

Training 5-1: School Financial Requirements & Financial Audit Overview

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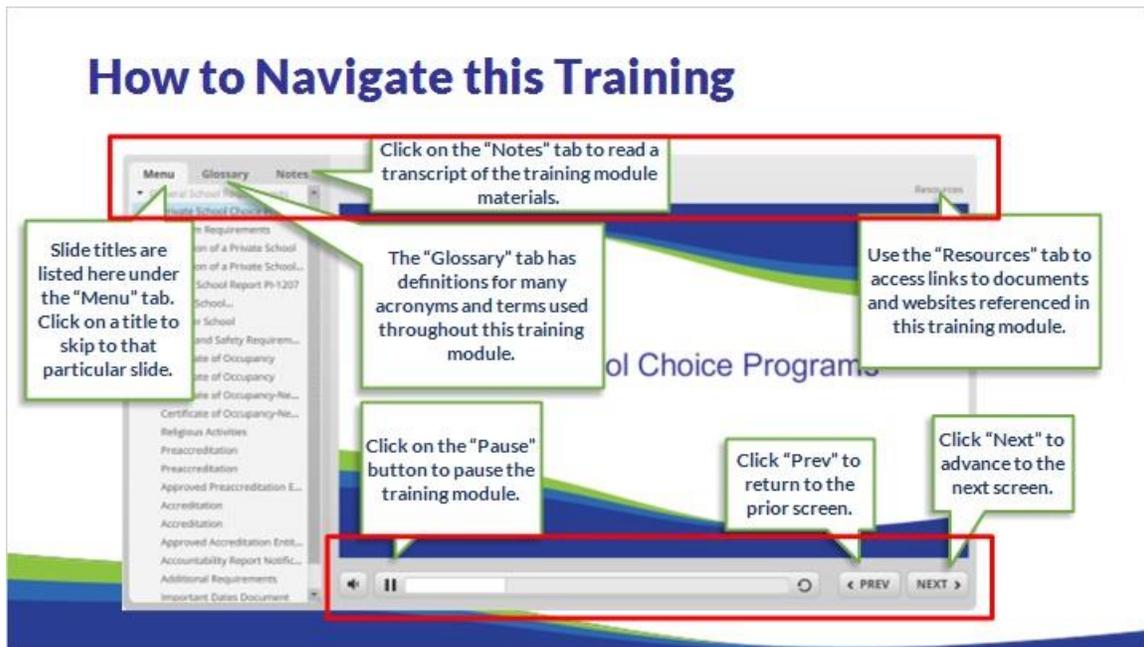


Notes:

Welcome to the Wisconsin Department of Public Instruction's training module on the Private School Choice Programs. We will refer to the Private School Choice Programs as "Choice" or "Choice program" throughout this training. The Choice program is governed by Wis. Stat. §§ 119.23 and 118.60, as well as Wis. Admin. ch. Codes PI 35 and 48. Provisions of this training module are subject to statutory and rule changes.

This training module will provide an overview of the school financial requirements and the annually required financial audit.

1.2 How to Navigate this Training Module



Notes:

Before we start, here are some tips and tools you may wish to use when viewing this training.

When listening to this training please note the buttons at the top of the training screen. Titles to all of the slides in this training are listed under the "Menu" tab on the top left of the training screen. You may watch the training in its entirety, or you may skip to a specific slide by clicking on the title of a particular slide.

Acronyms and terms that are used throughout this training are defined under the "Glossary" tab on the upper left side of the training screen. If you have any questions about a particular acronym or term that is used in this training, click on the "Glossary" tab to read the definition of that acronym or term.

The "Notes" tab has a transcript of the training materials as they are presented. If you wish to read along with the training, please click the "Notes" tab on the upper left side of the training screen.

We have also posted resources related to this training which can be found under the "Resources" link on the upper right hand side of the training screen.

Next please note the buttons at the bottom of the training screen. If you want to pause on or during a specific slide, please hit the "Pause" button. Clicking the "Prev" button will allow you to return to the previous slide and clicking the "Next" button will allow you to advance to the next slide, if you wish to advance sooner than the auto-timing.

1.3 Required Audits & Agreed Upon Procedures Reports

Required Audits & Agreed Upon Procedures Reports

- The school must hire an auditor to complete the following:
 - September Enrollment Audit
 - Fiscal & Internal Control Practices Report
 - January Enrollment Audit
 - Financial Audit
- A school may not use an auditor who the department has barred.

Notes:

Annually, each school is required to provide a September Enrollment Audit, Fiscal and Internal Control Practices Report, January Enrollment Audit, and Financial Audit.

Each school is required to hire an independent certified public accountant to complete these reports and audits. New schools should hire an auditor by August of the first year they are participating in the program. Schools may not use an auditor who the department has barred from completing Choice audits. An auditor may be barred if they do not meet the Choice requirements or do not properly complete the required procedures. For additional information on the auditor requirements, reference the Auditor Authorization Form training module.

1.4 School Responsibility

School Responsibility

- The school is responsible for all reporting and audit requirements.
- An auditor's failure to completely or properly perform the responsibilities in Wisconsin statutes and administrative rule is not a defense a school can use against any determination the DPI makes.

Notes:

As the entity participating in the Choice Program, the school is ultimately responsible for all reporting and audit requirements. An auditor's failure to completely or properly perform the requirements in Wisconsin statute or rule is not a defense for any determination the DPI makes regarding the school. Therefore it is important when engaging an auditor, that the school ensures the auditor understands the Choice requirements, is able to complete the required procedures, and is able to meet the required deadlines.

1.5 Written Engagement Letter

Written Engagement Letter

The school must have a written engagement letter with the auditor that includes all of the following:

- A statement that the auditor will comply with generally accepted auditing standards (GAAS) and the requirements in Wisconsin administrative rule.
- A statement that the auditor will comply with generally accepted governmental auditing standards (GAGAS), if governmental agencies providing funds to the school require it.
- The responsibilities of the school and the auditor in meeting the requirements in Wisconsin administrative rule.

Notes:

Upon engaging an auditor, the school and auditor must agree on the audit arrangements by creating a written engagement letter. The engagement letter must include statements that the auditor will comply with generally accepted auditing standards, requirements in the Wisconsin Administrative rule, and generally accepted governmental auditing standards, if applicable. The engagement letter must also identify the responsibilities of the school and auditor in meeting the requirements in Wisconsin administrative rule.

1.6 Written Engagement Letter (cont)

Written Engagement Letter (cont)

The school must have a written engagement letter with the auditor that includes all of the following (cont):

- The services the auditor provides to the school that are in addition to those audit and attestation services required in Wisconsin administrative rule.
- The auditor's acknowledgement that the DPI will rely on the auditor's work to fulfill the DPI's responsibilities in Wisconsin statutes and administrative rule.
- The auditor's compensation for the services the auditor provides to the school.

Notes:

The written engagement letter must include identification of any additional services the auditor is providing to the school beyond what is required by Wisconsin administrative rule. An example would be an auditor assisting with the preparation of the budget. If there are additional services being provided by the auditor to the school, the auditor must maintain independence. Refer to the Auditor Authorization Form training for more information on auditor independence.

The written engagement letter must also include an acknowledgement by the auditor that DPI will rely on the auditor's work. The DPI has oversight responsibilities and may make inquiries of the auditors and schools regarding the submitted reports. Finally, the written engagement letter must include the auditor's compensation for the services provided to the school.

1.7 Fiscal Year

Fiscal Year

- All schools participating in the Choice programs and the Special Needs Scholarship Program (SNSP) must have a fiscal year from July 1st to June 30th.
- This fiscal year must be used for:
 - The trial balance,
 - The budget, and
 - The financial audit.

Notes:

All schools participating in the Choice programs and the Special Needs Scholarship Program, or SNSP, are required to have a fiscal year from July 1st to June 30th. If a new participant in the Choice program and SNSP has a different fiscal year, it must modify its fiscal year to meet this requirement.

This fiscal year must be used for the school's internal trial balance. It must also be used when preparing the required budget and the annual financial audit.

1.8 Financial Accounting System

Financial Accounting System

The school must:

- Balance the financial accounting system and provide the auditor with a trial balance.
- If adjusting entries are required to be made to the general ledger based on the auditor's recommendation, management must approve the adjustments in writing.

Notes:

In order to properly complete the financial audit, the school must balance the financial accounting system and provide the trial balance to the auditor. This means that the school must ensure that all of the transactions that have occurred are recorded in the accounting system. A trial balance is a report that is generated from the accounting system that lists the ending balances of each account. The trial balance should cover the applicable fiscal school year, which for the Choice program is July 1st through June 30th. If after completing audit procedures, the auditor recommends any adjusting journal entries be made to the accounting system, the school must approve the entries prior to posting.

1.9 Financial and Pupil Records

Financial and Pupil Records

The school must:

- Provide all financial and pupil records the auditor considers necessary to complete the financial audit or agreed upon procedure reports.
- Upon the request of the DPI, provide access and copies to the records referenced in the auditor's working papers.
- Retain all records related to the financial audit and agreed upon procedure reports for at least 5 years from the due date of the related financial audit unless requested longer by the DPI or a law enforcement agency.

Notes:

The school must provide all financial and pupil records the auditor considers necessary to complete the financial audit, enrollment audits, or the fiscal and internal control practices report. If the DPI makes a request for records that are referenced in auditor working papers, the school must provide access and copies of those records to the DPI. Records related to all required reports and audits must be maintained for at least 5 years from the due date of the related financial audit unless the DPI or a law enforcement agency requests that they be retained longer.

1.10 Accrual Basis of Accounting

Accrual Basis of Accounting

The annually required financial audit must be prepared in accordance with generally accepted accounting principles (GAAP). This includes using the accrual basis of accounting which requires that:

- Revenues and expenses are **not** necessarily included when the cash is received or paid.
- Revenues are included when they are earned.
- Expenses are included in the period they relate.

Notes:

The financial audit must also be prepared in accordance with generally accepted accounting principles, which is abbreviated as GAAP. One of the requirements of GAAP is the use of the accrual basis of accounting.

The accrual basis of accounting differs from the cash basis of accounting. The cash basis of accounting would record transactions when either cash is received or paid. Under the accrual basis of accounting, revenues are included when they are earned and expenses are included in the period they relate.

An example of this difference may be a parent prepaying tuition for the whole school year. If that cash was received before the start of the fiscal school year, the cash basis of accounting would record that revenue immediately. However, under the accrual basis of accounting revenue is not recorded until it is earned throughout the subsequent school year that the tuition was paid for. Similar examples of when the accrual basis of accounting is different may include prepaid expenditures for insurance or subsequently paid expenditures for salaries.

1.11 Financial Audit

Financial Audit

- The financial audit may either be prepared with the school related activity and balances or at a consolidated level, if permitted by Generally Accepted Accounting Principles.

Notes:

If the school is part of a larger legal entity that has other activities such as a church or daycare, the financial audit may be prepared at either a school only level or at a consolidated entity wide level that would include both the school and the other activities.

1.12 Financial Audit (cont)

Financial Audit (cont)

- Choice schools that received less than \$100,000 annually in Milwaukee, Racine, and Wisconsin Parental Choice Programs and SNSP payments in all previous school years and the school year that is being audited may submit a modified financial audit to DPI.
- Additionally information on the modified financial audit will be provided when it is available.

Notes:

Choice schools that have received less than \$100,000 in each previous year and the school year being audited from the Choice programs and the SNSP combined may complete a modified financial audit. If the school has received \$100,000 or more in any previous school year from all of the programs combined, it cannot provide a modified financial audit. So, for example, if a school receives \$500,000 from all of the programs in year 1 and \$80,000 from all of the programs in year 2, it may not complete a modified financial audit in year 2 since it did not receive less than \$100,000 in year one.

The DPI is working on providing additional information on the modified financial audit. The next two slides will provide information on the requirements for schools that have received at least \$100,000 from the Choice programs and SNSP in any school year.

1.13 Financial Audit (cont)

Financial Audit (cont)

The annually required financial audit for schools that have received at least \$100,000 from the Choice programs and SNSP in any school year must:

- Include all statements required by GAAP including:
 - Statement of Financial Position
 - Statement of Activities
 - Statement of Cash Flows
- Be two year comparative financial statements. Both years must be audited.
 - The first year a school completes a financial audit, the statement of activities and statement of cash flow may only be one year.

Notes:

For schools that have received at least \$100,000 from the Choice programs and SNSP in any school year, the financial audit must include any statements required by GAAP. This includes the Statement of Financial Position, Statement of Activities, and the Statement of Cash Flows. These statements must include the financial information for the school year being audited and the previous school year. The financial information for both years must be audited by the auditor.

The exception to the requirement that the financial statements must include two years is that the first year a school completes a financial audit it may only include the information for the current school year in the statement of activities and statement of cash flows.

1.14 Financial Audit (cont)

Financial Audit (cont)

- The audit opinion may not be modified unless the modification is approved by the DPI in advance.
 - No DPI approval is required if the modification is due to fixed assets purchased in previous years not being included.

Notes:

For schools that have received at least \$100,000 from the Choice programs and SNSP in any school year, the financial audit must include an auditor's statement that the report is free of material misstatements. Therefore the DPI will only accept financial audits that have an unmodified audit opinion unless the modification is approved by the DPI in advance. The only exception is if the modification is due to fixed assets purchased in previous years not being included in the financial statements. These fixed assets may be not included for a variety of reasons, including the entity not having sufficient historical records to support the account balances. We will discuss fixed assets in the next training session on Fixed Assets.

1.15 Financial Audit Management Letter

Financial Audit Management Letter

- The school must submit the management letter(s) prepared by the auditor with the financial audit.
 - No management letter is required to be submitted to the DPI in the first year a school participates in the Choice programs.
- The auditor will determine the status of addressing these items as part of the Fiscal & Internal Control Practices Report.

Notes:

As part of a financial audit, auditors will typically issue a management letter or letters that includes information and recommendations regarding the school's policies, procedures, and internal controls. The management letter or letters must be submitted to the DPI along with the financial audit. A management letter is not required to be submitted to the DPI if it is the first year a school participates in the Choice programs. The auditor will then determine the status of addressing the items identified in the management letter as part of the fiscal and internal control practices report procedures. We will discuss the fiscal and internal control practices report in the fiscal and internal control report training module.

1.16 Choice Financial Audit Review Timeline

Choice Financial Audit Review Timeline

- The financial Audit is due annually by October 15th.
- By the later of February 15th or 120 days after the date the audit is received, the DPI will notify the school whether or not additional information is required.
- The DPI will determine whether the school and auditor have provided all additional required information and if the school has met the requirements by April 1st.

Notes:

The financial audit is due to the DPI annually by October 15th. The DPI will then complete a review of the financial audits and, by the later of February 15th or 120 days after the audit is received, the DPI will notify the school if there are any outstanding items needed to complete the review. The DPI will determine whether the school and auditor have provided all the additional required information and met the requirements by April 1st.

For more information on the required financial audit, see the Financial Audit and PSCP Reserve Balance Bulletin which is available on the Choice Bulletin webpage. A link to this webpage is included in the resources link in the top right corner of the screen.

1.17 Questions

Questions

Website: <http://dpi.wi.gov/sms/choice-programs>

Email: DPIChoiceAuditReports@dpi.wi.gov

Phone: 1-888-245-2732 ext. 3



Notes:

If you have any questions about the information discussed in this training, please see the Private School Choice Programs homepage. The left menu bar of the Private School Choice Programs homepage has resources for both schools and parents.

Choice schools may also contact the Choice audit team at DPIChoiceAuditReports@dpi.wi.gov with questions.