

Training 6-10: Management Letter Review & Reserve Plan



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. Codes ch. PI 35 and 48. Provisions of this training module are subject to statutory and rule changes.

This section will cover the management letter review and the required reserve balance plan.

Management Letter

- The school must submit the management letter prepared by the auditor with the financial audit.
- The management letter includes information and recommendations regarding the school's policies, procedures, and internal controls.
- As part of the Fiscal & Internal Control Practices Report, an auditor shall review the financial audit management letter from the previous year and determine whether a school has properly remediated any concerns raised by the auditor in the letter.

As part of the financial audit due by October 15th each year, the school must submit the management letter prepared by the auditor. This is a requirement beginning the second year that a school participates in one of the Choice programs. The first year a school participates in a Choice program, it does not have to submit the management letter to DPI.

The management letter includes information and recommendations regarding the school's policies, procedures and internal controls. The school must review this letter and address any of the items identified in the management letter by either implementing the recommendations or working with the auditor to determine what alternative options might be available.

As part of the Fiscal & Internal Control Practices Report, an auditor shall review the financial management letter from the previous year and determine whether a school has properly remediated any concerns raised by the auditor in the letter.

Management Letter Review

If the auditor determines a concern has not been properly remediated by the school, the auditor shall include the following in the Fiscal & Internal Control Practices report:

1. The concern that has not been properly remediated.
2. The action the school has taken to remediate the concern.
3. The potential impact of not resolving the concern.
4. Recommendations for resolving the concern.

If the auditor determines that a concern has not been appropriately remediated by the school, the auditor must include certain information in the Fiscal & Internal Control Practices Report. The information includes identification that the concern has not been properly remediated, explain any action that the school has taken to remediate the concern, the potential impact of not resolving the concern, and recommendations for resolving the concern.

For example, because many private schools do not generally have a large staff, a lack of segregation of duties is sometimes identified as a concern in the management letter. In this situation, the school should work on putting controls in place to address any potential concerns related to having a small staff. For examples of potential controls in this situation, see the Financial Internal Controls Systems section of this training.

Reserve Balance - Calculation

- The financial audit must include a supplemental schedule that calculates a Choice reserve balance.
- The reserve balance is calculated as the amount of revenue received from the Choice program compared to the school's net eligible education expenses for Choice pupils.
- The school must maintain a cash and investment balance that is at least equal to its reserve balance.

The annual financial audit must also include a supplemental schedule that calculates the reserve balance. The supplemental schedule is titled the Private School Choice Programs Reserve Balance schedule. The reserve balance is calculated as the amount of revenue received from the Choice program compared to the school's net eligible education expenses for Choice pupils.

The school must maintain a cash and investment balance that is at least equal to its reserve balance with certain modifications.

For more information on the financial audit and reserve balance calculation refer to the Financial Audit Training or see the Financial Audit and PSCP/SNSP Reserve Balance Bulletin and the PSCP Eligible Education Expense Bulletin at <https://dpi.wi.gov/sms/choice-programs/bulletins>.

Reserve Balance - Required Plan

- If the school's reserve balance is greater than 50% of the total amount the private school received for Choice payments in the previous school year, the governing body of the school must approve a plan for how it will use the amount of the reserve that exceeds 50%.
- As part of the Fiscal & Internal Control Practices Report, the auditor will determine if any required plan has been completed and if the governing board has approved the school plan.

If the school's reserve balance is greater than 50% of the total amount the private school received for Choice payments in the previous school year, the governing body of the school must approve a plan for how it will use the amount of the reserve that exceeds 50% of the Choice payments in the previous school year. As part of the Fiscal & Internal Control Practices Report, the auditor will determine if the plan has been completed and if the governing board has approved the school plan. The school should be able to provide the auditor with minutes from the board that include approval of the plan.

For example, if the June 30, 20X2 reserve balance is greater than 50% of the total amount the private school received in the 20X1-X2 school year, the school must have a plan in place for the Fiscal & Internal Control Practices Report due by December 15, 20X2.

Questions

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

Email: DPIChoiceAuditReports@dpi.wi.gov

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



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 auditors.

Choice schools may also contact the Choice auditors at the email on the slide, or call the toll-free number at 1-888-245-2732, extension 3.