

## **REFERENCE DOCUMENT**

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

(Eight or More Teachers)



2012



Office of Educational Management Services  
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Albany, New York 12234  
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September 2012

**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 – 2012**  
**Is provided by the New York State Education Department**  
**Office of Educational Management Services**

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*Thank you to those in the NYS accounting and auditing profession  
who assisted in the review and preparation of this year's manual.*

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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

## **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 Accounting 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 #116 – Interim Financial Information	Interim Periods Beginning after December 15, 2009
GASB #54 – Fund Balance Reporting and Governmental Fund Type Definitions	Periods Ending June 30, 2011
GASB # 61 – Amendment of GASB Statements No. 14 and 34	Periods Ending June 30, 2013
GASB # 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	Periods Ending June 30, 2013
GASB # 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	Periods Ending June 30, 2013
GASB # 65 – Items Previously Reported as Assets and Liabilities	Periods Ending June 30, 2014
GASB # 66 – Technical Corrections – 2012 – Amendment to GASB Statements No. 10 and 62	Periods Ending June 30, 2014

## 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 <http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1175804837169>. GASB Pronouncements may also be viewed or downloaded from the following website: <http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176160042391>.
- 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)

## **Key Accountability Laws**

School districts and auditors should review legislation for details of accountability requirements. NYS legislation is available from the web site listed above. 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 97 AND 436 – TAX LEVY AND BUDGETARY COMPLIANCE**

Chapter 97 of the Laws of 2011 enacted legislation which limits the total levy set by local governments and school districts. School districts calculated a levy limit for the first time for the 2012-13 fiscal year with 2011-12 as the base year. Under this legislation, the property taxes levied by school districts generally cannot increase by more than 2 percent, or the rate of inflation, whichever is lower. The law does however, allow school districts to levy an additional amount for certain excludable expenditures. An override of the levy limit is permitted under the legislation. For school districts, an override occurs when voters, by a 60 percent margin of the votes cast, approve a budget presented that requires a tax levy exceeding the statutory limit.

In the event that a budget requiring 60 percent approval does not pass, the Board of Education may adopt a budget with no increase in the tax levy from the prior or resubmit the same, or a revised budget. If the budget does not pass the second time, then the Board of Education must adopt a budget requiring a tax levy that is no greater than the levy of the prior year.

While the enactment of Chapter 97 instituted changes, there are still requirements from Chapter 436 of the Laws of 1997 which must be adhered to. Districts are still 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). Additionally, in the event of a contingency budget, 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 tax levy limit and 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 Financial Statement Audit**

The objectives of a school district financial statement 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 generally accepted government auditing standards (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 STATEMENT 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 and the results of operations 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."

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.

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.

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 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.

## **Financial Statement Audit in Accordance With GAGAS**

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, grant agreements or from abuse.
- 4) Developing elements of a finding for financial statement 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. It is highly recommended that you become familiar with these standards which are available from the GAO at [www.gao.gov](http://www.gao.gov).

## **Section IV – Characteristics of a Quality Financial Statement 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 either 24 continuing professional education (CPE) contact hours in any one of the following subject areas: accounting, auditing, taxation, advisory services or specialized knowledge and application **or** 40 acceptable credits of CPE in any combination of these subject areas, in each 12-month calendar year. Information regarding continuing professional education may be found at <http://www.op.nysed.gov/prof/cpa/cpace.htm>. 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 requires 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 must 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 by October 15<sup>th</sup>. 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.

## **ONGOING AUDITOR COMMUNICATION**

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, Superintendent and/or School Business Official inform the Auditor of significant financial transactions and compliance related issues. Additionally, the Auditor should keep the Board of Education, Superintendent and/or School Business Official 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 the Business Official to keep communication lines open and reduce the likelihood of surprises.

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

### **ENGAGEMENT LETTER**

School districts should execute 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.

### **REPRESENTATION LETTER**

School districts should execute written communications with the auditing firm, describing certain representations made during the course of the audit. 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.

### **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 (formerly FASB Statement #5, new codification standard ASC 450-Contingencies). Counsel's reply should be as of a date that is near to the date of the auditor's report release date. Each district will need to construct a letter requesting legal representation in a manner that suits its particular circumstances.

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.

### **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 should be 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. The other required communications may include management related comments.

## **MANAGEMENT LETTER AND CORRECTIVE ACTION PLANS**

While there are no authoritative standards for the content of the management letter, the independent auditor may prepare a management letter in conjunction with the financial report. The management letter includes instances of non-compliance and other conditions that are not considered to be significant deficiencies or material weaknesses 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. If the independent auditor issues a management letter, it must be filed with the State Education Department regardless of the nature of the comments.

Commissioner's Regulation Section 170.12(e)(4) requires that the District prepare a Board approved corrective action plan (CAP) within ninety (90) days of receipt of receiving the management letter that addresses any improvement opportunities or issues raised in the management letter that details any steps taken or that will be taken to address those issues and the expected dates of implementation, where appropriate. The CAP must be filed with the State Education Department.

In addition, Commissioner's Regulation Section 170.12(e)(4) requires that a Board approved CAP be prepared within ninety (90) days of receipt in response to any findings contained in:

- the annual external audit report,
- a final audit report issued by the State Comptroller,
- a final audit report issued by the district's internal auditor,
- a final audit report issued by the State Education Department; or
- a final audit report issued by the United States or an office, agency or department thereof.

Districts must begin implementation of their CAP no later than the end of the next fiscal year and file the CAP with the State Education Department.

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

MD&A must be composed by the school district's administration, not by the auditing firm. The reporting requirements relating to MD&A are specified within GASB 34. See Appendix I.

### **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 (GAAS) issued by the AICPA and generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. The auditor's report is to cover required supplemental schedules, supplemental schedules not required by GAAP, and the notes. The supplemental schedules not required by GAAP are not considered necessary for the fair presentation of the financial statements and must be reported by the auditor in accordance with SAS-119.
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 direct and 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 (CAP) in accordance with the guidance of Circular A-133, §\_\_\_.315(c). The CAP 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 CAP 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, 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 warrant 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)

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)

In effort to reduce the need for physical storage, to reduce paper waste, and to reduce the cost of submitting documents, the State Education Department prefers that all documents be submitted electronically. In the event that a school district must send a hard copy, the school district should use a delivery service that tracks receipt of the documents, since SED has experienced instances where school districts state that the financial information was sent and SED has no record of receiving it.

If subject to the Single Audit Act of 1996, then one copy of the Single Audit Reporting Package (financial statements, Schedule of Expenditures of Federal Awards, Summary Schedule of Prior Audit Findings, Opinion on Financial Statements, Report on Internal Control (GAS), Report on Compliance (GAS), Report on Internal Control (A-133), Report on Compliance (A-133), Schedule of Findings and Questioned Costs, Corrective Action Plan (if findings), and Opinion or Disclaimer of Opinion on Schedule of Federal Awards (if A-133 is not bound with financial statements)) must be submitted

electronically within the earlier of 30 days of receipt from the auditor or by March 31<sup>st</sup> to [FSandA133@mail.nysed.gov](mailto:FSandA133@mail.nysed.gov). In addition, Form SF-SAC (Data Collection Form) and the Single Audit Reporting package must be submitted online to the Federal Audit Clearinghouse (FAC) at <http://harvester.census.gov/fac/collect/ddeindex.html>.

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. 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 submitted.

## **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 can be obtained from <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).

### **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.

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 December 2011, superseding the July 2007 version.

The AICPA Audit Guide, Government Auditing Standards and Circular A-133 Audits, which is updated annually for changed requirements such as for ARRA and SAS 117, presents interpretive guidance for the audits of financial statements conducted in accordance with Government Auditing Standards.

The AICPA's Government Audit Quality Center (GAQC) (see website at [www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Pages/GAQC.aspx](http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Pages/GAQC.aspx)) promotes the importance of quality governmental audits and the value of such audits to purchasers of governmental audit services. GAQC task forces have developed several Single Audit Practice Aids, which are available through the web site.

## **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.

For any federal funding received under the American Recovery and Reinvestment Act of 2009, CFR 2 §176.210(b) requires that Districts must separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix "ARRA-" in identifying the name of the Federal program on the SEFA and as the first characters in Item 9 of Part III on the SF-SAC.

## **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, §11. 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 not 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 (see sample form at [www.p12.nysed.gov/sss/edcostallocationguide-appendix-viii.pdf](http://www.p12.nysed.gov/sss/edcostallocationguide-appendix-viii.pdf) ).

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 a personnel activity report (see sample form at [www.p12.nysed.gov/nclb/consolidatedappupdate/documents/splitfundedPARSample.doc](http://www.p12.nysed.gov/nclb/consolidatedappupdate/documents/splitfundedPARSample.doc)) 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 sub-awards 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 <https://www.epls.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.
  - 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 entity-wide 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 entity-wide 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, 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 inter-fund 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.
- ✓ Extra-classroom activities:
  - Titles of extraclassroom activities were insufficient to determine nature of activities.
  - Inactive extra-classroom activities that should be considered for closure.
  - Extra-classroom 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:

- ✓ Schedule of Expenditures of Federal Awards (SEFA)
  - 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 funded programs were included on the SEFA.
  - For clusters, the federal expenditures for multiple federal programs were shown under one CFDA number. 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.
- ✓ Schedule of Finding and Questioned Costs (SFQC)
  - 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 were 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 sufficiently 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).