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SELECTED CHANGES IN THE MICHIGAN SCHOOL AUDITING MANUAL

The Michigan School Auditing Manual has been updated for the 2013-2014 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 full program requirements.

MANDATORY ELECTRONIC FILING OF SCHOOL DISTRICT AUDITS

MDE will continue to require electronic filing of school district audits and accept 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. For the 2012-2013 school year audits, MDE did not require that the Data Collection Form be submitted due to the changes to the Federal Audit Clearinghouse website. For the 2013-2014 school year audits, the original audit submission process will resume. The new format for the Data Collection Form is Excel. Please convert this to a pdf document before submission to the MDE-FinAudit website.

It is necessary that the documents be submitted to MDE without any type of security/password protection. MDE and the 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. Please make sure that the submitted audits are under 4MB in size.

The Michigan Department of Community Health (DCH) has joined with MDE and Treasury in the electronic audit submission. It is no longer necessary to submit a separate copy of the district's audited financial statements to DCH. Districts will submit one copy to the MDE-FinAudit@michigan.gov address to meet the audit requirement for all three departments.

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, go to:

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

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 letter of explanation, including a reconciliation, to the Department.

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 plan
- The name(s) of the contact person responsible for the corrective action
- An anticipated completion date

The Office of Financial Management – Audits will follow up on findings where a corrective action plan was not provided or was incomplete and did not include the above requirements. 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 can be in a separate document. (See the Michigan School Auditing Manual or the attached example.) The OIG is focusing on this weakness.

COMPLIANCE AND YELLOW BOOK UPDATES

- The 2013 Compliance Supplement may be found at:
http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2013
- 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

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

These written procedures should include provisions for training and 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 down 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.

FINDINGS AND QUESTIONED COSTS

According to OMB Circular A-133, the auditor should report the following in the Schedule of Findings and Questioned Costs:

- Significant deficiencies in internal control over major programs
- Material noncompliance with the provisions of laws, regulations, contracts or grant agreements related to a major program
- Known or likely questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program
- Known questioned costs that are greater than \$10,000 for a federal program that is not audited as a major program
- Why the auditor's report on compliance for major programs is other than an unqualified opinion
- Known fraud affecting a federal award
- Instances when the Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding.

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. If the audit does not include a SSPAF, the Department will request it when the audit is reviewed.

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. It is a 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 making sure the copy has the school level budget detail for each Title I school as well as the district details.

USDA ENTITLEMENT & BONUS USDA FOODS

- The CFDA number for donated foods is directly linked to the program under which the USDA makes the donated foods 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 USDA donated food assistance by the CFDA numbers of the categorical programs under which USDA donated the food. (For example, an auditee that operated the National School

Lunch Program would enter CFDA 10.555 and "Cash" on one line and report "USDA Foods - Entitlement" and "USDA Foods – Bonus" on the following lines.) Both must be identified as major whenever the cluster is audited as a whole program.

- Beginning with the 2012-2013 school year, commodities remaining at the processor are not the property of the ordering school district. Commodities become the property of the district only when they are received at the district. The amounts reported as Entitlement and Bonus Commodities on the PAL Report will be the actual amounts received by the district. These amounts should be reported on the SEFA as received and expended.

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 indirect cost rate is calculated by the Office of State Aid and 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:
 - 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)

GRANT AUDITOR REPORTS

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

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.

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 **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.

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 141.437-141.440. Material violations, of the Uniform Budgeting and Accounting Act, **including, but not limited to, General Fund deficits**, should be written up as financial statement findings in the audit report.

LOW RISK AUDITEE DESIGNATION

Many districts receive 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 receives a waiver.

OMB Circular A-133 does permit waivers for the purposes of low-risk status (§__.530). Districts need to request a waiver 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 and instructions 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.

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 which are not AICPA members and do not have proof of a peer review posted at the AICPA site, will be requested to submit their peer review to MDE. **MDE will not accept any 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 any school district whose auditor does not meet the above requirement.

NEW GASB ACCOUNTING STATEMENTS NUMBER 67 and 68

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.

For the first time, the net pension liability is required to be reported in financial statements. 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:

$$\begin{aligned} & \text{Total pension liability} \\ & \quad - \text{Market value of plan assets} \\ & \quad = \text{Net pension liability of the plan} \end{aligned}$$

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 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 can be used by your auditor. See the tables below:

Fiscal Year 2012 Estimates	Net Pension Liability	Pension Expense
Your Proportionate Share		
System Totals		

MPSERS Plan Fiscal Year	When will liability and expense be recorded in the financial statements?
2012- estimated	The estimated liability and expense are informational only and are not to be recorded in the school’s financial statements.
2013- estimated	The estimated liability and expense are informational only and are not to be recorded in the school’s financial statements.
2014 – actual	School fiscal year 2015
2015 – actual	School fiscal year 2016

This change will not result in new retirement costs for reporting units.

DEPOSIT ACCOUNTS FOR DISTRICT FUNDS

Sections 380.1223 (j) and 380.622(j) of the Revised School Code, for school districts and intermediate school districts, respectively, became effective June 29, 2012 to address the management of deposit accounts for school district funds. It is the interpretation of MDE that the purpose of this section(j) was to allow school districts to invest funds into CD accounts that are part of the CDARS (Certificate of Deposit Account Registry Service) network. All CDARS are to be fully insured, therefore, this section (j), provided for investment in Certificates of Deposits in CDARS. This section does not require all general district deposit accounts to be fully insured by FDIC.

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 SEFA should agree with the financial statements and should balance. Beginning accrued/deferred revenue balances should match the ending accrued/unearned revenue balances from the prior year.

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 at (517) 373-4591, or e-mail: suggittg@michigan.gov .

2013-14 COMPREHENSIVE ANNUAL FINANCIAL REPORT (Financial Information Database – FID)

Due Date:

The 2013-14 comprehensive annual financial data will be collected electronically via the Financial Information Database (FID) and is due November 15, 2014. For the 2014-15 school year, the audit and the FID will be due by November 1, 2015. 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 2013-14 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.

District administrators should review the district accounting system to ensure that it contains all the required account code dimensions. Many districts are neglecting to 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.

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 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 2014 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. **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.

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: Glenda Rader, 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.

State School Aid Revenue Recognition - State school aid unrestricted revenue reported on the 2013-14 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.

Best Practice Funds (Section 22f) – **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.

MPSERS (Section 147a) – Districts were awarded an allocation based on each participating districts percentage of the total fiscal year 9/30/2013 statewide payroll. These funds are to be used solely for the purpose of offsetting a portion of the retirement contributions owed by the district for its fiscal year 2013-14. The district should show expenditures commensurate with its Section 147 allocation under object “2820 – Contribution to State and Local Retirement Funds” and grant code “208x – MPSERS” on the 2013-14 FID.

Guidance for Section 147(c) is available at the MDE – Office of State Aid & School Finance – Publications: http://www.michigan.gov/mde/0,4615,7-140-6530_6605-306127--,00.html These include FAQs, guidance and estimated payments for 2013-2014.

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.

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. For 2014-15 and following, 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.

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. Sub-grantee/Flow through to another Michigan k-12 public school district should be recorded in function “411-Pmt. To Another Public School-Subgrant/flow through distributions only” with object code “8510-Subgrant/Flowthrough disbursements.”

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.)

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.

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).

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 (i.e., 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. 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.

GASB 54 – For FY beginning 2010-11, GASB #54 has redefined fund balance categories. The new categories are included in the January 2010 update to the *Michigan School Accounting Manual* under Section II, E, 05, and the *Appendix – Chart of Accounts, Balance Sheet, Major Class*, pages 13 and 14.

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

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

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.