



## Accounting & Auditing Alert

FY 2014-2015

Please share this Accounting and Auditing Alert with superintendents, business managers, program office personnel, and food service personnel. Unless otherwise noted, all information applies to the school's fiscal year 2014-2015.

The Michigan School Auditing Manual has been updated for the 2014-2015 fiscal year. It should be noted that the compliance supplements provided in the manual are not all inclusive. Consult the OMB Compliance Supplement (revised annually) for additional program requirements.

*The Michigan Public School Accounting Manual* is available at: [www.michigan.gov/mde](http://www.michigan.gov/mde) under Keywords, Michigan Public School Accounting Manual. Questions regarding accounting issues may be addressed to Phil Boone at (517) 335-4059, or e-mail: [boonep2@michigan.gov](mailto:boonep2@michigan.gov)

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

### **MANDATORY ELECTRONIC FILING OF SCHOOL DISTRICT AUDITS**

- 1 MDE continues to require electronic filing of school district audits in the Department of Treasury format. This format requires one document containing the financial statements, single audit (if required), corrective action plan (if not included in the single audit), and management letters.
- 2 The document must be less than 4MB in size and submitted to MDE without any type of security/password protection. MDE and the Michigan Department of Technology, Management and Budget have worked with the software vendor and developed a process that will automatically add security to each audit as it is saved to the system. The documents will be searchable, but locked.
- 3 The Federal Audit Clearinghouse uses Microsoft Excel as the application for Data Collection Forms. Please convert the entire document to pdf before submitting to MDE. MDE will not require the district to submit the Data Collection Form with the audit package submission. The district or the district's auditor should notify MDE the audit has been certified at the Federal Audit Clearinghouse and the MDE auditor will retrieve the Data Collection Form from the FAC website.
- 4 All school district audits are required to be submitted by November 1, 2015 to [MDE-FinAudit@michigan.gov](mailto:MDE-FinAudit@michigan.gov)
- 5 The Michigan Department of Community Health (DCH) has joined with MDE and Treasury in the electronic audit submission. Districts need no longer submit a separate copy of the audited financial statements to DCH. Districts will submit one copy to the [MDE-FinAudit@michigan.gov](mailto:MDE-FinAudit@michigan.gov) address to meet the audit requirement for all three departments.

For guidance on electronic filing of audits, please see:

[http://www.michigan.gov/mde/0,4615,7-140-6530\\_9091-95424--,00.html](http://www.michigan.gov/mde/0,4615,7-140-6530_9091-95424--,00.html)

To view audits submitted electronically, please see:

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

## **COMPLIANCE AND YELLOW BOOK UPDATES**

- The 2014 Compliance Supplement may be found at:  
[http://www.whitehouse.gov/omb/circulars/a133\\_compliance\\_supplement\\_2014](http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2014)
- The Yellow Book was last revised in 2011. The 2011 Yellow Book may be found at:  
<http://www.gao.gov/yellowbook>. The December 2011 Revision is the final version of the 2011 Government Auditing Standards. It supersedes the 2011 Internet Version and contains limited changes made since the Internet Version was posted.

## **THE NEW UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS**

The new Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards became effective for new federal awards and/or new funding increments made on or after December 26, 2014. However, standards set forth related to the audit requirements are effective for audits of fiscal years beginning on or after January 1, 2015. For public schools, this means the new requirements are effective for audits of the July 1, 2015 through June 30, 2016 fiscal year, and will be incorporated into the School Auditing Manual for fiscal year 2015-2016. Federal guidance can be found in Title 2, Subtitle A, Chapter II, Part 200 of the Code of Federal Regulations.

## **CPA PEER REVIEW**

Audit organizations conducting governmental audits are required by Government Auditing Standards to have an independent external quality review or peer review once every three years. Firms that do not have proof of a peer review posted on the AICPA site must submit their peer review to MDE. MDE will not accept audits performed by CPAs whose peer review has not been posted to the AICPA site or have not submitted proof of their peer review to MDE. MDE will notify the school district if the auditor does not meet the above requirement.

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

If the audited financial statements report federal funds received in excess of \$500,000 but the district did not expend \$500,000 or more in federal funds and therefore does not need an A-133 audit, a note should be included in the Notes to the Financial Statements to explain the reason for exclusion of the A-133 audit.

## **AUDIT FINDINGS REFERENCE NUMBERS**

Each audit finding in the Schedule of Findings and Questioned Costs shall include a reference number to allow for easy referencing of the audit findings during follow-up. The new format for the reference number is the year - and three digit number (2015-00x).

## **CORRECTIVE ACTION PLANS**

OMB Circular A-133 requires the auditee to prepare a corrective action plan for each finding in the audit report. The corrective action plan must provide:

- The planned corrective action
- The name of the contact person responsible for the corrective action
- The anticipated completion date

The "view of responsible officials" included with most audit findings does not meet the definition of a corrective action plan unless it includes all of the above requirements. The corrective action plan may be incorporated into the audit report or it can be a separate document.

## **UNIFORM BUDGETING AND ACCOUNTING ACT (UB&AA)**

The UB&AA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UB&AA, including but not limited to general fund deficits, should be reported as financial statement findings in the audit report.

Section 17 of the UB&AA (MCL 141.437) states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the chief administrative officer or fiscal officer shall present recommendations to the legislative body which, if adopted, would prevent expenditures from exceeding available revenues for the fiscal year.

Sections 18 and 19 (MCL 141.438 and 141.439) state that an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. Additionally, the chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money for purposes inconsistent with those specified in the appropriations.

Section 20 (MCL 141.440) requires MDE to notify the Attorney General of violations of Sections 17 to 19 that are disclosed in audits of school districts that have an "absence of reasonable procedures in use by the local unit to detect such violations."

Noncompliance includes, but is not limited to, over-expending the budget authorized by the legislative body. MDE is analyzing the general fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level.

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

The Summary Schedule of Prior Audit Findings (SSPAF) is a requirement by OMB Circular A-133 for federal program findings. It is the school district's responsibility to provide this schedule and MDE's responsibility to follow-up on all findings.

## **FINANCIAL INFORMATION DATABASE (FID)**

The comprehensive annual financial data will be collected electronically via the FID. The audit and the FID are due by November 1. 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 2014-15 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](http://www.michigan.gov/CEPI); choose MEIS Data Services, then FID.

District administrators should review the district accounting system to ensure that it contains all the required account code dimensions. Districts must include the revenue suffix codes and expenditure grant codes on the uploaded FID files. These dimensions are essential to ensure that MDE has information necessary to report to the National Public Education Finance Survey. The federal reporting is used to allocate various federal funds to the states.

### **FINANCIAL DATA CONSISTENCY**

Please be sure that balances are consistent in financial data submitted to the state. Audit figures should match FID figures; special education reposting should also match FID figures. The financial data on the SEFA should balance and should agree with the financial statements. Beginning accrued/deferred revenue balances should match the ending accrued/unearned revenue balances from the prior year.

### **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 GASB 62 and AU §334 and §9334, 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 GASB 62 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.

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

Chapter 5, Section 5.20 of the Yellow Book requires 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.

### **WRITTEN PROCEDURES**

As a precondition to receive federal funds, prospective recipients must have effective administrative and financial internal controls. As described in 34 CFR Part 80, 2 CFR Part 225 and OMB Circular A-133 Compliance Supplement Part 6, school districts must have written procedures for the following:

- Financial management systems
- Payments

- Allowable costs
- Period of availability
- Matching or cost sharing (if applicable)
- Program income (if applicable)
- Procurement
- Equipment and real property (if applicable)
- Supplies
- Copyrights (if applicable)
- Sub-awards to debarred and suspended parties
- Monitoring and reporting program performance (if applicable)
- Financial reporting
- Retention and access requirements for records

In addition, districts should also have written procedures for:

- Cash management
- Conflict of interest
- Payroll
- Federal timekeeping

Written procedures should include provisions for training, and the consequences for compliance failures. Policies do not take the place of procedures. Districts should not continue to expect federal funds if they are unwilling or unable to develop written procedures. Auditors should report the lack of applicable written procedures.

### **UNEARNED REVENUE**

When a school district has drawn federal funds, but not expended them, the district has unearned revenue. Unearned revenue may be a violation of the Federal Cash Management Improvement Act (CMIA) and should be reported as a finding in the single audit, including questioned costs if interest is over \$10,000.

### **GRANT AUDITOR REPORTS**

The web link to the Grant Auditor Report is available at the MDE – Office of Financial Management website or <https://mdoe.state.mi.us/cms/grantauditorreport.aspx>.

### **BUDGET DETAIL FOR CONSOLIDATED APPLICATION PROGRAMS**

The Michigan School Auditing Manual requires that auditors determine that expenditures are consistent with the approved grant application. Auditors may find it helpful to access the consolidated application in the MEGS system rather than requesting a paper copy from the district. Districts can give auditors read-only access to the consolidated application. The budget summary and detail are available. In the tabbed system, the school level budgets are listed as links at the bottom of the budget summary page for easy access. If requesting a paper copy, make sure the copy has the school level budget detail for each Title I school in addition to the district details.

### **OBLIGATION DATE FOR CONSOLIDATED APPLICATION PROGRAMS**

The Michigan School Auditing Manual requires that auditors be aware of the obligation date requirements outlined in the Title I Cluster section of the manual, IV. District Considerations.

### **FOOD SERVICE INDIRECT COSTS**

All direct costs, excluding the cost of food for food services and items for resale (straw, napkin, Styrofoam container), are subject to the approved unrestricted indirect cost rate. The Office of State Aid calculates the indirect cost rate based on the prior two years.

The indirect cost rate is multiplied by the following expenditures:

- Total salaries
- Benefits
- Transportation
- Supplies and other materials
- Contracted services (limited to the first \$25,000 of the contract. Costs in excess of the \$25,000 are to be excluded)

Excluded Costs include:

- Equipment purchases and other capital expenditures
- Payments to contractors beyond the first \$25,000
- Food costs & items for resale in the school food service
- Renovations and alterations
- Certain unallowable costs (e.g., fines, penalties, bad debts)

### **GASB ACCOUNTING STATEMENTS NUMBER 67 and 68**

GASB statements 67 and 68 were developed to improve financial reporting by state and local governmental pension plans. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

Effective for years beginning after June 15, 2014, GASB 68 requires all reporting units in a multi-employer cost sharing pension plan to record a balance sheet liability for their proportionate share of the net pension liability of the plan.

To calculate:

Total pension liability - Market value of plan assets = Net pension liability of the plan  
GASB 68 also requires that pension expense be reported using a new method. The Office of Retirement Services (ORS) will determine each reporting unit's proportionate share of the liability and expense by measuring a proportionate share of the prior year's liability.

To assist your reporting unit in transitioning to the new reporting standards, the Michigan Department of Education (MDE) will provide you with the accounting information needed to accurately record both the pension liability and related expenses on your books, in a format that your auditor can use.

For calculations provided by the Office of Retirement Services, see the ORS website:

<http://www.michigan.gov/psru/0,2496,7-284-69905---,00.html>

### **FUND MODIFICATIONS**

When a district moves funds from one governmental fund to another, the FID should show two records. The fund receiving the money should 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 School Meals Fund. The General Fund would show an expenditure record 11-625-8110-\$50,000 and the School Meals Fund would show a revenue record 25-611-0000--\$50,000. The FID has an edit check built in to ensure that district-wide fund modifications out equals fund modifications in. Please refer to the Michigan Public School Accounting Manual

Section II, E.03, *Accounting for the Recovery of Indirect Cost* for guidance on recording fund modifications associated with indirect cost recovery.

### **BUDGET POSTING TO THE DISTRICT'S WEBSITE**

Language in Section 18(2) of the State School Aid Act 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 2015 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.

The State School Aid Act, Section 18(2), requires districts to include a "Budget Transparency Reporting" link on each district's homepage. Guidelines for this reporting may be found in the *Michigan Public School Accounting Manual*, Section II, C.05 at the following URL:

[http://www.michigan.gov/documents/sc-ii\\_13265\\_7.pdf](http://www.michigan.gov/documents/sc-ii_13265_7.pdf). MDE Guidance related to Budget Transparency Reporting Requirements may be found at:  
[http://www.michigan.gov/mde/0,4615,7-140-6530\\_6605-159882--,00.html](http://www.michigan.gov/mde/0,4615,7-140-6530_6605-159882--,00.html).

### **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 2013-14 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. Districts adopting a budget deficit in the current year should notify MDE immediately. The notification should be in written form and mailed to: Phil Boone, State Aid and School Finance, PO Box 30008, Lansing, MI 48909. Additional information related to reporting for deficit fund balances is available on the MDE website at: [http://www.michigan.gov/mde/0,4615,7-140-6530\\_6605-106599--,00.html](http://www.michigan.gov/mde/0,4615,7-140-6530_6605-106599--,00.html).

### **BEST PRACTICE FUNDS (SECTION 22F OF THE STATE SCHOOL AID ACT)**

To be eligible to receive the Best Practice Funds, districts were required to send a board adopted resolution certifying that the district met seven of the eight best practices. The district administration should be able to provide documentation verifying how it met the various best practice requirements. ISDs must certify that the district met four of five best practices to receive the funds.

### **FINANCIAL STATEMENT REPORTING FOR REVENUE REPORTED IN MAJOR CLASS CODES 511-529, 54X, AND 552**

- Major Class code items "511-529, 54x, and 552" are not considered an "Other Financing Source" for financial reporting purposes.
- Local source revenues (511-529) received through another public school should be recorded under **Local** source revenues in the budget and in the financial statements.
- State source revenues (317-318) received through another public school should be recorded under **State** source revenues in the budget and in the financial statements.

- Federal source revenues (417-418) received through another public school should be recorded under **Federal** source revenues in the budget and in the financial statements.
- Extra-ordinary reimbursements (54x) as well as **CERTAIN** Prior Year Tax Collections recorded in major class code "522-Non-material Prior Year" should also be reported as **Local** Source Revenue on the budget and in the financial statements.
- The *Michigan Public School Accounting Manual – Frequently Asked Questions* addresses these issues in more detail this is available on the State Aid and School Finance webpage. See FAQs: R15, R17 and BS3.

**TRANSFER OF GENERAL FUND TO CAPITAL PROJECTS AND DEBT SERVICE**

Section 18 of the State School Aid Act allows for the transfer of not more than 20% of total State Aid to either the Capital Projects fund or the Debt Retirement fund for debt service. The money shall not be applied or taken for a purpose other than as provided in this section. The department has the responsibility of determining reasonableness of expenditures and may withhold funds from a recipient of State Aid for violations by the recipient. The 20% in the legislative language is calculated based on funds received under sections 22A and 22B or in the case of the intermediate district, section 81.

**HEALTH CARE TAX**

The tax should be considered part of the premium cost and allocated using the same method as the premium.

**UNEARNED REVENUE**

Any restricted federal/state grant funds received (e.g., At Risk, Adult Education) remaining unspent at year-end should be recorded in the financial statements as unearned 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.

**ACCOUNTING FOR THE RECOVERY OF INDIRECT COST**

The *Michigan Public School Accounting Manual, Section II, E.03* includes a discussion on accounting for the recovery of indirect costs. It may be found at the following URL: [http://www.michigan.gov/documents/sc-ii\\_13265\\_7.pdf](http://www.michigan.gov/documents/sc-ii_13265_7.pdf). In addition, guidance related to determining the indirect cost rate and how it may be used is available at: [http://www.michigan.gov/mde/0,4615,7-140-6530\\_6605-118785--,00.html](http://www.michigan.gov/mde/0,4615,7-140-6530_6605-118785--,00.html).

**ACCOUNTING FOR STATE SCHOOL AID REVENUES**

The account codes for all revenues received through the State School Aid Act may be found at the following URL: [http://www.michigan.gov/documents/saacct03\\_45776\\_7.pdf](http://www.michigan.gov/documents/saacct03_45776_7.pdf)

**MAINTENANCE OF EFFORT (MOE)**

The Office of State Aid and School Finance calculates the ESEA Maintenance of Effort for all Michigan public schools. The data is available in the MDE website at: [http://www.michigan.gov/mde/0,4615,7-140-6530\\_6605-242519--,00.html](http://www.michigan.gov/mde/0,4615,7-140-6530_6605-242519--,00.html)