

Preparing for an Audit and Other Fun Facts

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Altman, Rogers & Co.

Outline

- Auditing in the electronic environment
- Testwork - why we do it and how it affects the audit
- Balance Sheet items
- Revenue and Expenses
- Special Revenue Funds and Capital Project Funds
- Compliance

Auditing in the Electronic Environment

- Most CPA firms have gone paperless and are now using audit software – why the switch?
 - Less paper to haul around, less waste
 - Increased efficiency
 - Can be used to write the financial statements
 - Advanced auditing techniques using data extraction software
 - ✧ Requires Districts to provide detail general ledgers (if possible)
 - Material aje listing – a lot of Districts can't provide these reports
 - Transaction or aje post times and dates
 - Assisting in tracing transactions to G/L
 - Query names looking for related party transactions
 - Benford test – identifies anomalies in data

Electronic Workpapers

- School Districts are heading in that direction -
 - What are the ramifications of going paperless and how does it affect the audit process?
 - Common Questions from Districts:
 - ✕ What do we need to keep on hand - ie. support?
 - Cash disbursements - still need to see a copy of the check and adequate support (requisition forms, purchase orders, invoices, approvals, etc.)
 - Payroll – copy of paycheck, timecard or time study, personnel file or personnel action form to confirm pay rates and G/L coding.

There needs to be internal controls over the scanning process. Scans should be reviewed for accuracy before source documentation is disposed of.

- ✕ Also need to consider IT needs for long term storage of this data
- ✕ Security issues for payroll info – password protection or separate drives

Electronic Workpapers

- How long to keep it?
 - ✧ IRS guidelines say 7 years for most records.
 - ✧ The Green Book (Code of Federal Regulations that dictates internal control requirements) sets the minimum requirements at 3 years, unless specifically required by outside sources , ie. court order. Districts aren't required to follow Green Book Standards, but can adopt the framework
 - ✧ Management should review internal policies for record retention to ensure they meet these guidelines.

Electronic Workpapers

- Now that auditors have switched to paperless, it is extremely helpful to provide as much information as possible in an electronic format.
- We understand this isn't possible for all items.
- Items that have to be electronic:
 - Year end trial balance in excel – must include columns for:
 - ✧ Fund – function - object
 - ✧ Account description/name
 - ✧ Account balance
 - Original and formatted

Testwork Samples

- Prior to the start of the audit, auditors will request beginning and ending numbers for testwork:
 - Cash disbursements
 - Payroll
 - Cash Receipts
 - Credit cards / P-cards (if you have a large number of transactions) – need to ensure you have adequate controls over cc's.
- Auditors also will review all material checks and aje's – amount varies
- If you don't have beg/ending #'s, auditors will haphazardly select samples (usually for CR's or credit cards)
- Samples will be returned to you. Very helpful if the information is filled out electronically.
- Spreadsheet examples

Purpose of Testwork

- Uniform Guidance and the State of Alaska Audit Guide and Compliance Supplement require auditors to test controls and assess control risk at low for cash disbursements and payroll (this testwork is for financial statement purposes – will be additional samples taken during compliance)
- This is achieved by testing a sample of at least 40 transactions. If we discover 0 errors, control risk is set a low.
- Also, allows auditors to rely on the internal controls of the District and reduces substantive audit procedures.

Balance Sheet Items

- Cash –

- Copies of June 30 bank statements and reconciliations for all accounts. Have July 31 statements available, it is possible they will be reviewed.
 - ✧ Should always review bank reconciliations for stale dated activity – usually over a year old. If you have checks/deposits o/s for this long they should be researched and probably voided and re-issued
- Collateralization agreement if bank balances are over \$250,000 (per institution)

Balance Sheet Items

- Investments

- 6/30 statements – additional disclosure requirements now due to GASB 72
- Investment policy if anything has changes from prior years. ie. Changes to allowable types of investments or risk types

- A/R

- ✕ Most A/R is grant related – will be substantiated using grant reconciliations
- ✕ need A/R aging summary at year end for any non-grant A/R
- ✕ support for any large balances, such as e-rate

- Prepaids

- If you have insurance policies that are prepaid we would need a copy of the policy and support for all payments made on the policy.

Balance Sheet Items

- **Inventory**

- Fuel – tank measurements as close to year end as possible, as well as invoices for final purchase(s). If material may need 3rd party verification, or we take other procedures to substantiate balances.
- Food / supplies – item count sheets and price per item. Need to know when counts were taken.
- Need to know the value of USDA donated commodities – print out from website works great. (example) These need to be recorded in the G/L.

- **Account Payable**

- Aging summary or A/P listing as of 6/30
- We will request check register from July 1 through the date of fieldwork as part of our search for unrecorded liabilities.
- We will select a sample of subsequent checks for review
- June 30 statements for all credit cards

Balance Sheet Items

- Payroll

- Auditors need support for all large payroll liabilities at year end:
 - ✧ PERS / TRS payable
 - ✧ Self-insurance payable
 - ✧ Accrued leave payable
- Auditors will also perform CY vs PY analytical over certificated and non-certificated salaries and benefits, also benefit expenses as a % of PR costs. Large variances will need to be explained.
- If errors are found during PR testwork, additional support will be requested - most times involved 941 & ESC review.

Balance Sheet

- Capital assets listing
 - Districts use capital asset modules or excel sheets
 - Depreciation schedule must show date of purchase, useful life, cost, accumulated depreciation, current year depreciation expense, and any salvage value
 - Support for all current year additions
 - If assets were sold or disposed of we need to know. How much was received if assets were sold?

Balance Sheet Items

- Leases

- Need lease agreements if any new leases were signed during the year.
- If leases are capital in nature need to know where payments are being coded so we can show them separately for FS purposes. Changes coming with GASB 87 (FY2020).
- Capital lease definition
 - ✧ Transfer of ownership
 - ✧ Bargain purchase option
 - ✧ Term of the lease is greater than 75% of the useful life of the asset
 - ✧ Present value of the lease payments > 90% of FMV of the asset

Balance Sheet Items

- Fund balance

- Classifications changed by GASB 54..
- Nonspendable – inventory/prepays
- Restricted – by granting agency or some other outside source
- Committed – by formal action of the School Board (major maintenance or other capital project funds), can only be uncommitted by the same formal action.
- Assigned – intended to be used for specific purposes (encumbrances). Can be set by Board or designee.
- Unassigned – amounts not contained in the other classifications. Usually only reported in the SOF
- 10% calculation (AS 14.17.505) Unreserved fund balance in the SOF < 10% of CY expenditures in SOF. Not in compliance with GASB 54.

Balance Sheet Items

- Net Position
 - For government-wide financial statements
 - 3 classifications:
 - ✦ Net investment in capital assets
 - ✦ Restricted
 - ✦ Unrestricted

Revenues

- Requested items:

- State reports for Foundation and Quality Schools
- Impact Aid voucher reports
- E-rate calculations and support
- Final PERS & TRS on-behalf letters and support for allocation into the General Ledger (eligible salary by function should be used to allocate the benefit expense)
- Support for any other large revenues (City or Borough contributions)
- Auditors will perform final analytical: CY vs PY analysis, will be questions regarding significant variances > 10-15% in material accounts.

Expenses

- **Expenses:**

- Not a lot of preparation is needed on expenses outside of testwork spreadsheets.
- If errors are found during CD testwork additional substantive procedures will be performed: vouching accounts details, etc.
- Largest portion of audit work over expenses will consist of CY vs PY analysis. Variances > 10-15% in material accounts will be investigated further, usually by discussions with management.
 - ✧ Auditors can also use data extraction software to analyze account details looking for unusual transactions.

Special Revenue Funds

- Definition of SRF was changed with GASB 54.
 - To be reported in the FS's as a SRF, must have a dedicated revenue stream. GASB is vague on the definition of "dedicated". Our policy is 50%, but can be a discussion point with your auditor.
 - No changes were made to CPF's

SRFs and CPFs

- What your auditors need:
 - Copy of balance sheet and profit and loss statement for each fund
 - Completed grant reconciliation
 - Grant award and final budget
 - If these are organized into folders on a data stick that would be great
 - If not grant funded, we need a copy of the budget that was passed by the Board (student trans / food service)
 - Support for large cash receipts. If errors were found during testwork over CR's additional support will be requested
 - If any site visits were performed during the year we would like copies of the reports
 - If grant funded, revenues should equal expenses

Federal Compliance

- Auditors need updated SEFA at start of audit to determine major programs. Federal single audit required > \$750,000 of federal expenditures
- What your auditors are required to test
 - Determination of major federal programs is risk based.
 - “A” programs are usually > \$750,000, “B” programs are usually \$187,500 - \$750,000. “A” program threshold changes if federal expenditures are > \$25 million
 - High risk program – haven’t been audited in the prior 2 years or had PY findings
 - ✦ We must perform compliance work over all High risk “A” programs

Federal Compliance

- How much compliance auditors perform depends on if you are a high or low risk auditee.
 - ✧ High risk auditee if:
 - Opinion modifications on FS or compliance in previous 2 years
 - Material weakness(es) in previous 2 years
 - ✧ High risk auditee - auditors must test > 40% of federal expenditures
 - ✧ Low risk auditee - > 20% of fed expenditures
- OMB updates compliance supplement website yearly
 - Dictates what requirements we test:
 - Matrix
 - Compliance supplement

Federal Compliance

- Testing of compliance and internal controls (dual purpose testing) over CD and PR transactions
 - Auditors usually test 10% of a populations under 250 transactions
 - Auditors usually select 25 transactions from populations > 250 transactions
- Reporting
 - Very common compliance test
- Impact Aid is most common major federal program
 - Compliance Supplement
 - Need a copy of your impact aid application
 - Support for tables in the application

State Single Audits

- Auditors need updated SSFA at start of audit to determine major programs
- Compliance supplement updated every year
 - http://doa.alaska.gov/dof/sssa/audit_guide.html
 - Fiscal years after 4/1/17 – new State threshold is \$750,000
 - Selection of major programs is not risk based, instead based on expenditures:
 - Program expenditures
 - \$ 75,000
 - \$ 150,000
 - \$ 200,000
 - \$ 500,000
 - Total State Expenditures
 - < \$1 million
 - \$1 - \$5 mill
 - \$5 - \$20 mill
 - > \$20 mill

State Single Audits

- If you meet the \$750,000 threshold, Foundation will be a major program
 - Foundation Compliance Supplement
 - Actual and projected ADM reports
 - OASIS student listing – auditor will select a sample of students
- Pupil transportation is another common program
 - Service contracts
 - Compliance Supplement
 - Recent changes to the RFP process

Miscellaneous

- Other items your auditors will ask you about:
 - Updating our permanent file –
 - ✧ Changes to any policies or procedures manuals
 - ✧ New union contracts
 - ✧ Updated board listing
 - School board minutes for entire fiscal year through issuance date
 - If you had any prior year audit findings management is responsible for telling the auditor what corrective action plans have been put in place and whether or not you believe the finding(s) have been resolved. Auditors will then test that.
 - Required to have status of PY audit findings in FS's

Miscellaneous

- Auditors are required to meet with the board to discuss audit approach and see if they have any fraud or audit concerns
- They also should be included in exit conference to discuss any findings or issues
- Student activity agency fund -- current year activity and 6/30 bank statements to support balances



• Questions or Comments?

Grant Todd

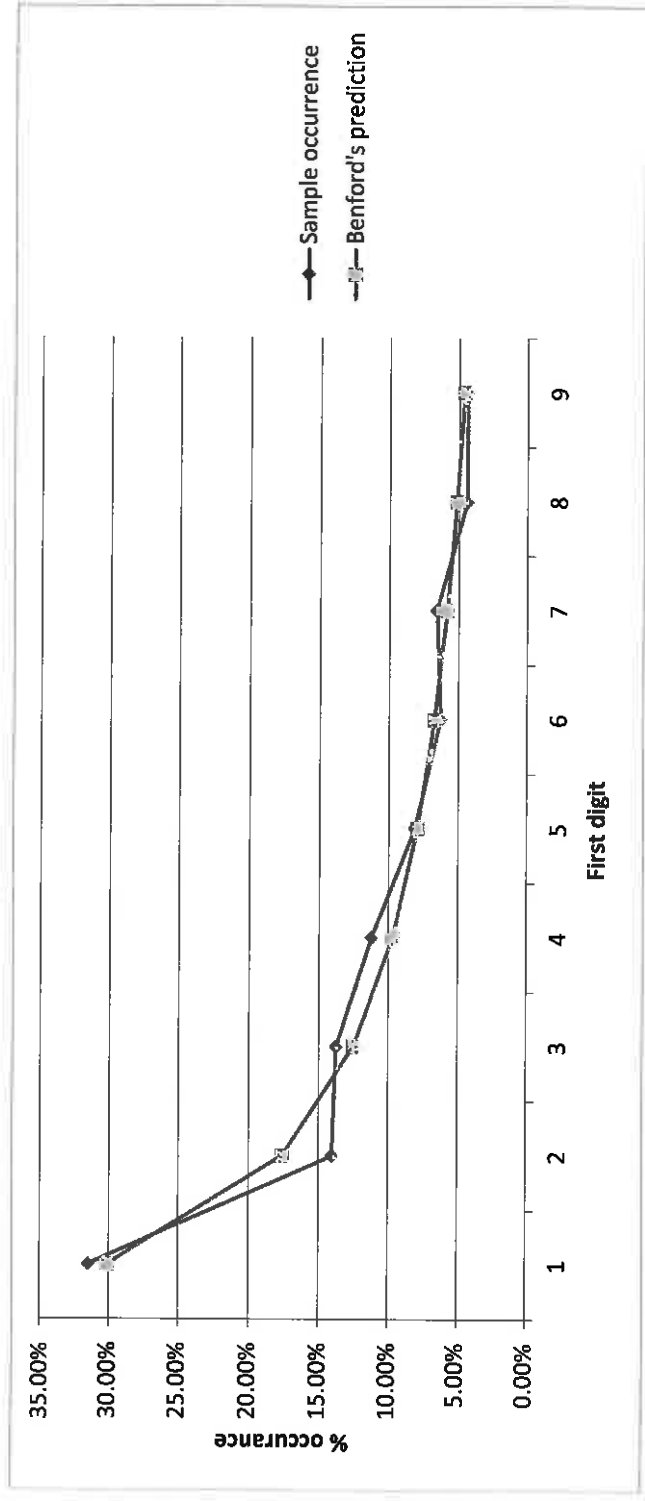
grantt@altrogco.com

907-274-2992

Count of 1st digit	
1st digit	Total
1	31.46%
2	14.02%
3	13.71%
4	11.21%
5	8.10%
6	6.23%
7	6.54%
8	4.36%
9	4.36%
Grand Total	100.00%

First digit	Sample occurrence	Benford's prediction
1	31.46%	30.10%
2	14.02%	17.61%
3	13.71%	12.49%
4	11.21%	9.69%
5	8.10%	7.92%
6	6.23%	6.69%
7	6.54%	5.80%
8	4.36%	5.12%
9	4.36%	4.58%

Number of observations 324.00



Original TB Example

Acct #	Description	Balance
100.000.000.000.010	Borough Appropriation	(735,594.00)
100.000.000.000.030	EARNING ON INVESTMENT	(29,616.55)
100.000.000.000.040	Other Local Rev	(64,051.01)
100.000.000.000.047	SLC (Erate) Rev	(538,338.02)
100.000.000.000.050	Foundation/TRS/PERS Revenue	(9,882,944.50)
100.000.000.000.090	OTHER STATE REVENUE	(304,279.03)
100.000.000.000.110	IMPACT AID REVENUE	(1,668,948.68)
100.000.000.000.611	GENERAL DISBURSEMENT ACCT	(1,359,901.62)
100.000.000.000.612	SWEEP ACCOUNT	3,053,653.87
100.000.000.000.614	TCD INVESTMENT ACCOUNT	3,356,943.42
100.000.000.000.615	PAYROLL DISBURSEMENT ACCT	(376,215.98)
100.000.000.000.616	HEALTH PAYMENT ACCOUNT	
100.000.000.000.617	HEALTH INS PAYMENT ACCT	
100.000.000.000.618	TIME VALUE MONEY MARKT	50,356.58
100.000.000.000.619	SAVINGS ACCOUNT	2,594.30
100.000.000.000.631	A/R - Telalaska	1,466.45
100.000.000.000.633	A/R - Alascom	458.87
100.000.000.000.634	A/R - Bristol Bay Telephone	4,146.58
100.000.000.000.637	Accrued Interest	7,005.58
100.000.000.000.650	INVENTORY	216,636.64
100.000.000.000.662	Prepayments	242,834.81
100.000.000.000.667	Borough Receivable	4,645.88
100.000.000.000.710	ACCOUNTS PAYABLE	(321,059.01)
100.000.000.000.720	Payroll Related Payables	(161,194.09)
100.000.000.000.730	ACCRUED LEAVE PAYABLE	(17,257.59)
100.000.000.000.760	DEFERRED REVENUE	(204,667.07)
100.000.000.000.770	(DUE TO)/DUE FROM	(556,804.50)
100.000.000.000.800	FUND BALANCE	(4,542,570.84)
100.000.000.103.040	OTHER LOCAL REVENUE	(252,291.09)
100.000.000.107.040	OTHER LOCAL REVENUE	(6,877.91)
100.000.000.669.040	OTHER LOCAL REVENUE	(241,780.77)
100.000.100.000.310	CERTIFICATED SALARIES	2,227,990.18
100.000.100.000.320	NON-CERTIFICATED SALARIES	220,159.36
100.000.100.000.350	FRINGE BENEFITS	1,624,284.28
100.000.100.000.380	HOUSING ALLOWANCE/SUBSIDY	286,961.54
100.000.100.000.390	TRANSPORTATION ALLOWANCE	36,310.76
100.000.100.000.420	TRAVEL & STIPENDS	45,359.61
100.000.100.000.425	Student Travel & Stipends	89,302.01
100.000.100.000.430	UTILITIES	100,018.99
100.000.100.000.450	SUPPLIES & MATERIALS	142,120.00
100.000.100.000.490	OTHER EXPENSE & INDIRECT	1,500.00
100.000.100.000.510	EQUIPMENT	6,490.00
100.000.100.100.450	SUPPLIES & MATERIALS	97,934.51
100.000.100.101.320	NON-CERTIFICATED SALARIES	706.10

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Fund Type	Acct #				Description
GEN	100	XXX	110	100-XXX-110	IMPACT AID REVENUE
GEN	100	100	310	100-100-310	CERTIFICATED SALARIES
GEN	100	104	310	100-104-310	ACCOUNTS PAYABLE
GEN	100	200	310	100-200-310	CERTIFICATED SALARIES
GEN	100	300	310	100-300-310	CERTIFICATED SALARIES
GEN	100	350	310	100-350-310	CERTIFICATED SALARIES
GEN	100	400	310	100-400-310	CERTIFICATED SALARIES
GEN	100	510	310	100-510-310	CERTIFICATED SALARIES
GEN	100	700	310	100-700-310	CERTIFICATED SALARIES
GEN	100	100	320	100-100-320	NON-CERTIFICATED SALARIES
GEN	100	200	320	100-200-320	NON-CERTIFICATED SALARIES
GEN	100	350	320	100-350-320	NON-CERTIFICATED SALARIES
GEN	100	450	320	100-450-320	NON-CERTIFICATED SALARIES
GEN	100	510	320	100-510-320	NON-CERTIFICATED SALARIES
GEN	100	511	320	100-511-320	NON-CERTIFICATED SALARIES
GEN	100	550	320	100-550-320	NON-CERTIFICATED SALARIES
GEN	100	600	320	100-600-320	NON-CERTIFICATED SALARIES
GEN	100	700	320	100-700-320	NON-CERTIFICATED SALARIES
GEN	100	100	350	100-100-350	FRINGE BENEFITS
GEN	100	104	350	100-104-350	FRINGE BENEFITS
GEN	100	200	350	100-200-350	FRINGE BENEFITS
GEN	100	220	350	100-220-350	FRINGE BENEFITS
GEN	100	300	350	100-300-350	FRINGE BENEFITS
GEN	100	350	350	100-350-350	FRINGE BENEFITS
GEN	100	400	350	100-400-350	FRINGE BENEFITS
GEN	100	450	350	100-450-350	EMPLOYEE BENEFITS
GEN	100	510	350	100-510-350	FRINGE BENEFITS
GEN	100	511	350	100-511-350	FRINGE BENEFITS
GEN	100	550	350	100-550-350	FRINGE BENEFITS
GEN	100	600	350	100-600-350	FRINGE BENEFITS
GEN	100	700	350	100-700-350	FRINGE BENEFITS
GEN	100	100	380	100-100-380	HOUSING ALLOWANCE/SUBSIDY
GEN	100	200	380	100-200-380	HOUSING ALLOWANCE/SUBSIDY
GEN	100	300	380	100-300-380	HOUSING ALLOWANCE/SUBSIDY
GEN	100	350	380	100-350-380	HOUSING ALLOWANCE/SUBSIDY
GEN	100	400	380	100-400-380	HOUSING ALLOWANCE/SUBSIDY
GEN	100	100	390	100-100-390	TRANSPORTATION ALLOWANCE
GEN	100	200	390	100-200-390	TRANSPORTATION ALLOWANCE
GEN	100	300	390	100-300-390	TRANSPORTATION ALLOWANCE
GEN	100	350	390	100-350-390	TRANSPORTATION ALLOWANCE
GEN	100	400	390	100-400-390	TRANSPORTATION ALLOWANCE
GEN	100	510	390	100-510-390	TRANSPORTATION ALLOWANCE
GEN	100	550	390	100-550-390	TRANSPORTATION ALLOWANCE
GEN	100	600	390	100-600-390	TAXABLE TRAVEL BENEFITS

Example SD
Cash Disbursements
June 30, 2017

Number	Date	Payee	Amount	G/L Account(s)	Description	Tickmarks			
						A	B	C	D
90218	7/31/2016	GCI	100	100 100.430	phone service				
90400									
90908									
91684									
91780									
92073									
90108									
91786									
91334									
90738									
90267									
91527									
91787									
91921									
91434									
90384									
91254									

The next few are Extras

90946
91050
91964
90270

- A. Requisition Form and/or Invoice has proper approval and coding.
- B. All checks have two signatures, the Superintendent and one board Member, indicating review of payment
- C. Vendor support agrees with disbursement and receiving report is attached to check.
- D. Disbursement is correctly posted to the general ledger in terms of amount, coding and timing.

Example SD
Payroll Testwork
June 30, 2017

Type	Number	Date	Payee	Amount	G/L Account(s)	Description	Tickmarks			
							A	B	C	D
DD	11893	7/31/2016	Bob Jenkins	1,504.28	100 100 320	teacher				
DD	12258									
DD	11912									
DD	11942									
DD	12945									
DD	12194									
DD	11698									
DD	12762									
DD	11509									

The next few are Extras

Check 39998
DD 12858
DD 12706
Check 39833

- A. Payroll checks are for authorized employees and are supported by an approved timecard.
- B. Rate of pay/contract matches check and hours match timecard.
- C. Pay is properly coded to various grants according to timecards and personnel file documentation.
- D. Personnel file is complete with W-4, I-9, rate/contract documentation, deductions, etc.

Example SD
Material Checks- Equal to/or Great Than \$25,000
June 30, 2017

Number	Date	Payee	Amount	G/L Account(s)	Description	Tickmarks			
						A	B	C	D
	7/31/2016	Scholastic	25,000.00	100.100.460	books				

- A. Requisition Form and/or Invoice has proper approval and coding.
- B. All checks have two signatures, the Superintendent and one board Member, indicating review of payment
- C. Vendor support agrees with disbursement and receiving report is attached to check.
- D. Disbursement is correctly posted to the general ledger in terms of amount, coding and timing.

Example SD
Cash Receipt
June 30, 2017

Number	Date	Payee	Amount	G/L Account(s)	Description	Tickmarks			
						A	B	C	D
2595									
2570	7/31/2016	John Q. Public	6.75	100.100.090	lunch sales				
2631									
2601									
2591									
2577									
2569									
2605									
2590									
2572									

The next few are Extras

2584
2624
2625
2566
2585

- A. Check coding match computer printout or verification of wire transfer.
- B. Check(s) and supporting documentation match deposit receipt.
- C. Cash receipt is correctly coded in G/L as to amount, timing, and account coding.

5/31/2017

Alaska CNP Programs

Alaska Department of Education
Division of Early Development

Food Distribution Program

Program Logoff

Summary Maintenance Resources

Home > RA Summary > RA Survey

Commodities Revenue

Program Year: 2017 Program: NSLP RA 03001 - Lake and Po

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Recipient Agency
Summary

(03001)

Alloc Id	Product Code	Product Description	Alloc Qty	Recv Qty	Date Received	USDA Value	Processing Fee	Total Value
3483	100158	Beef Fine Ground Frz Ctn-40 Lb 40 LB CTN	35	35	09/22/2016	121.70	0.00	4,259.50
3514	110322	Beef Patty Cooked, 2.0MMA 40# ctn	47	47	10/31/2016	106.73	0.00	5,016.31
3520	110473	Broccoli frozen 30# 30# ctn	40	40	10/31/2016	36.99	0.00	1,479.60
3478	100012	Cheddar, Redu Fat Shred Y 6/5 LB	19	19	09/22/2016	66.20	0.00	1,257.80
3474	100021	Cheese Mozzarella Shredded 30# ctn	10	10	09/22/2016	56.48	0.00	564.80
3481	100117	Chicken Fajita Strips Ctn-30 Lb 30 LB CTN	50	50	10/13/2016	50.27	0.00	2,513.50
3479	100101	Chicken, Diced 40 LB CTN	50	50	09/29/2016	84.29	0.00	4,214.50
3509	100356	Potato Wedges, Fat Free, Frozen 6/5 LB PKG	40	40	11/30/2016	19.82	0.00	792.80
3513	110208	White Whole Wheat Flour 25# bags	23	23	09/22/2016	6.83	0.00	157.09

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\$ 20,255.90

A-00 255

FY2014 Annual Leave Balance Accrual
Final as of 6/30/2014

Name

hrs/days	rate	amount	account
4.81	32.53	156.47	100.. .550.000.324
17.97	26.84	482.31	100.. .550.000.324
0.58	22.37	12.97	100.. .600.000.324
46.15	21.55	994.53	100.. .550.000.324
50.45	31.25	1,576.56	100.. .550.000.324
420.36	23.18	9,743.94	100.. .350.000.324
37.04	29.26	1,083.79	100.. .600.000.325
11.2	29.26	327.71	100.. .600.000.325
0	34.97	-	100.. .600.000.325
0.08	32.53	2.60	100.. .600.000.325
0	439.46	-	100.. .510.000.311
		<u>14,380.88</u>	

Total traced to supporting docs 9,743.94 68%
14,380.88

Example SD

Statement of Compliance - AS 14.17.505

Year Ended June 30, 2017

	School Operating Fund		
	Reserved Fund <u>Balance</u>	Unreserved Fund <u>Balance</u>	<u>Total</u>
Encumbrances	\$ 91,879	-	91,879
Inventory	167,499	-	167,499
Prepaid items	626,961	-	626,961
Impact Aid Assistance	822,238	-	822,238
Self insurance	450,000	-	450,000
Designated for subsequent year's expenditures	-	1,421,433	1,421,433
	<u>\$ 2,158,577</u>	<u>1,421,433</u>	<u>3,580,010</u>

Unreserved fund balance as a percentage of current year expenditures and other uses:

$$\frac{\text{Unreserved fund balance}}{\text{Current year expenditures}} = \frac{1,421,433}{14,742,711} = 9.64\%$$

This Statement of Compliance is prepared in accordance with the regulations specified in AS 14.17.505 which is another basis of accounting other than generally accepted accounting principles.

DEPARTMENT OF EDUCATION

CFDA 84.041 IMPACT AID (Title VIII of ESEA)

I. PROGRAM OBJECTIVES

The objective of the Impact Aid Program (IAP) under Title VIII of the Elementary and Secondary Education Act (ESEA) is to provide financial assistance to local educational agencies (LEAs) whose local revenues or enrollments are adversely affected by Federal activities. These activities include the Federal acquisition of real property (Section 8002) or the presence of children residing on tax-exempt Federal property or residing with a parent employed on tax-exempt Federal property ("federally connected" children) (Section 8003).

II. PROGRAM PROCEDURES

Funds are provided on the basis of statutory criteria and data supplied by LEAs in applications submitted to the Department of Education (ED), with copies provided simultaneously to the State educational agency (SEA). ED makes payments directly to the LEA. Generally, payments under Section 8003 of the ESEA are based on membership and attendance counts of federally connected children, with additional funds provided for certain federally connected children with disabilities and children residing on Indian lands. Payments under Section 8002 of the ESEA are based on the estimated taxable value of eligible Federal property and the applicable tax rate, and, in case of insufficient funds, upon a statutory formula that considers past year payments. Except for the additional funds provided for federally connected children with disabilities under Section 8003(d) of the ESEA, funds provided under Sections 8002 and 8003 are considered general aid and generally have no restrictions on their expenditure. Any formula funds that are provided under Section 8007(a) of the ESEA to certain LEAs that received Section 8003 payments must be used for construction, as defined in the statute. Any discretionary construction grant funds that are provided under Section 8007(b) of the ESEA to certain LEAs that received Section 8002 or 8003 payments must be used for emergency repairs or modernization, as defined in the statute and regulations.

Source of Governing Requirements

This program is authorized by Sections 8001-8014 of the ESEA, which is codified at 20 USC 7701 through 7714. Implementing regulations are 34 CFR part 222.

Availability of Other Program Information

Additional information on this program may be found at <http://www.ed.gov/about/offices/list/ose/programs.html>. The Impact Aid statute may be found at pages 528-576 of the following link: <http://legcounsel.house.gov/Comps/Elementary%20And%20Secondary%20Education%20Act%20Of%201965.pdf>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. Activities Allowed or Unallowed	B. Allowable Costs/Cost Principles	C. Cash Management	E. Eligibility	F. Equipment and Real Property Management	G. Matching, Level of Effort, Earmarking	H. Period of Performance	I. Procurement and Suspension and Debarment	J. Program Income	L. Reporting	M. Subrecipient Monitoring	N. Special Tests and Provisions
Y	Y	N	N	N	Y	N	N	N	Y	N	Y

A. Activities Allowed or Unallowed

1. *Section 8003(d) – Federally connected children with disabilities*

LEAs must use the payments provided under Section 8003(d) of the ESEA to conduct programs or projects for the free, appropriate public education of the federally connected children with disabilities who generated those funds.

Allowable costs include expenditures reasonably related to the conduct of programs or projects for the free, appropriate public education of children with disabilities, including program planning and evaluation and acquisition costs of equipment, except when the title to that equipment would not be held by the LEA. Costs for school construction are not allowable (Section 8003 of ESEA, 34 CFR section 222.53(c)).

2. *Section 8007 – Construction*

LEAs that receive payments under Section 8003 of the ESEA and that meet certain other statutory criteria may receive formula assistance under Section 8007(a) of the ESEA in any fiscal year that the Congress appropriates funds under that Section. LEAs must use the payments provided under Section 8007(a) for construction, as defined in Section 8013(3) of the ESEA. Under Section 8013(3), the term “construction” includes: (a) the preparation of drawings and specifications for school facilities; (b) erecting, building, acquiring, altering, remodeling, repairing, or extending school facilities; (c) inspecting and supervising the construction of school facilities; and (d) debt service for such activities (Sections 8007 and 8013(3) of ESEA). Certain LEAs that receive payments under section 8002 or 8003 of the ESEA and that meet other statutory and regulatory criteria may receive discretionary grant assistance under Section 8007(b) of the ESEA. Selected grantees must use these funds for emergency or modernization construction grant expenditures, as specified in their grant award documents. Emergency and modernization are defined in 34 CFR section

222.176 and the allowable and unallowable uses of these funds are detailed in 34 CFR sections 222.172 through 222.174.

3. *Section 8002 – Federal property payments and Section 8003(b) – Basic support payments*

Funds made available under Sections 8002 and 8003(b) of the ESEA usually become part of the general operating fund of the LEAs. These funds are available as general aid for free public education and may be used for current operating expenditures or capital outlays in accordance with State laws. The auditor is not expected to perform any tests with respect to the expenditure of these funds.

B. Allowable Costs/Cost Principles

Sections 8002 (Federal property payments) and 8003(b) (Basic support payments) are not subject to the A-102 Common Rule (see Appendix I to the Supplement) or OMB Circular A-87, or subparts D or E of 2 CFR part 200.

G. Matching, Level of Effort, Earmarking

1. **Matching** – Not Applicable

2.1 **Level of Effort** – *Maintenance of Effort* – Not Applicable

2.2 **Level of Effort** – *Supplement Not Supplant*

Section 8003(d) funds may not supplant any State funds (either general or special education State aid) that were or would have been available to the LEA for the free, appropriate public education of federally connected children with disabilities counted under Section 8003(d). A reduction in the per-pupil amount of State aid for children with disabilities, including children counted under Section 8003(d), from that received in the previous year raises a presumption that supplanting has occurred. An LEA can rebut this presumption by demonstrating that the reduction was unrelated to the receipt of Section 8003(d) funds (Section 8003(d) of ESEA; 34 CFR section 222.54).

3. **Earmarking** – Not Applicable

L. Reporting

1. **Financial Reporting** – Not Applicable

2. **Performance Reporting** – Not Applicable

3. **Special Reporting**

Application for Impact Aid – Section 8003 (OMB No. 1810-0687) – Each year an LEA must submit this application, which provides the following information: counts of federally connected children in various categories, membership and average daily attendance data, and information on expenditures for children with

disabilities. Membership and average attendance data should be tested. The auditor should use professional judgment when determining which tables to test, taking into account the relative materiality of the number of children reported in other tables. (Note: Eligible LEAs submit a separate application for Section 8002 or Section 8007(b) funding. The auditor is not expected to perform any tests with respect to the Section 8002 or Section 8007(b) applications.)

N. Special Tests and Provisions

1. Wage Rate Requirements

Compliance Requirement - Section 8007 construction funds, as well as any Section 8002 or 8003(b) funds spent for construction or minor remodeling, are subject to Wage Rate Requirements (20 USC 1232b).

See Wage Rate Requirements Cross-Cutting Section (page 4-20.001-1).

2. Required Level of Expenditure

Compliance Requirement – For each fiscal year, the amount of expenditures for special education and related services provided to federally connected children with disabilities must be at least equal to the amount of funds received or credited under Section 8003(d) of the ESEA for that fiscal year. This is demonstrated by comparing the amount of Section 8003(d) funds received or credited with the result of the following calculation:

- a. Divide total LEA expenditures for special education and related services for all children with disabilities by the average daily attendance (ADA) of all children with disabilities served during the year.
- b. Multiply the amount determined in paragraph a, above, by the ADA of the federally connected children with disabilities claimed by the LEA for the year.

If the amount of section 8003(d) funds received or credited is greater than the amount calculated above, an overpayment equal to the excess section 8003(d) funds exists. This overpayment may be reduced or eliminated to the extent that the LEA can demonstrate that the average per pupil expenditure for special education and related services provided to federally connected children with disabilities exceeded its average per pupil expenditure for serving non-federally connected children with disabilities (Section 8003(d) of ESEA; 34 CFR section 222.53(d)).

Audit Objective – Determine whether the LEA met the required level of expenditure for providing special education and related services to federally connected children with disabilities.

Suggested Audit Procedures

- a. Review the LEA's calculation to ascertain if it shows that the required level of expenditure for federally connected children was met. Check accuracy of calculation.

- b. Trace amounts used in the calculation to supporting records.
- c. If the LEA's calculation shows that an overpayment was made, verify that the average per pupil expenditure for federally connected children with disabilities exceeded the average per pupil expenditure for non-federally connected children to the extent of the overpayment.

PROGRAM 5 – PUBLIC SCHOOL FUNDING PROGRAM

DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT

I. PROGRAM OBJECTIVES

The objective of the Public School Funding Program is to provide State operating funds to school districts for the education of all school age children enrolled in public schools in Alaska.

II. PROGRAM PROCEDURES

The Department provides funds to public school districts in accordance with the procedures outlined in AS 14.17. These funds are calculated based on the district's average daily membership (ADM) determined during a 20-school-day count period ending the fourth Friday in October and are distributed to school districts in scheduled payments throughout the fiscal year.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. TYPES OF SERVICES ALLOWED OR UNALLOWED -

Compliance Requirement: Funds can be expended for the administration and operation of the district's educational programs for elementary and secondary students. Funds must be budgeted, expended, and accounted for in accordance with requirements established in AS 14.17.520 and 4 AAC 06.120, and the policies and procedures established by the local school district.

Suggested Audit Procedures:

Test a sample of transactions to determine whether expenditures were spent for public education purposes and are classified in accordance with the Alaska Department of Education & Early Development Uniform Chart of Accounts and Account Code Descriptions for Public School Districts (DEED Chart of Accounts).

B. ELIGIBILITY -

Compliance Requirement: Each public school district in Alaska is eligible to receive funds from the State in accordance with the requirements and procedures established by AS 14.17.

Suggested Audit Procedures: The auditor is not expected to test for eligibility.

C. MATCHING, LEVEL OF EFFORT AND/OR EARMARKING REQUIREMENTS -

Compliance Requirement: City or borough school districts must fund its required local contribution every fiscal year pursuant to AS 14.17.410.

Suggested Audit Procedures:

Test accounting records to ascertain that actual appropriations made by a city or borough to its school district were equal to the required local contribution, as approved by DEED, for the year under audit; and that lapsed local appropriations returned to the city or borough by the school district, if any, are

PROGRAM 5 – PUBLIC SCHOOL FUNDING PROGRAM

DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT

netted against current year local appropriation. Review records to determine the school district reported its city or borough appropriations in accordance with DEED Chart of Accounts requirements.

- a) If in-kind services were used to meet a portion of the required local contribution, test records to corroborate that goods and services reported as in-kind contribution meet the criteria for recognition in accordance with U.S. GAAP and follow the guidelines set by the DEED's Chart of Accounts.

D. REPORTING REQUIREMENTS -

1. **Compliance Requirement:** AS 14.17.500 requires each public school district to submit by November 5 an estimate of its ADM and other student count data for the succeeding fiscal year. In making this estimate, the district is to consider its ADM, other student count data, the pattern of growth or decline of the student population in preceding years, and other pertinent information available to the school district.

Suggested Audit Procedures:

- a) Gain an understanding of and evaluate the school district's procedures for preparing the report and that the school district considers relevant factors when arriving at an estimate of next year's enrollment; and
 - b) Review the report for completeness and timeliness of submission.
2. **Compliance Requirement:** As per AS 14.17.600, within two weeks after the end of the 20-school-day period ending the fourth Friday in October, each public school district shall transmit a report to the Department that reports its ADM for that counting period, along with other student count information needed to determine state foundation aid.

Student Data Reporting Manual 4 AAC 06.120(a)(4) provides regulatory guidance on student enrollment and attendance records and reporting of student counts used in calculation of ADM.

Suggested Audit Procedures:

- a) Gain and document an understanding of the District's internal control environment over the maintenance of student records and membership count procedures for determining accuracy, validity, and completeness of information reported to DEED.

As part of this walkthrough, ascertain that the district is following the guidelines outlined in DEED's Student Data Reporting Manual and regularly trains its staff on On-Line Alaska School Information System (OASIS) data entry procedures with respect to reporting student data.

PROGRAM 5 – PUBLIC SCHOOL FUNDING PROGRAM

DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT

- b) Select a sample of student counts reported to DEED during the year under audit. When selecting a sample, consider factors such as students' enrollment in correspondence programs and school sites reporting 10-16 ADM or 101-110 ADM. Test the following data elements for adequate support, completeness and compliance with DEED's Student Data Reporting Manual guidelines:
 - i. FTE Enrollment Level - Trace data back to the supporting documentation, which may include enrollment forms (for newly enrolled students in the current fiscal year) and student class schedules.
 - ii. Membership Days – trace data back to the student attendance records.

E. SPECIAL TESTS AND PROVISIONS -

Compliance Requirement: All moneys in the year-end fund balance of a district's school operating fund are subject to the 10 percent limit of AS 14.17.505(a) except for funds that are categorized in 4 AAC 09.160(a).

Suggested Audit Procedures:

- a) Review the fund balance subject to the 10 percent limit and determine the percentage total this fund balance represents of that fiscal year's expenditures; and
- b) Test transfers from the General Fund to determine that they were reasonable and necessary for public education purposes.

PROGRAM 6 – PUPIL TRANSPORTATION

DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT

I. PROGRAM OBJECTIVES

Authorized under AS 14.09, these funds are provided for the purpose of pupil transportation to and from schools within the student's transportation service area within the district.

II. PROGRAM PROCEDURES

The Department provides funds to public school districts pursuant to AS 14.09.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. TYPES OF SERVICES ALLOWED OR UNALLOWED -

Compliance Requirement: Funds may be expended for the direct costs of operation of the district's pupil transportation programs within the limitations of 4 ACC 27.

Suggested Audit Procedure: Test a sample of transactions to determine whether expenditures are necessary and reasonable for the operation of the program, and are authorized or not prohibited under 4 ACC 27 or transportation contract; and are classified in accordance with the Alaska Department of Education & Early Development Uniform Chart of Accounts and Account Code Descriptions, 2014 Edition, for Pupil Transportation Fund and student transportation functions 760-762.

B. ELIGIBILITY -

Compliance Requirement: Each school district in Alaska operating an approved pupil transportation program is eligible to receive funds in accordance with AS 14.09.

Suggested Audit Procedure: Determine that the district operated a transportation program.

C. MATCHING, LEVEL OF EFFORT AND/OR EARMARKING REQUIREMENTS –

There is no matching, level of effort, or earmarking requirement.

D. REPORTING REQUIREMENTS -

Compliance Requirement: 4 AAC 27.056 states districts shall submit the following performance reports:

- Pupil transportation program annual report to the Department not later than October 1 each year.
- Pupil transportation quarterly report shall be submitted no later than 15 days after the end of each quarter.

Suggested Audit Procedures: Test timeliness and accuracy of report elements to supporting documentation.

PROGRAM 6 – PUPIL TRANSPORTATION

DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT

E. SPECIAL TESTS AND PROVISIONS -

Compliance Requirement: Revised regulations 4 AAC 27 were signed into law June 30, 2014. Regulation 4 AAC 27.086 requires specific language to be included in all school districts' pupil transportation requests for proposals (RFP's).

Suggested Audit Procedures: Determine school transportation RFP's are written in accordance with the procurement requirements set out in 4 AAC 27.086.