

MEMORANDUM

To: Superintendents, School Business Managers, Charter School Directors, and Charter School

From: Melody Santana-Marty, Education Finance Specialist Division of School Finance

Date: July 13, 2017

Subject: Summary of Audit Requirements – Fiscal Year (FY) 2017 Audit Year

Minnesota Statutes, section 123B.77, Subdivision 3, requires reporting entities to submit audited financial data to the commissioner of the Minnesota Department of Education (MDE) and to the Office of the State Auditor (OSA). Minnesota Statutes, section 123B.77, also states the required timelines for the reporting of financial data to the commissioner (MDE). The statutory deadline for the FY 2017 Audited Final UFARS Data Submission and Fiscal Compliance Table Data Submission reporting is November 30, 2017, and Audit Reports are due by December 31, 2017. However, the statutory deadline for audited final Uniform Financial Accounting and Reporting Standards (UFARS) data and fiscal compliance table data falls on a Sunday; therefore, submissions are timely if submitted by the dates below:

- Audited Final UFARS Data Submission – due November 30, 2017
- Fiscal Compliance Table Data Submission – due November 30, 2017
- Audit Reports – due January 2, 2018

Note: Refer to the “Submission Options” section of this document.

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

1. MDE requires financial statement audits be conducted in accordance with Generally Accepted Government Auditing Standards (Yellow Book), the Federal Single Audit Act and the Minnesota Legal Compliance Guide as issued by the Office of the State Auditor. In a Single Audit engagement, please refer to the Office of Management and Budget (OMB) document “2 CFR Chapter I, and Chapter II, Parts 200 et al. – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (OMB Omni Circular) implemented December 26, 2014, for reporting requirements. The audited financial statement must also provide a statement of assurance pertaining to Uniform Financial Accounting and Reporting Standards (UFARS) compliance.

MDE also requires a Corrective Action Plan (CAP) to be submitted as a component of all findings cited as a result of state, federal, or legal audit finding. The CAP must be included within the LEA audit for MDE review. Audit findings should be numbered with the fiscal year and audit finding number (for example: 2017-1, 2017-2, etc.) and follow the CAP format listed in item four below.

MDE will review the audit report submitted by the auditor on behalf of each LEA. As part of the OMB Omni Circular, MDE is required to provide a management decision for audit findings that relate to Federal Awards. If the auditor and/or LEA does not receive a follow up communication from MDE within six months of the submission of the audit report or by June 30 of the subsequent year, the management decision is complete.

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

School districts without student activity accounts must enclose a separate written memo or letter stating the school district does not have any student activity accounts. These steps will assist with verification if a student activity audit has been completed or that the student activities are all under board control and were audited with the general fund. MDE requires any findings resulting from the audit have a corrective action plan included for each finding. Audit findings should be numbered with the fiscal year and audit finding number (for example: 2017-01, 2017-02, etc.).

3. The Local Education Agency (LEA) audits must complete and include a comparative fiscal compliance report with the audit report. The fiscal compliance report must include the comparison between audited data and reported UFARS data and include columns displaying the variance(s). The fiscal compliance report is to be included in the table of contents of the audit report.

The LEA or auditor must enter the audited data into the fiscal compliance table located on the MDE website (MDE Website). After the audited data has been entered, run the fiscal compliance table comparison report and review the results. Any differences between the UFARS data and the audited financial data must be corrected. The entry of the audited data to the fiscal compliance table must be completed by November 30, 2017.

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

4. Checklist of reports that are required to be submitted to MDE and State Auditor's Office:
- Report on financial statements.
 - List of school board members for the reporting year.
 - Management's discussion and analysis (prepared by the finance officials of the LEA).
 - Report on entity's internal control structure.
 - Report on entity's compliance with laws and regulations.
 - Corrective action plan for all written findings (including student activity audit).
 - Corrective action plan should contain the following elements for each finding:
 - 1) An explanation of any disagreement with the finding.
 - 2) Actions planned in response to the finding.
 - 3) The official responsible for ensuring the corrective action.
 - 4) A plan to monitor completion of corrective actions.
 - Student activity audit or statement that funds are audited with the general fund.
 - UFARS Fiscal Compliance Table.
 - Single audit reports, if applicable.
 - Management letter (if no management letter was issued to the district, a separate and additional memo stating that fact is to be included with the audit submission).

FY 2017 – Charter School Reporting Requirements

Laws 2014, Chapter 272, Article 3, section 36, subdivision 6a, requires charter schools to submit to MDE additional information with the fiscal year-end audit report. The requirements begin with FY 2014 reporting period.

The statute reads as follows:

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

(c) The charter school, with the assistance of the auditor conducting the audit, must include with the report, as supplemental information: (1) a copy of management agreements with a charter management organization or an educational management organization and (2) service agreements or contracts over the lesser of \$100,000 or ten percent of the school's most recent annual audited expenditures. The agreements must detail the terms of the agreement, including the services provided and the annual costs for those services. If the entity that provides the professional services to the charter school is exempt from taxation under section 501 of the Internal Revenue Code of 1986, that entity must file with the commissioner by February 15 a copy of the annual return required under section 6033 of the Internal Revenue Code of 1986.

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

(e) If the audit report finds that a material weakness exists in the financial reporting systems of a charter school, the charter school must submit a written report to the commissioner explaining how the material weakness will

be resolved. An auditor, as a condition of providing financial services to a charter school, must agree to make available information about a charter school's financial audit to the commissioner and authorizer upon request.

Charter Schools

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

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

The following supplemental information requirements are in addition to the required annual audit report and must be submitted to MDE and the school's authorizer by December 31, 2017 (January 2, 2018, for FY 2017 reporting) of each year. Required charter school supplemental information is NOT a requirement of the Office of State Auditor and is not to be submitted to the Office of State Auditor.

Required documents are for the period of the fiscal year being reported. This year the period for fiscal reporting is 7/1/2016 – 6/30/2017. An agreement overlapping the fiscal year will require both agreements to be submitted.

Example:

1. Management contract with effective dates of 1/1/2016 –12/31/2016 and 1/1/2017–12/31/2017, requires both contracts to be submitted.
2. Management contract which covers multiple years would submit the contract for the fiscal reporting period. (Contract 7/1/2014-6/30/2017 would submit the same contract in the years of 2015, 2016, and 2017.)

Charter school must submit:

Copy of all agreements for corporate management services with the charter school. Corporate management service agreements include, but are not limited to:

Agreements for:

Management Services

Examples: Charter Management Organization (CMO)
Education Management Organization (EMO)

General definitions:

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

A contract details the terms under which administrative authority to operate one or more schools is given to an EMO/CMO in return for a commitment to produce measurable outcomes within a given time frame. The term "education/charter management organization" and the acronyms "EMO/CMO" are most commonly used to

describe these private/non-profit organizations that manage public schools under contract. However, other names or labels, such as “education service providers,” are sometimes used to describe these companies.

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

Copy of service agreements or contracts over the lessor of the following:

Total annual amount paid is \$100,000

OR

Total annual amount paid is 10 percent of the year end audited expenditures.

Agreements for:

Other Services (Vendors)

Examples: Business Services

Food Services

Transportation

Teaching Staff

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

NOTE: Charter schools without management services contracts or agreements over the lessor of \$100,000 or ten percent of the school's most recent annual audited expenditures should include with their submission, a letter to the Minnesota Department of Education, signed by the school’s director, stating: “The XYZ Charter school does not have a contract with a management company or contracts which exceeds either \$100,000 or greater than ten percent of year end audited expenditures”.

School Auditors

- A. Independent audit reports for charter schools must include the audited data from the affiliated building corporation or other component units, per Statute 124E.16, Subdivision 1(d).
- B. Submission of Supplemental Information – Assist school with submitting agreement information.
- C. An auditor, as a condition of providing financial services to a charter school, must agree to make available information about a charter school’s financial audit to the commissioner and authorizer upon request, per Statute 124E.16, Subdivision 1(e).

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

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

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

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

- A. Management Agreements suffix convention: Mgmt.Agree
- B. Service Agreements suffix convention: Service.Agree

Examples: 2017.4113.07.FraserAcad.mgmt.Agree
2017.4113.07.FraserAcad.service.agree

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

Examples: 2017.4113.07.FraserAcad.mgmt.agree1
2017.4113.07.FraserAcad.mgmt.agree2
2017.4113.07.FraserAcad.service.agree1
2017.4113.07.FraserAcad.service.agree2

The email for electronic submission is mde.finmgt@state.mn.us.

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

Minnesota Department of Education
Division of School Finance
Attn: Melody Santana-Marty (I-12)
1500 Highway 36 West
Roseville, MN 55113-4266

If you have questions about the “Changes to Charter School Reporting Requirements”, please contact the UFARS Accounting Helpdesk at: mde.ufars-accounting@state.mn.us.

Submission Options

2017 Submission

1. Districts may submit completed financial audits and required supplemental information in standard printed and bound format via United States Mail or other courier service. **However, the recommended submission method is to submit all documents in electronic format.**
2. Districts may submit completed financial audits and required supplemental information via email with attached files in PDF format using the naming convention identified here.

To Submit E-files to MDE

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

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

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

Audited District Financial Statements	convention: FinStm.District
District Management Letters	convention: MgtLltr.District
Student Activity Audits	convention: FinStmt.Student
Student Activity Management Letter	convention: MgtLt.Student
Other Reports	convention: Other
“Other reports” may be conveyance of letters, letters indicating a management letter was not issued, additional files, etc.	

The naming convention for required files:

Fiscal Year	District Number	District Type	District Name	Report Name
Four characters	Four characters	Two characters	Up to 12 characters in length	<ul style="list-style-type: none"> • FinStm.District • MgtLltr.District • FinStmt.Student • MgtLt.Student • Other

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

Examples:

- 2017.0001.03.Minneapolis.FinStm.District
- 2017.0001.03.Minneapolis.FinStm.Student
- 2017.0001.03.Minneapolis.MgtLltr.District
- 2017.0001.03.Minneapolis.MgtLtr.Student
- 2017.0001.03.Minneapolis.Other

Minnesota Statutes, section 123B.77, subdivision 3, also requires each district to send a copy of the audit and all supplemental report to the Office of State Auditor. The Office of State Auditor requests all copies to be in

electronic format and must be received no later than December 31, 2017 (January 2, 2018 for FY 2017 reporting).

The email addresses for electronic submission are:

Minnesota Department of Education: MDE.FinMgt@state.mn.us

Office of State Auditor: SingleAudit@osa.state.mn.us

Districts Submitting via USPS or Courier:

Submit one printed (hard) copy of the audit and other required documents to:

Minnesota Department of Education
Division of School Finance
Attn: Melody Santana-Marty (I-12)
1500 Highway 36 West
Roseville, MN 55113-4266

If you have any questions, please contact [Melody Santana-Marty](mailto:Melody.Santana-Marty@state.mn.us) at 651-582-8260.

This letter is also posted on the [MDE Financial Management website](http://education.state.mn.us/MDE/SchSup/SchFin/FinMgmt/index.html) (<http://education.state.mn.us/MDE/SchSup/SchFin/FinMgmt/index.html>).

As indicated above, MDE must receive all audit reports by December 31, 2017 (January 2, 2018 for FY 2017 reporting), if received after December 31, 2017 (January 2, 2018 for FY 2017 reporting), the postmark must be on or before December 31, 2017 (January 2, 2018 for FY 2017 reporting).