# Important Audit Information for School Districts Fiscal Year 2022-2023

The State Committee for School District Audits recommends districts evaluate the performance of existing audit firms and gather any concerns from district employees as well as discussing steps the existing audit firm can or is taking to mitigate risk of over-familiarity and threats to independence. If a district utilizes an auditor for five or more consecutive fiscal years, the district shall provide a written explanation justifying why the district continues to use the same auditor. The written explanation shall be provided to KDE through the Audit Acceptance Statement web form, on or before May 31, 2023.

Districts can find a list of auditors licensed to perform audits in the Commonwealth of Kentucky at the website of the [Kentucky State Board of Accountancy](https://cpa.ky.gov/Pages/default.aspx). The Kentucky Department of Education (KDE) has provided a listing of auditors that performed school district audits for the previous fiscal year and the estimated audit costs at the following KDE’s [Financial Audit Contract Information](http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx) webpage.

Some items to consider when choosing a new auditor:

* Prepare a Request for Proposals (RFP) and obtain bids from firms to perform the audit. KDE encourages finance officers to network with one another and share resources. RFP’s for auditors are frequently shared via KYMUG.
* When evaluating bids for auditing services, SCSDA recommends to:
	+ Develop an estimate of the staffing levels and time required to complete the scope of work.
	+ Develop an evaluation for bids relating to audit services which considers independence, firm reputation, efficiency, firm experience, and other qualitative factors, in addition to price.
	+ Consider solicitating bids in accordance with applicable rules and regulations to ensure the district continues to receive the best value, regardless if the local board of education is satisfied with their existing auditor.
* The Qualifications of the Independent Auditor section of the audit contract contains minimum standards for a firm must meet to perform school district audits. The audit contract is available on KDE’s [Financial Audit Contract Information](https://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx) webpage.
* When developing an evaluation for bids, in addition to the items listed in Qualifications of the Independent Auditor, districts may consider:
	+ Experience performing governmental (Yellow Book) audits, 2 CFR 200 audits and school districts audits.
	+ The firm’s memberships in organizations such as American Institute of Certified Public Accountants (AICPA), the Kentucky Society of Public Accountants (KYCPA), the Association of Governmental Accountants (AGA) and other professional organizations.
	+ Professional certifications or credentials of the firm’s staff in governmental accounting or auditing.
	+ The firm’s Uniform Guidance Desk Review Findings – Audit Report Classification results documented on KDE’s [District Financial Audits](https://education.ky.gov/districts/FinRept/Pages/District-Financial-Audits.aspx) webpage.

Below is a listing of helpful KDE websites with pertinent information:

* The Audit Contract is available on the [Financial Audit Contract Information](https://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx) webpage
* The Frequently Asked Audit Questions, FY2021 District Financial Audits, FY2022 District Financial Audits and FY2021 Uniform Guidance Desk Review Findings are available on the [District Financial Audits](https://education.ky.gov/districts/FinRept/Pages/District-Financial-Audits.aspx) webpage.
* An Archive of the Finance Newsletters are available on the [Financial Management Calendar, Financial Management Manual, Insurance Guidelines and Financial Newsletters](https://education.ky.gov/districts/FinRept/Pages/Financial%20Management%20Calendar%2C%20Financial%20Management%20Manual%2C%20Insurance%20Guidelines%2C%20Who%20Does%20What%20in%20DDS%2C%20Finance%20Newsletters.aspx) webpage.
* Current year district payment registers will be available in July 2023 on KDE’s [District Payment Register](https://education.ky.gov/districts/FinRept/Pages/District-Payment-Registers.aspx) webpage.
* Payments made by state agencies on behalf of school districts are available on KDE’s [On Behalf Payments](https://education.ky.gov/districts/FinRept/Pages/On-Behalf-Payments-Information.aspx) webpage.
* GASB 54 Best Practices & FAQ is available on KDE’s [Fund Balances, Revenues and Expenditures, Chart of Accounts and Indirect Cost Rates](https://education.ky.gov/districts/FinRept/Pages/Fund%20Balances%2C%20Revenues%20and%20Expenditures%2C%20Chart%20of%20Accounts%2C%20Indirect%20Cost%20Rates%20and%20Key%20Financial%20Indicators.aspx) webpage.
* MUNIS information and related procedure documents are available on KDE’s MUNIS Support and Guides webpage.

## Year-end audit related items for the district to perform/be mindful of during the audit process:

* On behalf payments for Health Insurance, Health Reimbursement Account (HRA), Life Insurance, Administrative Fee, Teachers’ Retirement System (TRS), Technology, Debt Service and Kentucky Inter-local School Transportation Association (KISTA) energy savings capital leases, must be recorded in the unaudited Annual Financial Report (AFR) due to KDE on or before July 25th **and** the audited AFR due to KDE on or before November 15th. Please refer to KDE’s [On Behalf Payment](https://education.ky.gov/districts/FinRept/Pages/On-Behalf-Payments-Information.aspx) webpage for coding information.
	+ If the TRS amounts are not readily available, districts have two options: The districts can estimate the TRS On Behalf amounts for the Unaudited AFR and if needed, adjustment to get within the 5% materiality requirements when submitting the audited AFR. The second option is to submit the unaudited AFR without recording the On Behalf amount for TRS. When TRS releases the GASB reports, districts can input the TRS On Behalf amounts which should match the final summary spreadsheet posted by KDE.
* Neither the school activity fund nor any individual activity account may end or begin the fiscal year with a deficit balance.
* The General Fund shall cover any negative balances in Governmental Funds. Deficits in Enterprise/Proprietary funds, except for food services, are not to be covered by General Funds, unless they are discontinued, then General Funds shall cover the deficit.
* The audit contract requires the Audited AFR and Audited Balance Sheet submitted by the district agree with the financial statements within the audit report. This necessitates the finance officer possess suitable skills, knowledge and expertise (SKE) to understand, approve and record the proposed adjustments. Additionally, it is the responsibility of the district’s management to work with the audit firm to **compare and confirm the district’s audited AFR, Balance Sheet and audit report agree.** Failure to do so will result in delays during KDE’s review of these documents..
* Payments for bond principal and interest must be recorded in Fund 400 for the fiscal year in accordance with generally accepted accounting principles. Please refer to the “Accounting Guidance for Debt Service on Bonds and Capital Leases” document located on KDE’s [Fund Balances, Revenues and Expenditures, Chart of Accounts and Indirect Cost Rates](https://education.ky.gov/districts/FinRept/Pages/Fund%20Balances%2C%20Revenues%20and%20Expenditures%2C%20Chart%20of%20Accounts%2C%20Indirect%20Cost%20Rates%20and%20Key%20Financial%20Indicators.aspx) webpage. The guide provides detailed instructions for recording bond principal and interest payments in fund 400. Edit checks will be examining MUNIS account segments during AFR submission to ensure that debt service payments have been properly recorded. Neither un-audited nor audited AFRs will be allowed to be submitted if Fund 400 does not have financial activity. If you have any questions relating to payments for bond principal and interest, please send an e-mail to Finance.Reports@education.ky.gov. The subject line should state **Debt Service**, and a KDE representative will ensure that you get a response within 24 hours.
* Unrestricted net asset balances in proprietary funds should be recorded in object code 8712 – Unrestricted Net Assets, **not** 8770 – Unassigned Fund Balance. Likewise, restricted net asset balances in proprietary funds should be recorded in object code 8739 – Restricted Net Assets.

Kentucky Department of Education

Office of Finance and Operations

Division of District Support

District Financial Management Branch

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