

# School District Fiscal Audit

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WASBO Spring Conference  
May 11, 2023



WISCONSIN DEPARTMENT OF  
**Public Instruction**  
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# School District Fiscal Audit Agenda

- **What is an Audit?**
- **What is Required?**
- **Audit Process**
  - **Prior to Audit Fieldwork**
  - **Preliminary Audit Fieldwork**
  - **Audit Fieldwork**
  - **After the Audit**

# What is an audit?

- Examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements
- Assessment of the accounting principles, internal controls and significant estimates made by the Board of Education and management
- Not designed to detect error or fraud that is immaterial to the financial statements
- Auditor's opinion certifies that based on the auditor's opinion, the financial statements are free of material misstatements and the District complied with material compliance requirements.

# What is an audit?

## Types of Audit Opinions

- **Unqualified**
  - Financial statements present fairly, in all material respects, the financial information in accordance with generally accepted accounting principles.
- **Qualified**
  - Except for the effects of the matter or matters to which the qualification relates, the financial statements present fairly, in all material respects, financial information in accordance with generally accepted accounting principles.
- **Adverse**
  - Financial statements do not present fairly the financial information in accordance with generally accepted accounting principles.
- **Disclaimer**
  - Auditor does not express an opinion on the financial statements.

# What is required?

## Wisconsin Statute 120.14 (1)

- At the close of each fiscal year, the school board of each school district shall employ a licensed accountant to audit the school district accounts and certify the audit
- The audit shall include information about expenditures for community programs and services
- If required by the state superintendent under statute 115.28(18), the audit shall include the number of pupils reported for membership purposes under statute 121.004(5)
- Annually by September 15, the school district clerk shall file a financial audit statement with the state superintendent.

## Wisconsin Statute 115.28 (18)

- Pupil Membership Audits. Annually require at least 25% of school boards to audit the number of pupils reported for membership purposes under statute 120.14 (1)

## Wisconsin Statute 120.18(1)

- Annually at such time as the department prescribes but after the end of the school year and no later than September 1, the school district clerk of a common or union high school district shall file a verified annual school district report with the department, on forms supplied by the department.

# What is required?

## Wisconsin Administrative Code, PI 14

- Establishes Minimum Standards for School District Audits
  - States the applicable standards and requirements required to be met by District auditors
  - Independence
  - Timing, Location, and Conduct of Audit Work
  - Reports – outlines reports required to be submitted to the school district, department and other agencies as required by applicable statutes or rules.

# What is required?

## Wisconsin Administrative Code, PI 14

- Establishes Minimum Standards for School District Audit Contract
  - The school board may utilize the standard school district audit contract format prescribed by the department
  - If not utilizing format prescribed by the department, school board shall ensure that the contract contains all the provisions PI 14.03(2) and the following:
    - It shall specify the compensation agreed upon between the school board and the auditor including an estimate as to the total cost of the audit provided by the auditor
    - It shall specify terms of payment
    - It shall be signed by both a school district officer who is authorized by the school board to enter into a contractual agreement and the owner or partner of the audit firm
  - Many audit firms use Engagement Letter
- Any audit which the department determines is not in compliance with this section shall be referred to the school district for corrective action.

# What is required?

## Uniform Grant Guidance / Federal Single Audit

- Non-Federal entities that expend \$750,000 or more in a year in Federal awards shall have a single or program-specific audit conducted in accordance with the provisions of the Uniform Grant Guidance.
- Districts must ensure that the audits required by the Uniform Grant Guidance are properly performed and submitted when due.
  - District and Auditor complete steps to submit to the Federal Audit Clearinghouse.
  - Due within 9 months of year end.
  - The auditee prepares the Schedule of Expenditures of Federal Awards (SEFA) for the year ended.
- The auditor is required to prepare a Schedule of Findings and Questioned costs.
- The auditee is responsible for follow-up and corrective action on all audit findings.
- The auditee shall also prepare a corrective action plan for current year audit findings.



# What is required?

## Uniform Grant Guidance

- **The corrective action plan prepared by the District shall provide:**
  - The names of the contact person(s) responsible for the corrective action
  - The corrective action planned
  - The anticipated completion date
  - If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons
- **The Department reviews all findings included in Schedule of Findings and Questioned Costs and follows up as required by Uniform Guidance. Detailed corrective action plans are important as they aid the Department in following up on District findings.**

# What is required?

## OMB Compliance Supplement

- <https://www.whitehouse.gov/omb/management/office-federal-financial-management/> (2022 supplement was released May 11<sup>th</sup>)
- The OMB Compliance Supplement details the compliance requirements that the awarding agency expects the auditor to test, and suggests audit procedures
- There are 12 types of Compliance Requirements. Part 2 is the matrix of the applicability of each Compliance Requirement to each specific grant (some maybe N/A to a grant)
- Part 3 applies to all grants
- Each Federal awarding agency has a separate Part 4, organized by ALN

# What is required?

- **State Single Audit Guidelines**

- **The State Single Audit Guidelines are applicable to a school district audit if all three conditions are met:**

- **The agency is a local government or a non profit organization that expended \$750,000 or more in federal awards.**
- **The agency received funding from a state department. This funding may be state money or federal pass-through money.**
- **The granting agency has not otherwise specified that the Guidelines are not applicable.**

# What is required?

## Wisconsin Department of Public Instruction Requirements

- Auditors are required to follow the applicable audit procedures contained in the Wisconsin School District Audit Manual located at <https://dpi.wi.gov/sfs/finances/auditors/overview>.
- The Wisconsin School District Audit Manual contains audit programs designated state major programs, designated type A programs, and other commonly audited programs.

# Audit Process

- **Audit Process**
  - **Prior to Audit Fieldwork**
  - **Preliminary Audit Fieldwork**
  - **Audit Fieldwork**
  - **After the Audit**

# Prior to Audit Fieldwork

- **Engagement Letter**

- **Outlines objectives of the audit**
- **Management's responsibilities**
  - Financial statements and application of accounting policies
  - Establishing and maintaining internal controls over financial reporting and to prevent and detect fraud.
  - Complies with laws and regulations
  - Makes records and other information available to auditor
- **Auditor's responsibilities**
  - In accordance with generally accepted auditing standards
  - Obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud
- **Limitations of the engagement**

# Prior to Audit Fieldwork

- **District will provide a list of all items needed for the audit.**
  - “PBC List”
  - “Audit Prep List”
  - “Client Prepared List”
- **This list should include all items needed for the auditor to perform preliminary and audit fieldwork**
- **Important for district to review list and ask any clarifying questions about information needed in advance or available for review**

# Prior to Audit Fieldwork

- **Preliminary Audit Fieldwork**
  - **What to have prepared before preliminary fieldwork**
    - **Review list from auditor for items to be available at or before preliminary fieldwork**
    - **These often include:**
      - **All board minutes**
      - **Significant new agreements for grants, contracts, leases, debt, 66.03**
      - **Budget documents, including original adoption and all board approved amendments**
      - **Process and procedures manuals**
      - **Sample of transaction documentation for auditor testing, such as payroll sample or cash disbursement sample**



# Prior to Audit Fieldwork

- **Communications with Those Charged with Governance during Planning**
  - **The Board of Education – Responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity**
  - **Planning letter communicates with board:**
    - **Responsibility of the auditor in relation to the audit**
    - **Scope and timing of audit**
  - **Allows auditor to begin communications to obtain information relevant to audit from board**

# Prior to Audit Fieldwork

- **Preliminary Audit Fieldwork**
  - Auditor may perform preliminary audit testing on site prior to June 30<sup>th</sup>.
  - May complete the following procedures:
    - Gain understanding of entity
    - Review of processes and internal control testing
    - Begin review of single audit compliance requirements, if applicable
  - Preliminary procedures may vary based on auditor, size of district, or compliance requirements required to be tested

# Prior to Audit Fieldwork

- **Preliminary Audit Fieldwork**
  - **Gain an understanding of entity**
    - Use past knowledge of client
    - Use knowledge gained from performing other school district audits
    - Review of board minutes
    - Review of significant agreements
    - Inquiries of management
    - Consideration of fraud
      - Must inquire of governance, management, and others regarding views of fraud and how they are addressed
      - Must report to appropriate level of management if evidence of fraud

# Prior to Audit Fieldwork

- **Preliminary Audit Fieldwork**
  - **Review of processes and internal control testing**
    - Auditors are required to gain an understanding of internal control processes put in place by districts
    - Will review processes for major transaction classes such as cash receipts, cash disbursements, and payroll
    - Test the key controls identified during review of processes
  - **Methods of testing**
    - Inquiry of management
    - Observations
    - Examination of Evidence
    - Re-performance

# Prior to Audit Fieldwork

- **Preliminary Audit Fieldwork**
  - **Methods of testing**
    - Inquiry of management
      - Inquire of personnel about processes and control
      - Inquiry alone is not sufficient audit evidence
    - Observations
      - Observe the control as it is being performed by the District
    - Examination of Evidence
      - Review of a sample of transactions in which the control was performed and documented

# Prior to Audit Fieldwork

- **Preliminary Audit Fieldwork**
  - **Begin review of single audit compliance requirements, if applicable**
    - **Assess federal grant money for single audit requirement and preliminary major program determination**
    - **Review controls over compliance requirements**
    - **Review individual transactions or reporting requirements**
  - **Depending on timing of preliminary fieldwork, compliance procedures able to be performed may vary significantly.**

# Prior to Audit Fieldwork

- **What to do to prepare before final audit fieldwork**
  - **Upload financial information to PI1505 Annual Report and complete edit checks**
    - **Make any necessary adjustments to both annual report and accounting software**
    - **Completing prior to audit fieldwork helps:**
      - **Identify potential errors**
      - **Fewer auditor adjustments to the PI-1506AC after DPI approval**
    - **Remember to incorporate any audit adjustments to annual report if uploaded prior to audit fieldwork**

# Prior to Audit Fieldwork

- **What to do to prepare before final audit fieldwork**
  - **Post all year-end items**
  - **Reconcile all bank accounts**
  - **Reconcile all other asset, liability, and fund balance accounts**
  - **Gather all items requested by auditor into organized manner**
    - **An audit folder with all documents prepared before, during, and after audit may help to prepare for future audits**
  - **Make sure all necessary staff will be on site for the scheduled dates**
  - **Prepare a response to prior year findings**
  - **Contract with an actuary, if applicable, in Spring**
  - **Send auditor a trial balance exported from accounting software**



# Audit Fieldwork

- **What to have prepared for final audit fieldwork**
  - Review list from auditor for items to be available for preliminary fieldwork
  - These often include:
    - Bank statements and reconciliations
    - Reconciliations or schedules for balance sheet accounts and supporting documentation
    - Fixed asset listing, appraisal, or additions and deletions depending on how capital assets are maintained
    - Debt roll forward schedules and amortization schedules
    - Schedule of compensated absences
    - Actuarial valuation for OPEB and/or supplemental pension
    - List of grant funds received and receivable, including grant award numbers and funding sources.
    - Detailed ledger of legal expenses
    - Manual journal entries and supporting documentation
    - Schedule of fund balance classifications and support
    - General ledger detail for specific accounts

# Audit Fieldwork

- **Testing of Balances**
  - Auditor will perform testing for all significant account balances based on risk assessment completed during planning stages of audit
    - Analytical procedures
    - Tests of detail
- **Compliance testing**
  - Auditor will test grant compliance as applicable
  - Need program staff on site if performing a single audit
  - Preparation list will include some information needed for compliance testing
- **Be available for questions during audit fieldwork**

# After Audit Fieldwork

- **Have meeting prior to auditor leaving to communicate results**
- **Review, approve, and enter journal entries recommended by the auditor**
  - **Managements responsibility to review and approve for accuracy prior to posting in accounting software**
  - **Inquire of auditor as to reason for any unclear journal entries**
  - **Make sure after journal entries are made, district numbers tie to auditor numbers**
- **Maintain communication with the auditor**
  - **Establish agreed upon timelines for any outstanding items or questions**

# After Audit Fieldwork

- **Aid Certification**
  - Completed by District in WiSFIP
  - Statutory requirement to file verified annual school district report with the department no later than September 1.
- **Annual Report**
  - Financial data and addenda from WISEdata Finance
  - Reviewed and certified in WiSFIP
  - Cannot be submitted until free of validations and addenda resolved

# After Audit Fieldwork

- **Auditor Aid Certification**
  - Completed by Auditor
  - Statutory requirement to file a financial audit statement with the state superintendent annually by September 15
- **Fund Balance Report**
  - Completed by Auditor
  - Must tie to Districts books
  - Expect to tie to audited financial statements with FEW exceptions

# After Audit Fieldwork

- **Financial Statements**
  - **Due December 15, 2023**
  - **Many financial statements are prepared by Auditor as a non-attest service**
  - **Still the responsibility of Management**
    - **Must have the skills, knowledge, and experience to oversee the preparation of financial statements**
    - **Reviewing, approving, and taking responsibility for the financial statements**

# After Audit Fieldwork

- **Financial Statements**
  - **Government-wide financial statements**
    - **Statement of Net Position**
    - **Statement of Activities**
  - **Fund financial statements**
    - **Balance Sheet - Governmental Funds**
    - **Statement of Revenues, Expenditures, and Changes in Fund Balance**
  - **Notes to the financial statements**
  - **Required Supplementary Information and Supplementary Information**

# After Audit Fieldwork

- **Financial Statements**
  - **Management's Discussion and Analysis**
    - Completed by District
    - Introduce the basic financial statements and provide an analytical overview of the government's financial activities
    - Discuss the current-year results in comparison with the prior year, with emphasis on the current year
    - Use of charts, graphs, and tables is encouraged.
    - Analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund.



# After Audit Fieldwork

- **Financial Statements**
  - **Required Supplementary Information (RSI)**
    - Budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget.
    - RSI related to District OPEB and/or Supplemental Pension Plans
    - RSI related to WRS Pension and Local Retiree Life Insurance Fund
  - **Supplementary Information**
    - Combining Statements of Non-Major Funds
    - Schedule of Changes in Assets and Liabilities – Agency Funds

# After Audit Fieldwork

- **Management Representation Letter**
  - Auditor obtain written representations from management.
  - Specific representations should relate to the following matters in an audit of financial statements presented in accordance with generally accepted accounting principals.
    - Financial statements
    - Completeness of information
    - Recognition, measurement, and disclosure
    - Subsequent events
  - Will include representation related to compliance requirements as applicable

# After Audit Fieldwork

- **Communication with Governance at Conclusion**
  - **Significant findings from the audit**
    - Qualitative aspects of the entity's significant accounting practices
      - Accounting policies, estimates
    - Difficulties encountered in performing the audit
    - Corrected and uncorrected misstatements
    - Disagreements with management
  - Representations the auditor is requesting from management

# After Audit Fieldwork

- **Communication of Internal Control Deficiencies**
  - Requires the auditor to communicate, in writing, to management and those charged with governance:
    - Significant deficiencies
    - Material weaknesses

# After Audit Fieldwork

- **Common School District Financial Statement Findings:**
  - **Lacks the skills and knowledge to prepare financial statements in accordance with GAAP Absent or inadequate segregation of duties**
  - **Lacks the skills and knowledge to prepare the SEFA**
  - **Absent or inadequate segregation of duties**
  - **Material audit adjustments to correct misstatements**
  - **Failure to perform reconciliations of significant accounts**

# After Audit Fieldwork

- **Common School District Federal Findings:**
  - Allowability of expenditures
  - Lack of documentation of personnel expenditures
  - **Child Nutrition:**
    - Eligibility
    - Verification
    - Reporting
  - **ESSER/GEER**
  - **Procurement, Suspension and Debarment**

# After Audit Fieldwork

- **Common School District State Findings:**
  - **State Special Education**
    - Teachers without valid licenses
  - **Transportation**
    - Wrong mileage categories
    - Claimed for both specialized and regular transportation
    - Outdated unusually hazardous transportation plan

# After Audit Fieldwork

- **Schedule of Findings and Questioned Costs (SFQC)**
  - **Includes the following:**
    - **Summary of Auditors Results**
    - **Financial Statement Findings**
    - **Federal and State Award Findings and Questioned Costs**
    - **Other Issues**
  - **District must prepare Corrective Action Plan (CAP) for each finding**
  - **Summarization of CAP included in SFQC as Views of Responsible Officials**



# Timely Reporting to DPI Impacts Us All

- Late submission of audited financial statements
- Late submission of Actuarial studies

## Audit Requirements

### Overview



The Department of Public Instruction has the statutory responsibility to prescribe financial and membership audit requirements ([s.120.14](#), Wisconsin Statutes) for Wisconsin school districts. In fulfilling this responsibility, DPI cooperates closely with school district officials and the independent auditors contracted by each school district.

# Questions?

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