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TO: The State Board of Education

FROM: Natalie Grange CPA, CFE *NG*
Internal Audit Director

DATE: March 7, 2014

SUBJECT: Summary of the review of all fiscal year 2013 financial and single audits for all local education authorities (LEAs)

This memo summarizes our review of the fiscal year 2013 financial statements, single audits (if applicable), and management letters of all LEAs that were in operation during fiscal year 2013. The financial statements, audit opinions, and management letters are due to the State by November 30 of each year.

The financial statements, single audits, associated audit opinions, and management letters have been reviewed by Internal Audit and School Finance for various elements.

Audit Opinions:

We noted that all LEAs fulfilled their statutory requirement to obtain a financial statement audit, if applicable, except for North Sanpete School District who has not completed its audit yet. There were 41 districts and 89 charter school audits reviewed, in total 130 LEAs.

All LEAs received an unqualified opinion on their financial statements. There were no qualified opinions noted. There were eight charter schools that received financial condition footnotes in their financial statements for fiscal year 2013.

Federal Single Audits:

Thirty-five districts and 12 charter schools obtained single audits. Of the single audits reviewed, we noted no qualified opinions on either internal controls or compliance over the federal grants tested as major. Further analysis is being conducted to ensure that LEAs that did not obtain a single audit were below the \$500,000 threshold of federal expenditures for which a single audit is required. At this time, there was only one LEA with identified questioned costs of \$75 for a federal program.

Audit Findings

A deficiency in internal control or compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements or noncompliance on a timely basis.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the LEAs financial statements or material noncompliance will not be prevented, or detected and corrected on a timely basis. **Material weaknesses are the most severe category of findings.**

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control or compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weaknesses:

There were one district and two charter schools for which material weaknesses were identified by the independent auditors. There were five individual material weakness findings issued.

The most frequent material weaknesses noted are as follows:

- 1) Material audit adjustments regarding booking or correcting year-end accruals, assets, or liabilities.
- 2) Lack of reconciling balance sheet accounts accurately and in a timely manner.
- 3) Lack of segregation of duties and accounting oversight.

Significant Deficiencies/Other Matters: There were nine districts and one charter school for which significant deficiencies were identified by the independent auditors. There were 20 total significant deficiency findings issued.

The most frequent findings identified are as follows:

- 1) Lack of supporting documentation and approvals for cash receipts and expenditures.
- 2) Program accounting is not sufficient to ensure that transactions are booked to the appropriate programs using correct account codes.
- 3) Lack of segregation of duties and inadequate internal controls over the accounting function.
- 4) Lack of oversight of individual school bank accounts and school accounting records.
- 5) Bank reconciliations not being performed timely.
- 6) Lack of expertise to prepare year-end financial statements, accruals or significant audit adjustments required to correct account balances in the general ledger system.

Follow-Up Letters

Letters will be sent to each LEA. Depending on the findings reported, some letters will require no follow up by the LEA. Other letters will require a response from the LEA requesting a corrective action plan or the status of planned corrective actions as identified by the LEA in their audit response. These follow-up letters are a joint effort between the Internal Audit and School Finance departments. The Internal Audit department will be scheduling site visits for LEAs that have unresolved findings pertaining to internal controls, program accounting, federal compliance, or other significant issues. Visits and follow-ups will also be made by various programs at the USOE based on the audit results.