



Massachusetts Department of Elementary and Secondary Education

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DATE: August 2016
TO: Collaborative Executive Directors
FROM: Office of Regional Governance
SUBJECT: **FY16 Collaborative Annual Independent Audit Guidelines**

Massachusetts General Laws [Chapter 40, Section 4E](#) and companion [Regulations on Educational Collaboratives](#), 603 CMR 50.00, require that each education collaborative (collaborative) annually ensures 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). These *Guidelines* are provided to assist collaboratives in fulfilling the audit requirement.

Please share these Guidelines with your independent auditors to ensure the submission of a complete independent audit report.

These *Guidelines* outline the financial statements to be audited, specific additional disclosures, requirements for acceptance of the annual independent audit report by the collaborative board of directors (collaborative board), and instructions for submission to the Department.

Audited Financial Statements

The collaborative 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 components for the fiscal year ending June 30, 2016 (FY16):

- 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, as reported on the employees' *IRS Form W-2, Wage and Tax Statements*. All three pieces of data must be included for each of the five employees.
- 2. Transactions between the collaborative and any related for-profit or non-profit organization.*
 - Report on the amount and nature of each transaction or indicate that the collaborative had no transactions with a related for-profit or non-profit organization, as defined in M.G.L. c. 40, § 4E.
 - Rental and lease agreements between the collaborative and school districts, charter school boards, and/or municipalities should be disclosed in component 6, and **not** disclosed in this component.
- 3. Amounts expended on services for individuals aged 22 years and older.*
 - Indicate the amounts expended or indicate that the collaborative did not expend 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. Both categories of expenditures must be labeled to clearly indicate the category of cost addressed.

5. *Accounts held by the collaborative that may be spent at the discretion of another person or entity.*

- Report on the amount and the purpose of each account, as well as the legal authority for holding the account, or indicate that the collaborative held no such accounts.
- Accounts or funds held by the collaborative on behalf of a school committee as prepayment for tuition or services, as permitted by M.G.L. c. 40, § 4E(h), must be identifiable in the financial statements and in the audit report, but should **not** be reported in this category.

6. *Transactions or contracts related to purchase, sale, rental or lease of real property.*

- Include a description of each transaction or contract related to the purchase, sale, rental or lease of real property, or indicate that no such transactions or contracts existed.
- This component must list rental and lease agreements between the collaborative and school districts, charter school boards, and/or municipalities.
- Note that the description of each transaction or contract must indicate whether good or services were exchanged and/or payments were made toward the sale, rental or lease of real property.

7. *Annual Determination and Disclosure of Cumulative Surplus*

The collaborative board must annually approve the dollar amount designated as cumulative surplus. The limit on cumulative surplus funds is set forth in each collaborative agreement and, by regulation, cannot exceed 25 percent of the previous fiscal year's general fund expenditures.¹ In order for the collaborative board to make this determination, the financial statements and independent audit report must clearly identify:

1. the amount of previous years' cumulative surplus;
2. the amount of FY16 unexpended general funds (FY16 surplus); and
3. the amount of FY16 general fund expenditures.

NOTE: For FY16, the Department has created a worksheet to assist collaborative boards in ensuring that their audit reports identify the information needed to make the annual cumulative surplus determinations required by collaborative law and regulations. Please cut and paste the table provided below and include it in the separate section or addendum, as noted below.

The seven components listed above must be addressed in a separate section or addendum in the audited financial statements, and each component must be addressed in the exact terminology set forth above. In the interest of providing full disclosure to the public and to the agencies that review the annual independent audit report, the report must affirmatively state if any of the first six components are inapplicable to the collaborative.

Audit reports that do not address all of the requirements of the law, regulations, and these *Guidelines*, 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.

¹ It is understood that the surplus determination will be completed after the close of FY16, and, therefore, during FY17. Accordingly, for purposes of this determination, the previous fiscal year is FY16, and cumulative surplus must be calculated as a percentage of the collaborative's FY16 general fund expenditures.

Related Requirements

- A collaborative that provides social service programs as defined in M.G.L. c. 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 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 Section 7 of Chapter 43 of the Acts of 2012.

Other Department Reviews

Please note that the Department's Audit and Compliance Unit will 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 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, 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. c. 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. Upon acceptance by the collaborative board and no later than **January 1, 2017**, each collaborative Board 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:

- independent audit report, including the components noted above,
- financial statements,
- related management letters, and
- documentation of the collaborative board's acceptance of the final independent audit report in the form of a signed certification from the board chair or the approved meeting minutes. See M.G.L. c. 40 § 4E (d), 603 CMR 50.08(2).

Please note that January 1st is a statutory deadline and cannot be waived by the Department.

Posting Requirements

Each collaborative must publish the approved annual independent audit report (and the annual report), in an accessible format on the collaborative website. M.G.L. c. 40, § 4E and CMR 603 CMR 50.08(1) anticipate that the required annual independent audit report and the annual report be presented together; therefore, please ensure that they are posted on your web site in the same location. If there is a request by the public for a copy of the annual independent audit report, the annual report must also be provided.

Electronic Submission through the MassEduGateway

All annual independent audit reports are to be submitted electronically to the Department via the MassEduGateway no later than January 1, 2017.

The attached cumulative surplus worksheet must be submitted **upon board approval** of the cumulative surplus amount **and** board determination of the disposition of cumulative surplus. These documents may be submitted by following these directions:

1. Navigate to the [Massachusetts Department of Elementary and Secondary Education](#) home page.
2. Select the  [MassEdu Gateway](#) icon from the menu on the left of the screen.
3. Enter your user name and password.
4. Select **Application List** from either the menu on the left or the center of the page.
5. Select **Drop Box Central** from the center of the page.
6. Select **Regional Governance** from the Drop Box list.
7. Select the **Next** button below the box.
8. Select **Browse** to find and select the annual report on your computer.
9. Select the **Upload File** button to transmit your document.

If you are unable to select any of these fields within the MassEdu Gateway, you must request access from your collaborative's directory administrator. Please address any additional questions to: Collaboratives@doe.mass.edu, [Michelle Griffin](#), at 781-338-6503 or [Paulajo Gaines](#), at 781-338-6540.

**Cumulative Surplus Calculation
FY16**

Enter values below

Page(s) in
financial
statements

(A) Voted Cumulative Surplus as of 6/30/15		\$ <input type="text" value="-"/>	(A) p. _____
(B) 1 Amount of (A) used to support the FY16 Budget	(B)1	\$ <input type="text" value="-"/>	
2 Amount of (A) returned to member districts	(B)2	\$ <input type="text" value="-"/>	
	(B)1 + (B)2 = (B)	\$ _____	(B)
(C) Unexpended FY16 General Funds		\$ <input type="text" value="-"/>	(C) p. _____
(D) Cumulative Surplus as of 6/30/16	(A) - (B) + (C) = (D)	\$ _____	(D)
(E) FY16 Total General Fund Expenditures		\$ <input type="text" value="-"/>	(E) p. _____
(F) Cumulative Surplus Percentage	(D) ÷ (E)	#DIV/0!	(F) p. _____