DATE: July 29, 2014
TO: Collaborative Executive Directors
FROM: Christine M. Lynch
SUBJECT: Collaborative Audit Guidance

In accordance with M.G.L. c. 40, § 4E, and companion regulations 603 CMR 50.00, each education collaborative shall annually ensure that an independent audit is conducted of its accounts, consistent with generally accepted governmental auditing standards and consistent with guidelines issued by the Department of Elementary and Secondary Education (Department). This Guidance is provided to assist collaboratives in fulfilling the audit requirement. Please share this Guidance with your independent auditors in order to ensure the submission of a complete independent audit report.

Included in this Guidance is a discussion of financial statements to be audited, specific additional disclosures, requirements for collaborative board acceptance of the annual audit report, and instructions for submission to the Department.

Audited Financial Statements
The collaborative board must annually prepare financial statements that meet the requirements of 603 CMR 50.07(11). The collaborative’s accounts, financial statements, accompanying notes, and supplemental schedules must be audited on an annual basis in accordance with the requirements cited above. The audited financial statements, accompanying notes and supplemental schedules must also disclose the following six components for the fiscal year audited:

1. The names, duties and total compensation of the five most highly compensated employees.
   • Include the name, a general statement of duties and total compensation for each of the five highest compensated employees. All three pieces of data must be included.

2. Transactions between the collaborative and any related for-profit or non-profit organization, as defined by M.G.L. c. 40, § 4E.
   • Report on the transactions or indicate that the collaborative has no transactions between the collaborative and a related for-profit or non-profit organization, as defined in M.G.L. c. 40, § 4E. To the extent such transactions exist, disclose the amount and nature of these transactions.

3. Amounts expended on services for individuals aged 22 years and older.
   • Indicate the amounts or indicate that the collaborative has not expended funds on services for individuals aged 22 years and older.

4. Amounts expended on administration and overhead.
   • The amounts must include both administration and overhead.
5. **Accounts** held by the collaborative that may be spent at the discretion of another person or entity.
   - Report on the accounts or indicate that the collaborative holds no accounts that may be spent at the discretion of another person or entity. To the extent such accounts exist, include the amount and the purpose of each account.

6. **Transactions or contracts** related to purchase, sale, rental or lease of real property.
   - Include the amount of each transaction or contract related to the purchase, sale, rental or lease of real property or indicate that no such transactions or contracts exist. A description of any transaction or contracts related to the purchase, sale, rental or lease of real property must include any arrangement related to real property, regardless of whether funds are exchanged.

In the interest of providing full disclosure to the public and to the agencies reviewing the annual independent audit report, the report must affirmatively state if any of the above disclosures are inapplicable to the collaborative. The six components noted above must be addressed in a separate section or addendum in the audited financial statements and each item must be addressed in the exact terminology used in the law, as is detailed above. The collaborative must also submit evidence to the Department that the collaborative board of directors has voted to accept the independent audit report.

Audit reports that do not address all of the requirements of the law and this Guidance, will be considered incomplete by the Department. Further, incomplete audits will be considered as part of the Department’s audit risk protocol for prioritizing onsite financial reviews.

**Related Requirements**

- Audit results shall be discussed annually at a public meeting of the collaborative board of directors, and the collaborative board must vote to accept the audit report at an open meeting. See M.G.L. c. 40 § 4E(d) and 603 CMR 50.07(12).
- The collaborative shall make the annual independent audit report available on its website. See 603 CMR 50.08(2).
- The collaborative annual report, also required by law, must also include the audited financial statements and the independent auditor’s report. See M.G.L. Chapter 40, § 4E(e)(2) and 603 CMR 50.04(3)(b).
- Each representative appointed by his/her school committee or charter school board to serve on the collaborative board shall be responsible for providing a copy of the independent audit report to the representative's school committee or charter school board. See 603 CMR 50.04(2)(c)(5). A collaborative that provides social service programs as defined in M.G.L. Chapter 7, § 22N shall adhere to the uniform system of financial accounting, allocation, reporting and auditing requirements of the Massachusetts Executive Office of Administration and Finance, Operational Services Division (OSD). See 603 CMR 50.08(3).
- The executive director of any education collaborative which was issued an audit report with adverse or critical audit results by the state auditor within the 12 months prior to May 31, 2012, must also annually present the collaborative’s budget and annual report (including the audit report) to each member school committee and member charter school board in an open meeting at which the executive director responds to questions from said school committees and charter school boards. A collaborative with more than 10 school districts may make the presentation in regional presentations to not more than 5 member
school committees at a time, and a school committee or charter school board of trustees may waive its right to such a presentation. The executive director shall make such annual presentation for fiscal years 2013 to 2017, inclusive. See M.G.L. Chapter 40, § 4E(e)(7).

Please note that the Department’s Audit and Compliance Unit will also review each independent audit report and related documentation, and may be in contact with individual collaboratives following that review.

Collaboratives are advised that the Department, the Office of the State Auditor and the Department of Revenue may also review or audit any part of a collaborative’s records to ascertain whether the student, personnel and financial data reported by a collaborative are accurate, to ensure that the collaborative is complying with the applicable laws and regulations and to determine whether the collaborative is maintaining effective controls over revenues, expenditures, assets and liabilities, and to corroborate and augment information provided in other reporting documents. See M.G.L. Chapter 40, § 4E and 603 CMR 50.09(2).

**Collaborative Board Acceptance and Submission**
The collaborative board must discuss and vote to accept the annual independent audit report and accompanying documentation at an open meeting. Each collaborative must file the following documents with the Department, the Office of the State Auditor and the chair of each member school committee and charter school board **on or before January 1:**
* independent audit report, including the six components noted above,
* financial statements,
* related management letters, and
* documentation indicating acceptance of the final independent audit report by the collaborative board.

See M.G.L. c. 40 § 4E(d); 603 CMR 50.08(2).

**Instructions for Department of Elementary and Secondary Education Security Portal Submission**
The required information must be filed electronically in Word or PDF format and submitted through each individual collaborative’s Regional Governance folder in the Department’s security portal by following these directions:
* Navigate to the Massachusetts [Department of Elementary and Secondary Education Home Page](#);
* Navigate to the Select Program drop down menu on the top right of the screen and select Security Portal;
* Enter your user name and password;
* Click on Drop Box Central under Drop Box;
* Under Drop Box Central on the next page, select Regional Governance, then click on Next below;
* Click on Browse and select your Annual Audit on your own computer; and
* Click the Upload File Button.

If you are unable to access any of these fields, you may not have the necessary security clearance and should contact your collaborative’s directory administrator in order to gain access to the portal. Any additional questions should be directed to Christine Lynch at 781-338-6520, Michelle Griffin, at 781-338-6503 or Paulajo Gaines, at 781-338-6540.