Compliance Supplement for Massachusetts School Districts Agreed Upon Procedures Engagements: (Updated December 2023)

1. Introduction and Scope

Introduction

Every Massachusetts school district is required to, within nine months of the close of its fiscal year, arrange for and undergo an independent audit of its financial records, to include using the Department of Elementary and Secondary Education Compliance Supplement (Compliance Supplement), and submit the report of this audit to the Massachusetts Department of Elementary and Secondary Education (DESE or Department). This requirement shall be satisfied if the school district's records are audited using the Department's Compliance Supplement as part of a general audit of all municipal financial records. The audit must be conducted by an independent public accounting firm based on the compliance requirements, audit objectives, and suggested audit procedures contained in this Compliance Supplement. The auditor shall comply with professional standards included in "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" adopted by the Comptroller General of the United States in the conduct of the audit.

Each city, town, and regional school district is required to submit an End-of-Year Financial Report (EOYR) to DESE on or before September 30 of each year. The EOYR must be consistent with Department regulations and guidelines. The EOYR consists of several schedules as follows:

* Schedule 1 Revenue and Expenditure Summary
* Schedule 2 Assessments Received from Member Towns or Cities of Regional School Districts
* Schedule 3 Instructional Services by School
* Schedule 4 Special Education Expenditures by Placement
* Schedule 7 Pupil Transportation Reimbursement
* Schedule 19 Annual School Budget
* Schedule 20 Non-Instructional Grant Expenditures

Schedule 1 is the primary schedule reporting the results of operations for the fiscal year. Schedule 1 includes all revenues (Part I) and expenditures (Part II) received or made by the district directly or indirectly (Part IIA), as well as those expenditures made by the city or town (Part IIB) or third parties, grants and special funds (Part IIC) in support of these educational programs for a specific fiscal year. Schedule 1 contains information by fund, source, program, function, and object. The Department utilizes this schedule for net school spending compliance, federal reporting, state aid, local contribution calculations, and other needs. As such, it is critical that the amounts reported on Schedule 1 are accurate and verifiable.

While Schedule 1 financial information is generally derived from the municipal or district accounting system, other data in the EOYR are generally prepared in part from sources other than the accounting system. Districts utilize various allocations, distributions, or assignments of costs to complete the EOYR schedules or to report non-financial data. It is critical that these allocations, distributions, or assignment of costs are consistent with documented and reasonable methodologies and that non-financial data are supported by appropriate records or documented methodologies.

Scope

The purpose of this Compliance Supplement is to provide guidance in the conduct of an independent audit of a district's system for managing and reporting financial and non-financial information the district is required to report to DESE on the EOYR. The objectives of the Compliance Supplement are to determine whether:

* Financial data reported on all EOYR schedules are traceable to the detail contained in the municipal or district accounting ledgers or records or to a documented methodology.
* Non-financial data reported on all EOYR schedules are traceable to the district's records or to a documented methodology.
* There are documented methodologies supporting the financial and other reported information contained in these schedules, whether these methodologies were followed, and whether the methodologies are reasonable.
* Internal controls exist to provide reasonable assurance that the revenues, expenditures, and other data are accounted for consistent with Department regulations and guidelines.

This document describes the compliance requirements, audit objectives, and suggested audit procedures for Massachusetts school districts. These requirements, objectives, and procedures are intended to be consistent with the objectives and requirements of Part 3, Compliance Requirement L, Reporting Requirements of the March 2000 OMB A-133 Compliance Supplement. This document is written with the understanding that the internal control systems for Schedule 1 and other EOYR financial and other reported data are subject to the same tests as other municipal data.

2. Objectives, General Compliance Requirements, and Specific Compliance Requirements

Objectives

Determine whether required reports for Massachusetts school districts include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with State requirements.

General Compliance Requirements

Districts must use the standard financial reporting schedules contained in the (EOYR). These schedules include financial and non-financial data. The financial information must be traceable to the accounting ledgers of the district or of the municipality or to a documented methodology. If a "crosswalk" exists between the municipal and district ledgers, this crosswalk should be documented. The non-financial information must be traceable to records or to a documented methodology that demonstrates the information was compiled from existing records. Each district must report income on the modified accrual basis and expenditures on the modified accrual plus encumbrance basis.

1. For all EOYR Schedules:
	1. Ascertain if the financial information was prepared in accordance with the budgetary basis of accounting (e.g., modified accrual plus current year encumbrances minus expenditures of prior year encumbrances).
		1. Trace the amounts reported to accounting and other records that support the audited financial statements and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records.
	2. Trace non-financial data to records that accumulate and summarize data.
		1. Perform tests of the underlying data to verify that the data was accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the schedules. For Schedule 7, test eligibility criteria for reimbursable riders (pupils residing greater than 1.5 miles from their school of attendance).
		2. When intervening computations or calculations are required between the records and the schedules, trace reported data elements to supporting worksheets or other documentation that link the schedules to the data.
	3. Determine if the district's accounting system meets the following DESE requirements:
		1. Determine whether the district uses an accounting system that 1) provides for the reporting of all instructional costs by school location and 2) is in accordance with 603 CMR 10.03 (3)(a).
		2. Determine if the accounting system is supported by up-to-date written policies and procedures and that the policies and procedures are followed on a uniform and consistent basis.
		3. Determine if the district maintains written policies and procedures related to the classification of salaries and expenses by program, function and object and that the policies and procedures are followed on a uniform and consistent basis.
2. Obtain written representation from management that the reports provided to the auditor are true copies of the EOYR submitted or electronically transmitted to the Department
3. Determine that the district submitted a signed Certification Statement.
4. Determine if amendments required from prior year's audit were submitted.

Specific Compliance Requirements

Schedule 1 — Revenue & Expenditure Summary

1. **Revenues**

A. Revenue from Local Sources

* 1. Trace Revenues from Local Sources reported on Schedule 1 to the municipal and district accounting ledgers. Also, trace the revenues reported on district's accounting ledgers to revenues reported on Schedule 1. These amounts should agree.

C, D, and E. Revenues from Federal Grants, State Grants and Revolving and Special Funds

* 1. Trace the revenue from state aid, federal grants, state grants, and revolving and special funds to the detail in district's accounting ledgers. Also, trace the revenues reported on district's accounting ledgers to revenues reported on Schedule 1. These amounts should agree with the possible exception of revenue from state aid, federal grants and state grants, which are entered by the state based on allotments. ***Validate that the DESE Administered Federal Grant revenues entered on line 300 and the DESE Administered State Grant revenues on 510 match the final FY23 grant revenue file posted on the DESE EOYR*** [***website***](https://www.doe.mass.edu/finance/accounting/eoy/?fy=2023)***.***

***Note: Amounts deposited in legally authorized revolving accounts (e.g. School Choice) cannot be transferred to the General Fund.***

1. **Expenditures**

	1. By School Committee and B. By City or Town
		1. Trace the amounts reported for general fund education expenditures from Schedule 1, line 1850 to the municipal accounting ledgers and to the district accounting ledgers. Also, trace the expenditures reported on the district's accounting ledgers to expenditures reported on Schedule 1. These amounts should agree. If a crosswalk exists between the accounting ledgers and the EOYR, verify that the crosswalk agrees with the accounting ledgers in total and trace a sample of expenditures from the crosswalk to the accounting ledger.
		2. Trace the amounts reported for a sample of DESE functions (i.e., teachers, principals), object codes (i.e., professional salaries (01), other salaries (02), and other expenditures (04-06)) and DESE programs (i.e., regular day, special education, etc.) in Schedule 1 to the detail in the accounting ledgers or to the crosswalk, if applicable. These amounts should agree.
		3. Test Extraordinary Maintenance (4300) expenditures for the following: Verify that expenditures do not include salaries; verify that the expenditures include applicable principal portions of a loan or the cost of a lease/purchase agreement; and verify that expenditures classified as Extraordinary Maintenance (4300) do not exceed the per project per school dollar limit for extraordinary maintenance of $150,000. Trace the expenditures to the detail in the accounting ledgers.
		4. Determine how expenditures for fringe benefits are assigned or allocated to Schedule 1 Employee Benefits, Insurance (5100, 5200).
			1. Trace the reported cost to the detail in the accounting ledgers using the methodology indicated. These amounts should agree.
			2. Determine if expenses are charged to 5150 Employee Separation Costs. If no expenses are charged inquire if any district employees retired in FY22. In the event district employees retired, there should be costs/expenses reported.
			3. ***Determine if the district reported Insurance for Retired Employees (5260) separately and appropriately.***
		5. If amounts are reported for Rental Lease of Equipment or Buildings determine if the required rental lease schedule is maintained locally.
		6. Verify that expenditures charged to lines 1683 or 2060, Short-term Interest RAN's (5400) relate exclusively to Revenue Anticipation Notes (RAN's).
		7. Verify that expenditures charged to line 1684 or 2065, Short-term Interest BAN's (5450) relate exclusively to Bond Anticipation Notes (BAN's).
		8. Identify expenditures reported as long-term School Construction debt for principal (8100) and interest (8200). Verify that BAN's are not included in these functions. Trace the reported costs to the treasurer's debt schedule. Trace the reported amount to the detail in the accounting ledgers. These amounts should agree. ***Note:* If the district received a lump sum wait list or progress payment from the Massachusetts School Building Authority (MSBA), verify that the revenue was reported on line 130 and that expenses were reported for paydown of principal (8100) or Purchase of Land and Buildings (7100,7200) if applicable.**
		9. Trace the expenditures for tuition payments to other public-school districts in state (9100), to out of state schools (9200), to non-public schools (9300), to member collaboratives (9400), and assessments to member regional school districts (9500) to the detail in the accounting ledgers. These amounts should agree. *Note:* If the district prepaid FY23 special education tuition, verify that prepaid tuition was not included as an FY22 expense. If the district prepaid FY22 tuition from FY21, that amount should be included as an FY22 expense.
		10. For municipal expenditures that result in services directly related to the school committee:
			1. Obtain a copy of a written agreement between the School Committee and municipal officials documenting agreed upon methodologies to be used when allocating, distributing or assigning Municipal expenditures to the District.
			2. Test the amounts reported using the documented methodology. These amounts should agree.
		11. Expenditures from Federal Grants, State Grants and Special Funds
			1. Trace amounts claimed as Circuit Breaker expenses on line 3080 column 7 to the accounting ledgers or journals.
			2. Determine if the district charged a restricted indirect rate to grants and indicate so in the report (including the rate charged).

**Schedule 3**

* + 1. For Schedule 3 expenditures:
			1. Verify that the district's accounting system includes school location codes and trace the amounts reported by school location on the linked file to the accounting ledgers. These amounts should agree.
			2. If staff is assigned to more than one school, determine if the district maintains a payroll system or spreadsheet to document the assignment of staff salaries by school location.
			3. If allocations are used to assign staff salaries to schools, programs, functions, or objects, was the allocation supported by a documented methodology?
			4. If allocations are used for non-salary expenditures, determine if the district maintains a documented methodology for consistency in application. Allocations are acceptable on Schedule 3 for non-salary expenditures although direct assignment or charging is preferable.
			5. Ensure amounts reported as districtwide expenditures cannot be assigned to a specific school.

**Schedule 4**

* + 1. Ascertain the methodology used to allocate, distribute, or assign special education costs to the placement categories on Schedule 4 and review the propriety of the methodology. Test the amounts reported on Schedule 4 using this methodology. These amounts should agree.

**Schedule 7**

In the event that a municipal district does not have complete ridership data for Regular Day expenditures, please just note the inconsistency. That inconsistency should not be considered a finding.

* + 1. Trace the transportation expenditures reported on Schedule 7 to the transportation expenditures reported on Schedule 1. These amounts should agree. Ensure that all expenditures reported do not include unliquidated encumbrances. Determine the methodology used to allocate transportation expenditures on Schedule 7 and verify the accuracy of the allocations. Also, if applicable, verify that reimbursable expenditures have been reduced by transportation revenue received from students transported.
		2. Determine if there is adequate detail to support amounts reported (expenses and riders) for special education pupils transported outside the district.
		3. Trace the riders reported on Schedule 7 to the detailed transportation records and verify that the amounts reported on Schedule 7 are accurate and consistent with the detailed records.
		4. Determine if the district's accounting system separates costs in order to facilitate reporting as outlined in Schedule 7, including in- or out-of-district, pre-school, non-public, school choice, charter school).
			1. Determine if reimbursable expenditures claimed on line 4283 Homeless to Outside the District and line 4285 Homeless from Outside the District are supported by adequate documentation.
			2. Verify that foster care transportation was *not* claimed as homeless and is reported appropriately on line 4286.

If a cost allocation plan was used to determine reimbursable expenditures, review the propriety of the plan and test the expenditures reported.

**Schedule 19**

* + 1. Determine if the school district has reported all changes to Schedule 19 Part A.1 — Appropriation by School Committee to the Department. Compare the final School Committee appropriation to Schedule 19 Part A.1 as filed/amended to determine if all changes were reported.
		2. Determine amounts budgeted in Schedule 19 Part A.2 are consistent with methodologies outlined in the agreement noted in procedure II A. 4 a. above.
		3. Determine that retiree health insurance (5250) is reported separately.

**Schedule 20**

 No procedures at this time.