

ASK THE AUDITOR

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ANNUAL K-12 STATE AUDIT GUIDE UPDATES



STATE AUDIT GUIDE PROCESS

- Beginning with the 2003-2004 fiscal year, the Education Audit Appeals Panel (EAAP) is responsible for the issuance of the annual Audit Guide
- The Guide for each fiscal year must be published by July 1 of the fiscal year it is to be effective
- May be updated each year with “Emergency Regulations” to address changes in laws adopted after issuance
- Some audit areas are mandated in Education Code

WHAT'S NEW FOR 2017-18?

- Officially, nothing yet



WHAT'S IN STORE FOR 2018-19?

- Big changes are being proposed for the 2018-19 Audit Guide
- Sampling guidance is being given to the auditors to ensure a “level playing field”
- District of Choice audit procedures
- Educator Effectiveness removed
- State School Facilities Audits (Prop.51)

DISTRICT OF CHOICE

- Determine if the governing board of a school district elected to operate as a school district of choice.
- If the governing board of a school district elected to operate as a school district of choice, perform the following:
 - Verify the school district of choice registered as a school district of choice with the California Department of Education and the county board of education where the school district of choice is located.
 - Verify the school district of choice adopted by resolution the number of transfers it is willing to accept and that the school district accepted all pupils who apply to transfer until the school district is at maximum capacity.
 - Review the school district's selection process and verify that there is no inquiry into student characteristics, other than for purposes of Free or Reduced Price Meal eligibility, to determine whether or not a pupil be enrolled as set forth per EC Section 48301(a).
 - If the number of transfer applications exceeded the number of transfers the governing board of a school district of choice elected to accept, verify a public random drawing was held by reviewing the board minutes of which the determination was made at a regularly scheduled meeting of the governing board.
 - Verify the school district of choice collected the required data in EC Section 48313(a).

OTHER PROBLEM AREAS



KINDERGARTEN CONTINUANCE

- Except for pupils enrolled in transitional kindergarten in the prior year in accordance with Education Code section 48000(c), verify that the local education agency has for each such pupil a signed Kindergarten Continuance Form (a sample of an approved form can be found on the CDE's website) or a signed alternative kindergarten continuance parental agreement, approved in form and content by the CDE

INDEPENDENT STUDY

- Become familiar with E.C. 51747
- Written agreements not containing all required elements
- Written agreements not completed
 - Missing one or more signatures
 - Missing course credits
 - Missing objectives and methods of study
- ADA not properly recorded based on teachers' evaluation of completed work product
- Representative work samples not kept

INSTRUCTIONAL TIME

- Failure of District to approve school site schedules
- School site principals making changes to calendar without District approval
- Offering school days below minimum day requirements
 - T/K and K: 180 minutes
 - Grades 1-3: 230 minutes
 - Grades 4-12: 240 minutes
 - “Averaging” allowed, but...
 - 10-day averaging for elementary and middle schools
 - 2-day averaging for junior high and high schools

AFTER SCHOOL EDUCATION & SAFETY

- Failure of District to maintain after-school program until 6:00pm
- Lack of an appropriate “Early Release Policy”
- Failure to document students’ early release (before 6:00pm)
- Improper attendance accounting
- Reliance on third-party provider (YMCA, Boys & Girls Club, etc.) with no District involvement or oversight

UNDUPLICATED PUPIL COUNTS

- Failure to properly reclassify EL students
- Failure to reclassify FRPM eligible students after application shows a change in status
- Although students may be considered eligible for free/reduced price lunch programs in the first 30 days of school year on the prior year's eligibility, students may not be coded as FRPM-eligible based on this

SCHOOL ACCOUNTABILITY REPORT CARDS

- Teacher misassignments and vacancies should be based on the quarterly Williams Quarterly Compliant data
- Facilities data should be based on “Facilities Inspection Tool” (FIT), or a similar instrument that meets the same criteria
- Sufficiency of textbooks and instructional materials should match the public hearing and resolution data.
- Findings in this area do not necessarily have a financial impact

BONUS SECTION:

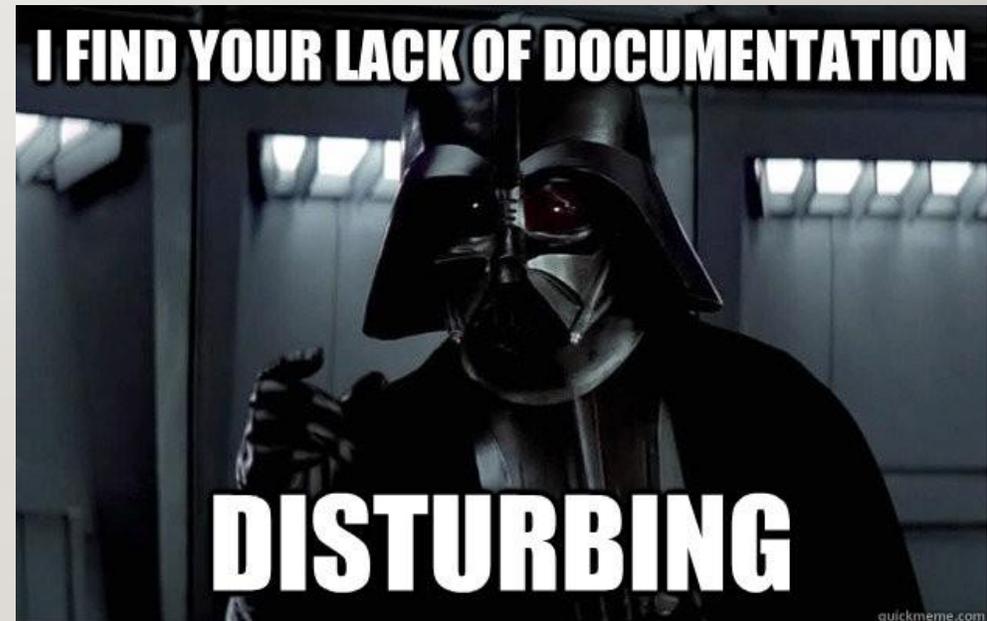
NEW FEDERAL PROCUREMENT STANDARDS

NEW PROCUREMENT STANDARDS

- In July of 2014, the Uniform Guidance came out to much fanfare in the world of single audits and federal grantees. Many changes, such as a new single audit threshold, went into effect almost immediately; it was a brave new world. But some changes have taken time to implement and become binding; one such requirement is procurement standards.

NEW PROCUREMENT STANDARDS

- New procurement standards were set to go into effect until recently, when non-federal entities were given an additional extension. This means that starting July 1, 2018, school districts will need to comply with these new standards. First, LEAs must *choose and document* the decision to utilize the extension or decide to be subject to them beginning July 1, 2017! We recommend this documentation be maintained within the federal grants management policy and procedure files!



NEW PROCUREMENT STANDARDS

- It may help to look at the standards in two ways, general and specific methods of procurement.
 - General sets the overall environment of purchasing with federal dollars.
 - Specific methods of procurement can be broken into five methods, determined by value and other factors. These five methods are referred to as a procurement “Bear claw”-we didn’t make this up

PROCUREMENT GENERAL STANDARDS

- General Standards (2 CFR 200.318)
- These help to lay the groundwork for the control environment. One thing to note in the guidance is the use of the word “should” vs “must”. Should is a best practice, must is required. The word used below is must:
- Document procurement procedures that reflect federal law, Uniform Guidance standards, and any state regulations.
- Focus on economical solutions, being cognizant of waste or inefficiencies when expending federal funds.
- Create or update written conflict of interest policies and standards of conduct. The policy should state that no employee may participate in the selection, award or administration of the contract funded with federal resources if they have an actual or apparent conflict of interest.
- Document your District’s procurement steps. This should include details as to procurement type, contract, contractor selection and price.
- Document and maintain the level of oversight to ensure contractors perform in accordance with their contract.

PROCUREMENT METHODS (2 CFR 200.320)

- There are five methods outlined in the Uniform Guidance including micro purchases (\$3,000 and under), small purchases (\$3,001-\$150,000), sealed bids (over \$150,000), competitive proposals (over \$150,000) and sole sourcing or noncompetitive purchases (apply to all purchase levels under special circumstances). The purchase under any of the five methods must comply with your documented procedures in place, be necessary, be open for competition to the extent required by each method, have no conflicts of interest and must be properly documented.

MICRO PURCHASES

- Micro purchases (under \$3,000 or \$2,000 if construction and under Davis-Bacon) may be awarded without obtaining competitive quotes if the costs are considered “reasonable”. These purchases *must* be distributed among qualified suppliers equitably. So if the commodity is available through several suppliers, other vendors must be considered and purchases spread out if they offer the same rates. An example given in the FAQ’s uses copier paper as an example as something that can be acquired through any number of office supply stores and rotating the purchase, think of it like a free agent or a bachelor that uses multiple dating sites.

SMALL PURCHASES

- The small purchases (\$3,000-\$150,000) procedures require price quotations from an 'adequate' number of sources. The definition for adequate qualified sources must be greater than one, but it is up to the discretion of the District as to the number of vendor sources. Prices and quotes may be in writing, verbal, listed on a website or via online search. Small purchases are not required to have cost or price analysis. We recommend Districts retain record of quotations to prove compliance.

LARGE PURCHASES

- Large purchases (over \$150,000) require sealed bids or competitive proposals. Sealed bids are much like procurement under construction contracts. Formal solicitation is required and the lowest responsible bidder that conforms to all material terms is awarded the contract. Districts must advertise the bid including specifications and attachments so that bidders may properly respond. Competitive proposals are another option with larger purchases. These require formal solicitation also but price is only one factor. The award is made to the “most advantageous” proposal. Districts must publicize and identify all evaluation factors and their relative importance in the selection process. There must be a written method for conducting technical evaluations of the proposals received and for selecting recipients.

SOLE SOURCE?

- Noncompetitive (sole source) procurement can be used only under certain circumstances when the item is only available from a single source, an emergency time critical situation exists, the federal awarding agency expressly authorizes it, or all of the competition is considered inadequate (call it the Golden State Warriors rule).

TAKEAWAYS

- Document that the District will be utilizing the extension (recommended) and using the existing procurement requirements for 2017-18 or adopting the new standards now. Remember if you extend, you are still required to follow the OMB A-133 requirements for procurement using federal funds
- Prepare for the future by updating policies and procedures when using federal funds to comply with Uniform Guidance. Purchasing policies specific to federal thresholds and conflict of interest and standards of conduct policies are some of the ones that will need to be changed.
- Mirror language in the procurement methods in your policies and procedures. Keep adequate documentation and records of quotes and purchases using federal funds to support compliance.

**THE AUDITOR IS A
WATCHDOG AND
NOT A
BLOODHOUND.**

Lord Justice Topes

QUOTEHD.COM

USEFUL RESOURCES

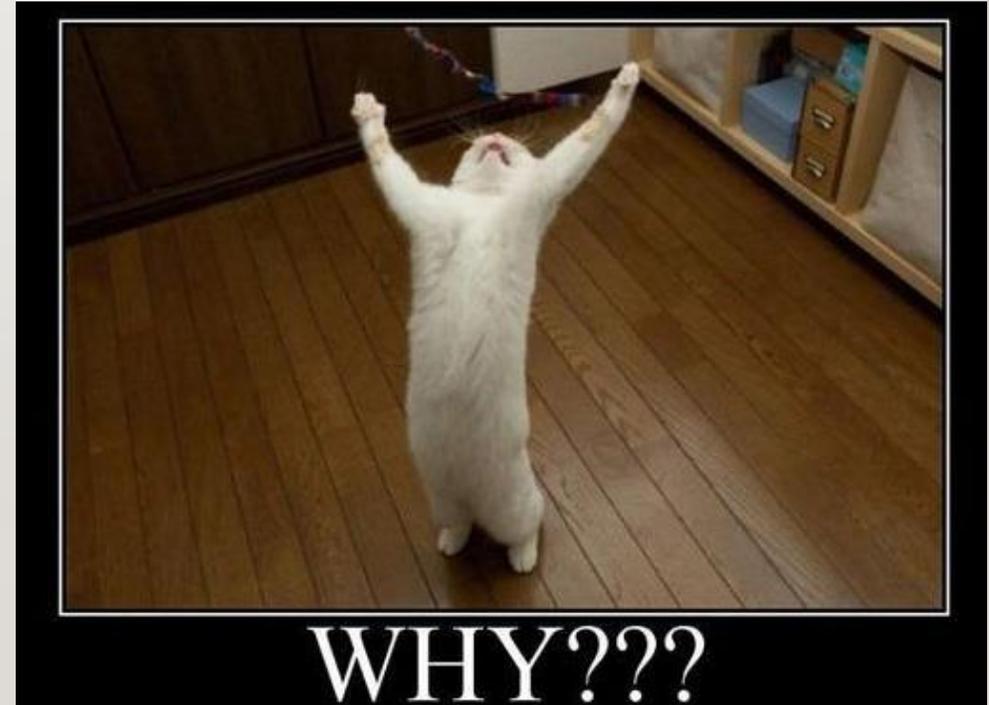
- California Law (Education Code)
 - <http://www.leginfo.ca.gov/calaw.html>
- Education Audit Appeals Panel (State Audit Guide)
 - <http://www.eaap.ca.gov>
- California Department of Education
 - <http://www.cde.ca.gov/fg/au/ag/statecomp.asp>
- Uniform Guidance
 - <https://www.ecfr.gov>

STATE SCHOOL FACILITIES AUDITS

PROP. 51

REASONS FOR THE AUDITS

- Education Code Section 41024(b)(1) states: “Commencing with audits of the 2018–19 fiscal year, the Controller shall include instructions in the audit guide required by Section 14502.1...”
- Essentially project audits are being shifted from OPSC to local independent auditors.



AUDIT PROCEDURES

- Audits will be performed separately from the District's annual audit
- Currently under development
- Working Group Subcommittee includes representatives from:
 - Department of Finance
 - OPSC
 - State Controller's Office
 - Independent Auditors
 - School Districts and County Offices
 - CASH

AUDIT PROCEDURES – WHAT WE KNOW SO FAR

- Audits will be required for any LEA that receives any funds pursuant to the Leroy F. Greene School Facilities Act of 1998, commencing April 1, 2017.
- Projects that were added to the Unfunded List between May and October 2012 (True Unfunded List) and received State Allocation Board approval for placement on the Unfunded List (Lack of AB 55 Loans) on June 5, 2017 are not subject to a Grant Agreement however, they are still subject to the performance audit required in Education Code section 41024.

AUDIT PROCEDURES – WHAT WE KNOW SO FAR

- First step for auditors is to determine whether the LEA has one of the following:
 - Complete Project Ready for Audit
 - Final Report SAB 50-06 expenditure report
 - Project That Needs to be Reduced to Costs Incurred
 - Failed Substantial Progress – OPSC website
 - Project That Reported Savings
 - Projects That Were Granted Financial Hardship Status

AUDIT PROCEDURES – WHAT WE KNOW SO FAR

- Documents Needed by the Auditors
 - OPSC Letters and Correspondence
 - Grant Agreement(s)
 - Application for Funding (Form SAB 50-04)
 - Project Transaction Detail and Summary
 - State Allocation Board (SAB) approval item(s)
 - Final Form SAB 50-06 Expenditure Report and Detailed Listing of Project Expenditures (DLOPE)

AUDIT PROCEDURES – WHAT WE KNOW SO FAR

- Main Areas of Audit Concern (Exact Steps Are Under Development)
 - Matching funds were contributed when required (SAB project approval document)
 - Sample of project expenditures from SAB 50-06 and DLOPE
 - Agree to supporting documentation
 - Test if expenditures were prorated over multiple projects
 - Verify that expenditures are eligible costs under SFP regs and Grant Agreement
 - Reconcile final SAB 50-06 and DLOPE to general ledger

AUDIT PROCEDURES – WHAT WE KNOW SO FAR

- Main Areas of Audit Concern (Exact Steps Are Under Development)
 - Planning Costs
 - Agree architect/design contract to final billed amount
 - Construction Costs
 - Agree a sample of construction contracts, including change orders, to final billed amount
 - Verify compliance with PCC regarding bidding
 - Agree Construction Manager (CM) contract to final billed amount
 - Verify at least 60% of the project funding was spent on “hard construction”
 - Verify transfers out of Fund 35
 - Routine Restricted Maintenance Account

AUDIT PROCEDURES – WHAT WE KNOW SO FAR

- Main Areas of Audit Concern (Exact Steps Are Under Development)
 - Site Purchase
 - Site Relocation
 - Site Hazardous Waste Removal Costs
 - Department of Toxic Substance Control Costs
 - Project Savings
 - Calculated accurately?
 - Expenditures spent appropriately?

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NEW GASB REQUIREMENTS

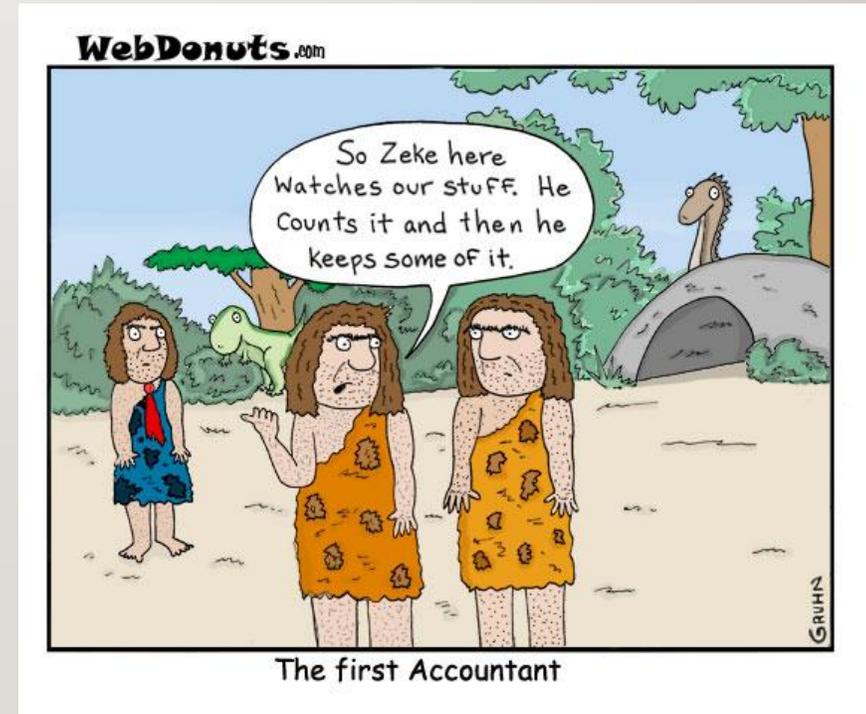


WHAT IS GASB?

- Established in 1984
- Establishes and improves standards of accounting and financial reporting for U.S. state and local governments
- Official source of GAAP for governments
- Standards are created through due process:
 - Appoints advisory task force
 - Studies existing literature and research
 - Publishes a discussion document
 - Distributes an Exposure Draft (ED)
 - Conducts public hearings
 - Statement is issued

GASB STATEMENTS

- To date, GASB has issued 87 Statements
- Some of the most significant are:
 - Statement Nos. 14, 39, and 61
 - Statement No.31
 - Statement No.34/37
 - Statement No.45
 - Statement No.54
 - Statement No.68
 - Statement No.75



NEW STATEMENTS

- The following statements were issued in 2017:
 - **Statement No. 85 – Omnibus 2017** (*Effective Date: For reporting periods beginning after June 15, 2017.*)
 - **Statement No. 86 – Certain Debt Extinguishment Issues** (*Effective Date: For reporting periods beginning after June 15, 2017.*)
 - **Statement No. 87 – Leases** (*Effective Date: For reporting periods beginning after December 15, 2019.*)

NEW STATEMENTS

- The following statements are being implemented during the 2017-2018 fiscal year:
 - **Statement No. 75**
Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
 - **Statement No. 81**
Irrevocable Split-Interest Agreements
 - **Statement No. 85**
Omnibus 2017
 - **Statement No. 86**
Certain Debt Extinguishment Issues

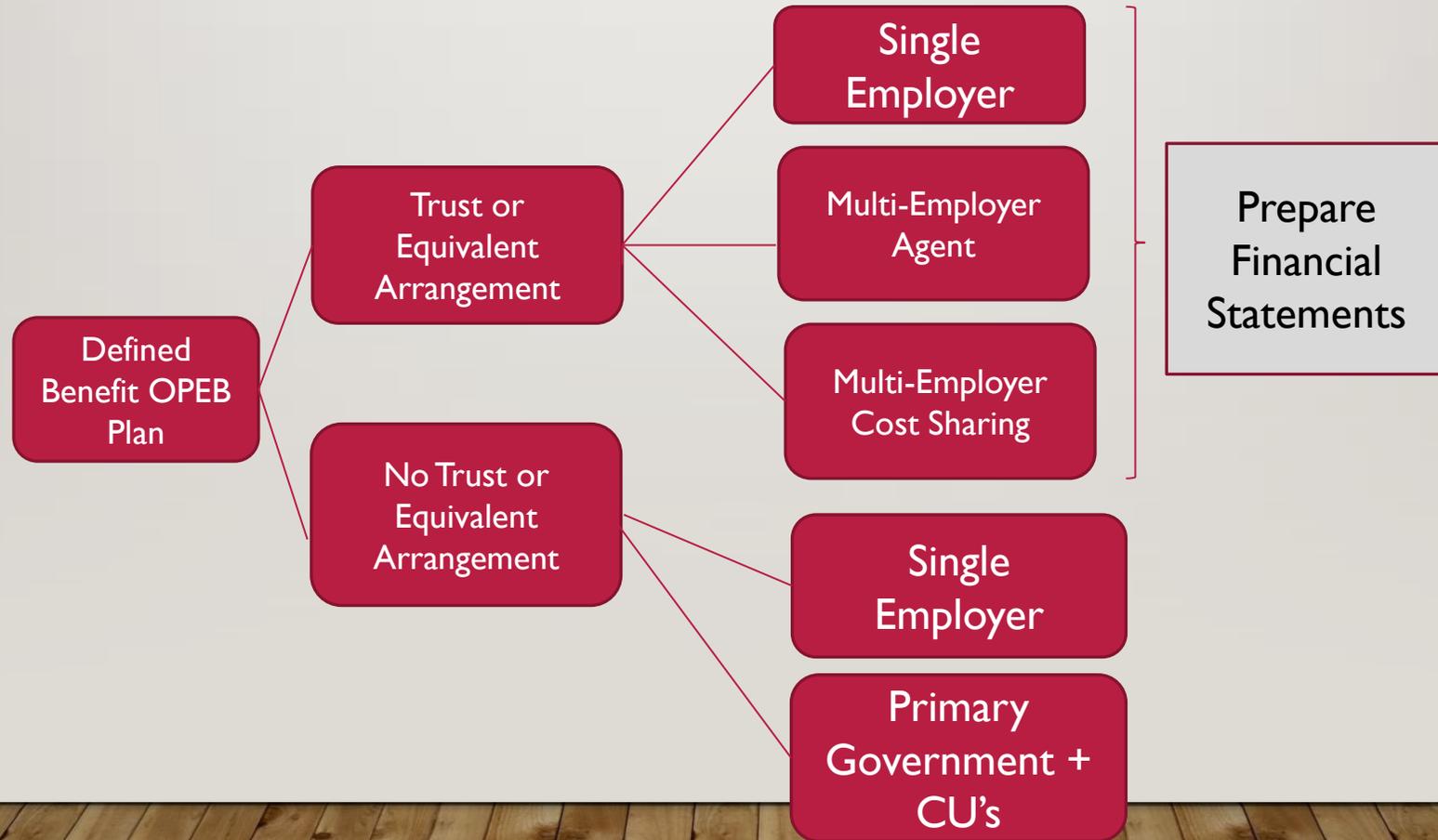
OTHER POSTEMPLOYMENT BENEFITS (OPEB)

- **GASBs 74 and 75** describe accounting for OPEB, also known as retiree benefits
 - **GASB 74** relates to accounting for OPEB plans
 - **GASB 75** relates to OPEB accounting for the employer (our clients)
- **GASB 75** is required to be implemented for all government employers that offer OPEB in 2017-18

OPEB IN BRIEF

- Major impacts of GASB 75 vs. its predecessor (GASB 45)
 - Net or total OPEB liability is now recorded in Statement of Net Position
 - Strictly prescribed actuarial methodology and discounting guidance will produce a different (often higher) OPEB liability than GASB 45
 - Annual measurement dates are now required using either annual or biennial valuations
 - Triennial valuations no longer allowed
 - Expense volatility is likely due to claims volatility, discount rate volatility and more frequent plan changes
 - Much more robust note and required supplementary information (RSI) is required

TYPES OF PLANS



EMPLOYER STANDARD

- GASB 75
 - Effective for June 30, 2018, employer year-ends and later
 - Implementation guide scheduled for 2017 exposure and issuance
- Apply changes retroactively by restating financial statements for all periods presented, if practical
 - May not be practical to present balances all deferred outflows and inflows of resources at beginning of period
 - Report beginning deferred outflow of resources for any contributions or OPEB payments after the measurement date
- Divided into two primary sections:
 - OPEB provided through plans administered as trusts or equivalent arrangements (i.e., meets paragraph 4 of GASB 75 requirements)
 - OPEB provided through plans that are NOT administered as trusts or equivalent arrangements (i.e., does not meet paragraph 4 of GASB 75 requirements)

GASB DEFINITION OF A TRUST

- Paragraph 4 of GASB 75 creates three “substance over form criteria” for determining whether the plan qualifies as a trust
 - Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
 - OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
 - OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

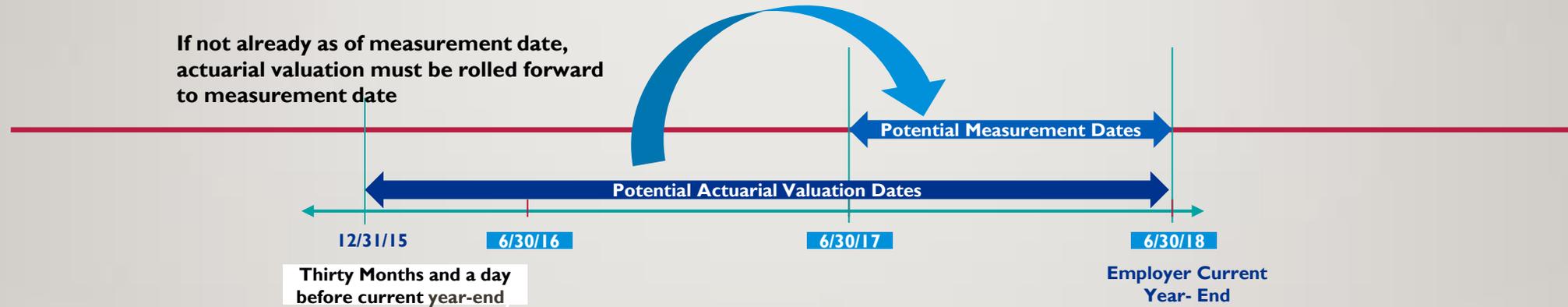
OPEB LIABILITY



- Plan administered as a trust or equivalent arrangement:
 - Employer reports a net OPEB liability in their financial statements
- Plan NOT administered as a trust or equivalent arrangement:
 - Employer reports a total OPEB liability in their financial statements

Plans with fewer than 100 members (active and inactive) may use the alternative measurement method to determine the liability.

MEASUREMENT DATE



Employer Standard

Measurement of the total OPEB liability in employer's financial statements must be as of a date no earlier than the end of the employer's prior fiscal year.

Measurement must be based on an actuarial valuation performed within 30 months plus 1 day of the employer's year-end. If actuarial valuation not performed as of measurement date, update procedures must be performed to roll forward amounts to measurement date.

Plan Standard

Measurement of the total OPEB liability in plan's financial statements must be as of the plan's fiscal year end.

Measurement must be based on an actuarial valuation performed with 24 months of the plan's year-end. If actuarial valuation not performed as of the measurement date, update procedures must be performed to roll forward amounts to measurement date.

REQUIRED JOURNAL ENTRIES

- Similar to pensions, the initial journal entries will require:
 - A prior period adjustment to reverse the previously recorded OPEB obligation and record the beginning measurement date Net or Total OPEB Liability with the resulting restatement of beginning Net Position.
- Unlike pensions that always have contributions as the starting point, OPEB will not be so uniform:
 - Turnkey trust that collects, invests and pays benefits-employer contributions to the trust
 - Reimbursement Trusts
 - Self-Insured-actual OPEB payments including retiree claims, stop loss and administrative expense less retiree premium contributions and employer contributions to trust
 - Insured-premiums paid for retirees less retiree premium contributions plus the implicit subsidy portion of active premiums and employer contributions to the trust
 - Non-Trusts
 - Same as Reimbursement Trust but no employer contributions

ALLOCATIONS

- Requirements for allocation of the OPEB amounts between funds and activities should be similar to that of pensions
 - Allocate if material and if the liability is expected to be liquidated through the resources of that fund or activity
 - Utilize cost-sharing methodology
- However Actuarially Determined Contributions may not be calculated:
 - Other possible allocation bases
 - Premiums paid on behalf of the fund/activities employees
 - Entity specific experience including participation rates and retirement ages by employee groups

REPORTING REQUIREMENTS - KEY TAKEAWAYS

- The basic accounting and reporting including recording of liabilities and expense determination will be similar to pensions
- Non-trusted or reimbursement trusts will be much more common
- With the lack of independently governed plans the employers will need to be much more involved in:
 - Selecting the actuary
 - Approving the assumptions
 - Documenting the Plan
 - Providing the census data



"Play around with these figures, Harry. I've given you the total I want them to add up to."

STATEMENT NO.8 I

- Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments.
- Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.
- This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

STATEMENT NO.85

- This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB])
- *Clarifies reporting issues for pensions and OPEB*

STATEMENT NO.86

- This Statement establishes essentially the same requirements as GASB 7 for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish debt.

**ARE YOU READY FOR
YOUR ANNUAL AUDIT?**



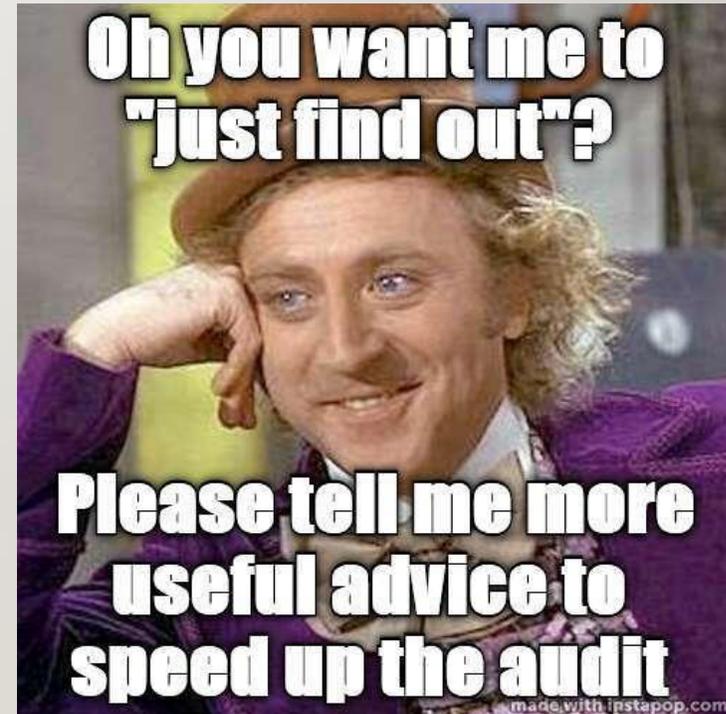
Keep smiling - maybe the auditor will forget about those reports she asked for yesterday



somee cards
user card

PLAN AHEAD

- Communicate with auditors regarding fieldwork dates
- Obtain Items to Prepare checklist or use electronic portal
- Communicate with auditors regarding troublesome issues or transactions – no surprises



STAY UP-TO-DATE ON ACCOUNTING STANDARDS

- Natural inclination is to say: “Our auditors will handle that”
- They may, but you need to accept responsibility for the financial statements, so you need to have a basic understanding
- Ask auditors for help and training, if needed
- Seek out training opportunities through SSC, CASBO, AICPA, GASB, and GFOA

ASSESS CHANGES IN ACTIVITIES

- Did the District implement any new funds or revenue sources or grants?
- Were there any funds or activities discontinued?
- Were there any changes in internal control systems?
- New hires in key positions?

LEARN FROM THE PAST

- Prior year audit adjustments
- Prior year audit findings
- General audit problems
- Planning meeting with auditors – discuss things that they and you can improve to make the process go smoother

DEVELOP TIMELINE AND ASSIGN RESPONSIBILITIES

- Review the list of workpapers and schedules requested by the auditors, making sure to obtain clarification of requested information when necessary.
- Assign each item from the list to a responsible person and include a due date. Make sure to allow adequate time for review and correction of schedules if necessary.
- Tackle the most difficult, complex, or time-consuming areas first when possible.
- The drafts of the financial statements, schedules, workpapers or other items requested by the auditor should be available on or before the first day of audit fieldwork.
- Again, take advantage of use of an electronic portal

ORGANIZE DATA

- Create a repository of audit schedules that can be accessed in future years by the appropriate personnel.
- Consider creating subfolders for significant transaction cycles or categories, such as cash, revenue and receivables, expenditures and payables, fixed assets, debt, etc. to make it easier to manage and retrieve schedules.
- Schedules and workpapers containing sensitive information, such as payroll, may need to be password-protected or maintained in an appropriately restricted network location.



“It went pretty well. The auditor took one look at my files and retired!”

ASK QUESTIONS

- If an item requested by the auditor is unclear, ask for clarification prior to the start of fieldwork to avoid potential delays. Auditors are generally happy to answer accounting questions regarding unusual or infrequent transactions the organization may need assistance in accounting for.
- Ask questions of those within the District to obtain information necessary to prepare required footnote disclosures. Such discussions could include significant accounting estimates, pending or threatened litigation, related party transactions, commitments and contingencies, and other topics necessary to prepare required footnote disclosures.

PERFORM A SELF-REVIEW

- Once all year-end closing entries are made, review schedules and workpapers to ensure amounts agree or reconcile to the trial balance.
- Take a step back and assess the overall financial statements for reasonableness.
- Be prepared to explain financial statement line item variances from year to year or from budget to actual.

BE AVAILABLE DURING FIELDWORK

- Avoid key personnel scheduling time off during the audit, and consider rescheduling or postponing non-critical meetings for finance and accounting staff heavily involved with the audit.
- Although most of the schedules and workpapers will have been requested by the auditors prior to the start of audit fieldwork, understand that the auditors will be asking for additional information, including supporting documents and explanations, throughout fieldwork.
- Consider having brief status meetings or obtaining an open items list from the auditors at logical intervals during the engagement to track progress.

EVALUATE RESULTS

- Maintain communication with the auditors during the time between fieldwork and the issuance of the audit report.
- If there are any open items at the end of fieldwork, establish agreed upon dates for the information to be provided to the auditors whenever possible.
- If the auditor is to attend meetings with the board, confirm that the auditor has the date, time, meeting location and other pertinent details of the meeting.
- Consider holding a post-audit closing meeting with employees involved in the audit to communicate results and solicit feedback.

