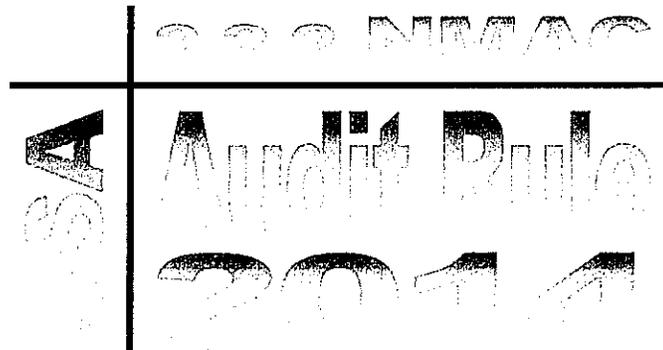


ITEM 1:
Evan Blackstone
State Auditor

OFFICE OF THE STATE AUDITOR

Hector H. Balderas



Requirements for
Contracting and Conducting
Audits of Agencies

February 28, 2014

2.2.2.12 C. PERTAINING TO AUDITS OF SCHOOL DISTRICTS:

(1) The Auditor Selection Process:

In the event that a state-chartered charter school subject to oversight by the PED is not subject to the requirement to use the same auditor as PED, that charter school shall submit its IPA recommendation to PED for approval, prior to submitting the IPA recommendation to the State Auditor for approval. The sample cover letter is provided at www.osanm.org. It may be used for the PED approval signature. This process must be completed in time to meet the deadline for submission of the IPA recommendation and the audit contract to the Office. The IPA recommendation and completed contract are due to the State Auditor on or before May 1. In the event the due date falls on a weekend or a holiday the due date will be the next business day.

(2) Audit Planning Level of Materiality:

(a) As explained in Paragraphs (1) and (2) of Subsection A of Section 2.2.2.10 NMAC, the level of planning materiality and required auditor opinion will be at the individual fund level for the primary government and at the individual fund level for the component units.

(b) If a 501(c) 3 component unit organization had a gross annual income in excess of \$250,000, Section 6-5A-1 NMSA 1978 requires that entity to be audited regardless of its materiality in relation to the primary government.

(3) Regional Education Cooperative (REC) Audits:

(a) A separate financial and compliance audit is required on activities of RECs. The IPA shall provide a copy of this report to the participating school districts and the PED once the report has been released by the State Auditor. The presentation of these funds should be in conformity with accounting principles generally accepted in the United States of America.

(b) Audits of RECs should test for compliance with PED Regulation, 6.23.3.7 through 6.23.3.12 NMAC.

(c) If applicable, any on-behalf payments for fringe benefits and salaries made by RECs for employees of school districts should be accounted for in accordance with GASB Cod. Sec. N50.135 and communicated to the employer in accordance with Sec. N50.131.

(d) The audit report of each REC shall include a cash reconciliation schedule which reconciles the cash balance as of the end of the previous fiscal year to the cash balance as of the end of the current fiscal year. This schedule shall account for cash in the same categories used by the REC in its monthly cash reports to the PED. If there are differences in cash per the REC financial statements and cash per the REC accounting records, the IPA should provide the adjusting entries to the REC to reconcile cash per the financial statements to cash per the REC accounting records. However, if cash per the REC accounting records differs from the cash amount the REC reports to PED in

the monthly cash report, then the IPA should write a finding stating that the PED reports do not reconcile to the REC accounting records.

- (4) School District Audits must address the following issues:
- (a) Audits of school districts shall test for compliance with PED Regulation Section 6.20.2 NMAC, *Governing Budgeting and Accounting for New Mexico Public Schools and School Districts* and the *Manual of Procedures*, primarily Supplement 7, *Cash Controls*.
 - (b) The audit report of each school district shall include a cash reconciliation schedule which reconciles the cash balance as of the end of the previous fiscal year to the cash balance as of the end of the current fiscal year. This schedule is also required for each charter school chartered by a school district and each charter school chartered by the PED. This schedule will account for cash in the same categories used by the District in its monthly cash reports to the PED. Section 6.20.2.13 (D) and (E) of NMAC, state that “the cash basis of accounting is used for budgeting and reporting” to PED. The financial statements are prepared on the accrual basis of accounting. If there are differences between the financial statements, school district records and department records, the IPA should provide the adjusting entries to the school district to reconcile the report to the school district records.” However, if there is some difference between the school district records and the PED report amounts, other than those explained by the adjusting entries, then the IPA should write a finding stating that the PED reports do not reconcile to the school district records.
 - (c) On-behalf payments of salaries and fringe benefits made for school district employees by RECs must be accounted for in accordance with GASB Cod. Sec. N50.129 through .133 and disclosed in accordance with Sec. N50.134. “Employer governments should obtain information about the amount of on-behalf payments for fringe benefits and salaries from the paying entity or the third-party recipient; inter-entity cooperation is encouraged. If information cannot be obtained from those sources, employer governments should make their best estimates of the amounts” (GASBS 24 Paragraph 9).
 - (d) Any joint ventures or other entities created by the school districts are agencies subject to the Audit Act.
 - (e) Agency Fund Reporting:

Under GASBS 34 a statement of changes in fiduciary net position is required for pension trust funds, investment trust funds, and private-purpose trust funds. However, agency funds have no net position and will be excluded from this presentation (GASBS 34 Paragraph 110 as amended by GASBS 63). Therefore, it is a requirement of the State Auditor that a Schedule of Changes in Assets and Liabilities – Agency Funds for the Fiscal Year be included as supplemental information in the audit report for each school district and each charter school. The schedules should show the changes (both additions and deductions) in the agency funds summarized by school or for each activity. The schedule should appear toward the end of the table

of contents and requires an AU-C 725 opinion in the Independent Auditor's Report.

(f) Capital expenditures by the New Mexico Public School Facilities Authority:

School districts must: review capital expenditures made for repairs and building construction projects of the school district by the New Mexico Public School Facilities Authority; determine the amount of capital expenditures that should be added to the capital assets of the school district; and account for those additions properly. The auditor should test the school district capital asset additions for proper inclusion of these expenditures.

(g) Functions of the General Fund:

The school district audit reports must include individual fund financial statements and budgetary comparisons for the following functions of the general fund: operational, transportation, instructional materials and teacherage (if applicable).

(5) Pertaining to Charter Schools:

(a) A charter school is a conversion school or start-up school within a school district authorized by the local school board or authorized by the PED to operate as a charter school. A charter school is considered a public school, accredited by the state board of public education and accountable to the school district's local school board, or to the PED, for ensuring compliance with applicable laws, rules and charter provisions. A charter school is administered and governed by a governing body in a manner set forth in the charter.

(b) Certain GASBS 14 criteria must be applied to determine whether a charter school is a component unit of the chartering entity (the district or PED). GASBS 14 was recently amended by GASBS 61, that is effective for financial statements for periods beginning after June 15, 2012 (FY13). The district, the PED, the charter school and the IPA must evaluate whether the amended GASBS 14 criteria requires a charter school to be presented as a component unit of its chartering entity. If a charter school is determined to be a component unit, then the charter school must be included in the financial statements of its sponsoring school district or PED by discrete presentation or blended presentation, if the GASB 34 (as amended) criterion for blended presentation is met.

(c) The financial statements for charter schools that are determined to be component units pursuant to the amended GASBS 14 criteria should be presented and opined on in the following manner.

(i) Any charter school that has been determined to be a component unit should not be omitted based on materiality. All charter schools that are component units should be included in the basic financial statements (full accrual basis presentation) in one of the following manners: a separate column for each component unit presented in the

government-wide statement; combining statements of component units presented as a basic financial statement after the fund financial statements; or as condensed financial statements in the notes to the basic financial statements (GASBS 34 Paragraphs 124 to 126).

- (ii) When separate audited financial statements are not available for a charter school, the fund financial statements for that charter school must be presented in the primary government's financial statements on the modified accrual basis of accounting. If applicable, combining and individual fund financial statements should also be presented for the nonmajor funds. The financial statements should be presented as supplemental information (SI) according to AAG-SLV 3.20 (latest edition).
 - (iii) The State Auditor requires that individual fund budgetary comparison statements for all of the charter school's funds must be included in the supplemental information section of the financial statements following the fund financial statements and the combining statements for the nonmajor funds to demonstrate compliance with legally adopted budgets. The budgetary comparisons must be audited and included in the auditor's opinion.
- (6) New Mexico Public Schools Insurance Authority (NMPSIA):

Both legal compliance and substantive tests should be performed at the agency level on these transactions.