



## **Does Your Auditor Selection Process Place Your School District and Directors at Risk?**

*A Checklist for Understanding How High Quality Audit Firms Help School Boards Properly Execute Fiduciary Responsibilities*

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Pennsylvania school code dictates that school board directors have the responsibility for making sure that the budgets they pass stay within spending guidelines. The code also requires that school district finances be audited annually by a certified public accounting firm.

Some boards may perceive annual audits less as a helpful tool and more as a “commodity” and thus focus on spending as little taxpayer money as possible on the effort. The result typically is a choice of auditor based exclusively on the lowest bid.

As well, some directors do not take the audit process seriously, and do not devote sufficient pre- and post-audit meetings to truly understand risks, finances, or realize how vital the numbers are to the business of the district.

In our experience, the selection of an auditor can assist the school district from finding itself in an embarrassing public spotlight and individual directors at personal financial risk when fraud or mismanagement unfortunately occurs.

Also in our experience, fraud often takes place without a school board’s knowledge, and can take years to bring to light. Once fraud is identified, boards can be punished through legal action, and negative headlines blared to the public via the media.

We have seen even the smallest instances of mismanagement be blown out of proportion and accusations of board “incompetence” trumpeted in newspaper headlines.

Does your auditor selection process consider the importance of the experience and professionalism of the audit firm or is low-bid your only consideration?

### **Has Your District Asked Your Auditor About...? (Common Examples)**

- ☑ The actual cost of early incentive retirement packages that solve a short-term issue but may create a long-term problem;
- ☑ Refinancing old debt issues that commits future boards with huge financial responsibilities and where the value of a debt is more than the value of the asset;
- ☑ The future cost of professional contracts that are approved currently;
- ☑ Specific financial controls for athletics and activity funds; and
- ☑ Adequacy of the board’s monthly financial reports for making sound financial decisions.

### **How to Use Your Audit Firm to the Best Advantage**

Here is a five-step process for effectively selecting the best auditor for your school district, and making best use of the auditor to the full advantage of the board.

- ☑ Retain an auditor who can talk to individual directors about specific responsibilities;
- ☑ Educate yourself and fellow board members about your risks and how you can prevent them;
- ☑ Appoint a finance committee of knowledgeable members who can work closely with the auditor;
- ☑ Conduct a pre-audit and post-audit meeting with the auditor to share findings and address concerns; and
- ☑ Allocate sufficient time at board or finance committee meetings for auditors to share their findings with the public.

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## Audit Firm Performance Checklist

Here is a checklist of how a good auditing firm serves a school board in a healthy, productive relationship focused on the long-term financial health of the school district.

- Is the staff professionally trained?
- Does the staff devote a significant percentage of their time in the industry?
- Does the staff have wide-ranging experience and knowledge to be able to listen closely and then properly evaluate the school's financial health?
- Is the staff easy to contact?
- Does the staff clearly and effectively communicate, including answering questions in a timely manner?
- Does the staff possess a detail-oriented and investigative nature?
- Does the staff remain neutral and objective at all times?, and
- Does the staff use technology to save time and identify trends?

## About the Authors:



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