



TO: Superintendents, School Business Officials, Charter School Directors, Charter School Board Chair, Charter School Sponsors, Regional Informational Management Centers and Local Education Agency (LEA) Audit Firms

FROM: David Day, Education Finance Specialist
Division of School Finance

DATE: June 15, 2014

SUBJECT: Summary of Audit Requirements FY 2014 Audits

Minnesota Statutes, section 123B.77, Subdivision 3, requires reporting entities to submit audited financial data to the commissioner of the Minnesota Department of Education (MDE) and to the Office of the State Auditor (OSA). Minnesota Statutes, section 123B.77, also states the required timelines for the reporting of financial data to the commissioner (MDE). The statutory deadline for the FY 2014 Audited Final UFARS Data Submission and Fiscal Compliance Table Data Submission reporting is November 30, 2014, and Audit Reports are due by December 31, 2014, however, the statutory deadline for audited final Uniform Financial Accounting and Reporting Standards (UFARS) data and fiscal compliance table data falls on a Sunday; therefore, submissions are timely if submitted by the dates below:

- Audited Final UFARS Data Submission – due December 1, 2014
- Fiscal Compliance Table Data Submission – due December 1, 2014
- Audit Reports – due December 31, 2014

Note: Refer to “Submission Options” section below.

Each audit must include components identified within points 1-4 listed below. MDE reviews each audit and will require the reporting entity to submit any identified missing components. Failure to submit missing components will result in a report citing noncompliance for failure to provide necessary components, and is forwarded to fiscal monitors of federal programs to be used in the risk assessment criteria for future site visits.

1. MDE requires financial statement audits be conducted in accordance with Generally Accepted Government Auditing Standards (Yellow Book), the Federal Single Audit Act and the Minnesota Legal Compliance Guide as issued by the Office of the State Auditor. In a Single Audit engagement, please refer to respective OMB Circulars such as A-133, A-87, etc., for reporting requirements. The audited financial statement must also provide a statement of assurance pertaining to uniform financial accounting and reporting standards (UFARS) compliance.

MDE also requires a Corrective Action Plan (CAP) to be submitted as a component of all findings cited as a result of state, federal, or legal audit finding. The CAP must be included within the LEA audit for MDE review. Audit findings should be numbered with the fiscal year and audit finding number (for example: 2014-1, 2014-2, etc.) and follow the CAP format listed in item 4.

2. The MDE Manual for Activity Fund Accounting (MAFA) requires the student activity audit be listed in the table of contents of the full district audit unless a separate report is issued. If all student activities are under board control, a statement to that fact must be included in the financial notes.

School districts without student activity accounts must enclose a separate written memo or letter stating the school district does not have any student activity accounts. These steps will assist with verification a student activity audit has been completed or that the student activities are all under board control and were audited with the general fund. MDE requires any findings resulting from the

audit have a corrective action plan included for each finding. Audit findings should be numbered with the fiscal year and audit finding number (for example: 2014-01, 2014-02, etc.).

3. The Local Education Agency (LEA) audits must contain a comparative fiscal compliance table. A copy of the fiscal compliance table must include the comparison between audited data and UFARS data and a column displaying the variance. The fiscal compliance table is to be included in the table of contents of the audit report.

The LEA or auditor must enter the audited data into the fiscal compliance table located on MDE's website. After the audited data has been entered, run the fiscal compliance table comparison report and review the results. Any differences between the UFARS data and the audited financial data must be corrected. The entry of the audited data to the fiscal compliance table must be completed by December 1, 2014.

MDE reporting requirements expects that at the fund level: 1) prior year ending fund balances will equal current year beginning fund balances; and 2) current year beginning fund balances, plus total revenues and transfers in, minus total expenditures and transfers out, will result in the calculated current year ending fund balance. The calculated ending fund balance should equal the current year ending fund balance. Any discrepancies identified should be reported to MDE.

4. Checklist of reports that must be submitted to MDE and State Auditor's Office:

Report on financial statements

List of school board members for the reporting year

Management's discussion and analysis (prepared by the finance officials of the LEA);

Report on entity's internal control structure;

Report on entity's compliance with laws and regulations;

Corrective action plan for all written findings (including student activity audit);

Corrective action plan should contain the following elements for each finding:

1. an explanation of any disagreement with the finding;
2. actions planned in response to the finding;
3. the official responsible for ensuring the corrective action; and
4. a plan to monitor completion of corrective actions

Student activity audit or statement that funds are audited with the general fund;

UFARS Fiscal Compliance Table;

Single audit reports, if applicable; and

Management letter (if no management letter was issued to the district, a separate and additional memo stating that fact is to be included with the audit submission)

For audit requirements for the FY 2014 audits, contact David Day at: David.Day@state.mn.us or 651-582-8384.

FY 2014 – Changes to Charter School Reporting Requirements

Laws 2014, Chapter 272, Article 3, Section 36, Subd. 6a requires charter schools to submit to the Minnesota Department of Education (MDE) additional information with the fiscal year end audit report. The requirements begin with FY 2014 reporting period.

The law is as follows:

Subd. 6a. Audit report. (a) The charter school must submit an audit report to the commissioner and its authorizer by December 31 each year.

(b) The charter school, with the assistance of the auditor conducting the audit, must include with the report, as supplemental information, a copy of management agreements with a charter management organization or an educational management organization and service agreements or contracts over the lesser of \$100,000 or 10 percent of the school's most recent annual audited expenditures. The agreements must detail the terms of the agreement, including the services provided and the annual costs for those services. If the entity that provides the professional services to the charter school is exempt from taxation under section 501 of the Internal Revenue Code of 1986, that entity must file with the commissioner by February 15 a copy of the annual return required under section 6033 of the Internal Revenue Code of 1986.

(c) A charter school independent audit report shall include audited financial data of an affiliated building corporation or other component unit.

(d) If the audit report finds that a material weakness exists in the financial reporting systems of a charter school, the charter school must submit a written report to the commissioner explaining how the material weakness will be resolved. An auditor, as a condition of providing financial services to a charter school, must agree to make available information about a charter school's financial audit to the commissioner and authorizer upon request.

Charter Schools

This section is a clarification of the charter schools reporting requirement to provide copies of agreements with service providers.

The term agreement is defined as, but not limited to, contracts, letters of intent, memos of understanding, etc.

The following supplemental information requirements are in addition to the required annual audit report and must be submitted to the Department of Education and the school's authorizer by December 31 of each year. Required charter school supplemental information is NOT a requirement of the Office of State Auditor and is not to be submitted to the Office of State Auditor.

Required documents regardless of contract amount:

Charter schools having a contract with a Charter Management Organization (CMO) or Education Management Organization (EMO) are required to submit a copy of the contract for the period of the fiscal year being reported. This year the period for fiscal reporting is 7/1/2013- 6/30/2014. An agreement overlapping the fiscal year will require both agreements to be submitted.

Example:

1. A Management contract with effective dates of 1/1/2013 – 12/31/2013 and 1/1/2014 – 12/31/2014, requires both contracts to be submitted.
2. Management contract which cover multiple years would submit the contract for the fiscal reporting period. (Contract 7/1/2013 -6/30/2016 would submit the same contract in the years of 2014, 2015, and 2016.)

General definitions:

An education management organization, or EMO, is usually defined as a private organization or firm (for profit) that manages public schools, including district and charter public schools. A charter management organization, or CMO, is a non-profit equivalent of an EMO.

A contract details the terms under which administrative authority to operate one or more schools is given to an EMO/CMO in return for a commitment to produce measurable outcomes within a given time frame. The term “education/charter management organization” and the acronyms “EMO/CMO” are most commonly used to describe these private/non-profit organizations that manage public schools under contract. However, other names or labels, such as “education service providers,” are sometimes used to describe these companies.

An important distinction should be made between EMOs/CMOs, which have administrative authority to operate a school, and service contractors, often referred to as “vendors.” Vendors provide, for a fee, specific services such as accounting, payroll and benefits administration, transportation, financial and legal advice, personnel recruitment, professional development, and special education.

Other Required Documents:

Charter School must submit a copy of any contract which meets the following criteria:

Where the total annual amount paid to any contractor is over the lesser of \$100,000 OR 10% of the year end audited expenditures.

The agreements must detail the terms of the agreement and must identify the services provided along with annual cost for the services identified in the agreement.

NOTE:

Charter schools without management services contracts or agreements meeting the criteria of “total annual amount paid to any contractor is over the lesser of \$100,000 OR 10% of the year end audited expenditures” should include with their audit submission, a letter to the Minnesota Department of Education, signed by the School’s Director, stating: “The XYZ Charter school does not have a contract with a management company or contracts which meet the contract criteria identified above.”

School Auditors

- A. Independent audit reports for charter schools must include the audited data from the affiliated building corporation or other component units, per Subdivision 6a (c),
- B. Submission of Supplemental Information – Assist school with submitting agreement information.
- C. An auditor, as a condition of providing financial services to a charter school, must agree to make available information about a charter school’s financial audit to the commissioner and authorizer upon request, per Subdivision 6a (d).

Supplemental information is recommended to be submitted to MDE via e-mail using the file naming convention and submitted to the e-mail address below:

Fiscal Year	District ID	District Type	District Name	Report Name
4 characters	4 characters	2 characters	Up to 12 characters	<ul style="list-style-type: none">• Management• Service

Each element must be separated by a “.” (Period)

Note: Submit a separate file for each of these reports (see examples below):

1. Management Agreements suffix convention: Mgmt.Agree
2. Service Agreements suffix convention: Service.Agree

Examples: 2014.4113.07.FraserAcad.mgmt.agree
2014.4113.07.FraserAcad.service.agree

If multiple files will be submitted in each category, number the files beginning with 1.

Examples: 2014.4113.07.FraserAcad.mgmt.agree1
2014.4113.07.FraserAcad.mgmt.agree2

2014.4113.07.FraserAcad.service.agree1
2014.4113.07.FraserAcad.service.agree2

The e-mail address for electronic submission is mde.finmgt@state.mn.us.

If electronic format is unavailable, required information may be submitted via U.S. Mail or by other courier; please submit printed (hard) copy of the required documents to:

Minnesota Department of Education
Division of School Finance
Attn: David Day (I-12)
1500 Highway 36 W
Roseville, MN 55113

If you have questions about the "FY 2014 Changes to Charter School Reporting Requirements", please contact the UFARS Accounting Helpdesk at: MDE.UFARS-Accounting@state.mn.us.

SUBMISSION OPTIONS

2014 Submission

1. Districts may submit completed financial audits and required supplemental information in standard printed and bound format via United States Mail or other courier service, **OR (preferred method)**
2. Districts may submit completed financial audits and required supplemental information via e-mail with attached files in PDF format using the naming convention identified here.

As stated above, MDE must receive all audit reports by December 31, 2014, if received after December 31, 2014; the postmark must be on or before December 31, 2014.

Printed audit reports may be submitted via USPS or other courier (UPS, FedEx, etc.) and postmarked or time stamped by courier NO LATER than December 31, 2014.

MDE accepts, and would prefer, electronic files (e-files) via e-mail, and using the standard file naming convention listed below and stored in a PDF format.

To Submit E-files to MDE

Each management letter (or "COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE") must be transmitted in a separate pdf file.

Naming Conventions – Audit reports may be submitted using the MDE e-mail address provided below and must use the following naming convention:

A separate file for each of these reports (see examples below):

Audited District Financial Statements	convention:	FinStm.District
District Management Letters	convention:	MgtLltr.District

