

The University of the State of New York  
The State Education Department  
Office of School Governance, Religious and Independent Schools

# REFERENCE DOCUMENT

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

(Eight or More Teachers)



2019

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

Office of School Governance, Policy, Religious and Independent Schools  
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September 2019

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

**FROM:** Office of School Governance, Policy, and Religious and Independent Schools

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

This Reference Document may be obtained through the New York State Department of Education's (NYSED) website at [Reference Document](#). We strongly suggest that you furnish your independent auditor with the web page address where the useable document can be retrieved, and also for the main purpose of enabling your school district to 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 Uniform Guidance requires that an annual audit of the district's Federal award programs be included with the annual school district audit if \$750,000 or more in Federal Aid was expended during the corresponding year. Section 172.3(d) of Commissioner's Regulations requires that the Extraclassroom Activity Fund also be audited.

**REFERENCE DOCUMENT - 2019**

**Is provided by the New York State Education Department  
Office of School Governance, Policy, and Religious and  
Independent Schools**

*With the assistance of:*

Contributors in New York State Government

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Schools

NYSED Office of Audit Services

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

# **REFERENCE DOCUMENT**

## 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 (NYSED) requires that all audits be conducted in accordance with Generally Accepted Auditing Standards (GAAS) in the United States of America, 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 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. This Reference Document provides assistance from the engagement of the auditor through the filing of various audit reports with the appropriate regulatory bodies. The 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 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' (GAAP) hierarchy.

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

Christina Coughlin, Assistant Commissioner  
New York State Education Department  
Office of School Governance, Policy, and Religious and Independent Schools  
Room 1075, 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 GAAP, 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. GAAP 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 timeline summarizes effective dates of some of the most recent Government Accounting Standards:

<b>GASB Statement No. 84, Fiduciary Activities</b>	Periods Ending June 30, 2019
<b>GASB Statement No. 87, Leases</b>	Periods Ending June 30, 2020
<b>GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of Construction Period</b>	Periods Ending June 30, 2021
<b>GASB Statement No. 90, Majority Interests – an amendment of GASB Statement No. 14 and 61</b>	Periods Ending June 30, 2020
<b>GASB Statement No. 91, Conduct Debt Obligations</b>	Periods Ending June 30, 2022

### **Compliance Supplement**

- Effective for June 30, 2019 school district single audits.
- See links below for information on the 2019 Compliance: [Compliance Supplement](#)

Unlike the 2018 Supplement, the 2019 Supplement has been issued in one stand-alone document. [Access the single PDF of the Supplement](#) [Access the single PDF of the Supplement on the Office of Management and Budget's \(OMB\) web site](#). It is effective for audits of fiscal years beginning after June 30, 2018.

## Key Changes

Because there are many more changes to the Supplement than in recent years, it is critical for auditors to carefully read it, inclusive of those parts that may not be referred to frequently such as Part 1, Background, Information, and Applicability. Auditors should also refer to Appendix V, List of Changes for the 2019 Compliance Supplement, to get a high-level overview of the detailed changes made. The following describes some of the key changes that you should be aware of.

New 6-requirement mandate for programs included in the Supplement. OMB required agencies to limit the compliance requirements subject to the compliance audit to 6 for each program or cluster included in the 2019 Supplement. The only exception is the Research and Development cluster which was permitted to identify 7 requirements. For this purpose, the requirements relating to A. Activities Allowed and Unallowed, and B. Allowable Costs and Cost Principles, are treated as one requirement (i.e., allowability in its entirety will be considered one requirement even though the Supplement includes it in two sections). Auditors should carefully review Part 2, Matrix of Compliance Requirements, to identify the requirements relevant to your major programs this year as they will likely be different than prior years.

Note that the 6-requirement mandate does not apply to programs not specifically included in Part 4, Agency Program Requirements, or Part 5, Clusters of Programs. Therefore, if you are auditing a major program that is not in the Supplement, you will continue to use Part 7, Guidance for Auditing Programs Not Included in This Supplement, to identify the compliance requirements to be tested.

Procurement. Section 3.2.I on procurement in Part 3, Compliance Requirements, has been updated to discuss the effect of the 2017 and 2018 National Defense Authorization Acts (NDAA) and OMB Memorandum M-18-18, Implementing Statutory Changes to the Micro-Purchase and Simplified Acquisition Thresholds for Financial Assistance, on the simplified acquisition and micro-purchase thresholds.

Programmatic changes. There are several program additions and deletions in Part 4, and there are more programs than usual having significant changes. As it relates to the 6-requirement mandate, the matrices in each program and cluster in Parts 4 and 5 have been revised to be consistent with Part 2 and all requirements no longer subject to audit and any related suggested audit procedures have been deleted.

Performance reporting. Many programs for which L. Reporting is subject to audit have added new sections to Part 4 to add requirements relating to performance reports and special reports.

Student Financial Assistance (SFA). Many more changes than usual have been made to the SFA cluster for regulatory and other changes, including a new objective and suggested audit procedures relating to institutions complying with provisions of the Gramm-Leach-Bliley Act regarding securing student information. Additionally, a new requirement has been added for the auditor to report certain information about the sampling used for compliance testing for the Pell Grant and Direct Loan Programs and a voluntary option to report related instances of noncompliance deemed to be immaterial.

Part 6 Overhaul. Over the last year, the AICPA's Government Audit Quality Center (GAQC) has worked collaboratively with OMB to enhance Part 6, Internal Control, to more closely align it with how auditors consider internal control over compliance and to provide more illustrative controls. The new Part 6 includes a summary of the Uniform Guidance requirements for internal control, a background discussion

on important internal control concepts, and appendices that include illustrations of entity-wide internal controls over federal awards and internal controls specific to each type of compliance requirement.

Appendix VII. In addition to the guidance added regarding procurement (described above), this Appendix adds a reminder to auditors that AU-C 530, Audit Sampling, contains requirements and guidance on sampling and that failure to follow the standards may result in the audit being considered nonconforming. It also refers auditors to the AICPA Audit Guides, Government Auditing Standards and Single Audits, and Audit Sampling, for guidance. This emphasis was added due to continued concerns that federal agencies have about the application of sampling in a Single environment.

#### Office of Management and Budget

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Final Rule (Located in the Federal Register – Vol. 78, No. 248) [UGG](#).

- Consolidates eight (8) OMB Circulars into one Circular dubbed the “Uniform Guidance.”
- Imposes common requirements for both administrative and accounting functions. Therefore, impacts more than the Business Office.
- Reforms impact; Internal Controls, Procurement, Sub-Recipient Monitoring, Allocating Indirect Costs and Time and Effort Reporting among other areas.
- The revised Standards were effective December 26, 2014 impacting grant awards on or after that date.
- Applies to audits of fiscal years beginning on or after December 26, 2014, thus impacting School/BOCES audits for July 1, 2015 to June 30, 2016.
- Increases the audit threshold to \$750,000 from \$500,000 of Federal awards per year.

#### Data Collection Form

The following are the key changes included in the final Form and Internet Data Entry System (IDES):

- Auditees will now have the option to generate a customizable schedule of expenditures of federal awards (SEFA) and related notes to the SEFA from IDES that could be included in the reporting package. Auditees will also be able to enter the federal award information and notes to the SEFA prior to the fiscal period end date and the audit work being conducted.
- IDES will include an auditee Employer Identification Number edit check.
- Auditees will be required to transfer the text of the notes to the SEFA and their corrective action plans (CAPs) into the Form.
- Auditors will be required to transfer the text of audit findings into the Form.
- IDES will offer an optional worksheet-type function to assist in the transferring of text from audit findings and CAPs using an Excel template document that will be able to be downloaded, completed, and then uploaded.
- With regard to all text transferred into the Form by both auditees and auditors, the system will not allow for the transfer of charts and tables embedded within the original documents. Instead, preparers will have to include a notation within transferred text referring readers to the actual underlying note, CAP, or finding for relevant charts and tables.
- When previous a Federal Audit Clearinghouse (FAC) submission is revised and resubmitted to the FAC, auditees will be required to indicate in IDES what has changes and the reason why. This information will also be part of the public database.

#### **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 [Governmental Accounting Standards Board \(GASB\)](#). GASB offers a technical inquiry system at [Technical Inquiry System](#) GASB Pronouncements may also be viewed or downloaded from the following website: [GASB Pronouncements](#).
- 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 [Financial Accounting Standards Board \(FASB\)](#).
- 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 [American Institute of Certified Public Accountants \(AICPA\)](#).
- New York State Education Department (NYSED) may be contacted by calling NYSED's Office of School Governance, Policy, and Religious and Independent Schools at (518) 474-6541, or by visiting their Web Page at [New York State Education Department \(NYSED\)](#).
- New York State Office of the State Comptroller (OSC) may be contacted at a local OSC regional office; or visit the OSC Web Page at [New York State Office of the State Comptroller](#).
- New York State Consolidated Laws are available at [New York State Consolidated Laws](#).
- The Office of Management and Budget provides OMB circulars and Compliance Supplements at [The Office of Management and Budget](#).
- Government Auditing Standards, as re-codified, and including proposed amendments, are available at [Government Auditing Standards](#).
- Guidance on the Internal Audit Function are available at [Institute of Internal Auditors](#).

## 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 that 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 two 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 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 year, resubmit the same budget, 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 followed. 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 previous year's original budget (less Capital component) percentage or the last proposed defeated budget (less Capital component) percentage, whichever is less.

For a district operating under a contingency budget, it is important 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 NYSED 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 District meets the Uniform Guidance threshold of \$750,000 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. In this context, 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.

During the planning process, the auditor should make a judgment about the level of materiality because the extent and type of audit evidence should relate to the size of any 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 on 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 be familiar with GAGAS. It is highly recommended that the auditor 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 District's financial statements resides with the District's Board of Education. Included in the role of the Board of Education and Audit Committee is to perform oversight with respect to the hiring and performance of the auditor, as required by law. This can provide a greater level of independence and objectivity of the CPA or PA performing the audit.

In addition, a good working relationship between the audit committee and the CPA or PA is ideal to ensure compliance with regulations which require specified deadlines. State laws and regulations require that the annual audit be "accepted" by a resolution of the District's Board of Education. This resolution along with the audit report must be filed with NYSED by the applicable deadlines published in the Portal.

Some factors to be considered when reviewing the qualifications of an auditor are listed below.

### **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 NYSED. The registration process includes verification that all partners in the firm practicing in New York are identified, and presently licensed with the State. In addition, to maintain their license in New York, CPAs and PAs 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 [CPE Professional Education](#).

Whether or not 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). For licensing, NYSED now maintains a listing of all CPAs in the State and the status of their license on the Internet at [CPA Licensure Information](#). 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 AICPA 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 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 NYSED 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 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<sup>th</sup> 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. AU-C 580 *Written Representations* requires the auditor to obtain written representations from current management on all periods covered in the report. In addition to the representations required by AU-C 580, the Representation Letter should ordinarily be tailored to include additional appropriate representations relating to matters specific to the District's circumstances.

## REQUEST FOR LEGAL REPRESENTATION LETTER

The audit process includes requesting a letter from the school 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 school 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 un-asserted claims identified by the administration and should confirm that counsel will advise the administration of any un-asserted 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

AU-C 260 *The Auditor's Communication with Those Charged with Governance*, establishes a requirement for the auditor to:

- a. communicate clearly with those charged with governance the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit.
- b. obtain from those charged with governance information relevant to the audit.
- c. provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process.
- d. promote effective two-way communication between the auditor and those charged with governance.

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. This communication should include:

- Significant accounting policies and practices;
- 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 AU-C 333 *Management Representations* 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 material weaknesses, significant deficiencies, 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 NYSED regardless of the nature of the comments.

Management letters that have a finding or recommendation (they can be material weaknesses, significant deficiencies, as well as any recommendations that are not material or significant) must be filed with NYSED via email or mail. The related corrective action plan must also be filed using the [NYSED Business Portal](#).

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 NYSED.

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 NYSED using the [NYSED Business Portal](#).

## **Management's Discussion and Analysis (MD&A)**

MD&A must be composed by the 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 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 to financial statements. 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 AU-C 720-730.
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 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 Fund, the auditor should also submit an audit report of the Extraclassroom Activity Funds.
5. If the District is subject to the Single Audit Act Amendments of 1996, then the reporting requirements and filing requirements of the Uniform Guidance must be followed. The following is a summary of these requirements:
  - a. 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.
  - b. The auditor must issue a report on internal controls with respect to the financial statements and major programs.
  - c. The auditor must report on the 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.
  - d. The auditor shall prepare a Schedule of Findings and Questioned Costs, in compliance with 2 CFR 200.515 (d).

- e. The District shall prepare a Corrective Action Plan (CAP) in accordance with the guidance of 2 CFR 200.511(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.
  - f. The District shall prepare a summary schedule of prior audit findings, in accordance with 2 CFR 200.511 (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 school district believes the audit, findings are no longer valid or do not warrant further action, the reasons for that position should be described.
  - g. The auditor shall sign the Data Collection Form (Form SF-SAC) prepared by the District.
6. District financial statement and related data **must** be submitted using the [NYSED Business Portal](#). Submission to the Portal should be completed before the applicable due dates.

A tutorial is available on the [NYSED Business Portal](#) under the supporting documents section. The tutorial explains how to obtain permission to and navigate the portal. It is important that the designated District employee has permission to use the portal and has learned to navigate the screens at least two weeks prior to the due dates, which will ensure timely submissions. Due dates are provided below.

#### Due Dates for Financial Data and Reports

- School Districts (other than Buffalo, Rochester, Syracuse, Yonkers and New York City) must submit audited financial statements by **October 15** (or the next business day if the due date falls on a Saturday or Sunday).
- Buffalo, Rochester, Syracuse, Yonkers and New York City school districts must submit audited financial statements by **January 1** (or the next business day if the due date falls on a Saturday or Sunday)

#### Due Dates for Single Audits

The audit package and the data collection form must be submitted to the Federal Audit Clearinghouse **30 days after receipt of the auditor's report(s)**, or **9 months after the end of the fiscal year** —whichever comes first. See Uniform Guidance **2 CFR 200.512(a)** for additional information and exceptions.

The [NYSED Business Portal](#) has the following sections. Within each section there are questions and areas to upload documents.

- 1) Annual Financial Statement Audits
- 2/3) Financial Statement Board Approval, Management Letter(s), Extraclassroom Audit, and CAPs
- 4) Single Audit Threshold and/or Single Audit Exemption Form
- 5) Single Audit Corrective Action Plans for Financial Statement Findings and Major Federal Program Findings
- 6) Internal Control Report and any Related Corrective Action Plan
- 7) Regulatory Audit and Related CAP

If you have any questions, please email [FsandSingleAudit@nysed.gov](mailto:FsandSingleAudit@nysed.gov).

In an effort to reduce the need for physical storage, to reduce paper waste, and to reduce the cost of submitting documents, the NYSED requires that all documents be submitted electronically on the NYS Portal. In extenuating circumstances when a school district must send a hard copy, the District should use a delivery service that tracks receipt of the documents, since the NYSED has experienced instances where school districts state that the financial information was sent and the NYSED has no record of its receipt. The address is as follows:

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

7. Reports must also be sent by October 15 to the NYS Comptroller's Office with a copy of the District's corrective action plan (See Item 5), if applicable:

Email to: [AFRFILE@osc.state.ny.us](mailto:AFRFILE@osc.state.ny.us) (NYS Comptroller's Office)

Or mail to:

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)

If subject to the Single Audit Act of 1996, then one copy of the Single Audit Reporting Package, including the following must be submitted electronically within the earlier of 30 days of receipt from the auditor, or 9 months after the end of the fiscal year—whichever comes first.

- 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 (Single Audit),
- Report on Compliance (Single Audit),
- Schedule of Findings and Questioned Costs,
- Corrective Action Plan (if findings), and
- Opinion or Disclaimer of Opinion on Schedule of Expenditures of Federal Awards (if Single Audit is not bound with financial statements)

The Single Audit reporting package and SF-SAC (Data Collection Form) should be uploaded to the Federal Audit Clearinghouse (FAC) located at: [Federal Audit Clearinghouse \(FAC\)](#).

8. 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 \_\_\_\_\_.*

9. The board resolution accepting the report must be submitted to the NYSED at the above address. The resolution can be filed after the audit report has been submitted.

## **Section VII - Federal Single Audit**

The Uniform Guidance requires Districts that expend total Federal awards of \$750,000 or more in a year to be audited in accordance with the Single Audit Act. The Uniform Guidance can be obtained from Electronic Code of Federal Regulations.

### **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, the Uniform Guidance, and OMB 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.
- 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 [U.S. Government Bookstore](#).

The AICPA Audit and Accounting Guides, Government Auditing Standards, which is updated annually for changed requirements, present interpretive guidance for the audits of financial statements conducted in accordance with Government Auditing Standards.

The AICPA's Government Audit Quality Center (GAQC) promotes the importance of quality governmental audits and the value of such audits to purchasers of governmental audit services, see [AICPA's Government Audit Quality Center \(GAQC\)](#) task forces have developed several Single Audit Practice Aids, which are available through the website.

### **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 2 CFR 200.502. School 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 the Uniform Guidance. 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.

## **DOCUMENTATION 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 documentation requirements.

The Federal rules governing payroll documentation, is less prescriptive under the Uniform Guidance than it was under OMB Circular A-87. It is important to become familiar with 2 CFR 200.430, Compensation—personal services, for more detailed guidance. It is important to note the Uniform Guidance does not require any grantee to change their current system for time and effort reporting.

Federal cost principles under the Uniform Guidance state that compensation costs must “be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; be incorporated into the official records of the non-Federal entity; reasonably reflect the total activity for which the employee is compensated by the non-Federal entity (school district), ...; encompass both Federally assisted and all other activities ...; comply with the established accounting policies and practices of the non-Federal entity (school district); and support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award...” It goes on to say that budget estimates by themselves are not sufficient documentation but can be used on an interim basis so long as there is a reconciliation of actual time worked to what was budgeted.

## **SUSPENSION AND DEBARMENT**

In administering Federal funds, school 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 System for Award Management (SAM) at [System for Award Management \(SAM\)](#).

## **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 NYSED 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 Single Audit or yellow book findings was not submitted or does not contain the required elements

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's Discussion and Analysis (MD&A):

- Did not include all elements required by GASB Statement No. 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 position, 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 Position:

- Long-term liability balances differing from balances shown in the notes to the financial statements.
- Net investment in capital assets 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 with 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.
- Fund balance was over the 4% limit for assigned fund balance and not disclosed
- No disclosures for deficit fund balance

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.
- Calculation of unrestricted fund balance limits were not calculated properly
- Net Investment in Capital Assets did not agree to Statement of Financial Position

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 (NYSED), as an entity that provides Federal funds to sub-recipients, is responsible for the receipt and review of Single Audits. The Office of Audit Services (OAS) administers the review process for the NYSED. The following are common errors and or omissions that were noted:

Schedule of Expenditures of Federal Awards (SEFA):

- Improper identification of pass-through entity:
  - 1) The NYSED was identified as the pass-through entity for Federal programs that did not pass through the NYSED.
  - 2) Programs passed through the NYSED were not identified as passed through the NYSED, 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. 2 CFR 200.510 (b) 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 auditor's 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 the Uniform Guidance."
- Not all Federal programs in a cluster 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 2 CFR 200.510 (b) 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 2 CFR 200.516 was not always included or was not sufficiently specific.

- A corrective action plan for findings for major programs was not submitted and/or did not include the minimum components required by 2 CFR 200.511 (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 2 CFR 200.512 was not filed with the Federal Audit Clearinghouse.
- The wrong Federal employer identification number (FEIN) was used when filing the SF-SAC with the Federal Audit Clearinghouse.
- Information in the Single Audit reporting package required by 2 CFR 200.512 did not agree with the information in the SF-SAC submitted to the Federal Audit Clearinghouse.
- The Summary Schedule of Prior Audit Findings required 2 CFR 200.511 was not submitted when there were findings in prior year(s).