

## Superintendent Reminders for Fiscal Year 2017-2018

The State Committee for School District Audits (SCSDA) has approved the blank Fiscal Year 2017-2018 Audit Contract template located at the following Kentucky Department of Education (KDE) web page link: [FY 2017- 2018 Financial Audit Contract: http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx](http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx). Although the majority of the audit contract remains the same, there are some important changes and new information in the contract and supporting documents. The changes to the audit contract and supporting documents are noted in red font within the Fiscal Year 2017-2018 Audit Contract package. In addition, the following items have been highlighted for your convenience, and as reminders:

1. The **Auditor Alert** section included in the contract package, consists of high risk areas that auditors should consider when conducting a school district's annual financial audit.
2. An auditor's contract will not be approved by the SCSDA if the auditor's peer review has a **fail** rating without evidence of appropriate corrective action.
3. The SCSDA recommends an audit firm rotation once every five years as a best practice. After five consecutive fiscal years, if there is no audit firm rotation, 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 28, 2018.
4. The local board of education does not have a valid audit contract with the auditor until the SCSDA approves, and the Chair signs the contract.
5. **One original** FY 2017-2018 Audit Contract **signed** in blue ink, one signed paper copy of the latest peer review report; and if applicable, one signed paper copy of any letter of response and the KyCPA Peer Review Committee letter, are due to KDE on or before **May 28, 2018**. Audit contracts submitted without the required documentation, will not be approved by the Committee. Auditors who have been conducting audits for less than three years and have not yet been peer reviewed, are exempted from the peer review report and related documents requirement.
6. The **Audit Acceptance Statement electronic web form** shall be completed and submitted to KDE by the district's superintendent or finance officer, **on behalf** of the local board of education, through the KDE SharePoint on or before May 28, 2018.
7. The General Fund shall cover any negative balances in Governmental Funds only. Deficits in Enterprise/Proprietary funds are not to be covered by General Funds, with the exception that if Proprietary funds, other than Food Service, are discontinued, then General Funds shall cover any deficit at that point.
8. On-behalf payments should be coded accurately in the MUNIS accounting system so they are properly displayed in the audit report and fully disclosed in the notes to the financial statements. The on-behalf payment amounts need to be included in the initial unaudited Annual Financial Report (AFR) that is due to KDE on or before **July 25, 2018**, in accordance with KRS 157.060 and the final audited AFR that is due to KDE on or before **November 15, 2018**. The following on-behalf payments are required to be recorded in the district's AFRs, audit report, and **fully disclosed in the notes to the financial statements**:
  - Health Insurance
  - Life Insurance
  - Administrative Fee

- Health Reimbursement Account – HRA/Dental/Vision
  - Federal Reimbursements of Health Benefits (reduction)
  - Teacher’s Retirement System (TRS)
  - Technology
  - Kentucky Interlocal School Transportation Association (KISTA) Energy Savings Capital Leases
  - School Facilities Construction Commission (SFCC) Debt Service
- The following KDE web page link may be used by districts to obtain and record on behalf payments amounts on a monthly basis: On-behalf payments - <https://education.ky.gov/districts/FinRept/Pages/On-Behalf-Payments-Information.aspx>
9. It is important for both the school district (superintendent and finance officer) and auditor to communicate and work together to reconcile the Annual Financial Report (AFR), Balance Sheet and Audit Report **prior** to the reports being submitted to KDE. The district, working with its auditor, is strongly encouraged to complete the **optional** Audit Review Templates accessible through the KDE SEEK program, and resolve any discrepancies identified among the AFR, Balance Sheet, and Audit Report.
  10. The school district is responsible for informing their auditors of any property they possess that is located in a flood plain as determined by the FEMA Flood Insurance Rate Map (FIRM) located at FEMA - <https://msc.fema.gov/portal>.
  11. **One** hard copy and **one** electronic copy of the independent Financial Audit reports are due to KDE on or before **November 15, 2018**. If the audit cannot be completed by the deadline, the auditor shall submit an **Audit Extension Request form**, fully completed by both the auditor and the district, to KDE on or before **October 1, 2018**. The form is provided in Appendix I.
  12. The School District shall **certify** all audit adjustments have been entered into MUNIS, and an audited Annual Financial Report and Balance Sheet are in agreement with the audit report that will be submitted to KDE, **by selecting the Statement of Certification (SOC) option** during the electronic submission process of the FY 2017-2018 Audited AFR and Balance Sheet to KDE, on or before **November 15, 2018**. The district finance officer must possess suitable skills, knowledge, and experience (SKE), and understand the recommended audit adjustments provided by the auditor. Discrepancies between the district’s MUNIS data and audit report identified during the KDE Audit Analysis Review, may result in the district and/or auditor having to correct the discrepancies.
  13. The following reminders are included in the contract to assist the auditor:
    - The auditor must comply with all applicable auditing standards generally accepted in the United States of America (U.S. GAAS), *Governmental Auditing Standards* and the provisions of 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
    - If the audit report consists of management letter comments, the auditor shall complete the Management Letter Comments spreadsheet located on the KDE website at Management Letter Comments Spreadsheet - <http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx>. The Management Letter Comments spreadsheet **became an additional requirement beginning with fiscal year 2017**. The completed spreadsheet shall be submitted electronically to the KDE Finance Reports email account with the “District Name Mgmt Letter Comments” in the subject line. The auditor shall copy the school district’s superintendent and finance officer on the email that is sent to the KDE Finance Reports email account.
    - If a written management letter is issued, then it is required to be submitted to the BOARD and referred to in the audit report within the Report on Internal Control over Financial Reporting and

on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and be submitted to KDE. Each management letter shall include management's responses to current year comments and report on the status of previous management letter comments and the progress toward the resolution of concerns identified during the preceding audit. The management letter shall identify the applicable school associated with each reportable condition(s). The comments shall comply with *Government Auditing Standards* and 2 CFR 200 requirements. If there were no management letter comments to report, then the auditor shall submit to KDE an email or letter stating that there were no management letter comments to report.

- Auditors should be aware that GASB Statement No. 77 became effective for financial statements for periods beginning after December 15, 2015. GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose the following information about the agreements:
  - a. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
  - b. The gross dollar amount of taxes abated during the period.
  - c. Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.
- Auditors are required to submit electronic audit reports and associated documents in a format that meets section 508 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794d). Information on complying with Section 508 can be found at [Create Accessible Electronic Documents-https://www.section508.gov/content/build/create-accessible-documents](https://www.section508.gov/content/build/create-accessible-documents) and [Standards and Guidelines of Section 508-https://www.access-board.gov/guidelines-and-standards/communications-and-it/about-the-ict-refresh/final-rule/text-of-the-standards-and-guidelines](https://www.access-board.gov/guidelines-and-standards/communications-and-it/about-the-ict-refresh/final-rule/text-of-the-standards-and-guidelines).
- If the contracted CPA firm changes names or merges with another firm, it is the firm's responsibility to inform the local board of the name change and to inform the SCSDA through KDE.
- Auditors should not submit multiple unsolicited versions of Audit Reports. Auditors shall notify KDE prior to resubmitting.
- Auditors shall be familiar with the district's financial system and the Uniform Chart of Accounts (COA). Auditors shall use this information to provide the districts with the specific fiscal year 2017-2018 MUNIS COA coding/segment when recommending journal entries to districts [Example: org – object – project]. The Uniform COA is located on the KDE website at [Chart of Accounts - Kentucky Department of Education - District/School Support - District Financial Reporting](#).
- KDE has contracted with the Auditor of Public Accounts (APA) to perform detailed 2 CFR 200 Desk Reviews of the school district audit reports. Auditors shall correct technically deficient audit reports and submit the **electronic** revised and signed audit reports within 30 days of being notified by KDE. The auditors shall correct all findings noted, in addition to correcting the technically deficient matters. If the auditor does not issue a corrected audit report, then the auditor may not be allowed to conduct future Kentucky public school district audits. For district audit reports deemed technically deficient as a result of the prior fiscal year Desk Review, the auditor shall compare the prior fiscal year audit report and Desk Review findings to the current fiscal year audit report to verify all findings are addressed and an old version of the audit report has not been used. If the

audit report receives a rating of acceptable or acceptable with deficiencies, the auditor is **not required** to issue a corrected report; however, the auditor is required to use the prior fiscal year Desk Review as a resource in the following year so that findings are not repeated in the current fiscal year audit report. During KDE's initial review of the current fiscal year audit report, KDE reserves the right to require the auditor to submit a corrected audit report if the auditor fails to correct prior fiscal year desk review findings, regardless of the finding classification.

- If an audit report needs to be reissued and resubmitted, for whatever reason, it shall be reissued in accordance with current auditing standards. The **entire audit report** shall be resubmitted to the local board, KDE and all other parties to whom the original audit report was submitted. Individual audit report pages will not be accepted. The auditor shall submit the **electronic** revised and signed audit report to KDE within the timeframe designated by KDE. No hard copy of the revised audit report is required to be submitted to KDE.
- No school activity fund or individual activity account shall end or begin the fiscal year with a deficit balance.
- Auditors should review activity fund transfers to ensure that schools are not transferring money from student generated funds (fees and fundraisers) to support other activity fund accounts. Student generated funds are raised for a specific purpose and should be spent for that purpose.
- Donated Commodities shall be included in the proprietary fund financial statements and it is strongly encouraged that they be stated as a separate line item. Donated Commodities shall be stated separately as part of the nutrition cluster on the Schedule of Expenditures of Federal Awards (SEFA) and fully disclosed in the Notes to the SEFA. Donated Commodities shall also be reported in the audited AFR.
- The Schedule of Prior Year Findings and Questioned Costs shall reflect the status of prior year findings for both the financial statements and the federal awards.
- Costs incurred in the audit of federal grants, the federal school food programs, and school construction accounts may be charged back to those funds. Determine which grants allow audit costs as an administrative expense and in what amount. Districts expending less than \$750,000 in federal funds may not charge audit costs to federal grants but may charge other programs and accounts as appropriate. **If a district charges indirect costs to federal programs and food service, then they cannot also charge auditing services directly to those accounts.**

If you have specific questions regarding the **FY2018 contract**, please contact one of the following **representatives at KDE's District Financial Management Branch**: Nicole Vanover at ((502) 564-3846, ext. 4443, or via email at [Misty.Vanover@education.ky.gov](mailto:Misty.Vanover@education.ky.gov) or Gail Cox at (502) 564-3846, ext. 4462, or via email at [Gail.Cox@education.ky.gov](mailto:Gail.Cox@education.ky.gov) or Jackie Chism at (502) 564-3846, ext. 4445, or via email at [Jackie.Chism@education.ky.gov](mailto:Jackie.Chism@education.ky.gov). or Kim Carter at (502) 564-3846, ext. 4440, or [Kimberly.Carter@education.ky.gov](mailto:Kimberly.Carter@education.ky.gov).