A Look at Another Audit Program

Audit Process for Local Educational Agencies’ Annual Financial and Compliance Reports

State Compliance Audit Process

- Audit Guide
- Audit Reports
- Appeal Process
Education Audit Appeals Panel (EAAP)

- Plays a key role in audit process
- Established as a separate state agency in 2003
  - Adopts Annual K-12 Audit Guide
  - Hears and makes decisions on audit finding appeals
- Consists of three panel members
  - Department of Finance
  - Department of Education
  - Fiscal Crisis Management Assistance Team
- Has three full time staff members

Creating an Audit Guide
Audit Guide Committee

The committee was statutorily established to determine the contents of the audit guide. The committee consists of representatives from:

Statutory Representatives
- State Controller’s Office (SCO)
- Department of Finance (DOF)
- Department of Education (CDE)
- California School Boards Association
- California Association of School Business Officials
- California County Superintendents Educational Service Association
- California Teachers Association
- California Society of Certified Public Accountants

Other Representatives
- Charter School Associations
- Local Educational Agency Staff

Audit Committee Process

- Representatives meet monthly, or as needed, between September and December of each year
- Proposals to add, delete, or modify the current audit guide are discussed
- Committee members provide input, but the State Controller’s Office (SCO) makes final recommendation to Education Audit Appeals Panel (EAAP)
Audit Guide Regulations

- EAAP staff develops audit guide regulatory language based on recommendations submitted by SCO and the Audit Guide Committee
  - all requirements clearly stated in law

- Panel members adopt audit guide using the rulemaking procedures under the Administrative Procedure Act.

- Audit Guide regulations approved by Office of Administrative Law before July 1 of each year

- Audit Guide posted on EAAP website at: http://www.eaap.ca.gov/NewWebSite0804/AuditGuide.htm

Results of Developed Audit Guide

- Auditors and LEAs know exactly what will be audited before the start of the school year

- Only requirements with clear statutory authority are included in the audit guide

- Auditors know what is required and can bid accordingly
**Audit Reports**

- LEAs contract directly with independent auditors
- Auditor must be on SCO’s list of approved auditors
- Auditors follow Government Auditing Standards
- SCO performs quality control reviews on auditors.
Audit Reports

- Audit reports include financial, federal compliance and state compliance sections

- Annual audit reports are due December 15 for fiscal years ending the prior June 30; and are submitted to county offices of education (COE), California Department of Education (CDE) and SCO

- SCO reviews audits to ensure it meets standards. Once SCO completes its review, a certified letter is sent and the report becomes a “final audit report”

- COE and CDE review audit findings and ensure resolution of all findings

Appeal Process
EAAP-Informal Summary Review

- LEA submits summary review request to EAAP Executive Officer (timelines apply)
- Basis of Appeal – Clearly in substantial compliance with the law (minor or inadvertent errors can be “substantial compliance”)
- EAAP Executive Officer may grant appeal or reduce repayment
- Goal of informal appeal is to keep litigation costs minimal
- If repayment is greater than $750,000, then DOF and CDE must concur with Executive Officer’s decision
- If denied, LEA may pursue its appeal through the formal appeal process

EAAP-Formal Appeal Process

- LEA submits appeal request to EAAP (timelines involved)
- Basis of Appeal – substantial compliance with the legal requirements, errors of facts, or interpretation of law
- Case assigned to an Administrative Law Judge
- Parties to the case are typically SCO, DOF and LEA
- Judge issues a proposed decision
- In lieu of a hearing before judge, all parties can reach a settlement agreement
- EAAP makes a final decision on the formal appeal after considering the judge’s proposed decision and/or the proposed settlement agreement
• Final decisions are posted on EAAP website:
  http://www.eaap.ca.gov/NewWebSite0804/EAAPAppeals.htm

• If final decision requires a repayment of funds, then LEA can request a repayment plan of up to 8 years.

• If no repayment plan is requested, funds are taken at next principal apportionment

• LEA can file a superior court suit challenging EAAP’s decision