

2016-17 GUIDETO AUDITS

Presented by:

Christy White, President
Christy White Associates, Inc.
619-270-8222

cwhite@christywhite.com

TODAY'S TOPICS – NAVIGATING THE 2016-17 AUDIT YEAR

- ▶ State Audit guide requirements 2016-17 year
- ▶ State Audit guide proposals for the 2017-18 year
- ▶ GASB 74/75 replaces GASB 43/45
- ▶ GASB 68 pension components, an understanding of deferred inflows/outflows and how the liability is computed
- ▶ Federal Uniform Guidance requirements for time reporting and procurement

AUDIT GUIDE PROCESS AND CHANGES

- ▶ **Adopted by July 1 of the fiscal year to be audited, and finalized March 1 therefore the 2016-17 guide is already final and the 2017-18 is in the works:**
 - ▶ **The law allows a supplemental audit guide to be adopted to address legislative changes to the conditions of apportionment before March 1 of the audit year**
 - ▶ **Issued by the Education Audit Appeals Panel, located at <http://eaap.ca.gov>**

STATE AUDIT GUIDE CHECKLIST

PROGRAM NAME	2012-13	2013-14	2014-15	2015-16	2016-17
Attendance	X	X	X	X	X
Teacher Certification and Misassignments	X	X	X	X	X
Kindergarten Continuance	X	X	X	X	X
Independent Study	X	X	X	X	X
Continuation Education	X	X	X	X	X
Instructional Time	X	X	X	X	X
Instructional Materials	X	X	X	X	X
Ratios of Administrative Employees to Teachers	X	X	X	X	X
Classroom Teacher Salaries	X	X	X	X	X
Early Retirement Incentive	X	X	X	X	X
Gann Limit Calculation	X	X	X	X	X
School Accountability Report Card	X	X	X	X	X
Juvenile Court Schools	X	X	X	X	X
Middle or Early College High Schools			X	X	X
K-3 Grade Span Adjustment			X	X	X
Transportation Maintenance of Effort			X	X	X
Mental Health Expenditures					X
Educator Effectiveness				X	X
California Clean Energy Jobs Act		X	X	X	X
After School Education and Safety Program	X	X	X	X	X
Proper Expenditure of Education Protection Account Funds	X	X	X	X	X
Unduplicated Local Control Funding Formula Pupil Counts		X	X	X	X
Local Control and Accountability Plan		X	X	X	X
Independent Study-Course Based				X	X
Immunizations				X	X

MIDDLE OR EARLY COLLEGE HIGH SCHOOLS

Rare but gaining traction, few things to take into consideration:

- Middle College High School
 - At risk students placed in alternative HS located on community college campus
 - College prep, reduced teacher/student ratio, flexible schedule, and opportunities for internships and apprenticeships
- Early College High School
 - Partnership with charter school or non-charter public school with community college, CSU, or UC
 - Pupil earn HS diploma and up to 2 years of college credit (4 years or less)
 - Small schools that blend high school and college

MIDDLE OR EARLY COLLEGE HIGH SCHOOLS, CONT.

- ▶ Notify auditor if you now operate or are planning on operating a school that meets the definition of a middle or early college high school
 - ▶ See Education Code section 11300 (middle college high school)
 - ▶ See Education Code section 11302 (early college high school)
- ▶ Auditor will:
 - ▶ Verify students met instructional time & enrollment conditions
 - ▶ Day of attendance (Grade 11 or 12)
 - ▶ Enrolled PT student in CSU or UC: 180 minutes of attendance
 - ▶ Special PT student in community college: 180 minutes of attendance
 - ▶ *Additional provisions if the Middle or Early College HS is a charter school*
 - ▶ *80% of instructional time offered by the charter school shall be at the school site*
 - ▶ *Requires 11 or 12th grade students enrolled in CSU, UC, or community college to be present a minimum of 50% of the minimum instructions time required.*
 - ▶ Education Code Section 46146.5

EDUCATOR EFFECTIVENESS

- ▶ If you have any Educator Effectiveness expenditures in 2015-16 or 2016-17, the auditor will perform the following:
 - ▶ Determine if you developed and adopted a plan delineating how the Educator Effectiveness funds will be spent and whether the plan was explained in a public meeting of the governing board before its adoption in a subsequent public meeting.
 - ▶ Verify that you are separately tracking the following items required to complete the final expenditure report (due July 2018). Example of report can be found at <http://www.cde.ca.gov/fg/aa/ca/educatoreffectiveness.asp>
 - ▶ The numbers of teachers, administrators, and paraprofessionals that receive professional development
 - ▶ Expenditures for each of the four purposes
 - ▶ The number of teachers and administrators that receive professional development aligned to each of the state content standards as identified by Assembly Bill 104, Section 58(b)(1)(C)

MENTAL HEALTH EXPENDITURES- NEW!!

- ▶ Mental health related services expenditures from Budget Item 6100-161-0001, Provision 14 (SACS Resource Code 6512)
- ▶ Funds only for mental health related services, including out-of-home residential services for emotionally disturbed pupils.
- ▶ For additional guidance on mental health services:
<http://www.cde.ca.gov/sp/se/ac/useofmhfunds.asp>.
- ▶ If any mental health related services expenditures are found to have been made for non-qualifying purposes, we will request you make a correcting journal entry.

MENTAL HEALTH EXPENDITURES- NEW!!

- ▶ Funds to provide services formerly provided by the County Mental Health agencies and the Department of Social Services. Funds **cannot** be spent on educational services that have historically been provided by LEAs for students with emotional or behavioral needs.
- ▶ Allowable:
 - ▶ Salaries of certificated supervisors, administrators; clerical, technical, office staff salaries associated with administering related services for students with emotional or behavioral needs
 - ▶ Room & board cost of residential placement if it is included in the student's IEP.
 - ▶ Professional & consulting service (e.g., case management, medical services, day treatment, individual therapy, family therapy, group therapy, group rehabilitation, therapeutic behavior services, assessment, psychological services, and residential placement) costs for students with emotional or behavioral needs.
 - ▶ Rental and/or lease of office space to provide professional and consulting services for students with emotional or behavioral needs
 - ▶ Transportation costs of student to receive related services from a provider.
 - ▶ Books & supplies related to providing related services

2017-18 AUDIT GUIDE – CHANGES MINOR

▶ ASES

- ▶ Clarify when testing attendance for both the after school and before school programs that the auditors select a sample of attendance instead of testing all attendance for the sampled schools.
- ▶ Clarify that if there are any findings related to the early release or late arrival policies to disclose the finding as noncompliance. There was confusion by some whether there would be a disallowance of attendance.

▶ LCAP

- ▶ Update reference to the LCAP as the local control accountability plan and annual update as approved by the State Board of Education in November 2016.
- ▶ Revise procedure #2 to delete reference to "Section 2" to "the annual update" to reflect the latest State Board of Education LCAP adoption in November 2016.

STATE AUDIT GUIDE - FINDINGS

Areas with the highest instances of Non-Compliance

- ▶ Unduplicated Counts
- ▶ Instructional Minutes
- ▶ Attendance
- ▶ Independent study

GASB 74/75 REPLACES GASB 45 (OPEB)

- ▶ Change in the standards for accounting and financial reporting for postemployment benefits other than pensions (OPEB)
- ▶ Replaces GASB #43/45
- ▶ GASB 74 related to OPEB plans
- ▶ GASB 75 related to employers that sponsor OPEB plans

GASB 74/75 REPLACES GASB 45

- ▶ *GASB 74 - Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*
 - ▶ To improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability
 - ▶ Replaces GASB #43
 - ▶ Effective fiscal years beginning after June 15, 2016 (16-17, this year for you guys)

GASB 74/75 REPLACES GASB 45

- ▶ Most of GASB 74 only applies for plans administered through trusts in which contributions are irrevocable
- ▶ Trust assets are dedicated to providing OPEB to plan members, and trust assets are legally protected from creditors.
- ▶ If assets accumulated, but not through trusts meeting the above criteria, only paragraphs 58 and 59 apply. Those paragraphs indicate that any such assets should continue to be reported as assets of the employer or non-employer contributing entity.

GASB 74/75 REPLACES GASB 45

- ▶ *GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
 - ▶ To improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB)
 - ▶ Replaces GASB #45
 - ▶ Effective for fiscal years beginning after June 15, 2017 (17-18 Fiscal Year for Districts)

GASB 74/75 REPLACES GASB 45

- ▶ Biennial actuarial valuations are now required for all plans. Under GASB 45, triennial valuations were permitted for plans with fewer than 200 members (active employees, terminated employees who have accumulated benefits but are not yet receiving them, retirees, and beneficiaries). More frequent valuations were encouraged under GASB 43 and 45 and continue to be encouraged under GASB 74 and 75.
- ▶ The alternative measurement method continues to be available for plans with less than 100 members.

GASB 74/75 REPLACES GASB 45

- ▶ New terminology
 - ▶ Total OPEB Liability (TOL)
 - ▶ Net OPEB Liability (NOL)
 - ▶ Fiduciary Net Position (FNP)
 - ▶ NOL is equal to TOL minus FNP
 - ▶ For unfunded plans, NOL equals TOL

GASB 68 – PENSIONS- HISTORY

- ▶ This statement requires LEA's to post the District's portion of STRS and PERS unfunded liability to government-wide financial statements resulting in a negative unrestricted net position for most Districts in the first reporting year, Fiscal Year (FY) 2014-2015
- ▶ In the past as you made your contributions to STRS and PERS, you recorded an expense to objects 31xx and 32xx, and it ended there!

GASB 68 – WHAT YOU SEE NOW

- School districts report their proportionate share of collective net pension liability, deferred inflows of resources and deferred outflows of resources, and pension expense on government-wide f/s
 - District's proportionate share based on district's contributions at measurement date as a percentage of plan contributions from all employers
- Pension expense calculated as change in net pension liability during the year, plus or minus amortization of deferred inflows and outflows
 - Pension expense no longer based on contributions to the plan
- Significantly more footnote disclosures
 - Disclosures required for each plan
- Required supplementary information
 - Ten-year schedule of district's and non-employer (if applicable) proportionate share of the net pension liability
 - Ten-year schedule of district's contributions

GASB 68 – KEY TERMS TO REVIEW

- ▶ Net Pension Liability
- ▶ Measurement Date
- ▶ Pension Expense
- ▶ Deferred Outflow of Resources
- ▶ Deferred Inflow of Resources

GASB 68 – NET PENSION LIABILITY

This is your District's share of:

- ▶ STRS – \$58,437,000,000
- ▶ PERS - \$ 11,352,434,849

So if your district's share of STRS was 0.234% and PERS was 0.408%

Your Net Pension Liability on you FS would be:

- ▶ STRS – \$136,743,158
- ▶ PERS - \$ 46,262,485

For a total of \$183,005,643

GASB 68 – MEASUREMENT DATE

- ▶ LEAs implemented GASB Statement 68 during the year ended June 30, 2015
- ▶ STRS and PERS also have a fiscal year-end of June 30th and implemented the provisions of GASB Statement 67 during the year ended June 30, 2014
- ▶ Measurement date for the District must be as of a date no earlier than the end of its prior fiscal year (June 30, 2014)
- ▶ Since the District and the Plan have the same year end, the District may elect to use June 30, 2014 or June 30, 2015 as the measurement date
- ▶ Due to the fact that the STRS and PERS audit as of June 30, 2015 will not be finalized until the fall, it is recommended that District's utilize June 30, 2014

GASB 68 – PENSION EXPENSE

Numbers come from the PERS and STRS Actuarial.

- Debit: (By Function) Districts share of pension expense
- Credit: the portion paid after the measurement date (STRS and PERS contributions in the current fiscal year)

GASB 68 – DEFERRED OUTFLOW OF RESOURCES

- ▶ Amount paid after the measurement date
- ▶ In the case of LEAs this is the amount paid in the current fiscal year
- ▶ STRS and PERS contributions made in current fiscal year

GASB 68 – DEFERRED INFLOW OF RESOURCES

- ▶ Differences between projected and actual earnings on plan investments per STRS and PERS
- &
- ▶ Prior Year Actuarial Amortization of Deferred Inflows of Resources per STRS & PERS

(Numbers are provided by PERS and STRS Actuarial, you need to take your share)

Office of Management & Budget (OMB) published the “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” on December 26, 2013 – Now called the “**Uniform Grant Guidance**”.

NEW UNIFORM GRANT GUIDANCE – BACKGROUND

UNIFORM GRANT GUIDANCE – GUIDANCE

- ▶ Consolidates eight OMB circulars (OMB Circular A-87, OMB Circular A-21, OMB Circular A-122, OMB Circular A-110, OMB Circular A-102, OMB Circular A-133, OMB Circular A-50, OMB Circular A-89).
- ▶ Eliminates 80 pages of overlapping, duplicative & conflicting provisions
- ▶ Fiscal year end 6/30 – was effective for June 30, 2016 audit
- ▶ Streamline Guidance
- ▶ Strengthen Oversight

UNIFORM GRANT GUIDANCE – HISTORY

- ▶ Resulted in new administrative requirements & cost principles: Applies to new awards made after December 26, 2014
- ▶ Audit requirements: Applies to audits of LEA fiscal years beginning after December 26, 2014. (LEA's fiscal year 2015-16)

UNIFORM GRANT GUIDANCE – LEA CHANGES –SINGLE AUDIT THRESHOLD

Single audits:

- ▶ Threshold raised from \$500,000 expenditure of federal funds to \$750,000, reduced number of programs audited for LEAs
- ▶ Reduced the number of districts subject to single audit

NEW UNIFORM GRANT GUIDANCE – LEA CHANGES –MAJOR PROGRAM DETERMINATION

- ▶ Threshold for Type A programs increased from \$300,000 to \$750,000
- ▶ Risk criteria is refocused on internal controls
- ▶ Threshold for reporting questioned costs increased from \$10,000 to \$25,000

UNIFORM GRANT GUIDANCE – LEA CHANGES – TIME AND EFFORT DOCUMENTATION

- ▶ Documentation is still required, but less emphasis on monthly certifications & more on internal controls
- ▶ Internal controls over employee compensation
- ▶ No longer specifies PAR, instead “records that accurately reflect the work performed”

UNIFORM GRANT GUIDANCE – LEA CHANGES – TIME & EFFORT DOCUMENTATION

Records Must:

- ▶ Be supported by internal control systems
- ▶ Provide “reasonable assurance” that charges are allowable & accurate
- ▶ Reasonably reflect total activity for which the employee is compensated
- ▶ Support distribution among specific activities

UNIFORM GRANT GUIDANCE – LEA CHANGES – PROCUREMENT

- ▶ Procurement Procedures
 - ▶ All non-Federal entities must have documented procurement procedures which reflect applicable Federal, State, and local laws and regulations. (200.318a)
 - ▶ All procurement transactions must be conducted in a manner providing full and open competition (200.319a)
 - ▶ Non-Federal entities must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders (200.318b)
 - ▶ OMB has provided leniency by allowing for a 2-year grace period to adopt these changes, but client must establish in writing that they intend to utilize this grace period . In effect, June 30 YE client will have to have the new policies in effect by July 1, 2017.

UNIFORM GRANT GUIDANCE – LEA CHANGES – PROCUREMENT

- ▶ Method of Procurement

- ▶ Non-Federal entities must use one of the following methods (200.320)

- ▶ Micro-Purchases (under \$3,000) Does not have to be competitive process as long as entity determines price to be reasonable. Distributed equitably among suppliers to the extent practicable.
 - ▶ Small purchase procedures (up to the Simplified Acquisition Threshold of \$150,000) – Use judgment to obtain adequate number of price or rate quotes from qualified sources
 - ▶ Procurement by sealed bids (formal advertising)
 - ▶ Procurement by competitive proposals
 - ▶ Procurement by non-competitive proposals (should be rarely used; possibly single source availability or inadequate competition.)

QUESTIONS?

Presented by:

Christy White, President

Christy White Associates, Inc.

619-270-8222

cwhite@christywhite.com