



Please share this Accounting and Auditing Alert with superintendents, business managers, program office personnel, and food service personnel. Please also share the compliance supplements of the Michigan School Auditing Manual with program office personnel and food service personnel.

DUE DATE

The financial, pupil membership and single audits are due to the ISDs by October 30, 2009, and to the Department by **November 15, 2009**. State school aid cannot be released to districts with delinquent audits.

SELECTED CHANGES IN THE MICHIGAN SCHOOL AUDITING MANUAL

Changes/additions are **shaded** in the manual. The following supplements had the most changes:

- Medicaid
- Career and Technical Education (CTE)
- Universal Service Fund (E-Rate) – see State Requirements Section
- Grants Section

It should be noted that the compliance supplements provided in the manual are not all inclusive; the OMB Compliance Supplement (revised annually) should be consulted for full program requirements. Watch for changes in the Federal A-133 Compliance Supplements, because they are usually issued after the Michigan School Auditing Manual.

MANDATORY ELECTRONIC FILING OF SCHOOL DISTRICT AUDITS

The Office of Audits received 576 (2008) audits electronically. Electronic submission is **mandatory for all school districts and public school academies for the June 30, 2009 audits. In addition, all Single Audits are required to be submitted electronically to the Federal Audit Clearinghouse beginning January 1, 2008. MDE will accept audits in the Department of Treasury format. MDE is continuing to work with the Department of Treasury to combine our processes but the details have not been completed as yet. Until further notice, it is still necessary to submit the audits separately to MDE and Treasury.**

The key is to send one e-mail per district, make sure that the attachments are in PDF format, **not password protected**, are **named properly** (61080FS, for example), and are complete, final, signed versions. **The Data Collection Form (Form SF-SAC) included with your audit package to MDE must be the "Archived" version, no "Draft" versions will be accepted.** The e-mail system will return a standard system-generated reply when the audits are submitted electronically to the MDE-FinAudit@michigan.gov address and the **subject line** reads: **"audited financial statements."** The reply will confirm that you have sent a message to the correct address. You can find submission guidance at: http://www.michigan.gov/mde/0,1607,7-140-6530_9091-95424--,00.html .

To view audits submitted electronically in prior years, go to:

<http://web1mdcs.state.mi.us/nxt/gateway.dll?f=templates&fn=default.htm&vid=mofa:fa>

EIGHT MOST COMMON MANAGEMENT LETTER ISSUES IN 2008

If any of these are significant deficiencies, they should be included in the Yellow Book – SAS 112 letter on internal controls.

1. Uninsured Bank Deposits
2. Segregation of Duties
3. Payroll Documentation
4. Cash Receipts Procedures
5. PA 621
6. Computer System Password/Security
7. Adjusting Entries
8. Bank Reconciliations

AUDITS REPORTING FEDERAL REVENUE OVER \$500,000 WITH NO SINGLE AUDIT

If the financial statements report over \$500,000 in federal revenue, but a single audit is not required because the district did not spend \$500,000 of federal funds, please submit a reconciliation with a letter of explanation to the Department.

MEDICAID OUTREACH UPDATE

This issue has been resolved at the federal level. The state appealed to the HHS Departmental Appeals Board. In decision number 2225 dated January 30, 2009, the appeals Board ruled in favor of the Centers for Medicare and Medicaid Services (CMS). CMS issued a negative grant award and took back \$89 million plus interest on February 10, 2009. The state will not appeal further. Each district knows its share of the disallowed revenue. As of this publication date, we do not know if or how the state will recapture the disallowed funds. We will send a listserv announcement when a decision is made.

SCHOOL-WIDE REQUIREMENTS

The Office of School Improvement reports that about half of the school-wide buildings visited by the Department do not have school-wide plans. The requirements for a building to become school-wide are found in the Michigan School Auditing Manual. They are:

- The building must have a 40% or greater poverty level.
- The building may apply for a school-wide planning grant through MDE.
- The building must complete one year of planning.
- If the building decides to convert to school-wide, the program should impact all students.
- School-wide should be a more comprehensive program.

The auditing manual requires auditors to determine if the LEA has school-wide programs and whether **each** building has met the eligibility requirements in the first year of implementation of the school-wide project. Auditors should determine whether the school-wide plan contains all required documentation. Refer to Section 1114 of Title I, Part A of P.L. 107-110. See the School-wide School Planning Document in the manual. Each building must meet all of the requirements. Having a 40% or greater poverty level does not automatically classify a building or district as school-wide.

TIMEKEEPING FOR SCHOOLWIDE PROGRAMS

The USDE has recently changed its position on schoolwide programs. School-wide activities can be considered a single cost objective for timekeeping purposes. We apologize for the inconvenience of these back to back changes.

USDA ENTITLEMENT & BONUS COMMODITIES

- The CFDA number for commodities is directly linked to the program under which the USDA makes the commodities available and should be identified with those programs. The categorical programs affected by this policy and their CFDA numbers are: the National School Lunch Program (CFDA 10.555), the Child and Adult Care Food Program (10.558), the Summer Food Service Program (CFDA 10.559), the Commodity Supplemental Food Program (CFDA 10.565), and the Food Distribution Program on Indian Reservations (CFDA 10.567). For audits of auditee fiscal years beginning on or after May 1, 2008, state and local agencies and their auditors must identify commodity assistance by the CFDA numbers of the categorical programs under which USDA donated the commodities. (i.e., an auditee that operated the National School Lunch Program would enter CFDA 10.555 and "Cash" on one line and "Commodities" on the following line. Both must be identified as major whenever the cluster is audited as a whole program.)
- The amounts on the Planned Assistance Level (PAL) Report are market values and need to be reported as revenues on the Schedule of Expenditures of Federal Awards (SEFA), Financial Information Database (FID), and financial statements (not as revenue on the School Meals Program Year End Report).
- The actual cost (processing and delivery costs found on warehouse invoices), **NOT** the market value, (found on the PAL Report) should be used for the School Meals Program Year End Report. For the School Meals Program Year End Report, the commodity and commercial food cost **must** be calculated as follows:
Food Cost = **Cost** of Beginning Inventory + **Cost** of Purchases – **Cost** of Ending Inventory.
- When the market value is used on the School Meals Program Year End Report, it creates an excess fund balance that does not really exist and it falsely increases the per meal costs. The costs associated with lunch are used to calculate 31(d) payments.
- The market value of commodities reported on the SEFA, FID, and financial statements will **NOT** agree with the commodity processing and delivery costs reported on the School Meals Program Year End Report.
- To remain consistent, the market value amounts (from the PAL Report) reported on the SEFA and the financial statements must agree with the market value amounts reported in the FID (recorded as revenue in major class codes 481-482.)
- MDE recommends that, for purposes of the SEFA, FID, and financial statements, an ending commodity inventory is not necessary because the market value on the PAL may be reported as receipts and expenditures.
- If the district chooses to take an inventory (instead of the above method), the market value of the food **MUST** be included on the SEFA, FID, and financial statements.

FOOD SERVICE FUND TRANSFERS (this is still an issue.)

Due to USDA restrictions on the use of food service revenues, the Department reviews transfers from the food service fund to other funds. It is acceptable to transfer funds from the food service fund to the general fund to reimburse indirect costs or other approved costs of the general fund. **Reimbursement of indirect costs must be for the current year**

only. No recapture of prior year costs is allowed. Example: A school district has maximum allowable indirect costs of \$12,000 (based on the approved indirect cost rate); however, the school district transferred \$15,000 from the Food Service Fund to the General Fund. The school district has exceeded the maximum allowable indirect cost that it can charge the food service program, and must return \$3,000 to the Food Service Fund.

FOOD SERVICE: RESPONSIBILITIES OF LEAs AND FOOD SERVICE MANAGEMENT COMPANIES

Food Service Administrative Policy No. 3 – School Year 2008/2009, issued August 20, 2008, defines the responsibilities of the local educational agencies (LEAs) and food service management companies (FSMCs). The new guidance allows the LEAs to delegate certain responsibilities to the FSMC including: 1) implementing an accurate point of service meal/milk count using the meal counting system submitted by the SFA in its application to participate in the Child Nutrition Programs and approved by the MDE; 2) developing, distributing, and collecting the Letter to Parents and the Family Application for Free and Reduced Price Meals and/or the Family Application for free milk; 3) annually accessing the Direct Certification Report available from CEPI for the purpose of determining students eligible for free meals; 4) certifying the eligibility for free and reduced price meals and free milk; 5) verifying eligibility for free and reduced price meals.

NOTE: These are responsibilities that MAY be delegated by the LEA. They are not automatic responsibilities for the FSMC.

GRANT AUDITOR REPORTS

The Grant Section Auditors Report (R-7120) from the old Grants Cash Management Reporting System (GCMRS) will continue to be available on MDE's website at www.michigan.gov/mdeaudit . Click on Grants Section Auditors Report (R-7120). With the implementation of the Department's new Cash Management System (CMS), the districts will need to confirm federal grant funds with a second Grant Auditor Report (from the new CMS; also will be available at www.michigan.gov/mdeaudit). All grants have been moved to the new Cash Management System with the exception of the Child Nutrition Cluster. **There is no confirmed date for the transition of the Child Nutrition Cluster to the CMS.** If an award is listed with a Catalog of Federal Domestic Assistance (CFDA) number beginning with 99, the grant is state funded and should not be reported as federal revenue and should not be included on the district's SEFA. Please note that the reports do not include payments from direct federal sources or other non-MDE sources. More information on the Grant Auditor Reports will be forwarded through the school auditors' listserv.

FRAUD, ILLEGAL ACTS, CONTRACT VIOLATIONS, GRANT VIOLATIONS, ABUSE

Chapter 5, Section 5.18 of the Yellow Book require auditors to report known or likely fraud, illegal acts, and violations of provisions of contracts or grant agreements or abuse directly to parties outside the audited entity in the following two circumstances:

- a. When entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditor's communication with those charged with governance, then the auditors should report the information directly to the specified external parties.

- b. When entity management fails to take timely and appropriate steps to respond to known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that (1) is likely to have a material effect on the financial statements and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditor's communication with those charged with governance, then the auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency.

This issue is addressed in the Michigan School Auditing Manual, Section A, item II.B.3. Written reports should include a description of the incidents, names, dates, amounts and fund sources.

The Department has been cited by the USDE Office of Inspector General for failure to obtain an investigation report from a district. The OIG recommended that the Department improve its monitoring of local districts in this area. It is important that auditors report violations if districts fail to do so.

CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS

It is important that districts document material related party transactions (RPT) in the footnotes to the financial statements. According to FAS-57, footnotes should include enough details to adequately describe the situation. Examples are: management agreements; borrowing and lending; and sale or lease of real estate, buildings, and equipment. The interpretation of SAS-45 states that the auditor should apply sufficient audit procedures to provide reasonable assurance that related party transactions are adequately disclosed in the financial statements and are not materially misstated. The Department has discovered many RPTs at public school academies and asks that due care be given in those audits. Conflicts of interest and RPTs should be reported unless they are clearly insignificant.

UNIFORM BUDGETING AND ACCOUNTING ACT

The Uniform Budgeting and Accounting Act establishes budget and accounting requirements for local governments and school districts, including public school academies. MCL 141.437 (Section 17) addresses revenue. It requires that district staff go to the board with recommendations if it is probable that revenue will be less than the budgeted revenue. MCL 141.438 & 9 (Sections 18 and 19) address expenditures and forbids district staff from expending funds that are not authorized in the district's approved budget. MCL 141.440 (Section 20) requires the Department of Education to notify the Attorney General of violations of Sections 17 to 19 that are disclosed in audits of districts that have an "absence of reasonable procedures in use by the local unit to detect such violations." The Department sent letters to board presidents and superintendents notifying them of violations of the Uniform Budgeting and Accounting Act and requested their procedures to prevent and detect such violations. Any district that has reasonable procedures will not be forwarded to the Attorney General. Material violations of the Uniform Budgeting and Accounting Act should be written up as financial statement findings in the audit report.

INCREASED FEDERAL REVIEW

There is increased nationwide attention from the USDE regarding administrative/internal controls. Administrative/internal controls are a condition for receiving federal funds. Administrative/internal controls include, but are not limited to:

- Budget systems
- Cash management controls
- Indirect costs
- Payroll controls
- Procurement procedures
- Property management/inventory procedures
- Time distribution
- Segregation of duties
- Audit resolution
- Subrecipient monitoring

There is increased federal review of supplanting. Supplanting is covered in Section G(2.2) of the Cross-Cutting Section of the Compliance Supplement of OMB Circular A-133. For additional guidance see the Oklahoma Letter found at MDE's website:
http://www.michigan.gov/documents/mde/Oklahoma_Supplanting_Letter_233327_7.pdf

Another area of increased federal review is related to the priority ranking of Title I schools. In some instances, federal auditors found that allocating carryover funds violated priority ranking of Title I schools. Districts need to take care to track carryover in high poverty buildings.

E-RATE

The Federal Communications Commission (FCC) is emphasizing audits of the E-Rate program. Though the amounts are small, the federal government is auditing these programs. The Michigan School Auditing Manual includes information on E-Rate requirements in the State Requirements section.

LOW RISK AUDITEE DESIGNATION

Last year many districts received audit findings related to SAS 112 stating that district personnel did not have the expertise or knowledge to prepare financial statements according to GAAP. This was the correct way for the auditors to report this issue, rather than as a management letter issue or disregarding it. Unfortunately, if it was reported as a material weakness, the district is not able to be a low-risk auditee this year unless it applies for a waiver.

OMB Circular A-133 does permit waivers for the purposes of low-risk status (§__.530). Districts need to request waivers from either their cognizant agency or oversight agency for audit. Only districts expending more than \$25 million in federal funds each year have a cognizant agency (§__.400). The other districts have an "oversight agency" for audit (§__.105). The oversight agency for audit is the federal awarding agency that provides the predominant amount of direct funding to a recipient not assigned a cognizant agency for audit. The USDE would be the oversight agency for audit for most, if not all, of the districts.

This waiver process requires concurrence by the Michigan Department of Education (MDE). The Department has signed a generic concurrence letter for all districts to use. The concurrence letter can be found at the MDE website and in the Michigan School Auditing Manual.

Note: If you need a waiver, it should be requested as soon as you know that it is needed.

STATEMENT ON AUDITING STANDARDS (SAS) 103

The American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued this SAS, which supersedes SAS 96. This establishes standards and provides guidance on audit documentation and revises the dating of auditor's report. Under the old standards, the auditor's report was dated the last day of fieldwork. The new standard defines the date as the date adequate audit evidence is obtained (this is interpreted as including the client's approval of the draft financial statements.) This will have an impact on the auditor's subsequent events work (June 30 through the date of the auditor's report.)

STATEMENTS ON AUDITING STANDARDS (SAS) 114

This supersedes SAS 60. The effective date is for audits of financial statements for periods ending on or after December 31, 2006. This standard enhances auditor's communication concerning "significant deficiencies" (this eliminates the term "reportable condition") and material weaknesses. One situation that could indicate a significant deficiency and possibly a material weakness is if a school district business administration is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles.

Under SAS No. 112, a **significant deficiency** is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is *more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential* will not be prevented or detected. Some areas that would ordinarily lend themselves to this definition of at least significant deficiencies in internal control are:

- Controls over the selection and application of accounting principles that are in conformity with generally accepted accounting principles. Having sufficient expertise in selecting and applying accounting principles is an aspect of such controls.
- Antifraud programs and controls
- Controls over nonroutine and nonsystematic transactions
- Controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

All significant deficiencies and material weaknesses at the financial statement level should be included in the audit report.

STATEMENTS ON AUDITING STANDARDS (SAS) 115

This statement supersedes SAS 112. The effective date is for all audits of financial statements for periods ending on or after December 15, 2009. Early adoption is permitted, though not recommended. It was issued to align the definitions and related guidance for

evaluating deficiencies in internal control with the definitions and guidance in SSAE No. 15. SAS 115 revises the terms material weakness and significant deficiency and revises the list of deficiencies in internal controls that are indicators of material weaknesses, however, it no longer includes a list of deficiencies that ordinarily would be considered at least significant deficiencies.

STATEMENT ON AUDITING STANDARDS (SAS) 114

This supersedes SAS 61. The effective date is for audits of financial statements for periods ending on or after December 31, 2007. This standard enhances auditor's communication to "those charged with governance" concerning the audit process and the results of the audit. For most school districts this will increase communication with the Board of Education, or other committees if governance responsibilities have been delegated. **Communication is required during the planning stages of the audit and at the conclusion of the audit.** Many school districts did not receive a SAS 61 letter in the past; therefore, the SAS 114 communication may be new for the district.

OTHER

Consistency – Please be sure that balances are consistent in financial data submitted to the state (i.e., audit figures should match FID figures; special education reposting should also match FID figures). The financial data on the Schedule of Expenditures of Federal Awards (SEFA) should agree with the financial statements and should balance.

The Michigan School Auditing Manual is available at: www.michigan.gov/mdeaudit . Questions about single audits or the Michigan School Auditing Manual can be directed to [Gloria Suggitt](mailto:suggittg@michigan.gov) at (517) 373-4591, or e-mail: suggittg@michigan.gov .

2008-2009 COMPREHENSIVE ANNUAL FINANCIAL REPORT (FORMERLY FORM B)

Due Date:

The 2008-09 comprehensive annual financial data will be collected electronically via the Financial Information Database (FID) and is due November 15, 2009. Sections 18(3) and 18(8) of the State School Aid Act set the legal mandate for this reporting and require MDE to withhold state school aid payments for non-compliance.

The FID continues to be the **only** submission option for fiscal year 2008-09 financial data. The Center for Educational Performance and Information (CEPI) is the entity responsible for collecting the data from districts. MDE will maintain responsibility for monitoring proper accounting and reporting by the districts. Instructions are available from CEPI. The website address is www.michigan.gov/CEPI ; choose MEIS Data Services, then FID.

Reminders:

Fund Modifications – When a district moves funds from one governmental fund to another, the FID should show two records. The fund receiving the money would show a revenue major class code record beginning with "6" followed by the fund number of the fund disbursing the money. The fund disbursing the money would show an expenditure function record beginning with "6" followed by the fund number of the fund receiving the money. For example: The General Fund subsidizes the Athletic Fund. The General Fund would show an expenditure record 11-621-8110-\$50,000 and the Athletic Fund would show a revenue record 21-611-

0000--\$50,000. The FID has an edit check built in to assure that district wide fund modifications out equals fund modifications in. Fund modifications within a fund should not be uploaded to the FID. For example, those records that distribute indirect costs to particular state codes within the same fund would result in a net effect to fund balance of "zero."

Budget Posting to the District's Website – Language in Section 18(2) of the State School Aid Act now requires local districts, intermediate districts and public school academies to post their annual operating budget and subsequent amendments on their website. Any amendments to the FY 2009 budget approved by the board will require posting to the website. The budget postings should include the General Appropriation Resolutions or budgets with notation indicating when they were adopted by the local school board. This should be done for all funds for which the board adopts a budget. The Michigan Public School Accounting Manual, Section IV contains further details.

Supplemental Schedule – Districts that purchase services in an amount equal to or greater than 50% of their general fund current operating expenditures as reported on the 2008-2009 FID must complete a Supplemental Schedule of Purchased Services. The schedule will collect expenditure detail for services that are purchased from educational service providers.

Deficit Fund Balance - A district reporting a general fund deficit (negative fund balance before reserves) must notify the Michigan Department of Education as soon as the deficit is confirmed and should not wait until the FID report is filed. Section 102 of the State School Aid Act discusses deficit districts. It is presumed that the confirmation date would be the date that the auditor has used in dating its audit report. The notification should be in written form and mailed to: Glenda Rader, State Aid and School Finance, PO Box 30008, Lansing, MI 48909.

State School Aid Revenue Recognition - State school aid unrestricted revenue reported on the 2008-2009 financial data submission should be consistent with amounts shown on the district's August State School Aid Status Report. Minor differences may occur as the result of accounts payable or receivable issues the district has established. Care should be taken to record the revenues in the appropriate funds and categories as discussed in the *Michigan Public School Accounting Manual Appendix*. Account numbers for State Aid may be found on our website at http://www.michigan.gov/mde/0,1607,7-140-6530_6605-21356--,00.html .

Transfer of Funds Between School Districts – There are three separate major class codes used to record pass-through funds received from another Michigan public school district. Local pass-through funds (Act 18, tuition, transportation, etc.) should be reported in revenues, major class codes 511-519. State pass-through revenues (state aid categoricals, etc.) should be reported in major class codes 317-318. Federal pass-through revenues (IDEA, Title I, etc.) should be reported in major class codes 417-418.

Expenditures Made to Other Public Schools – Districts must record expenditures made to other public schools in the function code purchased. For example, business services should be recorded in function 252 and object 8290. Tuition paid to another public school will be recorded in function "1xx" and object 8210.

Medicaid Funds – The medical services or "fee-for-service" component of the Medicaid School Based Services program is not subject to the Single Audit Act of 1996. The "fee-for-service" component should be recorded as local source revenue by the district; the appropriate major class code is "181" or "519" if received through another public school. **The**

Transportation component is now part of the Medicaid "fee-for-service" component. The Medicaid Administrative Outreach component is subject to the Single Audit Act and should be recorded as federal revenues by the district; the appropriate major class code is either "412" or "418" depending on how the funds are received by the district. (See the Medicaid compliance supplement in the *Michigan School Auditing Manual* for further information.)

Average Teacher Salary - Average teacher salary will be calculated by dividing the total dollar amount from functions 111-113 and object 1240 reported in the FID by the full-time equivalency reported in those same functions from the December 2008 REP. Please coordinate the reporting to assure reasonable average teacher salary computations.

Special Education Expenditures – FID expenditures for Special Education instruction (function 122) should be equal to or greater than the amounts reported on the SE4096, Allowable Special Education Cost Report. The comparison is done by object code category.

Debt Retirement Funds - The Uniform Budgeting and Accounting Act (MCL 141.422a) no longer requires districts to adopt a budget for debt retirement funds.

USF – Universal Service Funds – For non-material amounts, the districts should record the amounts as discounts. The district will only be billed for its share of service costs. The discount is separately billed to the USF. For material amounts, the districts should consider reporting the discount as revenue (major class code 192). These are not considered federal revenues. Amounts received in the current year for expenditures incurred in a prior year should be reported as local revenue (major class code 192).

Deferred Revenue – Any restricted federal/state grant funds received (i.e., At Risk, Adult Education, Title I, Title V...) remaining unspent at year-end should be recorded in the financial statements as deferred revenue (major class 471) rather than as a reserve of fund balance (major class 71x). This does not apply to funds that are awarded without restriction as to use. The logic is that restricted funds aren't earned until they are used for the restricted grant purpose. If the funds aren't used for the grant purpose in a subsequent year, they are due back to the grantor.

Pollution Remediation – Governments have faced many types of pollution clean-up issues, including underground storage tanks, asbestos removal, black mold, and contaminated land. Recently the Governmental Accounting Standards Board (GASB) has issued a pronouncement entitled, *Accounting and Financial Reporting for Pollution Remediation Obligations which is effective for the school district's June 30, 2008 financial statements*.

Copies of the Michigan Public School Accounting Manual may be found on the Michigan Department of Education's website at: www.michigan.gov/mde under Keywords, Michigan Public School Accounting Manual. Questions regarding accounting issues may be addressed to Glenda Rader. Email: raderg@michigan.gov or phone: 517-335-0524.