

## **REFERENCE DOCUMENT**

# FOR AUDITS OF FINANCIAL STATEMENTS OF NEW YORK STATE SCHOOL DISTRICTS

(Eight or More Teachers)



2010

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THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK /  
ALBANY, NY



Office of Educational Management Services  
Room 876 Education Building Annex  
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September, 2010

**TO:** *Board of Education Members, Superintendents and Financial  
Officials of Public Schools*

**FROM:** *Educational Management Services*

**SUBJECT:** *Audits of the Financial Statements of School Districts Employing  
Eight or More Teachers*

This Reference Document may be obtained from the web page at <http://www.p12.nysed.gov/mgtserv/accounting/>. We strongly suggest that you furnish your independent auditor with the web page address where the document can be retrieved, and also that your school district consider the information that it provides relating to independent audits of New York State school districts.

Education Law, Section 2116-a and the Regulations of the Commissioner, Section 170.2(r) require each Board of Education to secure an annual audit by an independent auditor. The Audit Committee shall provide recommendations regarding the appointment of the external auditor, but its recommendations shall not substitute for any required review and acceptance by the Board of Education. The Single Audit Act of 1984 requires that an annual audit of the district's federal award programs be included with the annual school district audit if \$500,000 or more in Federal Aid was expended. Section 172.3(d) of Commissioner's Regulations requires that the Extraclassroom Activity Fund also be audited.

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**REFERENCE DOCUMENT – 2010**  
**Is provided by the New York State Education Department**  
**Office of Educational Management Services**

*With the assistance of:*

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## FOR AUDITS OF FINANCIAL STATEMENTS OF NEW YORK STATE SCHOOL DISTRICTS

(Eight or More Teachers)

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## **Section I - Introduction**

### **PURPOSE**

This Reference Document is provided to support school districts in New York State, and their auditors, through the annual audit process. Its main goal is to assist school districts to receive a quality audit.

§2116(a) of the New York State Education Law and §170.2(r) of the Regulations of the Commissioner of Education require each school district employing eight or more teachers to obtain an annual audit of its records by an independent Certified Public Accountant or an independent Public Accountant. The New York State Education Department (SED) requires that all audits be conducted in accordance with generally accepted auditing standards in the United States of America (GAAS), issued by the American Institute of Certified Public Accountants (AICPA), and generally accepted government auditing standards (GAGAS), issued by the Comptroller General of the United States, regardless of whether the school district is subject to the Single Audit Act of 1984, including the Single Audit Act Amendments of 1996 (P.L. 104-156, 7/5/96).

This assistance is primarily focused on the need of school officials and school board members to understand the basic requirements and limitations of an audit. The Reference Document provides assistance from the engagement of the auditor through the filing of various audit reports with the appropriate regulatory bodies. This assistance will take the form of a general discussion, including references to more complete guidance.

Although this Reference Document is intended for school officials and school board members, it should be shared with the school district's auditor or prospective auditor. The auditor should not consider this document to be all-inclusive, or a substitute for professional judgment. Furthermore, the auditor should consider this document at the lowest level of the generally accepted accounting principles' hierarchy.

Comments or questions regarding this Reference Document should be sent to:

Jay O'Connor, Assistant in School Financial Aid  
New York State Education Department  
Educational Management Services  
Room 876, Education Building Annex  
Albany, New York 12234

## ADDITIONAL GUIDANCE

- Governmental Accounting Standards Board (GASB) may be contacted by calling GASB at (203) 847-0700, ext. 555; or writing GASB at 401 Merritt 7, PO Box 5116, Norwalk CT 06856-5116; or visiting the GASB Web Page at [www.gasb.org](http://www.gasb.org). GASB offers a technical inquiry system at [www.gasb.org/tech/index.html](http://www.gasb.org/tech/index.html).
- Financial Accounting Standards Board (FASB) may be contacted by calling FASB at (203) 847-0700, ext. 10; or writing FASB at 401 Merritt 7, PO Box 5116, Norwalk CT 06856-5116; or visiting the FASB Web Page at [www.fasb.org](http://www.fasb.org).
- American Institute of Certified Public Accountants (AICPA) may be contacted by calling the AICPA at (888) 777-7077; or writing the AICPA at Harborside Financial Center, 201 Plaza Three, Jersey City NJ 07311-3881; or visiting the AICPA Web Page at [www.aicpa.org](http://www.aicpa.org).
- New York State Education Department (SED) may be contacted by calling NYSED's Office of Educational Management Services at (518) 474-6541, or by visiting their Web Page at <http://www.p12.nysed.gov/mgtserv/districtmanagement/>
- New York State Office of the State Comptroller (OSC) may be contacted at your local OSC regional office; or visit the OSC Web Page at [www.osc.state.ny.us](http://www.osc.state.ny.us).
- New York State Consolidated Laws are available at <http://public.leginfo.state.ny.us/menugetf.cgi?COMMONQUERY=LAWS>
- The Office of Management and Budget provides OMB circulars and Compliance Supplement at [www.whitehouse.gov/omb/circulars/](http://www.whitehouse.gov/omb/circulars/)
- Government Auditing Standards, as recodified, and including proposed amendments, are available at [www.gao.gov/govaud/ybk01.htm](http://www.gao.gov/govaud/ybk01.htm).
- Institute of Internal Auditors [www.theiia.org](http://www.theiia.org)

## Section II - Certain Significant Accounting and Auditing Issues

This summary update is intended to inform school officials, board members, and auditors about recent developments, and areas receiving increased emphasis, involving accounting and auditing issues. It is intended to be informative, but not all-inclusive.

School districts are required by the provisions of §36 of the New York State General Municipal Law to follow the system of keeping accounts formulated and prescribed by the NYS Comptroller. Useful documents include the SAccounting and Reporting Manual for School Districts (ARM) and Local Government Management Guides, developed by the Office of the State Comptroller. The ARM is intended to mirror generally accepted accounting principles, which will be followed in preparation of school district financial statements. However, the ARM is not intended to enumerate principles related to financial reporting. The Comptroller’s Office issues accounting bulletins to update the ARM for new accounting pronouncements, and to clarify the implementation of existing guidance. Generally accepted accounting principles are the culmination of a variety of authoritative sources (See AU Section 411: The Meaning of “Present Fairly in Conformity with Generally Accepted Accounting Principles”).

This time line summarizes effective dates of some of the more recent mandates:

	Effective Date
SAS #112 – Communicating Internal Control	Periods Ending June 30, 2007
SAS #113 – Omnibus	Periods ending June 30, 2007
SSAE #14 – Attestation Engagements SSAE Hiérarchies	Periods ending June 30, 2007
SAS #104 – Due Professional Care	Periods Ending June 30, 2008
SAS #105 – Amend SAS #95	Periods Ending June 30, 2008
SAS #106 – Audit Evidence	Periods Ending June 30, 2008
SAS #107 – Risk and Materiality	Periods Ending June 30, 2008
SAS #108 – Planning and Supervision	Periods Ending June 30, 2008
SAS #109 – Understanding the Entity	Periods Ending June 30, 2008
SAS #110 – Audit Procedures	Periods Ending June 30, 2008
SAS #111 – Sampling	Periods Ending June 30, 2008
GASB #45-Other Postemployment Benefits for Employers (Phase 1)	Periods Ending June 30, 2008
SAS #114-Auditor’s Communication With Those Charged With Governance	Periods Ending June 30, 2008

GASB #48 – Sales & Pledges of Receivables	Periods Ending June 30, 2008
GASB #50 – Pension Disclosures	Periods Ending June 30, 2008
GASB #56 – Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards	Periods Ending June 30, 2009
GASB #49 – Pollution Remediation	Periods Ending June 30, 2009
GASB #45 – Other Postemployment Benefits for Employers (Phase 2)	Periods Ending June 30, 2009
GASB #52 – Real Estate Held By Endowments	Periods Ending June 30, 2009
SAS #115 – Communicating Internal Control Related Mater Identified in an Audit Supersedes SAS #112	Periods Ending December 31, 2009
GASB #51 – Intangibles	Periods Ending June 30, 2010
GASB #53 – Accounting and Financial Reporting for Derivative Instruments	Periods Ending June 30, 2010
SAS #116 – Interim Financial Information	Periods Ending December 31, 2010
GASB #54 – Fund Balance Reporting and Governmental Fund Type Definitions	Periods Ending June 30, 2011
GASB #55 – The arhHierarchy of GAAP for State and Local Governments	Periods Ending June 30, 2009

## Key Accountability Laws

School districts and auditors should review legislation for details of accountability requirements. NYS legislation is available from the web site listed in Section I of this Reference Document. Five areas for school financial accountability are addressed by legislation:

- *School Board Training - Education Law 2102-a*
- *Audit Committees - Education Law 2116-c*
- *Independent Audits (RFP) – Education Law 2116-a*
- *Claims Audit – Education Law 1709 (20-a)(a)*
- *Internal Audit Function – Education Law 2116-b*

## Chapter 651 of the Laws of 2008

On January 27, 2009 legislation was approved which makes extensive amendments to the laws relating to the practice of public accountancy and became effective July 26, 2009.

Part 29 of the Rules of the Board of Regents amended the definition of Unprofessional Conduct with special provisions for the profession of public accountancy in section 29.10. The amendment was effective January 7, 2010.

Parts 52.13 (Registration of Curricula) and 70 (Study, Experience, Licensure, Permits and Registration) of the Regulations of the Commissioner of Education amended the Licensure and Practice

Requirements for Certified Public Accountants. The amendment was effective July 26, 2009 and January 7, 2010, respectively.

A proposed amendment to Part 70 (addition of 70.10) of the Regulations of the Commissioner of Education requiring a mandatory quality review program for firms applying or renewing its registration is scheduled to take effect on November 3, 2010.

### **GASB STATEMENT #43 – FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS**

GASB #43 establishes standards for reporting other postemployment benefit (OPEB) plans. This generally includes postemployment benefits other than pension benefits, such as healthcare, long-term care and life insurance (if provided separately from a pension plan). GASB #43 is applicable both to plans reported as trust, agency or fiduciary fund of the participating employer or plan sponsor, and to plans separately reported by a plan administrator, as well as to single-employer and multiple-employer plans.

The effective date for the largest New York State school districts was scheduled for the 2006–2007 school year, with other school districts implementing for the 2007–2008 and 2008–2009 years.

### **GASB STATEMENT #45 – ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

GASB #45 addresses how school districts should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. These benefits create a commitment of future resources that are seldom measured, let alone disclosed in the financial statements, since they are typically accounted for and reported on a “pay-as-you-go” basis. The objective of GASB #45 is to recognize the cost of OPEB systematically, over the term of employment.

For financial statements prepared on the modified accrual basis (governmental funds), there will be no change to the accounting and reporting of OPEB expenditures. However, financial statements prepared on the accrual basis – the district-wide statements under GASB #34 and proprietary fund financial statements – will use actuarial methods and assumptions to value the projected benefits and establish an annual expense.

The annual expense will include a provision for the amortization of any unfunded actuarial accrued liability, which can be amortized over a maximum of 30 years. If the amount that the employer actually contributes to the plan is different from this expense, the difference will create a liability or an asset. The cumulative difference between the annual *expense* and the actual *contribution* is known as the *Net OPEB Obligation*. The initial Net OPEB Obligation may be set at zero. This account will grow each year if an employer chooses not to fully fund the plan. Funding the plan requires the employer to set aside funds in an irrevocable trust. Merely designating funds for this purpose is not considered funding the plan under GASB #45. NYS school districts do not currently have the authority to fund OPEB through bonding, reserves or an irrevocable trust. Funding of the liability is not required by GASB #45.

If the District does not pay the cost of retiree health insurance, but allows employees to remain on the District’s plan, the District may have some OPEB liability. The District will need to consult with an actuary to determine if this applies to them.

Additionally, employers will be required to disclose the actuarial value of plan assets, if any, the actuarial accrued liability, and information about employer contributions and the progress being made in funding the plan.

GASB #45 requires that an actuarial valuation be performed at the following minimum frequency:

- Biennially for OPEB plans with a membership of 200 or more employees, both active and currently receiving these benefits.
- Triennially for OPEB plans with a membership fewer than 200 employees, both active and currently receiving these benefits.
- A sole employer with fewer than 100 plan members, both active and currently receiving these benefits, has the option to apply a simplified “Alternative Measurement” as explained in GASB #45 instead of obtaining an actuarial valuation.

All districts are now subject to GASB #45 reporting requirements. If you have questions regarding implementation you should contact your independent auditor to discuss a strategy for implementing this new standard. The Implementation Guide for GASB #43 and #45 ([GASB Implementation Guide GQA43/45](#)) is available and may be obtained from the GASB by calling (800) 748-0659 or on-line at [www.gasb.org](http://www.gasb.org).

## **CHAPTER 436 - BUDGETARY COMPLIANCE**

Chapter 436 of the Laws of 1997 provides legislation that continues to be a challenge to implement and monitor. Districts are required to present to the public a proposed budget for all general fund appropriations. The presentation format separates the budget into three components: Administrative, Program, and Capital (Education Law §1716). Should the voters fail to approve a district’s budget (which may only be presented to the voters twice), the Board of Education must adopt a contingency budget where the total budget, less certain exclusions, cannot exceed 120% of the Consumer Price Index, or 4% over the prior year’s original budget, whichever is less. The current CPI percentage can be obtained from <http://www.p12.nysed.gov/mgtserv/budgeting/>. Additionally, the Administrative component cannot exceed the percentage that it comprised in the previous year’s original budget (less Capital component) or the percentage that it comprised in the last proposed defeated budget (less Capital component), whichever is less.

It is important for a district operating under a contingency budget to document its compliance with the legislated budget caps, both at the time of the contingency budget’s adoption, and throughout the school year. When adopting a contingency budget, the law requires the board to specify the projected percentage increase or decrease in total spending for the school year. The law also requires the board to explain the reasons for disregarding any portion of an increase in spending in formulating the contingency budget. During the year, the board is required to continue to maintain compliance with the budget caps.

The auditor should read the district’s calculation of the budgetary caps, and consider the district’s mechanism for monitoring compliance with the budgetary caps (upon adoption of the contingency budget and throughout the school year), either when the district is operating under a contingency budget for the audited year, or for the subsequent year.

## **Section III - Objectives and Limitations of the Audit**

The objectives of a school district audit are tiered. At the basic level, the objectives of an audit are established by the AICPA through the issuance of generally accepted auditing standards (GAAS). The State Education Department has augmented these objectives by requiring all school district audits to be conducted according to GAGAS, issued by the Comptroller General of the United States. The audit objectives are further expanded to cover Federal programs when the school district meets the Single Audit Act threshold of \$500,000 of Federal expenditures in a fiscal year. The auditor's responsibility is limited to the scope of the audit. The following is a brief description of each tier's audit objective:

### **FINANCIAL AUDIT IN ACCORDANCE WITH GAAS**

The objective of a GAAS audit is the expression of an opinion on whether the financial statements fairly present, in all material respects, the financial position, results of operations, and cash flows in accordance with generally accepted accounting principles. Materiality is defined in the Financial Accounting Standards Board's Statement of Financial Accounting Concepts No. 2 as "the magnitude of an omission or misstatements of account information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

The standards of GAAS are expanded by the following guidance:

- Statements of Auditing Standards (SAS) issued by the AICPA's Auditing Standards Board. Under the AICPA's Code of Professional Conduct, all members must adhere to these statements.
- Audit Interpretations issued by the AICPA's Auditing Standards Board.
- Statements of Quality Control Standards issued by the AICPA's Auditing Standards Board.

The auditor should make a judgment about the level of materiality during the planning process, because the extent and type of audit evidence relates to the size of potential misstatements. Conclusions about materiality should also involve quantifications of tolerable misstatements and individually significant items.

Boards of Education and administrators should understand that financial statement audits required for school districts are not designed to discover every dollar of misstatements, errors, fraud or abuse. The independent auditor's report usually provides an opinion about whether the financial statements present fairly the financial position and changes in financial position in conformity with generally accepted accounting principles in the United States of America.

## FINANCIAL AUDIT IN ACCORDANCE WITH GAGAS

The three AICPA generally accepted auditing standards of field work are as follows:

- 1) The work is to be adequately planned, and assistants, if any, are to be properly supervised.
- 2) A sufficient understanding of internal control is to be obtained to plan the audit and determine the nature, timing and extent of tests to be performed.
- 3) Sufficient appropriate evidential matter is to be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

Auditors should use professional judgment and consider the needs of users in applying the preceding standards.

GAGAS prescribe additional standards for financial statement audits that go beyond the requirement of AICPA SASs. Auditors must comply with these standards when citing GAGAS in their reports. The additional GAGAS standards relate to:

- 1) Auditor communication.
- 2) Considering the results of previous audits and attestation engagements.
- 3) Detecting material misstatements resulting from contract provisions or grant agreements or from abuse.
- 4) Developing elements of a finding for financial audits.
- 5) Audit documentation.

Audits of public school districts in New York State should be performed under GAGAS. Each auditor performing public school auditing should obtain and be familiar with GAGAS. These standards are available from the GAO at [www.gao.gov](http://www.gao.gov).

## **Section IV – Characteristics of a Quality Audit**

The responsibility for engaging a qualified and competent Certified Public Accountant (CPA) or Public Accountant (PA) to perform the annual audit of the school district's financial statements resides with the school district's Board of Education. State laws and regulations require that the annual audit be "accepted" by a resolution of the school district's Board of Education. This resolution along with the audit report must be filed with SED in a timely manner. In addition, the independence and objectivity of the auditor may be enhanced when the Board of Education and Audit Committee perform an oversight role with respect to the hiring and performance of the auditor, as required by law.

Some factors to be considered when reviewing the qualifications of an auditor are listed below. A better understanding of the purpose and objectives of the services to be provided by the auditor can be obtained through a general familiarity with this Reference Document and communication with the auditor throughout the audit process.

### **AUDITOR QUALIFICATIONS**

Auditors of New York school districts should meet the following minimum qualifications:

#### **Registration and Licensing**

The auditing firm should be registered with the NYS Education Department. As part of the registration, all partners in the firm practicing in New York are identified, and SED checks to see that all are presently licensed with the State. CPAs and PAs licensed to practice in New York must complete a minimum of 40 contact hours of acceptable formal continuing professional education (CPE) in recognized technical areas of study; or a minimum of 24 CPE contact hours in any one of the following three subject areas: auditing, accounting, or taxation in each 12-month period from September 1 through August 31. (For 2009 the reporting period has changed to December 31.) Whether a firm is registered with the State can be determined by calling 518-474-3836 (for partnerships and limited liability partnerships) or 518-474-8225 (for professional corporations). SED now maintains a listing of all CPAs in the State and the status of their license on the Internet at [www.nysed.gov/prof/profhome.htm](http://www.nysed.gov/prof/profhome.htm). School districts should confirm that the partner or owner of the firm assigned to the engagement maintains an active license to practice and is in good standing.

#### **Qualification Standards of Government Auditing Standards**

GAGAS require that the auditing firm ensure individuals responsible for planning, directing, conducting, or reporting on the audit complete at least 80 hours of CPE every two years that directly enhances the auditor's professional proficiency to perform audits and/or attestation engagements. At least 20 hours must be completed in any one year of the two-year period. Individuals responsible for planning, directing, conducting substantial portions of the field work, or reporting on the government audit should complete at least 24 of the 80 CPE hours in subjects directly related to the government environment and to government auditing or the unique environment in which the audited entity operates.

### Satisfactory Completion of a Triennial Peer Review

Quality Control Standards of GAGAS require that audit firms have an appropriate internal quality control system in place and undergo an external quality review at least once every three years. In addition, firms whose partners and staff CPAs are members of the American Institute of CPAs must undergo a triennial peer review as a condition of membership. Participation in the AICPA peer review program satisfies the GAGAS requirement. As part of the annual review of the auditor's qualifications, the school district should determine that the auditor is current with his or her peer review, and obtain a copy of the most recent peer review report. The auditing firm may include this peer review report with the annual engagement letter.

### Possess the Necessary Experience

Audits of school districts, especially those that must also satisfy the requirements of the Federal Single Audit Act, are highly specialized in nature. The auditor should be experienced in audits of governmental entities conducted under GAGAS and, where applicable, the Single Audit Act requirements. This can be demonstrated through a list of relevant service to other similar clients, including names for reference checking purposes.

### Completion of the Audit on a Timely Basis

State regulations require that the audit be completed and filed with SED in a timely manner. The firm should demonstrate that it has sufficient staff at appropriate experience levels to complete the audit in a timely manner. This should include assurances that the staff assigned has met the CPE requirements under GAGAS.

## **ENGAGEMENT LETTER**

School districts should execute a written contract or an engagement letter with the independent auditor. The engagement letter should identify the nature and scope of the engagement, the type of report the auditor is expected to issue, the timing of rendering the services, and a target date for issuing the auditor's report to ensure that the October 15 filing date is met. An example of an engagement letter follows this section of the Reference Document.

## **KEEP THE AUDITOR INFORMED**

Building an ongoing relationship with the auditor is the best way to facilitate the audit process and strengthen the school district's finance systems in the long term. It is important that the Board of Education, as well as the Superintendent and school business official, be kept informed on the progress and any significant findings of the audit. Members of the Board of Education may want to meet periodically with the Superintendent and business official to keep communication lines open and reduce the likelihood of surprises.

## SED GUIDANCE TO INDEPENDENT AUDITORS AUDITING SCHOOL DISTRICTS

### Annual Independent Audit

The independent auditors must conduct their audits of NYS school districts in accordance with GAGAS as issued by the Comptroller General of the United States. Standards contained in the 2007 Revision are organized as general, fieldwork, and reporting. Recent audits have identified some instances of non-compliance. Discussed below are some important considerations in conducting the audit. The guidance should not be considered all-inclusive or a substitute for professional judgment. Auditors need to understand and follow GAGAS.

- Independence - Auditors must document that they are independent of the district being audited and free of personal and external impairments. Auditors must establish an internal quality control system to identify any personal and external impairment and assure compliance with GAGAS independence requirements. The internal quality control system must be clearly documented. At a minimum, the independent auditors must:
  - (a) establish policies and procedures that will enable the identification of personal impairments to independence;
  - (b) communicate the audit organization's policies and procedures to all auditors in the organization and assure an understanding of requirements through training or other means such as auditors periodically acknowledging their understanding;
  - (c) establish internal policies and procedures to monitor compliance with the audit organization's policies and procedures;
  - (d) establish a disciplinary mechanism to promote compliance with the audit organization's policies and procedures; and
  - (e) stress the importance of independence and the expectation that auditors will always act in the public interest.
- Internal Quality Control System - Auditors must document that their internal quality control processes adequately demonstrate compliance with government auditing standards. The independent auditor must establish an organizational structure, and policies and procedures to provide reasonable assurance of complying with applicable standards governing audits. The internal quality control system must include procedures for monitoring, on an ongoing basis, whether the policies and procedures related to the standards are suitably designed and are being effectively applied. Each audit organization should prepare appropriate documentation for its system of quality control to demonstrate compliance with its policies and procedures. (Sections 3.50 through 3.54 of GAGAS)
- Internal Controls – Auditors must obtain a sufficient understanding of internal controls to plan the audit and to determine the nature, timing, and extent of tests to be performed. Auditors must document their understanding of internal controls covering the five interrelated components: the control environment, risk assessment, control activities, information and communication, and monitoring. Auditors must also document whether the controls are actually operating and their conclusions or evaluations for each of the components. (Section 4.03 of GAGAS)

- Planning and Supervision – The work is to be properly planned and supervised, and auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures.
  - (a) Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.
  - (b) Auditors should design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements.
  - (c) Auditors should be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditors’ attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred. (Section 4.03 of the GAGAS)
  
- Audit documentation – AICPA standards require that auditors obtain sufficient appropriate evidential matter. GAGAS requires that the audit contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors’ significant judgments and conclusions. Audit documentation should provide a clear understanding of its purpose, the source, and the conclusions the auditors reached. It should be organized to provide a clear link to the findings, conclusions, and recommendations contained in the audit report. Audit documentation should show:
  - (a) the objectives, scope, and methodology of the audit;
  - (b) the rationale or reason for not following any of the standards and the impact of such on the audit;
  - (c) the auditors’ consideration of the district’s use of information technology in planning the audit including the reliance placed on the effectiveness of internal controls over the computerized systems that produced the information; and
  - (d) evidence of supervisory review of the work performed. (Sections 4.19 through 4.24 of GAGAS)
  
- Reporting on Internal Controls and Compliance – Auditors must report on the scope of the auditors’ testing of compliance with laws and regulations and internal controls over financial reports, and present the results of those tests. In presenting the results of those tests, auditors should report irregularities, illegal acts, other material noncompliance, significant deficiencies and material weaknesses in internal controls. (Sections 5.07 through 5.20 of GAGAS)

**SAMPLE ENGAGEMENT LETTER  
AUDIT OF SCHOOL DISTRICT**

(Note: Assumes School District is subject to Single Audit Act requirements)

Date

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Dear \_\_\_\_\_:

We are pleased to confirm our understanding of the services we are to provide \_\_\_\_\_ School District for the Year ended June 30, \_\_\_\_\_. We will audit the financial statements of \_\_\_\_\_ School District and its Extraclassroom Activity Fund as of and for the year ended June 30, \_\_\_\_\_.

The document will also include Required Supplementary Information and Supplementary Information, which is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We will apply certain limited procedures, which will consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we will not audit that information, or express an opinion on it.

The document will also include the Schedule of Expenditures of Federal Awards, which is not a required part of the financial statements. It will be subject to the auditing procedures applied in our audit of the financial statements upon which we will provide an opinion in relation to the basic financial statements.

**Audit Objectives**

The objective of our audit is the expression of an opinion as to whether your financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District, and the respective changes in financial position and cash flows (where applicable) thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with Government Auditing Standards.
- Internal control related to major programs and an opinion on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of the audit committee, management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities, and is not intended to be and should not be used by anyone but these specified entities.

Our audit will be conducted in accordance with generally accepted auditing standards in the United States of America; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with Circular A-133, and other procedures we consider necessary to enable us to express such an opinion and to render the required reports. Those standards require that the auditor obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements.

If our opinion on the financial statements or the Single Audit compliance opinion is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

An audit includes obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, the auditor is responsible for ensuring that those charged with governance are aware of any significant deficiencies that come to the auditor's attention.

### **Management Responsibilities**

Management is responsible for the District's financial statements and the selection and application of the accounting policies.

Management is responsible for establishing and maintaining internal control and for compliance with the provisions of contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information.

We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, including the schedule of expenditures of federal awards, but the responsibility for the financial statements remains with you. That responsibility includes the establishment and maintenance of adequate records and the safeguarding of assets.

Management understands that electronic sites are a means to distribute information and that we are not required to read the information contained in those sites, including financial statements and other financial information, or to consider whether other information on the sites is consistent with the original document.

Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We may propose standard, adjusting or correcting entries to your financial statements during the course of our engagement. Management is responsible for reviewing those entries, and for understanding their nature and the impact they might have on the financial statements.

Management is also responsible for designing and implementing policies, procedures and controls to prevent and detect fraud, and for informing us about all known or suspected fraud that might affect the District involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of any allegations of fraud or suspected fraud affecting the District that has been received from employees, former employees, regulators or others. Management is also responsible for establishing and maintaining an adequate system of internal accounting control, and for compliance with applicable laws and regulations, including those related to federal assistance programs. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review on the first day of field work.

Management is responsible for taking timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, having a process to track the status of audit findings and recommendations, and identifying for the auditor previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations. Because the determination of abuse is subjective, Government Auditing Standards does not expect auditors to provide reasonable assurance of detecting abuse.

### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, our audit will include tests of transactions related to major federal award programs for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements (whether caused by errors or fraud), illegal acts, or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements, immaterial illegal acts, or illegal acts that do not have a direct effect on the financial statements or major programs. However, we will inform you of any material errors that come to our attention and any fraud that comes to our attention. We will also inform you of any illegal acts that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as an auditor is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

#### **Audit Procedures—Internal Controls**

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinions on \_\_\_\_\_ School District's financial statements and on its compliance with requirements applicable to major programs.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to Government Auditing Standards.

As required by OMB Circular A-133, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify internal control deficiencies. However, we will inform the governing body or audit committee of any matters involving internal control and its operation that we observe, and which we consider to be required to be reported by Government Auditing Standards and OMB Circular A-133.

### **Audit Procedures—Compliance**

Our audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of \_\_\_\_\_ School District's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to Government Auditing Standards.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of the applicable procedures described in the OMB Circular A-133 Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of \_\_\_\_\_ School District's major programs. The purpose of those procedures will be to express an opinion on \_\_\_\_\_ School District's compliance with requirements applicable to major programs in our report on compliance issued pursuant to OMB Circular A-133.

### **Audit Administration, Fees, and Other**

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with the basic information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, but the responsibility for the financial statements remains with you. This responsibility includes the maintenance of adequate records and related internal controls, the selection and application of accounting principles, and the safeguarding of assets. Additionally, as required by OMB Circular A-133, you will prepare the summary of prior audit findings. The schedule should be available for our review on (Date) \_\_\_\_\_.

The work papers for this engagement are the property of (Firm) \_\_\_\_\_ and constitute confidential information. However, we may be requested to make certain work papers available to the U.S. Department of Education or other oversight agencies pursuant to authority given to it by law or regulation. If requested, access to such work papers will be provided under the supervision of (Firm) \_\_\_\_\_ personnel. Furthermore, upon request, we may provide photocopies of selected work papers to the U.S. Department of Education or other oversight agencies. The U.S. Department of Education or other oversight agencies may intend, or decide; to distribute the photocopies or information contained therein to others, including other governmental agencies.

Government Auditing Standards require that we must have an external quality control review (peer review) at least once every three years and that we provide you with a copy of our most recent peer review report and letter of comments (*if applicable*). Our (Date) \_\_\_\_\_ peer review report accompanies this letter. Our next review will be for the year ended (Date) \_\_\_\_\_. This peer review report will be provided to you when issued.

Whenever possible, we will utilize your personnel to reduce our own time requirements. We will also provide you with a list of schedules we would like prepared for us.

Our fees for these services will be based on the actual time spent at our standard, hourly rates. Our standard, hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your engagement. Our invoices for these fees will be rendered at the completion of our work. Based on our preliminary estimates, the audit fee is not expected to exceed \$\_\_\_\_\_. This estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant, additional time is necessary; we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

In addition, we will be available during the year for consultation on various accounting matters. Our fee for such services will be at standard rates and will be discussed with you at that time.

The 2007 revision of Government Auditing Standards requires auditor independence. The District agrees that it has not, and will not; involve our firm in nonaudit services which violate the conditions of Government Auditing Standards, which include:

- a) The audit organization must not provide nonaudit services that involve performing management functions or making management decisions.
- b) The audit organization must not audit its own work or provide nonaudit services in situations where the nonaudit services are significant or material to the subject matter of audits.
- c) Management must be responsible for all substantive outcomes of the work and, therefore, has the responsibility to be in a position in fact and appearance to make an informed judgment on the results of nonaudit services.
- d) The District must designate a management-level individual to be responsible and accountable for overseeing nonaudit services.
- e) The District must establish and monitor the performance of the nonaudit services to ensure that it meets management objectives.
- f) The District must make any decisions that involve management functions related to nonaudit services and accept full responsibility for such decisions.
- g) The District must evaluate the adequacy of the services performed and any findings that result.

The District understands and agrees that this engagement is being undertaken solely for the benefit of the District, and that no other person or entity shall be authorized to enforce the terms of this engagement.

We appreciate the opportunity to be of service to \_\_\_\_\_ School District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy, and return it to us.

Very truly yours,

The CPA or PA Firm

\_\_\_\_\_  
(Signature of Accountant)

Enclosures

cc: Board President

**The CPA or PA Firm:**

This letter correctly sets forth the understanding of \_\_\_\_\_  
\_\_\_\_\_ School District.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

## **Section V - Auditor's Reports and Other Required Communications**

### **MANAGEMENT LETTER**

While there are no authoritative standards for the content of the management letter, the auditor should prepare a management letter in conjunction with the financial report. The management letter should include non-material instances of non-compliance, and other conditions, with recommendations for improvement which should be brought to the Board of Education's attention based on the auditor's judgment and the Statements of Auditing Standards issued by the AICPA's Auditing Standards Board. The management letter must be filed with the State Education Department regardless of the nature of the comments.

The District must also file its response to any improvement opportunities or issues raised in the management letter that details any steps taken or that will be taken to address those issues. The response should be filed with the same address used to file the financial report with SED, as soon as practical after receiving the audit report.

Legislation enacted in 2005 requires districts to prepare a corrective action plan in response to any findings contained in external audit reports or management letter, or any final audit report issued by the NYS Comptroller, within 90 days of receipt. In addition, districts must begin implementation of their corrective action plan no later than the end of the next fiscal year.

### **REPRESENTATION LETTERS**

School districts should execute written communications with the auditing firm, describing certain representations made during the course of the audit. An example of a Representation Letter follows this section.

SAS-85 requires the auditor to obtain written representations from current management on all periods covered in the report. In addition to the representations required by SAS-85, the Representation Letter should ordinarily be tailored to include additional appropriate representations relating to matters specific to the school district's circumstances. The Sample Representation Letter is not intended to be either authoritative or all-inclusive, but rather to provide examples of items which could be considered for inclusion in the Representation Letter.

### **REQUEST FOR LEGAL REPRESENTATION LETTER**

The audit process includes requesting a letter from the District's legal counsel to support information that the District's administration provides concerning litigation. For reasons including confidentiality and authority, the request should be written by the District to its counsel, requesting that counsel's response be sent directly to the auditor. The letter should request information on pending or threatened litigation and on unasserted claims identified by the administration, and should confirm that counsel will advise the administration of any unasserted claims that come to counsel's attention, which in their judgment must be considered for disclosure in the financial statements (FASB Statement #5). Counsel's reply should be as of a date that is near to the date of the auditor's report release date.

Some attorneys are using more qualifying language in their responses to requests for legal representations than in the past. For example, some law firms include text which attempts to avoid waiver of attorney-client and attorney work-product privilege, which does not detract from the usefulness of the letter for audit purposes. Other attorneys point out that American Bar Association policy suggests that they cannot respond to general inquiries related to the existence of unasserted possible claims or assessments, or comment on the adequacy of the District's listing, but can only comment on those unasserted possible claims or assessments for which the client in writing has specifically requested comment. That comment does not need to be construed as an audit scope limitation, provided that counsel continues to confirm the District understands that counsel would advise and consult with the client concerning the client's obligation to make financial statement disclosures of unasserted possible claims or assessments. CPAs can refer counsel to American Bar Association Statement of Policy, if additional information is needed.

Counsel's refusal to furnish the information requested in the request for a legal representation letter is likely to constitute a limitation on the scope of the auditor's examination that would preclude the issuance of an unqualified opinion.

While each district will need to construct a letter requesting legal representation in a manner that suits its particular circumstances, a sample that includes some of the topics that can be covered follows this section of the Reference Document.

## **OTHER REQUIRED COMMUNICATIONS**

Statement on Auditing Standards (SAS) No. 114, "establishes a requirement for the auditor to communicate with those charged with governance certain significant matters related to the audit, including the auditor's responsibilities under GAAS, an overview of the planned scope and timing of the audit, and significant findings from the audit."

The required communication is applicable to entities that either have an audit committee or that have otherwise formally designated oversight of the financial reporting process to a group equivalent to an audit committee (i.e. the Board of Education.) This communication can be either oral or written, and when written, the report is intended for the use of the audit committee or the board of education and, if appropriate, management.

GAGAS requires that certain matters be communicated, if present, along with a brief explanation of each:

- The auditor's responsibility under generally accepted government auditing standards;
- Significant accounting policies;
- Management judgments and accounting estimates;
- Significant audit adjustments;
- Other information in documents containing audited financial statements;
- Disagreements with management;
- Consultation with other accountants;
- Major issues discussed with management prior to retention; and
- Difficulties encountered in performing the audit.

The AICPA's SAS-89 requires the auditor to inform the audit committee about uncorrected misstatements aggregated by the auditor during the current engagement and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

MD&A must be composed by the school district's administration, not by the auditing firm. The auditing firm may assist the administration by providing training and answering questions.

**SAMPLE REPRESENTATION LETTER  
AUDIT OF SCHOOL DISTRICT**

**School District's Letterhead**

Date

(Auditing firm) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

We are providing this letter in connection with your audit of the financial statements of the \_\_\_\_\_ School District as of June 30, 20\_\_ and for the year then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position and results of operations of the District in conformity with generally accepted accounting principles. The representations in this letter are applicable to both [the school year ended June 30, 20\_\_, and to the preceding school year. We confirm that we are responsible for the fair presentation in the financial statements of financial position and results of operations in conformity with accounting principles generally accepted in the United States. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of the auditor's report, the representations made to you during your audit, including:

The financial statements referred to above are fairly presented in conformity with generally accepted accounting principles.

We are responsible for establishing and maintaining an adequate system of internal accounting control, and for compliance with applicable laws and regulations, including those related to federal assistance programs.

We have made available to you all financial records and related data and the minutes of the meetings of the Board of Education, or summaries of actions of recent meetings for which minutes have not been prepared.

We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We have no knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements.

We have no knowledge of any allegations of fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers or others.

There have been no:

- Errors or unrecorded transactions in the financial statements;
- Fraud or irregularities involving others that could have a material effect on the financial statements.
- Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements;
- Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

We have no plans or intentions that may materially affect the carrying value of, or classification of, assets and liabilities.

The following have been properly recorded or disclosed in the financial statements:

- Related party transactions, including sales, purchases, loans, transfers, leasing arrangements, guarantees, and provision of services, and amounts receivable from or payable to related parties;
- Federal assistance received or receivable;
- Guarantees, whether written or oral, under which the District is contingently liable, and arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances or similar arrangements;
- Agreements to repurchase assets previously sold;
- Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, Disclosure of Certain Significant Risks and Uncertainties, such as estimates at the balance sheet date that could change materially within the next year, and concentrations in volume of revenues, available sources of supply or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

There are no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, nor are there any other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.

There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement Number 5, Accounting for Contingencies.

There are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement Number 5.

The District has:

- Identified in the schedule of federal financial assistance all assistance provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations;
- Identified the requirements governing political activity, the Davis-Bacon Act, civil rights, cash management, relocation assistance and real property management, federal financial reports, allowable costs/cost principles, drug-free workplace, and administrative requirements over federal financial assistance;
- Identified the requirements governing types of services allowed or disallowed, eligibility, matching, level of effort or earmarking, reporting, claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to its major federal financial assistance programs, which are identified in the schedule of federal financial assistance;
- Complied with reporting requirements in connection with federal financial assistance;
- Presented information in federal financial reports and claims for advances and reimbursements this is supported by the books and records from which the basic financial statements have been prepared;
- Determined amounts claimed or used for matching in accordance with OMB Circular A-87 (Cost Principles for State and Local Governments), and the OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments;
- Monitored subrecipients, if any, to determine that the subrecipients expend financial assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133;
- Taken appropriate corrective action on a timely basis after receipt of a subrecipient's auditor's report, if any, that identifies noncompliance with federal laws and regulations;
- Considered the results of subrecipients' audits, if any, and made any necessary adjustments to the District's own books and records;
- Identified and disclosed to the auditor all amounts questioned and known noncompliance with requirements that could have a material effect on a major federal financial assistance program;
- Identified and disclosed all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

The District has complied with all material terms and conditions of federal award agreements, has not used federal funds to supplant non-federal funds, and has disclosed all sources and amounts of all financial assistance, and the programs through which that assistance was provided. With respect to that assistance, management has identified all requirements having a direct and material effect on the determination of financial statement amounts.

Amounts reported in the financial statements for payroll expense and related payroll taxes and retirement payments have been accrued through the end of the fiscal year, and represent payments to or for the benefit of bona fide employees of the District for services actually rendered at approved pay rates.

There are no civil rights suits adjudicated or pending against the District.

The District has not been designated as a potentially responsible party by the Environmental Protection Agency.

The District has satisfactory title to all owned assets and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.

The carrying value of long lived assets in the financial statements does not exceed the estimated future total cash flows from their use and disposition.

Management:

- Acknowledges management's responsibility for complying with legal, regulatory and contractual requirements;
- Acknowledges management's responsibility for establishing and maintaining an effective internal control structure over compliance;
- Acknowledges management's responsibility for establishing an accounting and financial reporting process for determining fair value measurements, and believes that reasonable assumptions, including reflecting management's intent and ability to carry out specific courses of action on behalf of the District where relevant to the use of fair value measurements or disclosures, are used. Management believes that the measurement methods, including related assumptions, used by management in determining fair value are appropriate, and consistently applied, the disclosures related to fair values are complete and adequate, and any subsequent events that might require material adjustment to the fair value measurements and disclosures are included in the financial statements.
- Agrees that management has performed an evaluation of the District's internal control policies and procedures for ensuring compliance and detecting noncompliance;
- Asserts that the District has complied with all legal, regulatory and contractual requirements that could have a material effect on the financial statements in the event of noncompliance;
- Would disclose all instances of noncompliance with legal, regulatory and contractual requirements, if any had existed;
- Has made available all documentation related to compliance with legal, regulatory and contractual requirements;
- Has disclosed any communications from regulatory agencies, internal auditors and other practitioners concerning possible noncompliance with legal, regulatory and contractual requirements, received between June 30, 20\_\_ and the date of the auditor's report;
- States that management would disclose all instances of noncompliance with legal, regulatory and contractual requirements occurring subsequent to the date below, if any had occurred.

- Has adjusted the financial statements to correct material misstatements, and represents that the effect of any uncorrected misstatements aggregated by the auditor during the current engagement and pertaining to the latest period presented (summarized in the accompanying schedule, if applicable) are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

If SEC disclosure rules are applicable, (especially Rule Number 240.15c2-12 effective for fiscal years ending after January 1, 1996) for reporting annual financial information and material events to nationally recognized municipal securities information repositories and to a state information repository, the District has complied with those SEC rules.

Management has provided only true copies of reports submitted or electronically transmitted to federal awarding agencies or pass-through entities.

Receivables recorded in the financial statements represent valid claims against debtors for charges arising on or before June 30, 20\_\_, and have been appropriately reduced to their estimated net realizable value, if required.

If tax exempt bonds have been issued by the District, they have retained their tax exempt status.

We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances. We are unable to determine the possibility of a withdrawal liability in a multiemployer plan.

Form ST-3 which we provided to you is the same as the one which the District has filed, or will file.

We have complied with Chapter 436 of the Laws of 1997 budget caps, as well as all other applicable laws and regulations in adopting, approving and amending budgets, to the extent applicable to the District.

We have not engaged your firm to provide non-audit services for the District, nor to make management decisions or perform management functions, which might impair your independence under GAO Government Auditing Standards. In furtherance of preserving your firm's independence under those standards, management reviews, approves and is responsible for the outcome of discussions we have with your firm in areas such as internal controls, implementing audit recommendations, technical issues, staff training, tax matters and similar items.

In connection with requirements of Governmental Accounting Standards Board Statement #34, we represent that:

- a) The financial statements properly classify all funds and activities;
- b) All funds that meet the quantitative criteria in GASB #34 for presentation as major are identified and presented as such, and all other funds that are presented as major are particularly important to financial statement users;
- c) Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved;
- d) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis;
- e) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal;

- f) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported;
- g) Special and extraordinary items are appropriately classified and reported;
- h) Capital assets, including infrastructure assets if applicable, are properly capitalized, reported, and, if applicable, depreciated;
- i) Required supplementary information is measured and presented within prescribed guidelines.

No events have occurred subsequent to June 30, 20\_\_ and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

Management has exercised control over the preparation of the District's financial statements, and possesses the necessary accounting expertise to prevent, detect and correct a potential misstatement in its financial statements, including the government-wide statements (accrual basis), fund statements (modified accrual basis), MD&A, footnotes and supplementary information. The District agrees that your firm, as external auditor, cannot, and does not, form a part of the District's internal control system which exercises this control over financial statement preparation.

Management has approved the District's chart of accounts, trial balance, and any adjusting, correcting and closing entries for the year ended June 30, 20\_\_ that were used to prepare draft financial statements, and has provided the information used to draft notes to the financial statements. With regard to any services provided by your firm that are determined to be nonaudit services, the District has concluded that those services do not impair your firm's independence with respect to the District, and that:

- a) The nonaudit services do not involve performing management functions or making management decisions,
- b) Your firm has not audited its own work or provided nonaudit services in situations where the nonaudit services are significant or material to the subject matter of audits.
- c) The District is responsible for the substantive outcomes of the work and, therefore, is in a position in fact and appearance to make an informed judgment on the results of nonaudit services.
- d) The District has designated \_\_\_\_\_, who is a management-level individual capable of being responsible and accountable for overseeing nonaudit services.
- e) The District has established and monitored the performance of the nonaudit services to ensure that it meets management objectives.
- f) The District has made all decisions that involve management functions related to nonaudit services and accepts full responsibility for such decisions.
- g) The District has evaluated the adequacy of the services performed and any findings that result.

The District has designated \_\_\_\_\_, who is a management-level individual qualified to perform these functions, to be responsible for effective oversight of the District's financial reporting (including financial statements, notes to financial statements and supplementary information), and internal control.

Yours truly,

SCHOOL DISTRICT

\_\_\_\_\_ Business Official

\_\_\_\_\_ Superintendent

By: \_\_\_\_\_ date: \_\_\_\_\_

## **Section VI – Filing Requirements**

The following filing requirements must be followed in order to ensure the audit report is prepared and submitted in compliance with applicable legal requirements:

1. Audited financial statements for school districts are to be prepared in accordance with generally accepted accounting principles.
2. The Audit is to be performed in accordance with generally accepted auditing standards issued by the AICPA and generally accepted government auditing standards, issued by the Comptroller General of the United States. The auditor's report is to cover supplemental schedules and the notes. The supplemental schedules are not considered necessary for the fair presentation of the financial statements and must be reported by the auditor in accordance with SAS-29.
3. The amounts included in the audited financial statements are to agree in summary with the Annual Report (ST-3). Differences should be investigated by the school district and corrected by amending the ST-3.
4. In addition, the auditor must submit a management letter, when applicable. The auditor must also submit all applicable reports required by GAGAS regarding internal controls and compliance. If engaged to audit the Extraclassroom Activity Funds, the auditor should also submit an audit report of the Extraclassroom Activity Funds.
5. If the school district is subject to the Single Audit Act Amendments of 1996, then the reporting requirements and filing requirements of Circular A-133 must be followed. The following is a summary of these requirements:
  - The auditor must opine as to whether the Schedule of Expenditures of Federal Awards is fairly presented, in all material respects, in relation to the financial statements taken as a whole.
  - The auditor must issue a report on internal controls with respect to the financial statements and major programs.
  - The auditor must report on the school district's compliance with laws, regulations, and provisions of contracts or grant provisions, which could have a material effect on federal programs, and is to contain an opinion with respect to the material effect on each major program. The report should refer to the Schedule of Findings and Questioned Costs when applicable.
  - The auditor shall prepare a Schedule of Findings and Questioned Costs, in compliance with Circular A-133, §\_\_.505 (d).
  - The district shall prepare a Corrective Action Plan in accordance with the guidance of Circular A-133, §\_\_.315(c). The Corrective Action Plan must address each audit finding included in the current year auditor's report. It should provide the name of the contact person responsible for corrective action, a description of the corrective action planned, and the anticipated completion date of the corrective action. In appropriate circumstances, the Corrective Action Plan can also express the District's disagreement with the audit findings, or belief that corrective action is not required. An explanation of those views should be provided.

- The district shall prepare a summary schedule of prior audit findings, in accordance with Circular A-133, § \_\_.315 (b). The Summary Schedule of Prior Audit Findings must report the status of all audit findings included in the prior audit's Schedule of Findings and Questioned Costs relative to federal awards, and in the prior audit's Summary Schedule of Prior Audit Findings (except findings listed as corrected, or no longer valid, or not warranting further action). When findings are fully corrected, the Schedule is only required to list the finding and state that corrective action was taken. When findings were not corrected, or were only partially corrected, the Schedule should describe the planned corrective action, as well as any partial corrective action taken. When the District believes the audit findings are no longer valid, or do not warrants further action, the reasons for that position should be described.
  - The auditor shall sign the Data Collection Form (Form SF-SAC) prepared by the school district.
6. Reports must be sent by October 15 to the following addresses with a copy of the school district's corrective action plan (See Item 5), if applicable:

Email To:

[FSandA133@mail.nysed.gov](mailto:FSandA133@mail.nysed.gov) (NYS Education Department Submission Only)

[afrfile@osc.state.ny.us](mailto:afrfile@osc.state.ny.us) (Office of the NYS Comptroller Submission Only – Name of District in Subject Line)

Or Mail To:

NYS Education Department  
Office of Audit Services  
89 Washington Avenue  
Room 524EB  
Albany, NY 12234  
(one copy)

Office of the NYS Comptroller  
Division of Local Government  
and School Accountability  
Data Management Unit, 12<sup>th</sup> Floor  
110 State Street  
Albany, NY 12236  
(one copy)

School districts may wish to use delivery services that track receipt of the documents, since SED has experienced instances where school districts state that the financial information was sent, although SED has no record of receiving it.

If subject to the Single Audit Act of 1996, then one copy of the reporting package (financial statements and Schedule of Federal Awards, summary schedule of prior audit findings, auditor's report and corrective action plan) must be submitted within the earlier of 30 days of receipt from the auditor or by March 31<sup>st</sup> to the following addresses:

Federal Audit Clearinghouse  
Bureau of the Census  
1201 E. 10th Street  
Jefferson, IN 47132  
(one copy)

Email To:

[FSandA133@mail.nysed.gov](mailto:FSandA133@mail.nysed.gov) (NYS Education Department Submission Only)

Or Mail To:

NYS Education Department  
Office of Audit Services  
89 Washington Avenue  
Room 524EB  
Albany, NY 12234  
(one copy)

Additional copies of the audit report may need to be sent to the Federal Audit Clearinghouse; the number of copies required is computed on Form SF-SAC.

7. Article 3, §35 of the General Municipal Law requires that within 10 days after the filing of a report of an external audit performed by an independent public accountant (or any management letter prepared in conjunction with such an external audit) with the Clerk of the district, the Clerk shall give public notice in substantially the form provided in the legislation.

§35 also permits the Board to provide to the Comptroller and the Commissioner of Education, and to file in the office of the clerk of the district, a written response to the findings and recommendations in the report or letter, not later than 90 days after their presentation to the Board. (Districts should also consider requirements of 2005 legislation which requires districts to prepare a corrective action plan, as discussed previously in this Reference Document.) The written response prepared pursuant to §35 shall include, with respect to each finding or recommendation, a statement of the corrective actions taken or proposed to be taken, or if corrective action is not taken or proposed, an explanation of the reasons therefore. Any such response shall also include a statement of the status of corrective actions taken on findings or recommendations contained in any previous report of an external audit, or any management letter prepared in conjunction with one, for which a written response was required.

§35 provide similar requirements for reports of examinations by the Office of the State Comptroller.

Wording for the public notice suggested in the legislation is:

*Notice is hereby given that the fiscal affairs of \_\_\_\_\_ District for the period beginning on \_\_\_\_\_ and ending on \_\_\_\_\_, have been examined by (the Office of the State Comptroller or an independent public accountant), and that the (report of examination performed by the Office of the State Comptroller or report of, or management letter prepared in conjunction with the external audit by the independent public accountant) has been filed in my office where it is available as a public record for inspection by all interested persons. Pursuant to §35 of the General Municipal Law, the governing board of \_\_\_\_\_ District may, in its discretion, prepare a written response to the (report of examination performed by the Office of the State Comptroller or the report of external audit or management letter by independent public accountant) and file any such response in my office as a public record for inspection by all interested persons not later than \_\_\_\_\_.*

8. The board resolution accepting the report must be submitted to the State Education Department at the above address. The resolution can be filed after the audit report has been mailed.

## **Section VII – Federal Single Audit**

The Single Audit Act, and Office of Management and Budget Circular A-133, require districts that expend total federal awards of \$500,000 or more in a year to be audited in accordance with the Single Audit Act. OMB Circular A-133 (revised June 27, 2003 and June 26, 2007) can be obtained from [http://www.whitehouse.gov/omb/circulars\\_default](http://www.whitehouse.gov/omb/circulars_default). Compliance requirements for a large number of federal programs are summarized in the annually updated Compliance Supplement, which is available for sale as a printed document from the United States Government Printing Office by calling (202) 512-1800, or electronically at [http://www.whitehouse.gov/omb/circulars/a133\\_compliance\\_supplement\\_2010](http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2010).

The threshold for Single Audit is \$500,000 or more in total expenditures of federal awards. The \$500,000 requirement was published in the June 27, 2003 Federal Register, Volume 68, Number 124, and is effective for fiscal years ending after December 31, 2003, replacing the old \$300,000 threshold. The threshold for determining major programs has not changed.

### **GOVERNING LITERATURE**

There are many guidance documents which explain Single Audit requirements, among them being the Single Audit Act of 1984, the Single Audit Act Amendments of 1996, OMB Circular A-133 (Audits of States, Local Governments and Non-Profit Organizations), and OMB Circular A-133 Compliance Supplement, cited above. In addition, auditing firms and school districts can refer to:

- Government Auditing Standards (Yellow Book), which provides standards relating to such elements as workpaper documentation, components of text for significant deficiencies and material weaknesses, district follow-up on findings, continuing professional education, independent quality review, and reporting issues.
- OMB Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, which establishes national terms for federal grants.
- OMB Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments), which explains rules for allowable costs and expenses in federally funded projects.
- USGAO Government Auditing Standards Interpretation of Continuing Education and Training Requirements.
- USGAO Government Auditing Standards Answers to Independence Questions.

Many documents published by the federal government can be purchased in printed form from Superintendent of Documents, United States Government Printing Office, PO Box 371954, Pittsburgh, Pennsylvania 15250, or <http://bookstore.gpo.gov/>. Some of the same documents are available on the internet at sites such as [www.ignet.gov](http://www.ignet.gov), [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb), and [www.gao.gov](http://www.gao.gov).

A completely new Yellow Book was published in June, 2007, superseding the 2003 version.

## **SCHOOL DISTRICT RESPONSIBILITIES**

The district is required to identify the amounts and federal programs for all federal awards received and expended. Federal awards may take different forms, including grants, loans, loan guarantees, property, interest subsidies and insurance. Some federal assistance (such as certain Medicare and Medicaid payments) is not considered a federal award expended. Guidance on the basis for determining federal awards expended, and for valuing non-cash assistance, is provided in §\_\_\_.205 of Circular A-133. District records must show the CFDA title and number, award number and year, name of the federal agency, and name of the pass-through agency, if any.

The district is also responsible for maintaining internal control over federal programs that provides reasonable assurance that the district is managing the awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each program. The district must also follow up and take corrective action on audit findings, if any, including preparation of a summary schedule of prior audit findings and a corrective action plan.

The district must prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards, in accordance with requirements of Circular A-133. The financial information it presents should be derived from the same accounting records that underlie the financial statements, and should be consistent with information reported on other federal and State pass-through grant reports. While the Schedule's data must be reconcilable to those grant reports, the grant reports may be prepared on a different fiscal period, or may include cumulative data from prior periods, and may not directly agree with the Schedule. A sample format for the Schedule of Expenditures of Federal Awards is provided in Appendix 5 of this Reference Document.

## **CERTIFICATION OF PAYROLL FUNDED THROUGH FEDERAL AWARDS**

There are many federal documentation requirements that auditors need to keep in mind during school district audits. Because payroll expense is likely to be material in relation to the Single Audit of federally aided programs, it is important to be sure that school districts are complying with federal, as well as State, payroll certification requirements.

Federal cost principles state that compensation costs must be determined and supported under specific rules, many of which are enumerated in Circular A-87, Attachment B, §8. Some of the rules, such as being based on payrolls documented in accordance with the generally accepted practice of the district, and approved by a responsible official, are frequently complied with. Rules requiring written employee documentation may be less frequently observed. These rules are additionally amplified at 4.84-000-9 et seq. of the 2008 Compliance Supplement.

There are two separate sets of rules for employee certification, depending on whether the employee works solely on a single federal award, or on multiple activities. When an employee is expected to work solely on a single federal award, charges for salaries need to be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. This type of employee certification needs to be prepared at least semiannually, and needs to be signed by the employee, or by a supervisory official having first hand knowledge of the work performed by the employee.

When an employee works on multiple activities (such as more than one federal award, or a federal and a non-federal program), a distribution of their salary needs to be supported by an activity report which meets additional standards. Budget estimates or other distribution percentages determined before the

services are performed do not qualify as support for charges to federal awards. The additional standards include:

- They must reflect an after-the-fact distribution of the actual activity of each employee,
- They must account for the total activity for which each employee is compensated,
- They must be prepared at least monthly and must coincide with one or more pay periods, and
- They must be signed by the employee.

There are alternatives to the personnel activity reports, such as obtaining approval of the cognizant federal agency to substitute a statistical sampling system. For many school districts, complying with the basic requirement may be the most practical approach, rather than applying for approval of alternate systems.

Application of the A-87 requirements to employees in a school operating a school-wide program varies under different circumstances. For example, if a school operating a school wide program consolidates federal, State and local funds in a consolidated school wide pool, an employee who is paid with funds from that pool is not required to file a semi-annual certification. Because federal funds are consolidated with State and local funds in a single consolidated school wide pool, there is no distinction between staff paid with federal funds and staff paid with State or local funds. If a school operating a school wide program does not consolidate federal funds with State and local funds in a consolidated school wide pool, and employee who works in whole or in part on a federal program or cost objective must meet the Circular A-87 requirements.

## **SUSPENSION AND DEBARMENT**

In administering federal funds, districts are prohibited from contracting with, or making subawards under covered transactions to parties that are suspended or debarred, or whose principals are suspended or debarred, under rules that were revised in November, 2003. Verification of whether a party is suspended or debarred can be accomplished by reviewing the electronic version of the Excluded Parties List System maintained by General Services Administration at <http://epls.arnet.gov>.

## **Section VIII - Common Mistakes, Errors or Omissions in the Preparation of Financial Statements and Single Audits**

### **FINANCIAL STATEMENTS**

The following are common errors and omissions that the SED State Education Department's Office of Audit Services (OAS) has observed while reviewing financial statements:

- ✓ Management letter:
  - Not submitted by the district.
  - The corrective action plan for the issues noted in the management letter was not included or did not provide a specific plan to address these issues.
- ✓ The corrective action plan for issues noted in the “report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards” was not included or did not provide a specific plan to address these issues.
- ✓ Management Discussion and Analysis (MD&A):
  - Did not include all elements required by GASB-34.
  - Significant discrepancies in information between the MD&A and the other sections of the current and/or prior year's financial statements.
  - Insufficient analysis of the changes in net assets, fund balances, or budget.
  - Appears to have been prepared by the independent auditors.
  - Did not include the name of a contact person.
- ✓ Statement of Net Assets:
  - Long-term liability balances differing from balances shown in the notes to the financial statements.
  - Reserves of fund balance that do not meet the criteria for restricted net assets were shown as restricted net assets on the Statement of Net Assets.
  - Investment in capital assets, net of related debt balance did not agree with the balance shown in the supplemental schedules.

- ✓ Statement of Activities:
  - No depreciation expense reported and/or not properly allocated between functions/programs.
  - Employee benefits not properly allocated between functions/programs.
  - Lack of or insufficient disclosures for prior period adjustments.
- ✓ Balance Sheet:
  - Debt service not broken down between principal and interest.
  - Reserves of fund balance that were not authorized by General Municipal and/or Education Law.
- ✓ Statement of Revenues, Expenditures, and Changes in Fund Balance:
  - Lack of or insufficient disclosures for prior period adjustments.
- ✓ Reconciliation between fund statements and entitywide statements did not include all required items and/or there were insufficient disclosures for the reconciling items; or the data did not agree information in the entitywide and/or fund statements.
- ✓ Notes to the financial statements:
  - Beginning balances in various notes differing from the ending balances in the notes to the prior year's financial statements.
  - Capitalization thresholds very low, or very high, or not disclosed at all.
  - Lack of or insufficient disclosures for short term debt.
  - No disclosures for accruals/reversals of interest on debt.
  - Inadequate disclosure of interfund transactions.
- ✓ Supplemental Schedules:
  - Expenditures exceed available appropriations.
  - Capital projects not broken down by project number and could not be verified to the capital project data submitted on the ST-3.
- ✓ Extraclassroom activities:
  - Titles of extraclassroom activities were insufficient to determine nature of activities.

- Inactive extraclassroom activities that should be considered for closure.
- Extraclassroom activities that do not meet the definition of a bona fide activity.

## **SINGLE AUDITS**

The New York State Education Department (Department), as an entity that provides federal funds to subrecipients, is responsible for the receipt and review of Single Audits. The Office of Audit Services (OAS) administers the review process for the Department. The following are common errors and or omissions were noted:

- ✓ For the Schedule of Expenditures of Federal Awards (SEFA) the following was noted:
  - Improper identification of pass-through entity:
    - The Department was identified as the pass-through entity for federal programs that did not pass through the Department.
    - Programs passed through the Department were not identified as passed through the Department, instead were shown as passed through another entity or identified as a direct federal award.
  - The pass-through identifying number was not included.
  - Expenditures for State programs were included on the SEFA.
  - For clusters, the federal expenditures for multiple federal programs were shown under one CFDA #. Section 310(b)(3) of OMB Circular A-133 (A-133) requires that the SEFA show total Federal awards expended for each Federal program with CFDA number (or other identifying number).
  - The wrong CFDA # was used or an inactive CFDA # was used.
- ✓ For the Schedule of Finding and Questioned Costs (SFQC), the following was noted:
  - The summary information (a.k.a., Section I) was not consistent with the independent auditors report, the “report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards,” and/or the “report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.”
  - Not all federal programs in a cluster (as defined in Section 105 of A-133 and the A-133 compliance supplement) were identified and audited as major program.

- The wrong threshold was noted for determining type A programs.
- Designated low-risk even though the criteria for low-risk designation was not met.
- Inadequate audit coverage of federal expenditures (sometimes due to improper low-risk designation).
- The findings section for financial statements (a.k.a., Section II) and/or major programs (a.k.a., Section III) was not included.
- Findings from the prior year(s) that were not corrected were not identified as current findings.
- Findings for the major programs:
  - The following required by Section 510(b)(1) of A-133 was not always included:
    - Federal program and specific Federal award identification including the CFDA title and number
    - Federal award number and year
    - Name of Federal agency
    - Name of the applicable pass-through entity.

(When information, such as the CFDA title and number or Federal award number, is not available, the auditor shall provide the best information available to describe the Federal award.)
  - The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation required by Section 510(b)(2) of A-133 was not always included or was not very specific.
  - Section 510(b)(4) of A-133 requires identification of how questioned costs are computed; however, it is not always clear how they are computed.
- ✓ A corrective action plan for findings for major programs was not submitted and/or did not include the minimum components required by Section 315(c) of A-133 (i.e., name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date).
- ✓ Federal data collection form SF-SAC required by Section 320(b) of the A-133 was not filed with the Federal Clearinghouse.
- ✓ The wrong federal employer identification number (FEIN) was used when filing the SF-SAC with the Federal Clearinghouse.

- ✓ Information in the A-133 reporting package required by Section 320(c) of the A-133 did not agree with the information in the SF-SAC submitted to the Federal Clearinghouse.
- ✓ The summary schedule of prior audit findings required by Section 315(b) of the A-133 was not submitted when there were findings in prior year(s) A-133(s).