# Frequently Asked School District Financial Audit Questions Fiscal Year 2023-2024

Kentucky Department of Education (KDE) has compiled the frequently asked financial audit questions below to assist district personnel and audit firms with the audit contract and the requirements within.

1. **How should special revenue funds be presented in the audit report financial statements?**

Each fund (2, 21/22, 23 and 25) within special revenue funds should be presented individually in the audit report wherever it appropriately falls. Special revenue funds determined to be major funds should be presented individually in basic financial statements. Those determined to be non-major should be presented individually in the supplemental information on the non-major governmental funds financial statements.

While this is not a requirement of GASB or GAAP failure to report special revenue funds individually in the audit report financial statements will require additional information for KDE to complete our review of your district’s Audited AFR, Audited Balance Sheet and Audit Report.

1. Should there be an exit conference with the district?

The audit contract does not require an exit conference. KDE highly encourages an exit conference at the end of each audit.

1. Should audit adjustments be approved by the district?

District personnel should review and approve all audit adjustments when proposed by the auditor. Further, the audit contract requires those entries to be both recorded and reflected in the audited AFR and audited Balance Sheet.

Failure to record adjusting entries will cause the review by KDE to take more time and more inquiries. Additionally, the financial statements within the audit report are the responsibility of the district. District personnel should ensure they understand and are in agreement with any and all adjustments proposed by the audit firm.

1. What are KDE’s procedures for reviewing school district audits?

KDE performs a review of district audit reports, audited AFR and audit Balance Sheet with many objectives. Individual specifics change year to year based upon issues and priorities of the time.

Each year a major component of KDE’s review will be the financial information contained in the audit report, audited AFR and audited Balance Sheet. The audit contract requires these three items to agree. Additionally, KDE looks to ensure districts are appropriately applying the [Chart of Accounts and Segment Descriptions](https://www.education.ky.gov/districts/FinRept/Documents/NEW%20KDE%20Chart%20of%20Account%20Segment%20Descriptions%20ADA%20FY2023-2024.pdf).

KDE also examines activity fund accounts. The review looks to ensure accounts are presented correctly and administered according to rules and regulations.

Further KDE capitalizes on this moment to get a picture of the financial operations inside each district. The annual financial audits offer a unique insight to the daily operations of a district. The review combines the information noted in the audit report along with the experience of the review to formulate a picture of the district operations. KDE offers resources or training opportunities to the district based on the needs seen.

1. Can Fund 2 have a fund balance?

Yes, Fund 2 can have a fund balance if it is comprised of remaining technology (KETS) funds in project 162X. The audit report and the AFR shall match. Please note that the “X” in 162**X** is the place marker for the corresponding letter representing the funding year. Districts are to use a letter in the **fourth digit** to identify the fiscal year. For example: 162**A** = FY2015, 162**B** = FY2016 and 162**C** = FY2017 **and so on**.

1. Should the district and auditor compare the audit report and AFR before submitting them to KDE?

Yes, district personnel and audit firm should ensure the audit report, audited AFR and audited Balance Sheet are in agreement for multiple reasons.

The financial statements within the audit report should show the complete and accurate financial condition of the school district. Therefore, it is critical the district ensure the audited AFR and audited Balance Sheet submitted to KDE reflects all the financial activity and condition of the district. Further, the audit contract requires these items to be in agreement when submitted to KDE. The district, working with its auditor, is strongly encouraged to complete the Audit Review Templates, known as the “Validation Module”. It is accessible through the KDE SEEK program and clearly identifies and allows for the correction of discrepancies among the Audited AFR, Balance Sheet and the Audit Report that may have been missed during reconciliations. Discrepancies between these items will cause increase the amount of time required by KDE to review and approve the audited AFR and audited Balance Sheet.

Auditors shall be familiar with the district’s financial system and the Uniform Chart of Accounts (COA). Auditors shall use this information to provide the districts with the specific fiscal year 2023-2024 MUNIS COA coding/segment when recommending journal entries to districts [Example: org – object – project]. The Uniform COA is located at KDE’s [Fund Balances, Revenues and Expenditures, Chart of Accounts and Indirect Cost Rates](https://www.education.ky.gov/districts/FinRept/Pages/Fund%20Balances%2C%20Revenues%20and%20Expenditures%2C%20Chart%20of%20Accounts%2C%20Indirect%20Cost%20Rates%20and%20Key%20Financial%20Indicators.aspx) webpage.

Additionally, the audit contract requires the district finance officer to possess suitable skills, knowledge, and experience (SKE) and understand the recommended audit adjustments provided by the auditor. The district must certify all audit adjustments have been entered into MUNIS and the Audited AFR and Balance Sheet are in agreement with the audit report. The district shall certify the Statement of Certification (SOC) statement, by selecting the SOC option during the electronic submission process of the FY 2023-2024 Audited AFR and Balance Sheet to KDE on or before November 15th.

1. Do On Behalf payments have to be shown as a separate line item on the financial statements?

No. On Behalf payments do not have to be shown as a separate line item on the financial statements; however, they must be included in total revenues and expenditures. The auditor shall also provide a footnote in the audit report stating the amount of On Behalf payments for salaries and fringe benefits are in accordance with GASB 24. In accordance with item 16 on page 12 of the FY2023-2024 Audit Contract; Health Insurance, Life Insurance, Administrative Fee, Health Reimbursement Account - HRA/Dental/Vision, Federal Reimbursements of Health Benefits (reduction), Teacher’s Retirement System (TRS), SFCC debt service payments, KDE technology payments and KISTA lease payments are **required** to be recorded in the appropriate notes to the financial statements. The “On Behalf Payments” information is located at [Kentucky Department of Education (KDE), On Behalf Payments](http://education.ky.gov/districts/FinRept/Pages/On-Behalf-Payments-Information.aspx).

1. Should auditors explain if On Behalf payments are not budgeted?

Yes. Auditors shall footnote the Budget to Actual Statements when On Behalf payments are not budgeted.

1. **How should compliance with the State Compliance Requirements for the Treasurer’s Bond be verified?**

The board treasurer, the finance officer, and others holding similar positions who are responsible for district funds or who receive and expend funds on behalf of the school district, shall be appropriately bonded. Treasurer’s Bond(s) shall be executed no later than July 1 of each fiscal year, at, or above the minimum levels on the Exposure Calculation Worksheet which can be downloaded from KDE’s [Fidelity Bond](https://education.ky.gov/districts/FinRept/Pages/Fidelity%20Bond.aspx) webpage. This worksheet is placed on KDE’s website annually, by the end of April.

1. What is current sick leave liability?

Governmental funds are required to be reported on the modified accrual basis of accounting. The amounts owed to all employees that have given notice to retire at June 30 but have not been paid, shall be reported as current sick leave liability in object code 7493. Proprietary fund current sick leave is to be reported on the full accrual basis by recording the amount of sick leave expected to be paid within 60 – 90 days after year end.

1. Should the Capital Project Funds Budget be a part of the audit report?

No.

1. Other issues:
2. All debt shall be recorded in the audited financial statements, including the portion for which SFCC is responsible.
3. Technology Grant – Local revenue in the technology grant does not have to be deferred. Districts could have Fund 2 balance equal to what is remaining in Project 162X.
4. Major Funds – The General Fund is always a major fund. KDE has mandated that Special Revenue Fund 2 is always a major fund. Calculations shall be made for other funds based on generally accepted accounting principles (GAAP).
5. Districts shall have a Board policy regarding fixed asset capitalization including when a fixed asset inventory shall be taken.
6. Districts are responsible for writing the MD&A required by GAAP. They can receive assistance from their auditor, but the auditor cannot write the MD&A.
7. Careful attention should be paid to entries for recording bond issuance and refunding’s (See GASB 7, 23, 34, & 65). Debt issuance costs shall be expensed in the period incurred**,** except any portion of prepaid insurance costs which should be reported as a prepaid asset and amortized over the life of the debt in the government-wide statements. Previous guidance had reported debt issuance costs as an asset and amortized over the life of the debt. Because the statement is retroactive, a restatement of the *Statement of Net Position* will be required to remove any unamortized debt issuance costs with the costs continuing to be recorded as expenditures in the governmental funds statements.
8. A deficit in the Statement of Net Position does not violate the KRS but does require disclosure. KDE will review the Government and Proprietary Fund Financial Statements to determine if any deficits exist which do violate statute.
9. **Where are Debt Service Funds reported?**

The use of a debt service fund (fund 400) for principal and interest payments on bonded indebtedness is required in accordance with GAAP. Principal and interest payments on capital leases may be recorded in either fund 400 or in the fund in which the lease is recorded. KDE recommends the use of project numbers in fund 400 to account for separate bond issuances.

1. What type of review is done on School District Audit Reports by the Auditor of Public Accounts (APA) and what are the findings?

The Auditor of Public Accounts conducts a detailed desk review of the audit report of every school district in the Commonwealth. The desk reviews seek to ensure each district receives a quality audit that adheres to Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, accounting standards, contractual requirements and other professional standards.

Desk reviews classify audits as acceptable, acceptable with deficiencies or technically deficient. The audit contract requires auditors to correct all deficiencies and resubmit audit reports determined to be technically deficient. The corrected audit report is due within **thirty (30) days** of being notified by KDE. The audit contract also states auditors cannot repeat deficiencies in the following year' audit report. SCSDA may consider an auditor’s past desk review results and performance when deciding to approve or deny audit contracts.

1. **What information may be provided to districts’ independent auditors in order for the auditors to complete their testing/reviews of free and reduced eligibility information?**

According to the United States Department of Agriculture, un-redacted eligibility information may be provided to the districts’ independent auditors in order for the auditors to complete their testing/reviews of Free/Reduced Lunch applications. A memorandum of understanding would need to be entered into between the auditor’s office and the school district which clearly spells out what information is to be shared; how it is to be shared; what it is to be used for; and what happens to the eligibility information once the review of that area is complete.

1. **What is a Service Organization Control (SOC-1) Report?**

Service Organization Control (SOC-1) Reports are examination engagements undertaken by a service auditor to report on controls at Tyler Technologies, Inc., a vendor who provides services to the Kentucky public school districts when those controls are likely to be relevant to financial reporting within the MUNIS financial system.

In the event an independent audit firm or auditor requests a district to provide a SOC-1 Report in relation to the compliance of the MUNIS financial reporting system, the district will be required to provide Tyler with a written district approval for the auditor to obtain the SOC-1 Report. The district will also be required to have a current Non-Disclosure Agreement for information security documents in place with NDA. The district will need to submit a written request and approval (one correspondence) for the SOC-1 Report. The process to request the SOC-1 report is outlined at <https://www.tylertech.com/about-us/compliance/soc-compliance>. The school district will need to complete the NDA and part of that is giving permission for the auditors to receive a copy when the report is ready. The SOC-1 is usually not available until mid-late October each year. Any time KDE or a school district has questions related to the process or is checking on status of the report, an email can be sent to security@tylertech.com.

# Teachers' Retirement System Audit Considerations

An audit of a local school district in accordance with Government Auditing Standards requires the auditor to test the district’s compliance with applicable laws and regulations under the Teachers’ Retirement System (TRS).

1. **Who can I contact concerning TRS laws?**

If you have questions, please call Mark Whelan, Chief Financial Officer, at (502) 848-8640 or Mark.Whelan@trs.ky.gov.

1. **Which local school district employees are covered under TRS?**

KRS 161.220(4) requires employees who occupy a position requiring certification or graduation from a four-year college or university must participate in TRS. (Positions that allow experience to substitute for either of these requirements do not participate in TRS.) Each employee should have a written job description that indicates these requirements.

1. **Do substitutes and part-time employees, including TRS retirees, contribute to TRS?**

Yes, KRS 161.612 stipulates that any individual occupying a position on a part-time basis that requires certification or graduation from a four-year college or university as a condition of employment and any individual providing part-time or substitute teaching services that are the same or similar to those teaching services provided by certified, full-time teachers, shall be a member of TRS. Individuals who provide part-time or substitute teaching services that are the same or similar to those teaching services provided by certified, full-time teachers, shall contribute to TRS even if their employment does not require certification or a four-year degree.

1. **What about the employees who occupy a position not requiring certification or a four-year degree?**

Employees occupying these positions, except those who provide part-time or substitute teaching services that are the same or similar to those teaching services provided by certified, full-time teachers, should contribute to the County Employees Retirement System (CERS) and to Social Security. Examples of these positions are bus drivers, cafeteria workers, clerical workers, custodians, timekeepers and gatekeepers.

1. **Which compensation should have TRS contributions withheld?**

KRS 161.220(10) defines “annual compensation” as the total salary received by a member for all services performed in employment covered by the retirement system during a fiscal year. However, the law also provides annual compensation must be available to all the local school district employees to be allowed under TRS. Examples of non-allowed annual compensation (for which TRS contributions would not be withheld) are vehicle usage and mileage reimbursement, distinguished educator pay, and health insurance reimbursements, professional dues or retirement contributions, or other payments or salary adjustments not available to the other TRS members of an employer.

* An employment contract should be reviewed in those situations in which there is an unusual increase or decrease in salary for the last three years of employment immediately preceding retirement. An unusual decrease results in further review to determine if the employer made a reporting mistake. An unusual increase is investigated to determine whether there is a reporting mistake, or, if not, whether the increase can be allowed under KRS 161.220(9)(b). This provision limits for retirement calculation purposes any salary increases received during the last three years immediately preceding retirement to the greatest increase received by any one rank and step on the salary schedule, or the increase received by all other members for institutions and agencies other than local school districts.
1. **What is the employee’s TRS contribution rate?**

Local school district members of TRS who started before January 1, 2022, (also known as TRS 1, TRS 2 and TRS 3) contribute 12.855% of their gross salary to TRS. TRS members who entered the system on or after January 1, 2022, (also known as TRS 4) contribute 14.75%. However, they do not contribute to Social Security.

1. **What is the employer’s matching TRS contribution rate?**

The local school districts pay employer matching on all employees who **do not** occupy federally funded positions. As part of the Shared Responsibility Plan, beginning July 1, 2010, each employer is required to pay the amount equal to the increase in employee contributions. The current employer match is 3.00% of total gross non-federal salaries in the district. For individuals employed in federally funded positions the employer-matching rate is 16.105% for members who started in TRS before July 1, 2008 (TRS 1 and TRS 2), 17.105% for those who started on or after July 1, 2008, and before January 1, 2022 (TRS 3, and 13.75% for those who started on or after January 1, 2022 (TRS 4).

1. **Who pays the matching for employees not in federally funded positions?**

In addition to the matching paid by local school district employers under Shared Responsibility, for employees **not** occupying federally funded positions, the Commonwealth of Kentucky contributes 13.105% of the gross salary of all local school district TRS participants hired before July 1, 2008 (TRS 1 and TRS 2), 14.105% for TRS participants hired after June 30, 2008, and before January 1, 2022 (TRS 3), and 10.75% for those who hired on or after January 1, 2022 (TRS 4).

1. **When must a local school district remit contributions to TRS?**

KRS 161.560 requires that TRS receive all contributions no later than 15 days following the end of each payroll pay date. Interest will apply for any contributions received after the deadline.

1. **Where can an employer find the amount of state paid retirement contributions paid On Behalf of a member employed by a local school district?**

**On Behalf Payments**

For the final FY 2024 TRS On Behalf Payments amount that will be recorded in the district’s governmental funds financial statements in object code 0280, KDE will accept only the “Schedule of Employer Allocations” totals from the state contributions column recorded in the "GASB 68 and GASB 75 Auditor's Report as of June 30, 2023" as found at [Teachers' Retirement System Kentucky, Financial Reports, Investment Returns & Plan Information](https://trs.ky.gov/administration/financial-reports-information/). This amount should be allocated to various org codes and may be the same ones used to record the TRS employer portion in object code 0231. The FY **2024 TRS On Behalf Payments amount** is required to be recorded in **MUNIS** and in the district audit report’s **financial statements** and **Notes to the Financial Statements**.

**Net Pension Liability**

Use the state’s proportionate share of net pension liability totals from the “Schedule of Pension Amounts By Employer” section recorded in the "GASB 68 Auditor's Report as of June 30, 2023" (link above) to record the amount in the audit report’s Required Supplementary Information (RSI) section only.

The districts’ FY 2024 Audit Reports and Audited AFRs, are due to KDE on or before **November 15, 2024**, and should include On Behalf payments, net pension liability and RSI figures as referenced above.

1. **When will TRS publish the GASB 68 and 75 reports?**

TRS expects to have the audited GASB 68 and 75 reports available on its web site by July 1st.

If you need further assistance, please contact one of following representatives at KDE’s District Financial Management Branch at (502) 564-3846:

* Marshall Smith, ext. 4463 or via email at Marshall.Smith@education.ky.gov
* Kelli Young, ext. 4417 or via email at Kelli.Young@education.ky.gov
* Kim Carter, ext. 4440 or via email at Kimberly.Carter@education.ky.gov
* Jackie Chism, extension 4445 or via email at Jackie.Chism@education.ky.gov

Kentucky Department of Education

Office of Finance and Operations

Division of District Support

District Financial Management Branch

Generated: 4/2/2024