepared and filed the required financial documents and reports. *Ala. Code* §§ 16-1-33, 16-6B-7, 16-6B-10, 16-11-24, 16-13-140, 16-13-143, 16-13-144, 16-13A-1, 16-13A-6 and 16-13A-13.
 - a. Does the Board have a legally adopted budget?
 - i. Was the budget filed within the time required by law or regulation?
 - ii. Were public hearings held as required?
 - b. Does the budget contain all the elements required by law?
 - c. Were the financial documents and reports published as required by law or regulation?
2. Tests to determine whether the amounts expended by the Board are in compliance with the legally adopted and approved budget.

The Firm shall incorporate in its audit procedures steps to test the expenditures of the Board to ensure that the expenditures comply with the policies and procedures adopted by the Board and serve a public educational purpose.

The Firm shall determine through appropriately designed audit procedures that any borrowings (bonds, notes, warrants, etc.) by the Board meet applicable legal requirements. *Ala. Code* §§ 16-11-19, 16-13-70 through 16-13-121, 16-13-145, 16-13-210 through 16-13-217, and 16-13-300 through 16-13-311.

The Firm shall determine through appropriately designed audit procedures that revenues received by the Board through special tax levies, local laws, etc., have been properly accounted for and expended in accordance with laws and regulations.

The Firm shall determine through appropriately designed audit procedures that the deposits and investments of the Board comply with applicable laws and regulations. *Ala. Code* §§ 41-14A-1 through 41-14A-14, 19-3-120 and 19-3-120.1.

The Firm shall determine through appropriately designed audit procedures whether the expenditures of the Board comply with all applicable general laws of the State of Alabama and local laws applicable to the Board. Audit procedures should include, but are not limited to the following:

1. Tests to determine whether the compensation of school board members has been calculated in accordance with state and local laws. *Ala. Code* § 16-1-26.
2. Tests to determine whether board employees and officials have met the minimum required criteria for their position.
 - a. Have employees received the required training, certifications for the position? *Ala. Code* §§ 16-1-41, 16-1-41.1, 16-12-2, and 16-13A-3(b).
 - b. Are the employees properly bonded? *Ala. Code* § 16-13A-12.
3. Tests to determine whether the compensation provided to Board employees complies with the salary schedules adopted by the Board, board established policy, and state and local laws. (See *Ala. Code* §§ 16-22-13.1 through 16-22-13.9 and future updates for required adjustments to the salary schedules). These tests should include procedures to determine whether teachers who have passed the National Board of Professional Teaching Standards (NBPTS) have received an additional \$1,500 per year in compensation for completion of the certification. *Ala. Code* § 16-22-13.
4. Tests to determine whether the benefits provided to Board employees comply with Board established policies and state and local laws and regulations, i.e., determine that employees of the Board accumulate sick leave in accordance with *Ala. Code* § 16-1-18.1., travel expenses are in accordance with *Ala. Code* § 36-7-1 through 36-7-5.
5. Tests to determine whether employees of the Board that are paid from state appropriations work under the direct supervision and control of the Board. (See annual appropriations bill.)
6. Tests to determine that expenditures have been bid in accordance with Alabama's Competitive Bid Law. *Ala. Code* § 16-13B-1, *et seq.*
7. Tests to determine that expenditures related to public works contracts comply with Alabama's Public Works Law. *Ala. Code* § 39-1-1, *et seq.*
8. Tests to determine whether the amounts expended by the Board were for purposes allowable under state and local laws.
9. Tests to determine whether legislative appropriations received by the Board were expended in accordance with the law.
10. Tests to determine whether the Board has developed a long-range capital plan and made capital purchases in compliance with applicable statutes. *Ala. Code* §§ 16-13-234(e) and (f).
11. Tests to determine whether any funding received pursuant to the Governor's Academic Achievement Program have been properly expended. *Ala. Code* § 16-1-35.

12. Tests to determine whether the Board has adopted procedures relating to the expenditure of funds which do not require express Board approval prior to the expenditure. *Ala. Code* § 16-13A-8.
13. Tests to determine whether any short-term borrowing by the Board complies with applicable statutes. *Ala. Code* § 16-13-145.

The Firm shall report as an audit finding instances in which the Board has not complied with state and local laws and regulations. The Firm shall also follow up on prior audit findings and report as a current audit finding those findings that have not been corrected.

Program Compliance Audit Standards

The Board receives revenues from state and local sources to support specific programs of the Board. In many instances, the Board must comply with certain requirements to participate in the program or to receive state and/or local funds. The Firm should design appropriate audit procedures to test the Board's compliance with the requirements for participation in the program. These programs include but are not limited to the following: transportation program, vocational/technical education program, foundation program, and textbook program.

The Firm shall, through appropriately designed audit procedures, determine:

1. Whether the Board meets the requirements for participation in the state funded transportation program. *Ala. Code* § 16-13-233.
 - a. Does the local board of education own its buses?
 - b. Were fleet renewal funds used to purchase buses?
 - c. Were fleet renewal funds used to pay debt related to the acquisition of buses?
 - d. Are fleet renewal funds maintained in a separate fund?
2. Whether the Board textbook program complies with applicable state laws and regulations. *Ala. Code* § 16-36-68.
3. Whether the Board has met vocational education requirements *Ala. Code* § 16-37-1 through 16-37-9.
4. Whether the Board has met the requirements of the at-risk program. *Ala. Code* § 16-6B-3(a). The Education Appropriation Act contains information related to the expenditure of funds in this area.
5. If the Board is receiving Foundation Program Funds, whether the Board meets all requirements for participation in the program (i.e, Minimum School Term, Salary Matrix, etc.). Requirements for participation in the Foundation Program include but may not be limited to the following:

- a. Does the Board receive required tax receipts to participate in the program? *Ala. Code § 16-13-231(b)(1)(a).*
 - b. Is the length of school term the same for all schools? *Ala. Code § 16-13-231(b)(1)(b).*
 - c. Does the length of the school term meet the required minimum term? *Ala. Code § 16-13-231(b)(1)c.1.*
 - d. Are teachers' salaries in accordance with the properly approved salary schedule? *Ala. Code § 16-13-231(b)(1)(d).*
 - e. Is average daily membership (ADM) determined and supported by school records? *Ala. Code § 16-13-232.*
 - f. Are instructional support funds (library enhancement, student materials, professional development, technology, common purchases, and other classroom instructional support) budgeted as required and used for their intended purposes? *Ala. Code §§ 16-1-8.1 and 16-13-231.3.*
 - g. Are student material funds made available to and expended by the teachers as required by *Ala. Code § 16-1-8.1.*
 - h. Has the Board submitted all required proposed program plans to the State Superintendent? *Ala. Code § 16-13-231(b)(1)(e).*
6. Whether fully funded Foundation Program state-mandated and state funded salary increases and fringe benefits for Child Nutrition Program workers are subsequently fully funded at the Board.
 7. Whether appropriations received from the State to the Board have been used for the benefit of the Board and that the appropriations have not been passed through to another entity.
 8. Whether all other programs of the Board comply with the requirements/regulations for participation in the program.

The Firm shall report as an audit finding instances in which the Board has not complied with program laws and regulations. The Firm shall also follow-up on prior audit findings and report as a current audit finding those findings that have not been corrected.

Additional Compliance Standards

In addition to fiscal management and program compliance standards, the Firm shall determine through appropriately designed audit procedures whether the Board is in compliance with other Alabama laws which include, but are not limited to the following:

1. Whether the Board is in compliance with state statutes and regulations regarding school safety and discipline, as provided by the State Department of Education on or before August 1 of each year. *Ala. Code § 16-6B-5.*
2. Whether the Board has implemented the required core curriculum to include comprehensive character education. *Ala. Code § 16-6B-2.*

3. Tests to determine whether the Board has adopted procedures to ensure submission of the Employing Agency Annual Certification Post-Retirement Employment Form. *Ala. Code* § 16-25-26.

Conclusion

The Department has determined that certain state laws, if not followed, could have a significant impact on the financial operations of the Board. The Firm should keep in mind that there may also be local laws that are applicable to a local board of education. The Department assumes no responsibility to inform the Firm of applicable local laws. The Firm should consult Alabama law and any interpretations of the law by the Attorney General for additional guidance in this area.

In addition, the Firm should understand that in some instances, audit issues related to program compliance and legal compliance may overlap. If an instance of this nature should occur, the Firm should include an appropriately worded finding describing both the legal compliance and program compliance problem.