

Arizona State Board for Charter Schools

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Room 164
Phoenix, AZ 85007



Phone (602) 364-3080
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TO : Administrators of charter schools sponsored by the State Board for Charter Schools and the State Board of Education

FROM : Andrea Leder, Government and Financial Services Manager

DATE :

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SUBJECT : Audit Guidelines

Arizona Revised Statutes (A.R.S.) §15-914 requires all charter schools to have an annual audit. This memorandum is designed to provide general guidance to you and your audit firm on charter school audit requirements.

Engagement Letter Approval

Laws 1999, 1st S.S., Ch. 4 sec. 15 require the Arizona State Board for Charter Schools (ASBCS) to approve the audit contract prior to audit commencement. The Board uses the engagement letter to meet this requirement. At this time, the Board is only approving one-year engagement terms. Engagement letters may either be sent electronically to Andrea.Leder@asbcs.az.gov or sent to the address listed above. Please note that faxed engagement letters are not accepted. Emailed engagement letters must be on the firm’s letterhead. **Emailed engagement letters received by the Board that are not on firm letterhead will be returned and not processed.**

A.R.S. §15-914 requires all charter school audits be conducted in accordance with *Government Auditing Standards*. All engagement letters must state that the audit will be conducted in accordance with these standards and that a report on internal controls and compliance will be provided as required by *Government Auditing Standards*. Additionally, the engagement letter must indicate that the audit firm will complete the appropriate compliance questionnaire(s) (see “Questionnaire” section below) and that the audit firm will retain and make available the audit working papers as prescribed in the “Retention of Records” section of these guidelines. Further, the engagement letter must include specific fee information. Finally, the engagement letter must state that the audit firm has reviewed the Board’s Audit Guidelines and cite these guidelines by date. A sample engagement letter may be found on the ASBCS website.

The Board will disapprove any engagement letter that fails to address the requirements specified in this section or in Board rule R7-5-502(B).

Audit Type

Single Audit - Schools organized as governmental and not-for-profit entities that exceed the threshold of federal award expenditures set forth in Office of Management and Budget (OMB) Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations are subject to the requirements of the Single Audit Act Amendments of 1996 and the implementing regulations of the OMB, including OMB Circular No. A-133, and are required to obtain an annual single audit. The audit requirements imposed by the Single Audit Act Amendments of 1996 included in this memorandum apply specifically to organizations that are the primary reporting entity. In cases where the school is not the primary reporting entity (i.e., the school is part of a larger organization or considered a subsidiary of another organization that holds the charter), these requirements apply only to the primary reporting entity and not the school. However, sufficient test work must be conducted at the school level to complete the applicable questionnaire(s) (see below for more information on the questionnaires). If the school is the only part of the primary reporting entity that received federal financial assistance, the entity may choose to apply these requirements just to charter school operations.

Financial Statement Audit - Schools expending less than the amount of federal award as cited in OMB Circular No. A-133 must have at least an annual financial statement audit pursuant to A.R.S. §15-914. In cases where the school is not the primary reporting entity (i.e., the school is part of a larger organization or considered a subsidiary of another organization that holds the charter), the audit may be of the larger organization. However, sufficient test work must be conducted at the school level to complete the applicable questionnaire(s) (see below). The reporting entity may also choose to apply these requirements just to the charter school operations.

Questionnaire

In addition to the financial statement or single audit, the audit firm must complete an accompanying questionnaire. The questionnaire(s) is used to assist the ASBCS in determining compliance with the Uniform System of Financial Records for Charter Schools (USFRCS), if applicable, and/or other legal requirements. All ASBCS and State Board of Education (SBE) sponsored charter schools should obtain the applicable questionnaire from the ASBCS website (not the Auditor General’s website). Each school is responsible for providing a copy of the appropriate questionnaire to the audit firm contracted to perform the school’s audit. To determine which questionnaire is appropriate, a description of each is provided below:

- *USFRCS Compliance Questionnaire* – **This questionnaire is applicable only to schools that are subject to the USFRCS.** The current USFRCS Compliance Questionnaire is dated ~~XXX~~ and must be used for all fiscal year ~~2010~~ audits.

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- *Legal Compliance Questionnaire* – **This questionnaire is applicable to schools that have received an exception to the USFRCS.** It is used by ASBCS staff to determine if a charter school is complying with certain legal requirements. The current Legal Compliance Questionnaire is dated ~~XXX~~ and must be used for all fiscal year ~~2010~~ audits.

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- *Procurement Questionnaire* – **This questionnaire is applicable to schools that have NOT received an exception from procurement rules** and should be completed in conjunction with either the USFRCS Compliance Questionnaire or the Legal Compliance Questionnaire. The current Procurement Questionnaire is dated ~~XXX~~ and must be used for all fiscal year ~~2010~~ audits.

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Audit Standards

A.R.S. §15-914 requires all charter school audits be conducted by an independent certified public accountant under generally accepted governmental auditing standards, issued by the Comptroller General of the United States. Accordingly, the ASBCS reviews the audit reports and may review selected audit working papers of audit firms performing charter school audits to determine the quality of technical performance and adherence to the cited standards and OMB Circular No. A-133, if applicable.

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Audit Deadline/Timeframe

The deadline to submit the audit reporting package is November 15th. The complete audit reporting package may either be sent electronically to Andrea.Leder@asbcs.az.gov or mailed or delivered to the Board's office at 1700 W. Washington Street #164. Fiscal year 2010 audits received by the Board on Monday, November 15th by 11:59 p.m. for emailed copies or by 5 p.m. for paper copies will be considered timely submitted. Please note that faxed audits are not accepted. Emailed audit reporting packages must be on the firm's letterhead and include the appropriate signatures. **Emailed audit reporting packages received by the Board that are not on firm letterhead and/or do not contain the appropriate signatures will be returned and not processed.** For those choosing to submit a paper copy of the audit reporting package, the Board will accept an unbound and double-sided copy.

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Extensions are possible for schools that are subject to the Single Audit Act but must be approved by the ASBCS prior to the commencement of the audit. For schools that receive an extension, a complete single audit reporting package must be submitted by March 31, ~~2011~~.

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All audits must be based on the state's fiscal year of July 1 through June 30.

Audit Reporting Package

The complete audit reporting package must include at least the following:

For Financial Statement Audits:

1. Financial statements, including the auditor's report thereon
2. *Report on Compliance and Internal Controls Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*
3. The applicable questionnaire(s) as described above
4. Management letters issued to the school, if applicable

The audit firm shall provide at least one copy of the audit reporting package to the charter school and one copy each to the State Board for Charter Schools and the Arizona Department of Education (ADE) Audit Unit:

Arizona Department of Education
ATTN: Audit Unit
1535 W. Jefferson Street, Bin 19
Phoenix, AZ 85007-3209

For Single Audit Audits:

In addition to the items listed above:

1. Schedule of Expenditures of Federal Awards, including the auditor's report thereon
2. Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular No. A-133
3. Summary of Prior Audit Findings
4. Schedule of Findings and Questioned Costs
5. Corrective Action Plan

The audit firm shall provide at least one copy of the single audit reporting package to the charter school; one copy to the State Board for Charter Schools; and one copy to the ADE Audit Unit:

Arizona Department of Education
ATTN: Audit Unit
1535 W. Jefferson Street, Bin 19
Phoenix, AZ 85007-3209

Additionally, the audit firm shall provide one copy of the reporting package and data collection form to the Federal Audit Clearinghouse at <http://harvester.census.gov/sac>.

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1201 East 10th Street
Jeffersonville, IN 47132

Retention of Records

The audit firm must retain the audit working papers in their entirety for a period of 5 years after the date of issuance of the audit reports per A.R.S. §35-214 unless the ASBCS requests a longer retention period. The audit working papers shall be subject, at all reasonable times, to review upon request by the ASBCS or other appropriate governmental agency.

Reimbursement for Audit Costs

Schools that are required to have a single audit may charge audit costs applicable to each federal program to the appropriate federal project. This action requires filing a project amendment with ADE and budgeting an appropriate amount under Support Services—Business, function code 2500, and Purchased Professional and Technical Services, object code 6300. Any remaining audit costs, however, should be paid for from state and local monies.

Schools that are only required to have an annual financial statement audit may be reimbursed for audit costs paid from state and local monies by increasing their budgets, as outlined in A.R.S. §15-914(F). Specific instructions for calculating this increase have been included in the charter school annual budget forms and budget work sheets. These worksheets are available at www.auditorgen.state.az.us.

Questions

If you have any questions or need assistance, please contact Andrea Leder at (602) 364-3106 or Andrea.Leder@asbcs.az.gov.