

Kentucky Public School Districts' Audit Contract and Requirements

Fiscal Year 2016-2017

March 23, 2017

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Introduction

The Kentucky Department of Education (KDE) is sending the enclosed audit contract and supporting documents to school districts on behalf of the State Committee for School District Audits (SCSDA). The purpose of the supporting documents is to provide information and tools to local school districts and independent auditors to assist in the completion of fiscal year 2017 audits.

District and Auditor Helpful Resources

- Financial Audit Contract Information:
<http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx>
- District Financial Audits:
<http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audits.aspx>
- KDE District/School Support:
<http://education.ky.gov/districts/Pages/default.aspx>
- KDE District/School Support - District Financial Reporting:
<http://education.ky.gov/districts/FinRept/Pages/default.aspx>
- MUNIS Support and Guides:
<http://education.ky.gov/districts/Pages/MUNIS-Guides.aspx>

Auditor Alert

This section includes, but is not limited to, the following high risk areas that auditors should consider when conducting a school district's annual financial audit.

- Auditors are strongly encouraged to review the Auditor of Public Accounts' webpage located at <http://auditor.ky.gov/Pages/default.aspx> to determine if any reports have been issued for a school district and to identify potential high risk areas that may need to be examined during any school district audit.
- 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.
- 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.

- Auditors should be aware that the Single Audit expenditure threshold was raised to \$750,000, beginning with FYE 2016. In addition 2 CFR 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is effective for new federal awards or some funding increments issued on or after December 26, 2014. This is a staggered implementation since both old and new guidance for compliance requirements will be in effect based on date of awards and incremental funding dates. Therefore, it is possible that the same federal program could be tested under both sets of compliance requirements depending on when the funds were awarded.
- Auditors should not submit multiple unsolicited versions of Audit Reports. Auditors shall notify KDE prior to resubmitting.
- Desk Review of Audits - Auditors **shall correct** technically deficient 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.

- MUNIS Financial System and Uniform Chart of Accounts – 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 2016-2017 MUNIS COA coding/segment when recommending journal entries to districts [Example: org – object – project]. The Uniform COA is located on the KDE website at <http://education.ky.gov/districts/FinRept/Pages/Fund%20Balances,%20Revenues%20and%20Expenditures,%20Chart%20of%20Accounts,%20Indirect%20Cost%20Rates%20and%20Key%20Financial%20Indicators.aspx>
- Management Letter Comments Spreadsheet - If the audit report consists of management letter comments, the auditor shall complete the Management Letter Comments spreadsheet located on the KDE website at <http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx>. The Management Letter Comments spreadsheet is an additional requirement for fiscal year 2016-2017. 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.

Independent Auditor's Contract

To provide for a school district audit in compliance with KRS 156.255, 156.265, 156.275, 156.285, 156.295, and 156.480, this agreement is entered into for audit period ending June 30, 2017, between the Todd County Board of Education (BOARD), and Carr, Riggs & Ingram, LLC, (ACCOUNTANT), who is a Certified Public Accountant or a Public Accountant registered with the Kentucky State Board of Accountancy.

I. DUTIES OF ACCOUNTANT

- A. The ACCOUNTANT shall render an opinion on the financial statements of the BOARD for fiscal year 2016-2017. The scope and nature of the audit shall be in accordance with the Auditor Responsibilities and State Compliance Requirements. These requirements are incorporated as a part of this agreement.
- B. ACCOUNTANT shall address the audit report and written comments to the BOARD and to the State Committee for School District Audits (COMMITTEE).
- C. ACCOUNTANT shall deliver the audit report in accordance with Section VII.A. DELIVERY OF AUDIT REPORT. If the audit report cannot be timely submitted, the ACCOUNTANT shall submit an Audit Extension Request in accordance with Section VI.A. AUDIT EXTENSION REQUEST.

II. DUTIES OF BOARD

- A. The BOARD shall make available to the ACCOUNTANT no later than August 2, 2017, all books, accounts, reports, vouchers, correspondence files, records, money, and property under its control which may be requested by the ACCOUNTANT in the course of performing the audit.

III. AUTHORITY OF COMMITTEE

- A. The COMMITTEE and the Kentucky Department of Education (KDE) may examine work papers of the ACCOUNTANT and may perform quality control reviews of the audit procedures utilized during the course of the audit;
- B. The COMMITTEE and the BOARD may prohibit the use of any subcontractor by the ACCOUNTANT in their sole discretion. During the term of the contract, no subcontractor shall be used without the prior written approval of the COMMITTEE and the BOARD; and
- C. The COMMITTEE will consider Audit Extension Requests submitted by ACCOUNTANT prior to October 1, 2017. Provided the COMMITTEE determines the delay is unavoidable and due to factors beyond the ACCOUNTANT'S control, the COMMITTEE may, in their sole discretion, allow for the audit to be submitted to KDE without penalty after the November 15, 2017 due date.

IV. COMPENSATION

- A. The ACCOUNTANT shall be paid an amount agreed upon between the ACCOUNTANT and the BOARD, consistent with the Audit Acceptance Statement, which is incorporated herein by reference, for the successful completion of the work defined by this agreement.
- B. Final payment is predicated upon completion of the work as described in Section I. DUTIES OF ACCOUNTANT and delivery of documentation as described in Section VII. DELIVERY OF AUDIT REPORT.
- C. Compensation to the ACCOUNTANT in excess of the amount stated on the AUDIT ACCEPTANCE STATEMENT must be approved by the COMMITTEE if said increase exceeds \$1,000 or 10% of the audit fee, whichever is less. The ACCOUNTANT must submit a written explanation to the BOARD and the COMMITTEE for the requested increase in compensation before the COMMITTEE will consider any increase. The requested increase and written explanation must

be submitted to the Board and Committee no later than submission of ACCOUNTANT's invoice for payment.

- D. The ACCOUNTANT shall submit to the BOARD an invoice for payment which shall be signed by the ACCOUNTANT and contain adequate supporting documentation such as: **detail of hours worked by each auditor classification (e.g., partner, manager, supervisor, senior, staff, etc.) in major audit areas or supervisory/administrative functions.**

V. SUPPLEMENTAL AGREEMENTS

- A. The scope of the audit may be increased or decreased by written supplemental agreement between the BOARD and the ACCOUNTANT, if the reasons for the increase or decrease have first been reported in writing by the ACCOUNTANT to the COMMITTEE and the COMMITTEE approves the increase or decrease. The audit fee may be adjusted for the increase or decrease in the scope of the audit in accordance with Section IV.C. COMPENSATION.

VI. AUDIT EXTENSION REQUEST

- A. If the audit cannot be completed on or before November 15, 2017, due to factors beyond the control of the ACCOUNTANT, the ACCOUNTANT shall electronically submit an Audit Extension Request form, fully completed by both the ACCOUNTANT and the BOARD, to KDE on or before October 1, 2017. The form is provided in **Appendix I - Audit Extension Request**.

VII. DELIVERY OF AUDIT REPORT

- A. The ACCOUNTANT agrees to begin the audit of the BOARD on or before August 2, 2017 or 15 days from execution date of this contract, whichever is later, and further agrees to complete and deliver a signed paper copy of the audit report to the BOARD, one signed paper copy to the COMMITTEE in care of KDE, and an electronic copy to KDE in accordance with **Appendix II - Instructions for Submission of the Audit Report** on or before November 15, 2017, or at a later date approved by the COMMITTEE. All electronic and paper copies of the audit report must be received by KDE on or before November 15, 2017 for it to be considered filed timely. If the audit report has not been received by KDE on or before November 15, 2017 or by the later date approved by the COMMITTEE, the audit will be considered late and penalties as outlined in Section VIII. PENALTIES may be imposed at the discretion of the COMMITTEE.

VIII. PENALTIES

- A. There may be a 10% reduction of the audit fee if one or more of the following conditions occur: (1) the audit report is not submitted in accordance with VII.A. DELIVERY OF AUDIT REPORT; or (2) the audit report does not contain the information shown under Audit Report Requirements.
- B. The ACCOUNTANT may, in the sole discretion of the COMMITTEE, be ineligible to conduct a school district audit for the upcoming fiscal year if one or more of the conditions in section A occur.
- C. The COMMITTEE may, in its sole discretion, waive penalties for delays caused by circumstances beyond the control of the ACCOUNTANT.

IX. EFFECTIVE DATE

- A. This agreement, between the ACCOUNTANT and the BOARD, shall not become effective until this contract has been approved by the COMMITTEE and signed by the COMMITTEE Chair. This agreement is effective for the 2016-2017 fiscal year.

X. TERMINATION

- A. The BOARD shall have the right to terminate and cancel this contract at any time without cause upon 30 days written notice served on the ACCOUNTANT by registered or certified mail. The BOARD shall have the right to terminate and cancel this contract for cause upon five days written notice served on the ACCOUNTANT by registered or certified mail.
- B. If cause exists to terminate the contract, and the BOARD does not terminate, the COMMITTEE may terminate and cancel this contract for cause upon five days written notice served on the ACCOUNTANT by registered or certified mail.
- C. "Cause" includes, but is not limited to any of the following:
 1. Failure to commence work within 15 days of execution of the contract or on or before August 2, 2017, whichever is later;
 2. Previous history of extension requests by the same ACCOUNTANT for the same district;
 3. Failure to submit the audit on or before November 15, 2017;
 4. Failure to communicate to KDE timely about problems encountered in conducting the audit;
 5. Violation of any of the provisions in Section XI. REPRESENTATIONS AND WARRANTIES; or
 6. Failure to abide by any of the terms and conditions of this agreement.

Cause shall not include any factor wholly the fault of the BOARD.

XI. REPRESENTATION AND WARRANTIES

- A. The ACCOUNTANT is legally able and authorized to enter into contracts with the BOARD, including on behalf of any entity under which the ACCOUNTANT practices.
- B. The performance of this agreement would not violate any conflict of interest law, including but not limited to KRS 156.480.
- C. The ACCOUNTANT has no personal interest in the financial affairs of the BOARD or any of its officers or employees.

XII. MATERIALS INCORPORATED BY REFERENCE

- A. Any materials referred to herein are incorporated by reference and made a part of this contract, which shall include the materials attached hereto and supplied to the ACCOUNTANT, consisting of 30 pages.

THIS AGREEMENT ENTERED INTO AS DATED BELOW:

AGREED TO BY:

<u>Todd County</u> BOARD OF EDUCATION _____ BY: SCHOOL BOARD CHAIR DATE _____ SECRETARY DATE	<u>Carr, Riggs & Ingram, LLC</u> ACCOUNTANT/FIRM <i>Lang White</i> <u>4/6/17</u> BY: PARTNER DATE
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ACCEPTED BY:

STATE COMMITTEE FOR SCHOOL DISTRICT AUDITS

BY: STATE COMMITTEE CHAIR DATE

**One original audit contract signed in blue ink is due to KDE by close of business on May 28, 2017.
Please send to:**

**Division of District Support
Kentucky Department of Education
300 Sower Blvd, 4th Floor
Frankfort, KY 40601**

Annual Cycle for Local School District Audits

DUE DATE	RESPONSIBLE PARTY	REQUIRED INFORMATION
May 28	District	• FY 2016-2017 Audit Acceptance Statement web form, which includes the justification section for using the same auditor/audit firm for five consecutive years--electronically submit to KDE • One signed original contract to KDE • One signed paper copy of the latest peer review report and, if applicable, • One signed paper copy of any letter of response and KyCPA Peer Review Committee letter to KDE
June 22	State Committee for School District Audits	Approval of Audit Contracts
June 30	State Committee for School District Audits	Notification of approval or disapproval of the contract to the local BOARD
July 25	District	Initial Annual Financial Report (AFR) and Balance Sheet (electronic reports) to KDE
October 1	Auditor	Audit Extension Request to KDE
November 15	Auditor	Audit Reports: • One signed paper copy to school district • One signed paper copy & one electronic copy to KDE • One signed paper copy to Single Audit Clearinghouse See Appendix II for submission instructions.
November 15	District	Second AFR and Balance Sheet, which includes the Statement of Certification verification section, (electronic reports) to KDE. Copy of Second AFR and Balance Sheet to Auditor.
November 15 - March 1	KDE	Audit Reports, AFRs and Balance Sheets reviewed; corrective action plans received and monitored; Audit Reports, AFRs and Balance Sheets corrections received.
December 31 st or 45 days after district receives audit reports, whichever occurs first	District	Corrective action plan per 702 KAR 3:150 to KDE
March 28, 2018 or no later than 30 days after release of the auditor's report.	District	For Single Audits, one electronic copy of the Audit Report, along with the Data Collection Form, shall be submitted by the district, directly to the Single Audit Clearinghouse, in accordance with 2 CFR 200.
March – May 2018	KDE	Corrective action monitoring continues

Use the following address for mailing items to KDE:

Division of District Support
Kentucky Department of Education
300 Sower Blvd, 4th Floor
Frankfort, KY 40601

Statutory Authority of the State Committee for School District Audits

KRS 156.265 authorizes the State Committee for School District Audits (SCSDA) to conduct audits of the financial records of local boards of education. The audits shall be performed by a Certified Public Accountant (CPA), approved by the SCSDA, and conducted according to current auditing standards. Increases or decreases in the scope of the audit are addressed in the Supplemental Agreements section of the audit contract.

The SCSDA requires all local school boards to have an annual audit of the fiscal records and accounts under the board's control. The SCSDA shall notify the local board of education of approval or disapproval of the executed contract in accordance with the timeframe set forth in the "Annual Cycle for Local School District Audits."

156.255 Definitions for KRS 156.255 to 156.295.

As used in KRS 156.255 to 156.295:

- (1) "Accountant" means a certified public accountant or a public accountant registered with the State Board of Accountancy.
- (2) "Board" means the board of education of a school district.
- (3) "Committee" means the State Committee for School District Audits.
- (4) "State board" means the Kentucky Board of Education.

Effective: July 15, 1996

156.265 State Committee for School District Audits.

- (1) There shall be a State Committee for School District Audits comprised of the Governor, or a person designated by him, the Attorney General, the Auditor of Public Accounts, a person designated by the Legislative Research Commission to represent the Office of Education Accountability, and the commissioner of education. The Auditor of Public Accounts shall be the chair of the committee.
- (2) The committee shall have the accounts of each board audited not less than once every fiscal year. The committee also may, at any time, cause to be made a comprehensive and complete audit of any board. Upon the written request of the state board, the commissioner of education, the Attorney General, the Auditor of Public Accounts, the Governor, or the Office of Education Accountability, the committee may cause the accounts of a board to be audited. Each audit shall cover such period of time, and shall include such auditing procedures and standards, as the committee may designate.
- (3) Audits authorized under this section are in addition to any audits contemplated under KRS 11.090 or 156.200 or KRS Chapter 43.
- (4) The actual expense of any audit authorized under this section shall be borne equally by the district board of education and by the committee from funds allocated to it.*
- (5) The committee shall meet at least quarterly. Additional or special meetings may be called by the chair.

Effective: July 14, 2000

* No funds currently allocated.

156.275 Accountant -- Selection -- Reports.

- (1) The committee shall select, to make the audit authorized under KRS 156.265, accountants who are qualified under KRS Chapter 325 and the administrative regulations promulgated by the Kentucky State Board of Accountancy.
- (2) Immediately upon completion of each audit, the accountant shall prepare a report of his findings and recommendations in such form and in such detail as the committee may prescribe. The report shall be to the committee and in such number of copies as specified by the committee. The committee shall furnish one (1) copy to the Kentucky Board of Education, one (1) copy to the district board of education to which the report pertains, one (1) copy to the chief state school officer and one (1) copy to the Auditor of Public Accounts. The district board of education shall keep a copy of the report on file in the office of the superintendent of schools of the district and the report shall be open to inspection by any interested person, subject to reasonable rules as to time and place of inspection.

Effective: July 15, 1996

156.285 Access to records -- Witnesses -- Subpoena.

- (1) The accountant shall have access to and may examine all books, accounts, reports, vouchers, correspondence files, records, money, and property of any board. Every officer or employee of any such board having such records or property in his possession or under his control shall permit access to and examination of them upon the request of the accountant.
- (2) The committee may require information on oath from any person touching any matters relative to any account that the accountant is required to audit. The committee may administer the oath, or have it done by any officer authorized to administer an oath.
- (3) The committee may issue process and compel the attendance of witnesses before it, and administer oaths and compel witnesses to testify in any of the investigations the accountant is authorized to make.

Effective: July 15, 1994

156.295 Offenses -- Penalties.

- (1) Any officer or employee of a board or any other person who prevents, attempts to prevent, or obstructs an examination by the accountant made under KRS 156.265 and 156.275 is guilty of a high misdemeanor and shall, upon indictment and conviction in the Circuit Court of competent jurisdiction, be fined five hundred dollars (\$500).
- (2) Any person who fails or refuses to permit the examination provided for in KRS 156.285 or who interferes with such examination shall be fined not less than one hundred dollars (\$100) or imprisoned in the county jail for not less than one (1) month nor more than twelve (12) months, or both. Each refusal shall constitute a separate offense.
- (3) Any person who has custody of any books, accounts, reports, vouchers, correspondence, files, records, money, and property that the accountant is authorized to examine under KRS 156.265 and 156.285 who fails or refuses when called upon by the committee for that purpose to permit the accountant to inspect any of such materials shall, upon conviction in the Circuit Court of competent jurisdiction, be fined not more than five hundred dollars (\$500) and be subject to removal as provided by law.
- (4) Any person who refuses to be sworn when required by the committee to be sworn for the purpose mentioned in subsection (2) of KRS 156.285 shall be fined not more than five hundred dollars (\$500).

- (5) Any witness called by the committee under subsection (3) of KRS 156.285 who fails, without legal excuse, to attend or testify shall be fined not more than five hundred dollars (\$500).

Effective: July 15, 1994

156.480 Employees of department or school districts with decision-making authority prohibited from supplying goods or services for which school funds are expended -- Penalties.

- (1) No commissioner, associate commissioner, deputy commissioner, director, manager, purchasing agent, or other employee of the Department of Education with decision-making authority over the financial position of a school, school district, or school system shall have any pecuniary interest in the school, school district, or school system, either directly or indirectly, in an amount exceeding twenty-five dollars (\$25) per year, either at the time of or after his appointment to office, in supplying any goods, services, property, merchandise, or services, except personal services that are in addition to those required by contract for employment, of any nature whatsoever for which school funds are expended. If any person specified in this subsection receives, directly or indirectly, any gift, reward, or promise of reward for his influence in recommending or procuring the use of any goods, services, property, or merchandise of any kind whatsoever for which school funds are expended, he shall upon conviction be fined not less than fifty dollars (\$50) nor more than five hundred dollars (\$500), and his office or appointment shall without further action be vacant. **
- (2) No employee of any county or independent school district with decision-making authority over the financial position of the school district shall have any pecuniary interest, either directly or indirectly, in an amount exceeding twenty-five dollars (\$25) per year, either at the time of or after his appointment to office, in supplying any goods, services, property, merchandise, or services, except personal services that are in addition to those required by contract for employment, of any nature whatsoever for which school funds are expended. If any person specified in this subsection receives, directly or indirectly, any gift, reward, or promise of reward for his influence in recommending or procuring the use of any goods, services, property, or merchandise of any kind whatsoever for which school funds are expended, he shall upon conviction be fined not less than fifty dollars (\$50) nor more than five hundred dollars (\$500), and his office or appointment shall without further action be vacant.

Effective: July 15, 1994

** OAG 94-61 provides guidance for determining who has decision-making authority over the financial position of the school district.

Qualifications of The Independent Auditor

The auditor must be a certified public accountant licensed to practice in the Commonwealth of Kentucky, pursuant to KRS 325.261.

Competence

The audit firm should be currently registered with the Kentucky State Board of Accountancy and should have participated in an external quality control review at least once every three years. The auditor should have adequate training and experience in governmental accounting and be in good standing in the profession. The auditor in charge of the field work should have a practical working knowledge of applicable state and federal laws and regulations.

Independence

The American Institute of Certified Public Accountants (AICPA) and generally accepted government auditing standards (GAGAS) require the auditor to maintain independence in all matters relating to the audit engagement. Auditors must meet the independence standards established by the Government Accountability Office (GAO).

Continuing Professional Education

All audit staff assigned to the audit should have the necessary hours of continuing professional education required by GAGAS. Each auditor performing audit work under GAGAS should complete 80 hours of CPE every two years. At least 24 hours of CPE should be in subjects directly related to government auditing, the government environment, or the unique environment in which the entity operates. At least 20 hours of the 80 should be completed in any one year of the 2-year period.

External Peer Review

Auditors shall provide their most recent peer review report, letter of response, if applicable, and Kentucky Society of Certified Public Accountants (KyCPA) Peer Review Committee letter to the local board and a copy of these documents shall be submitted to KDE with each audit contract. Audit contracts submitted without the required peer review report and related documents will not be approved by the SCSDA. 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.

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.

Auditor Responsibilities

Auditors are responsible for maintaining the proper knowledge of all accounting and auditing standards relating to school district audits.

If the BOARD has also incorporated as a "Finance Corporation," that entity and related fiscal records and accounts are to be included in the audit.

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.

If any difficulties are encountered while performing the audits that do not pertain to requesting an audit extension, the auditor should inform KDE of the difficulties as soon as possible.

It is the auditors' responsibility to contact KDE with criminal activity concerns.

Timing, Location, and Conduct of Audit Work

The official records and reports of the school district shall not be taken from the board of education office during the course of the audit engagement.

Management Letter Comments Spreadsheet

Management Letter Comments Spreadsheet - If the audit report consists of management letter comments, the auditor shall complete the Management Letter Comments spreadsheet located on the KDE website at <http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx>. The Management Letter Comments spreadsheet is an additional requirement for fiscal year 2016-2017. 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.

Reissuance or Resubmission of an Audit Report

If an audit report needs to be reissued and resubmitted, 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.

Audit Extension Request

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 in accordance with the timeframe set forth in the "Annual Cycle for Local School District Audits." The form is provided in Appendix I.

Desk Review of Audits

- Auditors **shall correct** technically deficient 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

MUNIS Financial System and Uniform Chart of Accounts

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 2016-2017 MUNIS COA coding/segment when recommending journal entries to districts [Example: org – object – project]. The Uniform COA is located on the KDE website at <http://education.ky.gov/districts/FinRept/Pages/Fund%20Balances,%20Revenues%20and%20Expenditures,%20Chart%20of%20Accounts,%20Indirect%20Cost%20Rates%20and%20Key%20Financial%20Indicators.aspx>.

Audit Scope

The audit shall cover an entire fiscal year ending June 30 unless otherwise specified by the SCSDA.

The audit shall cover **ALL** accounts of the local board of education including activity funds at all schools and bank accounts in the name of the district's finance corporation, if applicable.

Audits shall be conducted in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS), *Government Auditing Standards* and, the provisions of 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

The scope of the audit shall include but not be limited to:

- Fund 1 - General Fund;
- Fund 2 - Special Revenue Fund;
- Fund 21 - Special Revenue District Activity Fund (annual);
- Fund 22 - Special Revenue District Activity Fund (multi-year);
- Fund 3XX - Capital Projects Funds;
- Fund 400 - Debt Service Fund;
- Fund 51 - Food Service Fund;

Fund 5X - Other Enterprise Funds;
Fund 6X - Fiduciary Funds -- Agency Funds (**including** student activity funds);
Fund 7XXX - Fiduciary Funds -- Pension, Investment, and Private-Purpose Trust Funds (**no longer use** for student activity fund); and
Fund 8X - Fixed Assets

The auditor shall also ensure the allocation of tax receipts between the general and building funds is accurate.

If, in the course of field work, it is determined that funds have been transferred to a school through the school based council allocation process, those funds shall be considered Board funds, not activity funds, and audited as part of the general fund.

Financial statements presented in the auditor's report shall comply with generally accepted accounting principles.

The auditor shall express an opinion on the financial statements of all funds covered in the scope of the audit. If the auditor is unable to express an unmodified opinion, the auditor shall state fully the reasons for the modification of opinion. The district recognizes it has the responsibility to correct any deficiency that results in a modified opinion.

Audit Report Requirements

Auditor's reports should follow the AICPA's requirements – refer to the AICPA's website at <http://www.aicpa.org>. The following items should be included in the audit report.

A. Introductory Section (Table of Contents, Letter(s) of Transmittal, if applicable)

B. Financial Section

1. Independent Auditor's Report on the Financial Statements
2. Management's Discussion and Analysis
3. Financial Statements
4. Notes to the Financial Statements
5. Required Supplementary Information (RSI)
6. Combining Statements
7. Individual Fund Statements
8. Schedule of Expenditures of Federal Awards, if applicable.
9. Statistical Information and any other required Supplemental Schedules, if applicable.
10. Independent Auditor's Report(s) on Internal Control and Compliance
11. 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, if applicable, the Report on Compliance for Each Major Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance.
12. The report(s) on internal control and compliance shall contain all control deficiencies identified during the audit that are classified as significant deficiencies or material weaknesses and any instances of noncompliance. These control deficiencies must be appropriately segregated and identified in the report and numbered by the fiscal year under audit (i.e. 2017-001, 2017-002). Findings presented as part of the report shall be well developed in accordance with *Government Auditing Standards* and 2 CFR 200 as applicable.
13. 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.

14. The High School Activity Fund Schedule shall categorize each individual activity fund by account, reflecting all activity funds of the high school. The High School Activity Fund Schedule shall show at a minimum, receipts, expenditures, beginning balance and ending balance. Elementary and Middle School Activity Funds shall be summarized showing at a minimum, receipts and expenditures, beginning balance and ending balance in a single line per school. No school activity fund or individual activity account shall end or begin the fiscal year with a deficit balance.
15. 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.
16. The following on-behalf payments shall be properly displayed in the 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 “On-behalf Payments” link below may be used to obtain the on-behalf payments amounts.
<http://education.ky.gov/districts/FinRept/Pages/On-Behalf-Payments-Information.aspx>

17. 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.

District Responsibilities

- Each local board of education shall enter into contracts with CPA firms on forms provided by KDE. One original contract, signed in blue ink, is due to KDE on or before the due date reflected in the Annual Cycle for Local School District Audits. **The local board of education does not have a valid contract with the auditor until the SCSDA approves and the Chair signs the contract.**
- Except in cases where special audits are authorized by the SCSDA, local boards of education shall select the auditor. Selection shall be made from the current licensure list provided by the Kentucky Board of Accountancy.
- The school district must obtain an engagement letter from the contracted CPA firm confirming the understanding of the terms of the engagement. The engagement letter may include additional items to address the specific needs of the district.
- 702 KAR 3:150 requires all local boards of education to report to the Commissioner of Education, “in writing, progress being made to correct exceptions appearing in school audits authorized by the State Committee for School District Audits or, in writing, justify any failure to correct exceptions appearing in any school audit authorized by the State Committee for School District Audits.” The report shall be due to the Commissioner within 45 days after receipt of the final audit report by the local board, or no later than December 31 following the close of the fiscal year, whichever occurs first.
- It is the responsibility of the district’s management (superintendent and finance officer) to properly record all adjusting entries on both the first and second AFRs and Balance Sheets. This responsibility includes entries for on behalf payments, fixed asset transactions, accruals and deferrals, and all other financial transactions. The district finance officer must possess suitable skills, knowledge, and experience (SKE) and understand the recommended audit adjustments provided by the auditor. The district shall also provide the auditor with an AFR and Balance Sheet which are in agreement with the audit report.
- 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 SEFA and fully disclosed in the Notes to the SEFA.
- No school activity fund or individual activity account shall end or begin the fiscal year with a deficit balance.
- 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.
- Costs incurred in the audit of federal grants, the federal school food programs, and school construction accounts may, in most cases, 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.

- On-behalf payments should be coded accurately in the MUNIS accounting system. The following link may be used by districts to record on-behalf payments.
<http://education.ky.gov/districts/FinRept/Pages/On-Behalf-Payments-Information.aspx>
- 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 <https://msc.fema.gov/portal>.
- 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 submitted to KDE through the Audit Acceptance Statement electronic web form process within the KDE SharePoint on or before **May 28th**. The Audit Acceptance Statement electronic web form submission instructions are located on the KDE website at <http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx>.
- The school district must complete and submit the Audit Acceptance Statement (Statement) **electronic web form** through the KDE SharePoint on or before **May 28th**. The Statement shall be completed and submitted to KDE by the district's superintendent or finance officer, **on behalf** of the local board of education, requesting the financial accounts of the Board be audited for FY 2016-2017 in accordance with the procedures adopted by the SCSDA. Also, the Statement shall consist of the Board chosen auditor or audit firm name; contact information; audit cost; if applicable, explanation of the audit cost increase compared to the prior fiscal year audit cost; if applicable, explanation of why the board elected to obtain the same auditor or audit firm for the last five consecutive fiscal years; and some additional general auditor information. The Statement electronic web form submission instructions are located on the KDE website at <http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx>.
- The school district must **certify** that all audit adjustments have been entered into MUNIS and that an Annual Financial Report and Balance Sheet, which are in agreement with the audit report, will be transferred to KDE in conjunction with the audit report **by selecting the Statement of Certification (SOC) option** during the electronic submission process of the FY 2016-2017 Audited AFR and Balance Sheet to KDE on or before **November 15th**. The MUNIS Annual Financial Report Guide STW GL 2 instructions for creating and submitting the Annual Financial Report and Balance Sheet electronically to KDE and the Audited AFR and Balance Sheet Submission Guide are located on the KDE MUNIS Support and Guides website at <http://education.ky.gov/districts/Pages/MUNIS-Guides.aspx>, under the Title: General Ledger-Year End section.
- 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.

KDE Responsibilities

Desk Review of Audits

KDE reviews the audit reports in comparison with the financial data reported in the districts' audited Annual Financial Report and Balance Sheet. KDE communicates discrepancies to districts and/or auditors and requests corrections or explanations as needed.

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 within 30 days of being notified by KDE. KDE will review the revised audit reports to ensure the auditors corrected all findings noted in addition to correcting the technically deficient matters. 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 report classification.

State Compliance Requirements

FYE 06/30/2017

The Kentucky Revised Statutes and Administrative Regulations contain many restrictions and requirements that school districts must follow. The auditor shall perform the necessary procedures to determine district compliance with the following items and any others that may come to their attention during the course of the audit. The following list of statutes and regulations is not all inclusive and is provided merely to highlight certain significant statutes and regulations.

1. Bonded Indebtedness (KRS 157.632):

The auditor shall confirm with the trustee, or perform appropriate alternative procedures, to determine the beginning balance, receipts, disbursements, and ending balance of each bond issue. The auditor shall determine if receipts were in agreement with amounts as specified in the pay schedules and if each bond account was reconciled for the period. The degree of compliance shall be disclosed. The composite bond schedule shall be reviewed, including all information relative to the various issues.

2. Nickels and Equalization (KRS 157.621, KRS 160.470, HB303-2016 Regular Session)

Previously, to accommodate districts with growing numbers of students, school districts meeting the criteria in KRS 157.621 could levy an additional nickel for building fund needs. This nickel was levied by districts that met the criteria of a growth district, which is based on growth in the number of students, bonded indebtedness, current student enrollment in excess of available classroom space, and facility plan requirements. The statute also provides the criteria for the district to levy the second growth nickel, Base Realignment and Closure (BRAC) nickel, equalized facility funding nickel, and state equalization.

HB303-2016 Regular Session, Equalization Funding for Critical Construction Needs Schools: (a) Included in the above General Fund appropriation is \$5,639,300 in fiscal year 2016-2017 and \$5,532,800 in fiscal year 2017-2018 to provide equalization funding for school districts that have school facilities classified as Category 5 on May 18, 2010, by the Department of Education; Sheldon Clark High School in Martin County, which has been determined to be structurally unsound by a certified engineer; Magoffin County Schools, which have serious space limitations as a result of tornado damage; Carlisle County Elementary School, which is the A1 school to be determined to be in the poorest condition in the state according to the Parsons/MGT Report of November 2011; and school districts that have levied an additional five cents equivalent tax rate for debt service, new construction, and major renovation beyond the five cents equivalent tax rate required by KRS 157.440(1)(b), except as provided in paragraph (c) of this subsection. Equalization shall be provided at 150 percent of the statewide average per pupil assessment beginning in the fiscal year following the fiscal year in which the levy is imposed. This levy shall be subject to the recall provisions of KRS 132.017. Local school districts that have schools rated in poor condition in the Parsons/MGT Report of November 2011 are encouraged to levy an additional five cents equivalent tax rate for debt service, new construction, and major renovation beyond the five cents equivalent tax rate required by KRS 157.440(1)(b), except as provided in paragraph (c) of this subsection in anticipation of receiving equalization funding during the 2016-2018 fiscal biennium.

KRS 160.470(8)(a): That portion of a general tax rate, except as provided in subsections (9) and (10) of this section, KRS 157.440, and KRS 157.621, levied by an action of a district board of education which will produce, respectively, revenue from real property, exclusive of revenue from new property, more than four percent (4%) over the amount of revenue produced by the compensating tax rate defined in KRS 132.010, shall be subject to a recall vote or reconsideration by the district board of education as provided for in KRS 132.017, and shall be advertised as provided for in paragraph (b) of this subsection.

State Compliance Requirements

The 2016 budget bill (HB303) says, "Notwithstanding KRS 157.611 to 157.665, the School Facilities Construction Commission is authorized to make an additional offer of assistance of \$5,000,000 to Martin County Schools in fiscal year 2016-2017, which shall be used to complete construction of Sheldon Clark High School. These funds are in addition to those authorized in 2014 Ky. Acts ch. 117, Part I, C., 1, (19) for this purpose. If the school district subsequently, as the result of litigation or insurance, receives funds for the original facility, Martin County Schools shall reimburse the Commonwealth an amount equal to that received pursuant to this subsection. If the litigation or insurance receipts are less than the amount received pursuant to this subsection, the district shall reimburse the Commonwealth an amount equal to that received as a result of litigation or insurance less the district's costs and legal fees in securing the judgment or payment. Any funds received in this manner shall be deposited in the Budget Reserve Trust Fund Account (KRS 48.705)."

3. Use of Local District Capital Funds (HB303-2016 Regular Session):

Notwithstanding KRS 157.420(4) and (6), 157.440, and 157.621, a local board of education may submit a request to the Commissioner of Education to utilize any capital funds, regardless of the source, for general operating expenses in fiscal year 2016-2017 without forfeiting the district's eligibility to participate in the School Facilities Construction Commission Program. Prior to August 1, 2016, the Kentucky Board of Education shall approve guidelines to be followed in considering such requests from local boards of education. Prior to December 15, 2016, the Kentucky Department of Education shall approve a recommendation to the General Assembly on the local school district use of capital funds in fiscal year 2017-2018, which shall be provided to the Interim Joint Committee on Appropriations and Revenue.

4. Nepotism/Conflicts of Interest (KRS 160.180):

Obtain a signed statement from each board member attesting that they have no knowledge of any conflict of interest or nepotism, as defined by KRS 160.180.

5. Salary Schedules (KRS 157.320(12) and KRS 157.350(3); 702 KAR 3:070):

Observance of approved single salary schedule (KRS 157.320(12) and 157.350(3); and 702 KAR 3:070) means a schedule adopted by a local board from which all teachers are paid for one hundred eighty-five (185) days and is based on training, experience, and such other factors as the Kentucky Board of Education may approve and which does not discriminate between salaries paid elementary and secondary teachers. If the budget bill contains a minimum statewide salary schedule, no teacher shall be paid less than the amount specified in the biennial budget salary schedule for the individual teacher's educational qualifications and experience.

6. Compliance with applicable laws and regulations governing procurement:

6A. Bid Law KRS 424.260: School district purchasing procedures must comply with KRS 424.260 unless the district has adopted the local public agency provisions of KRS Chapter 45A, the Model Procurement Code, KRS 45A.343 to 45A.460, by formal action of the local board.

6B. Bid Law KRS 424.260 and 702 KAR 3:135: If a district has not adopted the Model Procurement Code, the Bid Law requires districts to advertise for sealed bids for any contract, lease or other agreement for materials; supplies except for perishable meat, fish and vegetables; equipment; or for contractual services other than professional, involving an expenditure of more than \$20,000. The \$20,000 threshold applies to district wide purchases rather than individual schools and is deemed to apply to items which can be purchased from the same vendor or can be grouped together by expenditure code such as teaching supplies. Contracts for construction of new school buildings and additions and repairs to existing buildings which exceed \$7,500 must be awarded by competitive sealed bidding (KRS 162.070).

6C. KRS 45A.365:

If a district has adopted the Model Procurement Code, KRS 45A.365 requires that all contracts or purchases be awarded by competitive sealed bidding, which may include the use of a reverse auction,

State Compliance Requirements

except as otherwise provided by KRS 45A.370 to 45A.385. A brief summary of alternative purchasing procedures under the Model Procurement Code follows from 6C1 through 6C4:

6C1. KRS 45A.370: Competitive Negotiations are possible when specifications cannot be made sufficiently specific to permit award on the basis of either the lowest bid price or the lowest evaluated bid price; sealed bidding is inappropriate because available sources of supply are limited; or the bid prices received through sealed bidding are unresponsive or unreasonable.

6C2. KRS 45A.380: Noncompetitive Negotiation may be used when a written determination is made that competition is not feasible due to the following circumstances: (1) an emergency exists, (2) there is a single source within a reasonable geographic area of the product or service to be procured, (3) contract is for professional services other than construction management services, (4) contract is for perishable items purchased on a weekly or more frequent basis, (5) contract is for replacement parts, (6) contract is for proprietary items for resale, (7) contract is related to selling by students as an educational experience, (8) contract is related to authorized travel outside the school district, (9) contract is for purchase of supplies for sale at public auction, (10) contract is for group health and life insurance and accident insurance, group professional liability insurance, worker's compensation and unemployment insurance, and (11) contract is for a sale of supplies that will result in a savings to the district.

6C3. KRS 45A.385: Small Purchase procedures may be used when the aggregate amount of the contract does not exceed \$20,000. Policy must be in writing and available to the public.

6C4. KRS 45A.420: State Price Contracts may be used when the result is a savings to the district and the purchase does not exceed two thousand five hundred dollars (\$2,500).

7. Conflicts of Interest (KRS 156.480):

No employee of a school district with decision making authority over the financial position of a school, school district, or school system shall have any pecuniary interest in an amount exceeding twenty-five dollars (\$25).

8. Collection of School Taxes (KRS 160.500 - .510):

Tax collector is entitled to a fee equal to his expenses but not less than 1.5% and not to exceed 4% for the collection of school taxes. The tax collector will, on or before the tenth day of each month, pay the depository of the board of education the amount of the school tax collected up to and including the last day of the preceding month. The amount paid, along with the classes of property from which it was received, is to be reported in writing to the treasurer of the board. This means that the sheriff or other property tax collector is not to deduct his fee from the taxes collected.

9. Interest on Investment of School Taxes (KRS 134.140(2)):

If the sheriff invests local tax receipts, he must turn over to the board of education a proportionate share of investment earnings.

10. Compliance with Bonds, Penal Sum:

10A. Fidelity bond, treasurer KRS 160.560(2): "The treasurer shall execute an official bond for the faithful performance of the duties of his office to be approved by the local board and the Commissioner of Education. The bond shall be guaranteed by a surety authorized to do business in this state and shall be in an amount determined by the board of education in accordance with the administrative regulations promulgated by the Kentucky Board of Education. The premium on the bond shall be paid by the board of education. A copy of the bond shall be filed with the board of education and the Commissioner of Education."

State Compliance Requirements

10B. Fidelity bond, penal sum 702 KAR 3:080 Section 2: As stipulated in Kentucky Administrative Regulations. “(1) A local board of education shall require a fidelity bond from the board treasurer, the finance officer, and others holding similar positions who are responsible for district funds or who receive and expend funds on behalf of the school district. (2) A local board of education, on the advice of the Commissioner of Education, shall determine the amount of the penal sum of the fidelity bond for all employees by July 1st of each year. (3) The local board of education shall submit the fidelity bonds to the Commissioner of Education for approval no later than July 31st of each year.” Review districts' personnel that have access or responsibility for local board funds and ensure that the districts comply with the administrative regulation by having that person(s) bonded appropriately.

10C. Depository bond, penal sum 702 KAR 3:090: As stipulated in Kentucky Administrative Regulations. “(1) A local board of education, on the advice of the superintendent, shall determine the penal sum of the bond of depository at least thirty days prior to the depository entering upon its duties and by July 1 of each year. (2) The depository bond must be approved by the Commissioner of Education. (3) The penal sum of the depository bond shall be at least equal to either 103 percent of the current daily balances in each account as they may fluctuate throughout the life of the bond or the highest daily balance in each account each month for all accounts in the previous year.”

10D. Bond of Depositories (KRS 160.570(1)): “Each board of education shall appoint a bank, trust company, or savings and loan association to serve as its depository, and if its annual receipts from all sources exceed one hundred thousand dollars (\$100,000), it may designate three (3) depositories, except boards of education of school districts in counties containing cities of the first class may designate up to six (6) depositories. The depository may be designated for a period not to exceed two (2) years, and before entering upon its duties shall agree with the board as to the rate of interest to be paid on average daily or monthly balances.”

11. Substitute Teacher Pay (702 KAR 3:075):

Boards of education shall adopt a per diem pay schedule for substitute teachers which will take into account their training and experience.

12. Transportation Reimbursement (KRS 158.110):

Transportation of non-public school (private or parochial) children and reimbursement agreements per KRS 158.110 and accompanying attorney general opinions.

13. Payment of Salaries to School Employees (KRS 160.291 and 702 KAR 3:060):

13A. KRS 160.291 and 702 KAR 3:060 state that all school employees working on a continuing, regular basis shall be paid regularly on dates determined by the employing board of education during the school year or during the fiscal year for 12 month employees.

13B. KRS 161.011 requires that districts provide contracts for all classified employees and that job descriptions are consistent with KDE Classification Plan for Classified Employees.

14. Publication of Annual Financial Statement (KRS 424.220 and KRS 160.463):

14A. KRS 424.220 requires that local boards of education publish annual financial statements which shall include the total amount of funds collected and received during the fiscal year from each individual source and the amount dispersed during the fiscal year to each individual payee and the purpose for which the funds were expended. The amount of salaries paid to district employees shall be shown as lump sum expenditures.

14B. KRS 424.250: Local boards of education shall publish the tax rates levied by the district after approval by the Kentucky Board of Education.

State Compliance Requirements

14C. KRS 160.463: "The school board of each public school system in any county having 300,000 or more inhabitants shall direct its superintendent to publish, in full, annually, in the newspaper of the largest general circulation in the county, the annual financial statements of the school system audited by certified public accountants or an accountant approved by the State Department of Education. Each system's financial statements shall be prepared and presented on a basis consistent with that of the other systems."

15. No Extensions of Credit (Sections 177 and 179 State Constitution):

Extension of credit by the Board of Education as prohibited in Sections 177 and 179 of the State Constitution.

16. Incompatibility:

Incompatibility of offices and employment as stated in Sections 165 and 237 of the State Constitution. Refer also to KRS 61.080, 160.180, and 160.345.

17. Exceeding of Budget per KRS 160.550 and 702 KAR 3:050:

17A. No expenditures are permitted in excess of the income and revenue of any year.

17B. A district is deemed to be in a deficit if it ends a fiscal year with a negative fund balance in the General Fund as reported on the district's Annual Financial Report.

18. Adherence to budget cycle outlined in KRS 160.470, KRS 160.345, 702 KAR 3:246:

18A. KRS 160.470(5) states, "Within thirty (30) days after the district board of education has received its assessment data, the rates levied shall be forwarded to the Kentucky Board of Education for its approval or disapproval. The failure of the district board of education to furnish the rates within the time prescribed shall not invalidate any levy made thereafter." KRS 160.345(2)(f) and 702 KAR 3:246 require local boards to make a tentative allocation to school councils by March 1 and notice of an updated allocation by May 1 of each year which shall include the amount of certified and classified staff based on the district's staffing policy and the amount for instructional supplies, materials, travel and equipment.

18B. KRS 160.470(6)(a) also requires boards of education to adopt a tentative working budget for subsequent fiscal year by May 30 of each calendar year. The budget must contain a minimum 2% reserve based on the district's total budget. Evidence of board action can be found in the board's official minutes.

18C. KRS 160.470(6)(b) requires local boards to submit a working budget to the Kentucky Board of Education by September 30 of each calendar year. Evidence of board action can be found in the official minutes of the board.

19. Leases (KRS 65.944 (1)(b), KRS 65.946, KRS 156.160, KRS 160.160, and 702 KAR 3:300):

19A. All leases in excess of \$100,000 must be reviewed by KDE's Division of District Support and approved by the Commissioner of Education. Technology lease agreements in excess of \$100,000 must be reviewed and approved by the Division of District Support, approved by the appropriate personnel in KDE's Office of Knowledge and Information Data Services, and approved by KDE's Office of Guiding Support Services (Legal).

19B. No board may lease a building or public facility that has been or is to be financed at the request of the board or on its behalf without approval of the Department.

20. SFCC Participation (KRS 157.611 - .640):

The School Facilities Construction Commission was established to help local school districts meet their school construction and education technology needs. The commission administers two separate programs: the school construction funding program and the education technology program. Funds appropriated for each program to the school district are to be maintained and audited separately.

State Compliance Requirements

20A. For the School Facilities Construction program, noncompliance with KRS 157.611(2), .615(1), .620(1-3), .622(5), .625(4), .627(1-3), or .632(1) shall be noted.

20B. For the Education Technology Funding program, refer to KRS 157.650 - .660 and 750 KAR 2:010. Expenditures from the technology fund must be consistent with the district's approved technology plan.

21. *Requirements on Notification and Approval of Leases (KRS 65.944):*

21A. In addition to the notification required by KRS 65.117, no county, except an urban-county, shall enter into a lease if the lease price exceeds five hundred thousand (\$500,000) without first receiving the approval of the lease from the state local debt officer. The state local debt officer may prescribe procedures and adopt regulations for granting approval of the leases.

21B. In addition to the notification required by KRS 65.117, no school district shall enter into a lease if the lease price exceeds one hundred thousand dollars (\$100,000) without first receiving the approval of the lease from the chief state school officer. The chief state school officer shall recommend administrative regulations to the State Board of Education for implementation of KRS 65.940 to 65.956.

21C. The state local debt officer may provide technical and advisory assistance regarding the entering into leases by a governmental agency whose governing body requests assistance.

21D. Local school districts may borrow money on short term basis subject to the restrictions imposed by KRS 160.540.

22. *Interest Earned on Restricted Accounts (KRS 157.615 and KRS 157.620):*

22A. The school district shall transfer all available local revenue, as defined by KRS 157.615(1), to a restricted account for school building construction, to be utilized for the priorities defined by the approved school facilities plan.

22B. Interest earned on funds deposited in the restricted accounts required by KRS 157.620(2) shall be deposited in the restricted account and shall become part of the restricted funds.

23. *Retirement Systems:*

Compliance with applicable statutes and regulations governing the Teachers' Retirement System (TRS) is located at <https://trs.ky.gov/employers/> and the County Employees' Retirement System (CERS) is located at <https://kyret.ky.gov/employers/Pages/default.aspx>.

24. *Property Insurance (KRS 160.105 and 702 KAR 3:030):*

Insurance required per KRS 160.105 and 702 KAR 3:030. The school district shall provide for fire and extended insurance coverage on each building owned by the board that is not surplus to its needs as shown by the approved facility plan. Refer to the following KDE, District Facilities Branch's webpage link for the fiscal year 2017 Property Insurance Replacement Cost.:

<http://education.ky.gov/districts/fac/Pages/Property-Insurance.aspx>. While the statute and regulation explicitly require replacement cost insurance for non-surplus property, surplus property should also be covered by an insurance policy to protect the district's investment. For surplus property, the suggested coverage would be based on fair market value of the structure(s) covered.

25. *Sick Leave (KRS 157.420(3)):*

Unused sick leave per KRS 157.420(3) provides guidance to school districts for funding a restricted sick leave account, and compensating teachers or employees, for unused sick leave. A district that compensates its teachers or employees for unused sick leave at the time of retirement, pursuant to KRS 161.155, may create an escrow account to maintain the amount of funds necessary to pay teachers or

State Compliance Requirements

employees who qualify for receipt of the benefit. The fund is limited to not more than fifty percent (50%) of the maximum liability for the current year to be determined according to the number of staff employed by the district on September 15. Interest generated by the account shall be calculated as part of the total amount. The funds shall not be used for any purpose other than compensation for unused sick leave at time of retirement and shall not be considered as part of the general fund balance in determining available local revenue for purposes of KRS 157.620. Full disclosure of findings is desired.

26. Per Diem and Expenses for Board Members (KRS 160.280):

26A. Members of boards of education shall receive no salaries, but members of boards of education may receive a per diem for seventy-five dollars (\$75) in any calendar year, and their actual expenses for each regular or special meeting attended. Members shall receive this same per diem for training required by KRS 160.180. In no case shall the expenses incurred within the district or per diem of any member exceed three thousand dollars (\$3,000) in any calendar year.

26B. Members of boards of education may be reimbursed for actual and necessary expenditures incurred outside the district in performance of their duties authorized by the board.

26C. All claims shall be made out according to law and filed with the secretary of the board and shall be approved and paid as other claims against the board.

26D. Board members shall be eligible to participate in any group medical or dental insurance plan provided to employees of the district pursuant to KRS 161.158. Participating board members shall pay the full cost of any premium required for their participation in the plan.

Legislative changes, if applicable, will supersede the data approved in the fiscal year 2016-2017 Audit Contract package.

Appendix I - Audit Extension Request
Audit Fiscal Year 2016-2017

Audit Firm Name: _____ Audit Firm Telephone Number: _____
Auditor Name: _____
District Name: _____

Requested Extension Date: _____

Extensions are being carefully scrutinized by the State Committee for School District Audits, and are by no means automatically approved. It is of utmost importance that the audits be completed by the due date, and that the audits agree to the districts' AFRs per the audit contract.

THIS SECTION MUST BE COMPLETED BY AUDIT FIRM

1. What are the specific reasons the audit cannot be completed on or before November 15th?
 - A) Audit Firm Issues?
 - B) School District Issues?
2. When did the audit firm begin work on the audit?
 - A) Summarize work completed to date.
 - B) Summarize work yet to be completed.
3. Has the firm encountered any difficulties working with the district personnel or their financial records?
4. Does the audit firm or district need guidance from KDE in order to complete the audit on time?
5. How many school district audits is this firm performing for the current audit year?
6. Has the audit firm requested extensions for any other districts?
 - A) If yes, how many?
Provide the names of those districts.
 - B) What reasons are given for the other districts' extension requests?
7. Was an extension requested by this audit firm for this district for the prior audit year? If yes, what were the reasons given for the extension request?
8. Was an extension requested by this audit firm for any other districts for the prior audit year? If yes, what were the reasons given for the extension requests?

Appendix I - Audit Extension Request
Audit Fiscal Year 2016-2017

Audit Firm Name: _____
Superintendent Name: _____
District Telephone Number: _____

District Name: _____
Finance Officer Name: _____

THIS SECTION MUST BE COMPLETED BY THE SCHOOL DISTRICT

1. Were you aware that your audit firm has requested an extension?
2. Does the audit firm or district need guidance from KDE in order to complete the audit on time?
3. Have there been any difficulties or problems between the district and the audit firm?
4. Has the district provided the audit firm all of the documentation requested, including the Management Discussion and Analysis? If no, please explain what has not been submitted to the auditor and what steps are being taken to resolve the matter.
5. Does the district believe that an extension is necessary?

If the audit cannot be completed by the deadline, the auditor shall submit an Audit Extension Request form, fully completed by both auditor and the district, to KDE on or before October 1, 2017. This form is provided and must be completed and submitted electronically as follows:

Finance.Reports@education.ky.gov
with the "DISTRICT NAME AUDIT EXTENSION REQUEST"
in the subject line (SUBJECT: DISTRICT NAME AUDIT EXTENSION REQUEST)
Carbon copy School District Superintendent and Finance Officer

Appendix II - Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, Audit Report, and Management Letter Comments Spreadsheet

Due to KDE on or before May 28, 2017

ELECTRONIC COPIES:

- The **Audit Acceptance Statement web form**, which includes the justification section for using the same auditor/audit firm for five consecutive years, must be completed and submitted electronically through KDE SharePoint at <https://staffkyschools.sharepoint.com/sites/dsapps/DFMB/Lists/DistAudAccStat>. The Audit Acceptance Statement electronic web form submission instructions are located on the KDE website at <http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx>.

SIGNED PAPER COPIES:

- Send one original **audit contract** signed in blue ink, latest peer review report and, if applicable, any letter of response and KyCPA Peer Review Committee letter to KDE at the following address:
Division of District Support
Kentucky Department of Education
300 Sower Blvd, 4th Floor
Frankfort, KY 40601

Due to KDE on or before November 15, 2017

ELECTRONIC COPIES:

- The **Audited AFR and Balance Sheet** that are in agreement with the FY2016-2017 audit report must be submitted through the KDE SEEK District Data Submission program at <https://opsupport.education.ky.gov/webforms/Login.aspx>. The MUNIS Annual Financial Report Guide STW GL 2 instructions for creating and submitting the Annual Financial Report and Balance Sheet electronically to KDE and the Audited AFR and Balance Sheet Submission Guide are located on the KDE MUNIS Support and Guides website at <http://education.ky.gov/districts/Pages/MUNIS-Guides.aspx>, under the Title: General Ledger-Year End section.
- The **Statement of Certification (SOC)** must be certified and submitted by selecting the **SOC option** during the electronic submission of the FY 2016-2017 Audited AFR and Balance Sheet through the KDE SEEK District Data Submission program at <https://opsupport.education.ky.gov/webforms/Login.aspx>. One electronic copy of the **audit report** must be submitted to the following e-mail address: Finance.Reports@education.ky.gov with the "DISTRICT NAME AUDIT" in the subject line (SUBJECT: DISTRICT NAME AUDIT).
- The audit report shall be submitted in ADOBE ACROBAT (PDF) with the file name "FY2016-2017 FA District Name.pdf". Example: FY2016-2017 FA Adair Co.pdf. One electronic copy of the management letter must be submitted, either included with the audit

report or in a separate PDF file. If submitted separately, it must be submitted to the same address listed above for submission of the audit report with the file name "FY2016-2017 FA District Name Mgt Ltr.pdf". Example: FY2016-2017 FA Adair Co Mgt Ltr.pdf.

- Only two files will be accepted electronically, unless other arrangements are made through KDE.
- The audit report and management letter must be **signed** and saved as a PDF file. Files must be text-based PDF and unlocked for improved accessibility.
- Electronic audit documents cannot be password protected.
- Single Audits must be submitted electronically to the **Federal Audit Clearinghouse** at [https://harvester.census.gov/facides/\(S\(vksj3bj223jflhrbpn3azqwq\)\)/account/login.aspx](https://harvester.census.gov/facides/(S(vksj3bj223jflhrbpn3azqwq))/account/login.aspx), in accordance with 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- The Management Letter Comments Spreadsheet must be submitted to the following email address: Finance.Reports@education.ky.gov with the "District Name Mgmt Letter Comments" in the subject line. All auditor firms or auditors must comply with the specified spreadsheet format located on the KDE website at <http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx>.

SIGNED PAPER COPIES:

- Send one signed paper copy of the **audit report** to KDE at the following address:

Division of District Support
Kentucky Department of Education
300 Sower Blvd, 4th Floor
Frankfort, KY 40601

- Deliver one signed paper copy of the **audit report** to the **school district**.

Due to KDE within the timeframe designed by KDE

RESUBMISSION:

- If it is determined that the audit report needs to be revised and resubmitted to KDE, either during the audit review process or as a result of 2 CFR 200 Desk Review findings, the auditor will submit one electronic revised and signed copy of the audit report to KDE within the timeframe designated by KDE. No hard copy of the revised audit report is required.
- The entire audit report shall be resubmitted to the local board, KDE, and all other parties to whom the original audit report was submitted.



System Review Report

January 31, 2014

To the Partners of Carr, Riggs & Ingram, LLC
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Carr, Riggs & Ingram, LLC (the firm) applicable to non-SEC issuers in effect for the year ended June 30, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*; audits of employee benefit plans, and audits performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice of Carr, Riggs & Ingram, LLC applicable to non-SEC issuers in effect for the year ended June 30, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Carr, Riggs & Ingram, LLC has received a peer review rating of *pass*.

A handwritten signature in cursive script that reads 'Eide Bailly LLP'.

Eide Bailly LLP

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