



David P. Driscoll  
Commissioner of Education

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## Commissioner's Update

July 22, 2005

Dear Superintendents, and Leaders of Charter Schools and Collaboratives:

I have 1 announcement and 2 items for your review in this update.

### Grade 7 English Language Arts Composition Rescheduled

The administration date for the Grade 7 ELA Composition has been moved from Tuesday, March 28 to Wednesday, March 29, 2006.

This scheduling change does not affect grades 4 and 10. The ELA Composition for grades 4 and grade 10 will be administered on Tuesday, March 28, 2006 as originally scheduled.

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Newly posted 2 items at [www.doe.mass.edu](http://www.doe.mass.edu):

1. Expanded Learning Time Planning Grant



2. Charter School Audit Guide



I hope you're having an enjoyable summer.

Sincerely,

David P. Driscoll  
Commissioner of Education

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## EVENTS CALENDAR

July 2005						
S	M	T	W	T	F	S
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## NEWS SEARCH

Keyword:

Target:

Dates:

Past 30 days

Past 90 days

Date Range

Start:

End:



Friday, July 22, 2005

## Expanded Learning Time Planning Grant

July 20, 2005

Dear Superintendents, and Leaders of Charter Schools and Collaboratives:

I am pleased to let you know about a new state grant program that is available to support district planning to extend the school day and/or year. The recently passed FY2006 budget created the Expanded Learning Time Planning Grant program to support districts and schools to restructure their school days and/or years and add additional time for English/language arts, mathematics and other core subjects; more planning and professional development for teachers; and/or more enrichment opportunities (arts, sports, tutoring, experiential learning) for students.

Grants of at least \$25,000 will be available through a competitive process to assist districts with the complex planning required to redesign the school schedule to better meet student, school, and district goals. These grants have been designed to appeal to a broad range of districts and communities and all districts are eligible to apply. In all, 75 percent of the grants will go to districts where 25 percent or more of their students are eligible for free or reduced price meals. The state budget has made funds available for up to 17 planning grants to be awarded.

Districts that are awarded grants will use the money to work with principals and school teams, collective bargaining units, and external partners of their choosing to develop an implementation plan for how to extend time and restructure the school day. The grant program will allow each district to determine the staffing, schedule, budget, and program options that best fit its local context and goals. All districts that develop approvable implementation plans will be eligible for state funding to establish Expanded Learning Time schools, pending state appropriation.

Although state and national commissions have been recommending more school time for decades, it has not yet been seriously considered because of its many complexities. But with the nation's push toward proficiency, the state's new science MCAS requirement, the demands of a global, information-based economy, and the change in parent schedules, the need to rethink the school schedule has never been greater.

I hope your district will consider this unique opportunity. Please note that the RFP will be available from the Department in early August and that the deadline for application is October 1, 2005.

For more information, please contact Lise Zeig at the Department at [lzeig@doe.mass.edu](mailto:lzeig@doe.mass.edu) or Sarah McLaughlin at [smclaughlin@doe.mass.edu](mailto:smclaughlin@doe.mass.edu).

Sincerely,

David P. Driscoll  
Commissioner of Education

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## School Finance: Charter Schools

### Massachusetts Charter School Audit Guide

June 2005

Dear Charter School Community:

In 1993, the Commonwealth of Massachusetts enacted Massachusetts General Laws (MGL) Chapter 71, Education Reform Act, Section 89, which authorized the establishment of charter schools within the Commonwealth. This statute stipulates various requirements for charter schools and includes a provision that requires charter schools to keep accurate accounts of all financial activities and to provide for an annual independent audit of financial statements.

In an effort to support these requirements, the Commonwealth of Massachusetts Department of Education (DOE) Charter School Office has developed and revised this Charter School Audit Guide (Guide) to provide each Charter School within the Commonwealth of Massachusetts and its independent auditor with a resource of audit requirements, including financial statement formats. The requirements contained in this Guide must be followed by the Charter School and its independent auditor beginning in FY 2006. The Guide and related appendices are provided below in two electronic formats for your convenience.

Sincerely,

David P. Driscoll  
Commissioner of Education

- Charter School Audit Guide [ [Word](#) | [PDF](#) ]
- Appendix A - Standard Reporting Package (Without a Component Unit) [ [Word](#) | [PDF](#) ]
- Appendix B - OMB A-133 Reporting Package (Without a Component Unit) [ [Word](#) | [PDF](#) ]
- Appendix C - Standard Reporting Package (Including Component Unit) [ [Word](#) | [PDF](#) ]
- Appendix D - OMB A-133 Reporting Package (Including Component Unit) [ [Word](#) | [PDF](#) ]
- Appendix E - Board Acceptance Letter [ [Word](#) | [PDF](#) ]
- Appendix F - Charter School End Of Year Financial Report [ [Excel](#) | [PDF](#) ]
- [Appendix G - MGL Chapter 71 Section 89 - Charter School Statute](#)
- [Appendix H - 603 CMR 1.00 - Charter Schools Regulations](#)

Massachusetts



Department of  
Education

# Massachusetts Charter School Audit Guide *(Effective as of FY2006)*

*June 2005*



**Massachusetts Department of Education**

**address** 350 Main Street, Malden, MA 02148  
**telephone** 781-338-3000 **internet** [www.doe.mass.edu](http://www.doe.mass.edu)



# Massachusetts Department of Education

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This document was prepared by the Massachusetts Department of Education  
Dr. David P. Driscoll, Commissioner of Education

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*All appendices are available on the Department of Education Charter School Finance web page located at <http://finance1.doe.mass.edu/charter/>*

Appendix A – Standard Reporting Package (Without a Component Unit)

Appendix B – OMB A-133 Reporting Package (Without a Component Unit)

Appendix C – Standard Reporting Package (Including Component Unit)

Appendix D – OMB A-133 Reporting Package (Including Component Unit)

Appendix E – Board Acceptance Letter

Appendix F – Charter School End Of Year Financial Report

Appendix G - MGL Chapter 71 Section 89 – Charter School Statute

Appendix H – 603 CMR 1.00 – Charter Schools Regulations

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**100 Introduction**

In 1993, the Commonwealth of Massachusetts enacted Massachusetts General Laws (MGL) Chapter 71, Education Reform Act, Section 89, which authorized the establishment of charter schools within the Commonwealth. This statute stipulates various requirements for charter schools and includes a provision that requires charter schools to keep accurate accounts of all financial activities and to provide for an annual independent audit of financial statements.

In an effort to support these requirements, the Commonwealth of Massachusetts Department of Education (DOE) Charter School Office has developed this *Audit Guide (Guide)* to provide each Charter School within the Commonwealth of Massachusetts and its independent auditor with a resource of audit requirements, including financial statement formats. The requirements contained in this *Guide* **must** be followed by the Charter School and its independent auditor.

**101 Scope And Organization**

The *Guide* contains two sections: Part I includes the audit policies and procedures and Part II includes the authoritative financial management and reporting guidelines. The content of each section is as follows:

**PART I – INTRODUCTION**

Section 100 *Introduction* – provides a description of the purpose of the *Guide* and its organization, the background and effective date.

- Section 100 Introduction
- Section 101 Scope and Organization
- Section 102 Purpose of Guide
- Section 103 Amending the Guide
- Section 104 Effective Date
- Section 105 Background

Section 200 *Contracting the Audit* – provides a description of the process for contracting process and administering the audit.

- Section 200 Contracting the Audit
- Section 201 Administrating the Audit

Section 300 *Filing Requirements* – describes the detailed procedures for who, what, where and when to submit the audit, and penalties for noncompliance.

- Section 300 Who Must File
- Section 301 When to File
- Section 302 What and Where to File
- Section 303 Penalty for Noncompliance

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**101 Scope And Organization - continued**

- Section 400 *Audit Objective* – describes the objective of the audit and the Charter School’s and auditor's responsibility to accomplish the objective.
- Section 400 Audit Objective
  - Section 401 Charter School Responsibility
  - Section 402 Auditor Responsibility
  - Section 403 Working Papers
- Section 500 *Federal Single Audit* – describes the audit requirements under OMB Circular A-133, the Charter School’s and auditors’ responsibility to accomplish the OMB Circular A-133 objective and related penalties.
- Section 500 Federal Single Audit
  - Section 501 Charter School Responsibility under OMB Circular A-133
  - Section 502 Auditor Responsibilities
  - Section 503 OMB Circular A-133 Penalties

**PART II – AUDITING AND REPORTING GUIDELINES**

- Section 600 *Accounting Policies and Audit Guidance* – describes the policies and authoritative guidance used to perform the audit of the Charter School.
- Section 600 Financial Reporting Entity
  - Section 601 Accounting Principles
  - Section 602 Auditing Standards and Guidance
  - Section 603 Audit Objectives
- Section 700 *Financial Statement Considerations* – provides guidance on the implementation of GASB No. 34 and guidance on the assessment of component units as they relate to the Charter School.
- Section 700 Comparative Financial Statements
  - Section 701 Component Unit Consideration
- Section 800 *Reporting Package* – outlines the reporting requirements and required financial statement disclosures of the Charter School.
- Section 800 Reporting Package
  - Section 801 Management Discussion and Analysis
  - Section 802 Basic Financial Statements
  - Section 803 Statement of Net Assets
  - Section 804 Statement of Revenue, Expenses and Changes in Net Assets
  - Section 805 Statement of Cash Flows
  - Section 806 Required Disclosures – Notes to Financial Statements
  - Section 807 Schedule of Findings and Questioned Costs
  - Section 808 Schedule of Prior Audit Findings
  - Section 809 Schedule of Expenditures of Federal Awards
  - Section 810 SF-SAC Data Collection Form
  - Section 811 Board of Trustees Acceptance Letter
  - Section 812 Management Letter

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**101**    *Scope And Organization – continued*

Section 900    *Charter School End of Year Financial Report* – describes the requirements and reporting format for all schools to follow when filing this report.

Section 1000    *Compliance Requirements* – describes compliance requirements to be tested as part of the audit.

- Section 1000    Compliance Requirements
- Section 1001    Internal Controls
- Section 1002    Record Keeping
- Section 1003    Related Party Disclosures
- Section 1004    Reporting
- Section 1005    Required Policies
- Section 1006    Public Meetings
- Section 1007    Occupancy
- Section 1008    Management Contracts
- Section 1009    Procurement Policy
- Section 1010    Charter Amendments
- Section 1011    Massachusetts Teachers’ Retirement System
- Section 1012    Charter School End of Year Financial Report

**102**    *Purpose Of Guide*

The purpose of the *Guide* is to provide procedures to properly complete the Charter School's annual audit and a uniform approach to financial statement formats. The *Guide* outlines the requirements that the School needs to meet in order to submit the annual audit report in conformity with laws, regulations and administrative policies governing Massachusetts charter schools.

The *Guide* provides detailed information on the financial reporting and audit requirements of the Charter School. This *Guide* can also provide guidance to the School in the application of various federal and Massachusetts laws and regulations regarding audits of grants awarded by the U.S. government and other funding sources.

The *Guide* is to be used in conjunction with current audit standards and accounting principles generally accepted in the United States of America and is not intended to supplant these standards and principles. The *Guide* requires the auditor to properly plan and perform the audit and encourages professional judgment in determining the audit steps necessary to accomplish the audit objectives. Any recommendations or suggestions to improve this *Guide* should be sent to the Massachusetts Department of Education’s Charter School Office, 350 Main Street, Malden, MA 02148-5023, Attention: Coordinator of Research & Finance.

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**103**    *Amending the Guide*

This *Guide* contains the minimum audit policies and procedures for the Charter School, as of the date of its promulgation. From time to time, as additional matters require or changes to this *Guide* are appropriate, DOE will amend this *Guide*. The amendments will be published on the DOE web site at <http://finance1.doe.mass.edu/charter/> and should be reviewed periodically by the Charter School and its independent auditor to ensure that the audit requirements are maintained on a current basis. **It is the Charter School's responsibility to conform to the current reporting requirements of DOE. Incomplete or incorrect annual audit reports will be rejected by DOE and require resubmission.**

**104**    *Effective Date*

The guide will be effective for all Charter Schools with fiscal years ending **on or after June 15, 2006** in which an audit is required (See Section 300). Early implementation is encouraged.

**105**    *Background*

In accordance with M.G.L. c. 71, § 89, the Charter School shall have an independent audit conducted of its accounts, consistent with auditing standards generally accepted in the United States of America, and consistent with any guidelines the DOE may issue. Audits must be filed annually on or before January first with the DOE and the Commonwealth of Massachusetts Office of the State Auditor.

The Charter School will maintain its accounting records and related financial reports on the accrual basis of accounting. As a special purpose governmental unit, it will follow the requirements of the Governmental Accounting Standards Board (GASB). This includes implementation of GASB No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB No. 39 - *Determining Whether Certain Organizations are Component Units*. This *Guide* is updated through the issuance of GASB No. 45 *Accounting and Financial Reporting for Post Employment Benefits Other Than Pension Plans*.

GASB is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. As such, in accordance with *GASB 34*, the Charter School should be organized as a *Business-Type Entity* and report all activity within the Proprietary Fund. Pursuant to GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the School should elect to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

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**200**    *Contracting the Audit*

The Charter School's Board of Trustees contracts annually with a qualified certified public accounting firm to conduct the audit of the Charter School's financial statements in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* issued by the Comptroller General of the United States, 2003 Revision; and, if applicable the *U.S Office of Management and Budget's Circular A-133*. The selected audit firm must be familiar with these standards and related Commonwealth of Massachusetts charter school statute and regulations, in order to properly conduct the audit engagement.

While not an audit standard of *Government Auditing Standards*, sound procurement practices for goods and services should be followed when contracting the audit. The DOE recommends that Charter School document the factors considered and the conclusions reached concerning the auditor's acceptance and retention. The review of retention factors and the acceptance decision should be made in light of the knowledge about the auditor obtained from the prior audit(s) and consideration of matters that may have occurred since prior audit(s).

If the audit process is to be bid, then a formal request for proposal should be prepared and all bidders should be evaluated based on a set of criteria that should include, past experience, qualification of the assigned staff, references from similar organizations, professional affiliations, technical abilities, peer review opinion and related letter of comments (if applicable) and fee. This process should document how the selected bidder was determined to ensure a fair and objective selection process.

The independent auditor engaged to conduct the Charter School audit must be: (a) licensed certified public accountants or persons working for a licensed certified public accounting firm; or (b) public accountants licensed on or before December 31, 1970, or persons working for a public accounting firm licensed on or before December 31, 1970.

The auditor and the Charter School must fully understand and comply with the independence standards contained within *Government Auditing Standards* and the *United States General Accounting Office (GAO) Government Auditing Standards Answers to Independence Standard Questions*. These documents are available at the GAO web site, [www.gao.gov](http://www.gao.gov), and should be reviewed prior to contracting the independent auditor.

Accountants and accounting firms meeting these licensing and independence requirements must also comply with applicable provisions of the public accountancy law and rules of the jurisdiction(s) where the audit is being conducted and the jurisdiction(s) in which they are licensed. The Commonwealth of Massachusetts must license public accountants and accounting firms engaged to conduct audits in Massachusetts.

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**200**    *Contracting the Audit – continued*

In order to conform to the American Institute of Certified Public Accountant’s (AICPA) Statement on Auditing Standards Number 83, *Establishing an Understanding with the Client*, and *Government Auditing Standards*, the auditor must reach a clear understanding with the client about the services to be performed for the engagement and should document their understanding in a written engagement letter. The engagement letter should include: the objective and scope of the audit, including the financial statements and supplemental information, if any, to be opined on and the auditing standards to be complied with; management’s responsibilities, including internal control over financial statement presentation, compliance and fraud, and provision of documentation for completion of the audit; auditor’s responsibilities, including audit procedures for financial statements and compliance and limitations; administrative issues, including the audit fee, workpaper retention, copy of the firm’s peer review opinion and letter of comments, if any; and the start and delivery dates for the audit report, including the draft and final dates. This understanding should be reached prior to the start of the audit process.

**201**    *Administering the Audit*

The Board of Trustees should appoint an audit/finance committee. This committee will nominate the independent auditor and review the scope and results of the audit. The audit/finance committee also receives notice of any consequential irregularities and management letter comments that the auditor noted during the engagement. Additionally, the committee will develop a corrective action plan to address all relevant findings noted by the auditor. The audit/finance committee will also review all financial information of the Charter School and provide recommendations to the full Board of Trustees. Further, the audit/finance committee will present the audit to the full Board of Trustees for acceptance and the Board of Trustees will acknowledge their acceptance of the audit by a vote and signing the *Board Acceptance Letter (Appendix E)*, which will be attached to the final audit report for submission to the DOE.

**300**    *Filing Requirements - Who Must File*

**In accordance with M.G.L. c. 71, § 89, each Commonwealth of Massachusetts Charter School shall have an annual independent audit conducted of its accounts, consistent with auditing standards generally accepted in the United States of America, *Government Auditing Standards* and any guidelines the DOE or the Office of the State Auditor may issue.**

During the Charter School’s planning period—the time between the granting of the charter and the opening of the school to enrolled students—the Charter School may elect to have an independent review performed, which is less in scope than an audit. The review must be performed by a certified public accountant in accordance with the *Statements on Accounting and Review Services* issued by the American Institute of Certified Public Accountants. If a review is performed, Section 1000 of this guide is not applicable, and the *Board Acceptance Letter (Appendix E)* must be modified to describe the scope of services provided. If during the planning period the school expends in excess of \$500,000 in federal funds, a full audit must be performed.

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**300** *Filing Requirements – Who Must File – continued*

If the Charter School elects to have an audit/review performed for a period greater than twelve months, a formal request by the Charter School’s Board of Trustees should be made in writing to the DOE Charter School Office prior to the statutory filing deadline (See Section 301). DOE’s approval must be obtained prior to contracting for the services.

**301** *When to File*

In accordance with M.G.L. c. 71, § 89, each Commonwealth of Massachusetts Charter School shall have its independent audit filed annually on or before **January first** following the fiscal year end. There are **no extensions** allowed under current Massachusetts General Laws.

**302** *What and Where to File*

A Charter School must submit a completed *Reporting Package*, which must adhere to the format described in the *Guide* (See Section 800 *Reporting Package*). An incomplete or incorrect annual *Reporting Package* will be rejected and require correction and/or resubmission. The audit will not be considered submitted to DOE until a complete *Reporting Package* is submitted.

- **Two (2)** bound copies of the completed *Reporting Package*, including management letter, if any, must be sent to:

**Department of Education – Charter School Office**  
**350 Main Street**  
**Malden, MA 02148**  
**Attention: Coordinator of Research & Finance**

- **One (1)** bound copy of the completed *Reporting Package*, including management letter, if any, must be sent to:

**Office of the State Auditor**  
**1 Ashburton Place, Room 1819**  
**Boston, MA 02108**  
**Attention: Manager of Policy**

- **One (1)** electronic copy of the completed *Reporting Package* in PDF format must be submitted via the DOE Security Portal. (The Security Portal is accessible through the DOE website, [www.doe.mass.edu](http://www.doe.mass.edu).)
- **One (1)** electronic copy of the *Charter School Year End Financial Report* (See Section 900) must be submitted via the DOE Security Portal.
- **Single audits** performed in accordance with the *Office of Management and Budget (OMB) Circular A-133* must also be filed with the Federal Audit Clearinghouse. Please refer to *OMB Circular A-133* for the federal filing requirements.

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**303**    *Penalty for Noncompliance*

The Charter School must file an annual audit report by the stated filing deadline to comply with the Commonwealth of Massachusetts statutory and regulatory requirements. The DOE reserves the right to sanction any Charter School that does not comply with this requirement, including but not limited to withholding of state funds and probation or revocation of their charter.

**400**    *Audit Objective*

The objective of the audit is the expression of an opinion that provides reasonable assurance that the financial statements of the Charter School present fairly, in all material respects, the financial position, results of operations and cash flows of the Charter School, in conformity with accounting principles generally accepted in the United States of America. The audit also serves to report on the fairness of the required supplemental information, if any and limited assurance on the management discussion and analysis. The auditor will also report on the Charter School's internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards* and the *Guide*.

If the audit is to be performed in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the auditor will also report on the Charter School's internal control related to major programs and provide an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program.

**401**    *Charter School Responsibility*

The Board of Trustees of the Charter School is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Additionally, the Board of Trustees is responsible for establishing and maintaining internal controls and for compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, and detecting and reporting any issues of fraud. Consequently, the Board of Trustees is responsible for the financial statements, the related notes to the financial statements and supplemental information, if any. The auditor will require that the Charter School Board of Trustees to confirm this responsibility through a management representation letter to be issued to the auditor at the end of the engagement.

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**402**    ***Auditor Responsibility***

The AICPA issues *Statements on Auditing Standards*, which provide audit standards and identify the responsibilities of the auditor when issuing an opinion on financial statements, in accordance with auditing standards generally accepted in the United States of America. The auditor is expected to possess adequate professional proficiency and understanding of these *Statements on Auditing Standards*, and specific proficiency as it relates to the Commonwealth of Massachusetts charter school statute and regulations, prior to accepting this engagement.

The general audit standards under *Government Auditing Standards* require that the audit be performed by personnel who collectively have the necessary technical skills, maintain independence, exercise due professional care in properly planning, conducting and reporting the results of the audit, and have an appropriate quality control system that is supported by an external quality control review. In order to conform to the *Government Auditing Standards* technical skills requirement, the audit staff must maintain professional proficiency through continuing professional education (CPE) and training. A component of this training requires that each audit staff person responsible for planning, directing, conducting or reporting on the audit must complete every two years, at least 80 hours of CPE, of which 24 hours of the 80 must be directly related to the government environment and governmental auditing.

*Government Auditing Standards* fieldwork standards require that the audit be properly planned, including consideration of materiality and internal control among other matters, to properly determine the nature, timing, and extent of the audit procedures needed to evaluate the results. This includes the follow-up on known material findings and recommendations from previous audits that could effect the current financial statements. The auditor should design the Charter School audit to provide reasonable assurance of detecting material irregularities, illegal acts and other noncompliance.

The auditor is required to express an opinion or disclaim an opinion on the basic financial statements of the Charter School. These basic financial statements generally include the Statement of Net Assets and the related Statements of Revenue, Expenses and Changes in Net Assets, and Statement of Cash Flows. In conjunction with the basic financial statements, the auditors' report will include the Management Discussion and Analysis, Notes to the Financial Statements, and supplemental information, if any.

**403**    ***Working Papers***

*Government Auditing Standards* require that working papers contain sufficient information to enable an experienced auditor, having no previous connection with the Charter School audit, to ascertain from them the evidence that supports the auditor's significant conclusions and judgments. This allows DOE, or other appropriate oversight officials, to review the auditor's work and related conclusions. Working papers must be retained by the auditor for a minimum of three years after the issuance date, or longer if the DOE notifies the auditor.

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**500**    *Federal Single Audit*

A Charter School that expends \$500,000 or more of federal awards through a combination of direct programs from the federal government, pass-through awards from the Commonwealth of Massachusetts, pass-through awards from other entities, such as other state or local government agencies and nonprofit organizations, is subject to the audit provisions of the Single Audit Act and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.

If the Charter School is required to perform an audit in conformity with OMB Circular A-133, these requirements must be included in the Charter School's audit report submitted to the DOE. This includes, but is not limited to, the Independent Auditors' Report, the Basic Financial Statement, Notes to the Financial Statements, Supplemental Information – Schedule of Expenditures of Federal Awards, Notes to Schedule of Expenditures of Federal Awards, *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133*, Schedule of Findings and Questioned Costs, and *Board Acceptance Letter*.

**501**    *Charter School Responsibility under OMB Circular A-133*

The provisions of OMB Circular A-133 require the Charter School to:

Identify, in its accounts, all federal awards received and expended and the federal programs under which they were received. Federal program and award identification shall include, as applicable, the Catalog of Federal Domestic Assistance (CFDA) title and number, award/contract number and year, name of the federal agency, and name of the pass-through entity.

- Document the funding source for all funding received, including the amount of federal funding received and the extent to which the Charter School is subject to an audit in accordance with OMB Circular A-133. This includes the CFDA number, pass through agency, award amount, contract number, and award name.
- Maintain internal control over federal programs that provides reasonable assurance that the Charter School is managing the federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.
- Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs.

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**501 Charter School Responsibility under OMB Circular A-133 – continued**

- Prepare appropriate financial statements, including the *Schedule of Expenditures of Federal Awards* in accordance with the provisions of OMB Circular A-133.
- Ensure audits required by OMB Circular A-133 are properly performed and submitted when due.
- Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with the provisions of OMB Circular A-133.
- Sign and issue the Form SF-SAC *Data Collection Form for Reporting on Audits of States, Local Governments, and Non Profit Organizations*.

**502 Auditor Responsibilities under OMB Circular A-133**

Prior to preparing the financial statements and conducting the audit of the Charter School, the independent auditor is urged to consult the following requirements: *Single Audit Act Amendments of 1996*, the *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations* (as amended in June 2003), the *OMB Circular A-133 Compliance Supplement*, the *AICPA Audit and Accounting Guide for Audits of States and Local Government Units*, and the *AICPA Audit and Accounting Guide for Audits of State and Local Governments* (GASB 34 Edition) and, *AICPA Statement of Position 98-3 Audits of States, Local Governments, and Not-For-Profit Organizations Receiving Federal Awards*.

**503 OMB Circular A-133 Penalties**

No audit costs may be charged to federal awards when audits required by OMB Circular A-133 have not been made or have been made, but not in accordance with the provisions of OMB Circular A-133. In cases of continued inability or unwillingness to have an audit conducted in accordance with OMB Circular A-133, the circular indicates that federal agencies and pass-through entities shall take appropriate action using sanctions such as:

- Withholding a percentage of federal awards until the audit is completed satisfactorily.
- Withholding or disallowing overhead costs.
- Suspending federal awards until the audit is conducted.
- Terminating the federal award.

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**PART II – AUDITING AND REPORTING GUIDELINES**

**600**    *Accounting Policies - Financial Reporting Entity*

The Charter School is classified as a special purpose government entity in accordance with GASB No. 34 and operates as a business type entity within the Commonwealth of Massachusetts.

**601**    *Accounting Principles*

The accounting principles of the Charter School must conform to accounting principles generally accepted in the United States of America (GAAP) that are applicable to a special purpose governmental entity. Therefore, revenues and expenses are recorded using the accrual basis of accounting and requires that revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period in which goods or services are received or incurred.

**602**    *Auditing Standards and Guidance*

The Charter School shall maintain its financial records in accordance with GAAP and conduct an annual independent audit in accordance with the *United States General Accounting Office Government Auditing Standards - 2003 revision* issued by the Comptroller General of the United States of America. These standards incorporate all the AICPA generally accepted auditing standards for fieldwork and reporting, as well as the related AICPA *Statement on Auditing Standards. Government Auditing Standards* prescribes general standards and additional fieldwork and reporting standards beyond those provided by the AICPA when performing financial audits.

In accordance with the AICPA, the first audit fieldwork standard requires that the audit be properly planned. In planning the audit the auditor should, at a minimum, become familiar with this *Guide* and the following:

- AICPA Professional Standards
- AICPA Audit and Accounting Guide for States and Local Government Units
- Financial Accounting Standards Board Current Text
- Governmental Accounting Standards Board Current Text
- OMB Circular A-133: *Audits of Institutions of States, Local Governments and Non Profit Organizations*
- OMB Circular A-133, Compliance Supplement
- OMB Circular A-87, *Cost Principles for State and Local Governments*
- *Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*
- *Commonwealth of Massachusetts, DOE, Charter School Regulations*
- General Laws of Massachusetts Chapter 71, Section 89
- Technical Advisories issued by the DOE
- *Commonwealth of Massachusetts, Charter School Recommended Fiscal Policies and Procedures Guide*

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**603**    *Audit Objectives*

The primary audit objectives when performing an audit of a Charter School are to determine whether:

- The financial statements are presented fairly, in all material respects, in conformity with GAAP.
- The Charter School has implemented and utilized reasonable financial and administrative procedures and internal controls to adequately safeguard assets and to ensure compliance with the laws and regulations, which could have a direct and material impact on the financial statements.
- State and federal reports and claims for advances or reimbursements contain accurate and reliable financial data and are presented in accordance with the terms of applicable agreements.
- State and federal funds are being expended in accordance with the terms of applicable agreements and those provisions of laws or regulations that could have a direct and material effect on the financial statements.

**700**    *Financial Statement Considerations – Comparative Financial Statements*

Governmental Accounting Standards Board (GASB) issued Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments* and subsequent statements, which establishes financial reporting requirements for governmental agencies. GASB 34 requires, subsequent to the first year of operation, that the Charter School issue either comparative or summarized comparative financial statements depending on whether the Charter School has a component unit or not.

**701**    *Component Unit Consideration*

GASB No. 14 *The Financial Reporting Entity* and GASB No. 39 - *Determining Whether Certain Organizations are Component Units* provides guidance to determine whether certain organizations should be reported as a component unit of the Charter School. Component units are legally separate, tax exempt organizations that can warrant inclusion in the financial statements of the Charter School. Generally, the GASB requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of the Charter School. Also component units can be organizations for which the nature and significance of their relationship with the school are such that exclusion would cause the Charter School's financial statements to be misleading or incomplete.

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**701 Component Unit Consideration - continued**

GASB No. 14 *The Financial Reporting Entity* and GASB No. 39 - *Determining Whether Certain Organizations are Component Units* GASB 39 contains the following criteria for assessing if an affiliated organization should be considered a component unit of the Charter School:

- I. A legally separate, tax-exempt organization should be reported as a component unit of the reporting entity if *all* of the following criteria are met:
  - The economic resources received or held by the non-profit organization are entirely or almost entirely for the direct benefit of the Charter School.
    - o The non-profit organization directly benefits the school if it obtains, seeks to obtain, or holds and invests resources that will benefit the Charter School. It is not dependent on the actual transfer of resources from the non-profit during the period, but the notion that the resources obtained or held are required to ultimately be used for the benefit of the Charter School.
  - The Charter School is entitled to, or has the *ability to otherwise access* a majority of the economic resources received or held by the non-profit organization.
    - o The ability to otherwise access is dependent on whether the non-profit organization, (a), has a history of providing resources to the school or (b), received and honored requests to provide resources to the school in the past.
  - The economic resources received or held by the non-profit organization that the Charter School is entitled to, or has the *ability to otherwise access*, are significant to the Charter School.
    - o Significance is based on the management's and the auditor's professional judgment.
- II. Other organizations should be evaluated as potential component units if they are closely related or financially integrated with the Charter School. These criteria may be exhibited by any of the following:
  - Wording of the charters or by-laws of the Charter School or the non-profit organization.
  - Participation of employees of the non-profit organization in programs sponsored by the Charter School.
  - Provisions of office space and administrative services to or from the non-profit organization.

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**701**    ***Component Unit Consideration – continued***

Many charter schools within the Commonwealth of Massachusetts are associated with non-profit organizations that provide support to the Charter School. These non-profit organizations should be evaluated during the planning stage of the audit to determine if they should be included as a component unit of the school. If they are considered a component unit, then all of their financial information should be reported in conjunction with the Charter School's financial statements and accounted for in accordance with *GASB No.'s 14 and 39*.

If they do not meet the criteria of a component unit, then all the transactions incurred between the non-profit and the School should be evaluated as related party transactions and disclosed in accordance with GAAP and the *Guide*. DOE requires that all related party transactions, whether material or immaterial, be disclosed in the notes to the financial statements.

**800**    ***Reporting Package***

The illustrative financial statements presented in *Appendices A, B, C and D* are the financial reporting formats for Charter Schools within the Commonwealth of Massachusetts. The applicable format depends on whether the Charter School has to conduct an audit in accordance with *OMB Circular A-133* and/or has a component unit. If the Charter School has to perform an audit in accordance with *OMB Circular A-133* the report format in *Appendix B or D* should be followed; if not, then the report format in *Appendix A or C* should be followed. The respective format within each category depends on whether the Charter School has a component unit or not. Some variations from the illustrations may be appropriate, to conform to proper disclosures required by GAAP and this *Guide*.

The reporting package to be submitted to the DOE must include the following:

- I.     Standard Reporting Package - See *APPENDIX A* if the Charter School does not have a component unit and *APPENDIX C* if the Charter School has a component unit:
  - Management Discussion and Analysis
  - Independent Auditors' Report
  - Statement of Net Assets
  - Statement of Revenues, Expenses, and Changes in Net Assets
  - Statement of Cash Flows (Direct Method)
  - Notes to Financial Statements
  - Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
  - Schedule of Findings and Questioned Costs Including Corrective Action Plan, if any
  - Schedule of Prior Audit Findings
  - Board Acceptance Letter (*See Appendix E*)

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**800 Reporting Package – continued**

- II. OMB Circular A-133 Reporting Package - (in addition to the Standard Reporting Package, noted above) - See *APPENDIX B* if the Charter School does not have a component unit and *APPENDIX D* if the Charter School has a component unit:
- Schedule of Expenditures of Federal Awards
  - Notes to Schedule of Expenditures of Federal Awards
  - Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and On Internal Control Over Compliance in Accordance with OMB Circular A-133
  - Schedule of Findings and Questioned Costs
  - Summary Schedule of Prior Year Audit Findings, if any
  - Charter School's Corrective Action Plan, if any (may be included within the Schedule of Findings and Questioned Costs listed above)
  - Form SF-SAC *Data Collection Form for Reporting on Audits of States, Local Governments, and Non Profit Organizations*. See <http://harvester.census.gov/sac> for copy of report and instructions for filing
- III. Other Reporting Requirements by the DOE:
- Management Letter, if any (under separate cover)
  - *Charter School End of Year Financial Report* (See Section 900)

**801 Management Discussion and Analysis**

The Management Discussion and Analysis (MD & A) is prepared by the Charter School's management to introduce the basic financial statements and provides an analytical overview of the Charter School's financial activities. Although not part of the basic financial statements, the MD & A is considered required supplemental information for all Charter Schools and is presented before the basic financial statements.

**802 Basic Financial Statements**

The following sections will provide a summary of each of the basic financial statements issued by the Charter School.

**803 Statement of Net Assets**

The *Statement of Net Assets* reports all financial and capital resources of the School and reflects the difference between assets and liabilities as net assets. GASB No. 34 requires that the *Statement of Net Assets* be presented using the following categories: *Current Assets, Non-Current Assets, Current Liabilities, Non-Current Liabilities* and *Net Assets*.

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**803** *Statement of Net Assets - continued*

The following is a list of common current and non-current assets and liabilities. The list is for illustrative purposes only and is not considered to be all-inclusive.

<u>CURRENT</u>		<u>NON-CURRENT</u>	
<i>Assets</i>			
Cash and cash equivalents		Land and building	
Accounts receivable		Building/leasehold improvements	
Grants receivable - State		Furniture and equipment	
Grants receivable- Federal		Restricted cash and cash equivalents	
Grants receivable - Private		Long-term investments	
Contributions receivable			
Prepaid expenses			
Short-term investments			
<i>Liabilities</i>			
Accounts payable		Non current lease obligation	
Accrued expenses		Non current debt	
Deferred revenue		Deferred loss	
Current debt payable			
Current lease obligation			

Net assets included within the *Statement of Net Assets* should be broken down into the following three categories:

- *Invested in Capital Assets, Net of Related Debt* - Includes capital assets, including restricted capital assets, net of accumulated depreciation and reduced by any debt attributable to the acquisition, construction or improvement of those assets.

The *Invested in Capital Assets, Net of Related Debt* should be calculated using the formula below and disclosed in the notes to the financial statements:

Cost of Capital Assets Acquired  
**Less:** Accumulated Depreciation  
**Less:** Outstanding Debt Related to Capital Assets  
**Equals:** Invested Capital Assets, Net of Debt

- *Restricted Net Assets* – Includes net assets by major categories of the restrictions, if any, either on the face of the Statement of Net Assets or in the notes to the financial statements.
- *Unrestricted Net Assets* – Includes net assets that do not meet the definition of *Invested in Capital Assets, Net of Related Debt* or *Restricted Net Assets*.

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**804** *Statement of Revenue, Expenses and Changes in Net Assets*

The *Statement of Revenue, Expenses and Changes in Net Assets* reflects the operating and non-operating activities of the Charter School. The statement distinguishes between operating and non-operating revenues and expenses, which should be presented under the captions *Operating Revenues, Operating Expenses* and *Non Operating Revenues and Expenses*. Revenues from capital contributions, special and extraordinary items and transfers should be reported separately in the statement after the *Non Operating Revenues and Expenses* section.

The following is a list of typical Charter School revenue and expense items by classification. The listing is presented for illustrative purposes only, as the Charter School should use professional judgment when determining which revenue and expense categories should be included within this statement.

<i>Operating Revenues</i>		<i>Operating Expenses</i>	
	Tuition		Salaries
	Grants - State		Payroll taxes
	Grants - Federal		Fringe benefits
	Grants - Private		Office supplies and materials
	Nutrition Funding - State		Professional development
	Nutrition Funding - Federal		Dues, licenses and subscriptions
	Program fees		Fundraising
	Contributions in-kind transportation		Recruitment/advertising
	Investment income		Travel expense
	Transportation aid		Bank charges
	Circuit breaker reimbursements		Contracted services
			Instructional technology
			Testing & assessment
<i>Non Operating Revenues and Expenses</i>			Staff stipend
	Grants - Private		Health services
	Contributions, in-kind		Student transportation
	Contributions		Depreciation
	Rental income		Food services
	Interest expense		Athletic services
	Fundraising expense		Utilities
			Maintenance of building and grounds
			Maintenance of equipment
<i>Capital Contributions</i>			Rental/lease of building & grounds
	Capital contributions		Rental/lease of equipment
	Capital grants and gifts		Insurance
			In-kind transportation
			Miscellaneous

The determination of operating activity must be disclosed in the notes to the financial statements.

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**805**    *Statement of Cash Flows*

The *Statement of Cash Flows* summarizes cash inflows and outflows from operating, investing, and financing activities that occurred during the accounting period. The Charter School, in accordance with GASB No. 34, is required to prepare the *Statement of Cash Flows* using the direct method. The direct method reports cash receipts and cash disbursements from operating activities for the fiscal year. This method also requires that a reconciliation be prepared that agrees the change in net assets to the net cash provided by or used in operating activities.

The *Statement of Cash Flows* consists of the following classifications of cash flow:

1. Cash Flows from Operating Activities
2. Cash Flows from Non Capital Financing Activities
3. Cash Flows from Capital and Related Financing Activities
4. Cash Flows from Investing Activities

- *Operating Activities* – Includes cash from operating activities, including the following:

<i>Operating Activities</i>	
Inflows	Outflows
Receipts from tuition	Payments to employees
Receipts from state grants	Payments of employee benefits
Receipts from federal grants	Payments to vendors and suppliers
Other operational cash inflows	Other operational cash outflows

- *Non-Capital Financing Activities* – Includes cash flows related to non operating grants received from or provided to other governments as well as other non operating revenues and expenses and money borrowed for purposes other than buying or building capital assets.
- *Capital and Related Financing Activities* – Includes cash flows related to borrowing and repaying debt for purchasing and constructing capital assets.
- *Investing Activities* – Includes cash flows from the purchases and sales of all investments and any dividends or interest earned on these investments.

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**806**    *Required Disclosures – Notes to the Financial Statements*

The following are required disclosures and/or presentations that must be reported in addition to the disclosures required by GAAP:

- Amounts of expenditures paid to management companies during the fiscal year and the nature of the service(s) provided.
- Related party transactions, whether material or not

See Illustrative Notes to Financial Statements in *Appendix A, B, C and D*.

**807**    *Schedule of Findings and Questioned Costs*

The *Schedule of Findings and Questioned Costs* identifies reportable conditions, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements and abuse related to financial statements for which *Government Auditing Standards* requires the issue to be reported. In addition, if an audit is required to be conducted in accordance with OMB Circular A-133, this section should identify the federal audit findings required to be reported by section 501(a) of OMB Circular A-133, including reportable conditions, material weaknesses, and material instances of noncompliance, questioned costs, as well as any abuse involving federal awards that are material to the major programs.

Audit findings that relate to both the financial statements and the federal awards should be reported in both sections listed above. Findings should be presented in the following format:

*Condition:* Detail description of the condition.

*Effect:* Effect of the condition on the Charter School's operation.

*Cause:* Reason for the existence of the condition.

*Criteria:* Regulation, law, contractual provision, internal control, etc., used for the determination of the finding.

*Recommendation:* Recommendation to correct the condition.

*Corrective Action Plan:* Charter School's plan to correct the condition.

*Responsibility:* Individual at the Charter School responsible for the implementation of the corrective action.

*Timing:* Timeframe for implementation of corrective action.

**808**    *Schedule of Prior Audit Findings*

The *Schedule of Prior Audit Findings* reports the status of all findings included within the prior year's Schedule of Findings and Questioned Costs.

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**809**    *Schedule of Expenditures of Federal Awards*

The *Schedule of Expenditures of Federal Awards* reports all federal activity of the Charter School inclusive of federal expense transactions associated with grants, cost reimbursement contracts, cooperative agreements and direct appropriations; the disbursement of funds passed through to sub-recipients; the use of proceeds under loan and loan guarantee programs; the receipt of surplus property; the receipt or use of surplus income; and the distribution or consumption of food commodities.

**810**    *SF-SAC Data Collection Form for Reporting on Audits of States, Local Governments, and Non Profit Organizations. (Data Collection Form)*

The *Data Collection Form* provides required information about the Charter School inclusive of the federal awards it administers and the audit results in accordance with OMB Circular A-133. This information is required by OMB Circular A-133 to be prepared at the completion of each audit and submitted to the Federal Audit Clearinghouse electronically and in hard copy form.

**811**    *Board of Trustees Acceptance Letter*

DOE requires that each Charter School include a *Board Acceptance Letter* (see Appendix E) certifying that the Board of Trustees has voted to accept the information included in the *Reporting Package*. The Board of Trustees will acknowledge that the audit was performed in accordance with *Government Auditing Standards* and the guidelines set forth in this *Guide*. The letter must be signed by either the President of the Board of Trustees, the Treasurer or a designated representative.

**812**    *Management Letter*

Non-reportable conditions and/or non-material instances of noncompliance noted during the audit of the Charter School's internal control systems that are reported separately in a management letter must be noted in the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* and included with the annual *Reporting Package*.

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**900**     ***Charter School End of Year Financial Report***

The Charter School is required to submit a *Charter School End of Year Financial Report* to DOE on or before January first of each year. DOE has developed a prescribed reporting format contained in the *Charter School End of Year Financial Report*. The prescribed reporting format templates, along with the filing instruction are available at DOE's security portal located at [www.doe.mass.edu](http://www.doe.mass.edu). See *Appendix F* for a sample of the *Charter School End of Year Financial Report*.

The prescribed format consists of the following schedules:

Schedule 1 – *Statement of Net Assets*

Schedule 2 – *Statement of Revenue, Expenses, and Changes in Net Assets*

Schedule 3 – *Statement of Functional Expenses*

Schedule 4 – *Supplemental Schedule of Additional Data*

- *Charter School Transportation Expenditures*
- *Special Education Pupil Data*
- *Personnel Data (Full Time Equivalents)*

**The *Charter School End of Year Financial Report* is considered unaudited information for purposes of the *Reporting Package*, but does require compliance testing as noted in Section 1013 of this guide.**

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**1000 Areas of Compliance**

The areas of compliance below have been identified by the DOE and the Office of the Inspector General of the Commonwealth of Massachusetts as being highly susceptible to noncompliance. The audit procedures associated with these compliance requirements are intended to be illustrative and are not to be considered comprehensive. The design of appropriate audit tests to satisfy these requirements should be based upon the auditors' professional judgment.

**1001 Internal Controls**

In accordance with DOE charter school regulations, the Charter School, under the direction of the Board of Trustees, is required to establish and maintain adequate accounting records and internal control procedures. A Charter School receiving federal financial assistance must adhere to the internal control requirements contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments (amended August 29, 1997)*. Auditors should consult the compliance supplement for OMB Circular A-133 for more information concerning specific internal control requirements, if applicable.

Internal control should consist of the following five components: control environment, risk assessment, control activities, information and communication, and monitoring. The objectives of internal control relate to proper financial reporting, efficient operations, and compliance with grant and management requirements.

Prior to reviewing and evaluating internal control, the auditor should review the AICPA Statement on Auditing Standard No. 78, *Consideration of the Internal Control Structure in a Financial Statement Audit*, and paragraphs 4.12 through 4.13 of the 2003 revision of the *Government Auditing Standards*.

*Recommended Audit Procedures:*

- Review and determine if written internal control policies are available.
- Assess the adequacy of the internal controls in accordance with Statement on Auditing Standards No. 78 and OMB Circular A-87, if applicable.
- Assess the adequacy of the internal controls pertaining to compliance requirements for OMB Circular A-133, if applicable.

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**1002 *Record Keeping***

In accordance with DOE charter school regulations, the Charter School is required to maintain its financial system and records in accordance with accounting principles generally accepted in the United States. Financial books and records of the Charter School must reflect the source of all assets, liabilities, net assets, revenues, and expenses recorded during the fiscal year.

*Recommended Audit Procedures:*

- Determine whether the Charter School maintains a system of recording and documenting all financial transactions.
- Review supporting documentation for selected transactions during the audit to determine if they are properly supported.

**1003 *Related Party Disclosure***

The Charter School will follow M.G.L. Chapter 268A, the conflict of interest law and disclosure. The Charter School may not be operated for the benefit of an affiliated or unaffiliated organization or an individual in his or her own private capacity or individuals related to the Charter School or members of its management, unless the private benefit is considered merely incidental. Thus, the Charter School will be guided by the principle of arms-length standards with all affiliated or unaffiliated organizations or with a private or related individual(s).

*Recommended Audit Procedures:*

- Review and become familiar with the requirements and recommendations as codified in the AICPA Statement of Auditing Standards No. 45 *Omnibus Statement on Auditing Standards – 1983*, Auditing Interpretation of Section Au334 (Au Section 9334), FASB No. 57 – *Related Party Disclosures, Government Auditing Standards*, and the requirements of M.G.L. Chapter 268A.
- Obtain a listing of the related party transactions that occurred during the year, whether material or not.
- Determine if each member of the Board of Trustees has been approved by the Commissioner of Education and has filed an annual financial disclosure form as required by M.G.L. Chapter 71, section 89(v).
- Determine if the building is leased from a related party. If so, determine if the rent paid is the market rate for the area.
- Obtain representation from management and the Board of Trustees as to whether they or any other related party engaged in any transactions with the Charter School during the year and disclosed **all** the required transactions in the accompanying notes to the financial statements.

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**1004 Reporting**

In accordance with the provisions of 603 CMR 1.09, the Charter School is required to submit both financial and non-financial reports. These reports include the *Annual Report and Enrollment Reports*.

*Annual Report* - Charter Schools shall submit to the Board of Education a copy of the Annual Report. The Annual Report shall be submitted no later than August 1<sup>st</sup> of each year and should contain all of the requirements listed in 603 CMR 1.09 (1). In addition, the Annual Report should be made available to every parent or guardian whose child is currently enrolled or contemplating enrollment.

*Enrollment Reports* - Charter Schools shall submit periodic enrollment reports—including a Pre-Enrollment Report and Student Information Management System (SIMS) reports—to the DOE in accordance with the deadlines set by DOE.

*Recommended Audit Procedures:*

- Review the Charter School's procedures for preparing these required reports.
- Examine a sample of these reports, along with any supporting schedules used to prepare them and determine if the reports were prepared in accordance with the Charter School's procedures, were properly supported and filed in a timely manner.

**1005 Required Policies**

In accordance with DOE charter school regulations the Charter School must have formalized policies/procedures relating to: student code of conduct (including criteria and procedures for expulsion); enrollment policy; criminal background checks; complaint procedures and multi-hazard evacuation plan.

*Recommended Audit Procedures:*

- Determine if the policies/procedures described above have been developed and documented.

**1006 Public Meetings**

In accordance with the Commonwealth of Massachusetts' MGL c30A, section 11A ½, Open Meetings of Governmental Bodies, the Charter School shall conduct public meetings.

*Recommended Audit Procedures:*

- Become familiar with MGL c30A, section 11A ½, Open Meetings of Governmental Bodies.
- Examine evidence and determine that public meetings were properly conducted in accordance with the above requirements.

**1007 Occupancy**

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In accordance with the provisions of 603 CMR 1.05 the Charter School shall provide written documentation that the facility to be used is approved for use as a school by the building inspector in the municipality in which the Charter School is located.

*Recommended Audit Procedures:*

- Examine current occupancy permit and determine if the permit is current and displayed in an accessible area.
- Examine the safety/fire inspection certificate.
- Examine the license to use explosives and flammable compounds in educational programs.
- Examine the evidence of insurance coverage.

**1008 Management Contracts**

In accordance with DOE charter school regulations, all management contracts executed by the Charter School, where substantially all educational services are procured, must have formal Board of Education approval prior to execution by the Charter School.

*Recommended Audit Procedures:*

- Examine evidence that the Board of Education approved all management contracts.
- Determine the extent of any outstanding fees and loans payable to the management company and disclose in the accompanying notes to the financial statements

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**1009 Procurement Policy**

The Charter School administrator who serves as procurement officer must participate and obtain certification in the Massachusetts Certified Public Purchasing Official (MCPPO) program conducted by the Commonwealth of Massachusetts Office of the Inspector General.

*Recommended Audit Procedures:*

- Examine evidence and determine that the Charter School administrator who serves as procurement officer participated and obtained certification in the MCPPO program conducted by the Office of the Inspector General.

**1010 Charter Amendments**

In accordance with the provisions of 603 CMR 101, any substantive changes in the Charter School's operation must be approved by the Commissioner and/or Board of Education prior to the changes becoming effective. These changes are described in the Charter School Technical Advisory 03-3, *Charter Amendments* issued in July 2003.

*Recommended Audit Procedures:*

- Determine if the Charter School made any changes to their programs or initial governance that requires an amendment to their charter. If so, determine if the Board of Trustees approved the amendment request, communicated the changes to DOE and subsequently received approval from the Commissioner and/or Board of Education. (CMR 603, s 1.11).

**1011 Massachusetts Teachers Retirement System (MTRS)**

In accordance with MGL Chapter 32, the Commonwealth's public retirement statute, 807 CMR, the section of the Code of Massachusetts regulations that pertains to the teacher's retirement system and Massachusetts Teachers' Retirement Board (MTRB) business practices, all employees who qualify for the MTRS must be enrolled within 30 days of employment.

*Recommended Audit Procedures*

- Review and become familiar with 808 CMR 4.00 – *Eligibility for Membership*, MGL Chapter 32 and MTRB business practices.
- Determine by selecting a sample that eligible employees are contributing to the plan and the appropriate percentage of their salary is being withheld.
- Examine evidence that eligible employees are enrolled in MTRS and that payroll deductions are being withheld and remitted to MTRB on a monthly basis by the 10<sup>th</sup> day of the month following the reporting period.
- Determine the extent of any outstanding payments owed to MTRB by the Charter School.

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**1012** *Charter School End of Year Financial Report*

The Charter School is required to submit a *Charter School End of Year Financial Report* to DOE on or before January first following its fiscal year end. DOE has developed a standard reporting format for the *Charter School End of Year Report* (See Appendix F). The *Recommended Audit Procedures* listed below should be applied to the report submitted for the previous fiscal year (e.g., as part of the fiscal year 2007 audit, *End of Year Report* for the year ended June 30, 2006 will be examined).

*Recommended Audit Procedures*

- Determine if the financial information was prepared on the accrual basis of accounting.
- Trace the amounts reported to the audited financial statements and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports.
- Trace non-financial data to the records that accumulate and summarize the data.
- Test mathematical accuracy of the schedules and supporting worksheets.
- For financial data, review accounting records and ascertain if all applicable accounts were included in the schedules.
- Obtain written representation from management that the reports are the actual copies submitted to DOE and contain accurate data.