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| Massachusetts Department of Elementary and Secondary Education Logo | | |
|  | Commonwealth of Massachusetts Virtual School Audit Guide | |
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| The Audit Guide provides detailed information on the financial reporting and audit requirements  of Commonwealth of Massachusetts Virtual schools.  Effective July 2022 | |
| Massachusetts Department of Elementary and Secondary Education  75 Pleasant Street, Malden, MA 02148-4906  Phone 781-338-3000 TTY: N.E.T. Relay 800-439-2370  www.doe.mass.edu | |
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### **100 Introduction**

The Commonwealth of Massachusetts in 2012 enacted Massachusetts General Laws (M.G.L.) c. 71, An Act Establishing Commonwealth Virtual Schools, § 94 which authorized the establishment of Commonwealth of Massachusetts Virtual Schools (CMVS). The uniform rules and procedures governing the establishment of CMVS are provided by 603 CMR 52 which is promulgated under the authority of M.G.L. c. 71. § 94. These statutes stipulate various requirements for CMVS and include a provision that requires CMVS to keep an accurate account of all its activities and provide for an annual independent audit of its financial statements.

In an effort to support these requirements, the Commonwealth of Massachusetts Department of Elementary and Secondary Education (the Department) has developed the CMVS *Audit Guide (Guide)* to provide all CMVS and their independent auditors with a resource of audit requirements including illustrative financial statement formats. The requirements contained in this *Guide* must be followed by all CMVS’s; however, items may be added or modified to meet the CMVS’s needs and independent auditor’s professional judgment.

We have used the term CMVS and virtual school interchangeably throughout the *Guide*. For the purposes of this *Guide*, we are referring to virtual schools in Massachusetts that are CMVS and not virtual schools that are managed by and serve only a single district.

**101 *Scope and Organization***

The *Guide* contains two sections; Part I includes the audit policies and procedures and Part II includes auditing and reporting guidelines.

**102 *Purpose***

The purpose of the *Guide* is to provide procedures to properly complete the CMVS’ annual independent audit and provides a uniform approach to the financial statement formats and the related notes to the financial statements. The *Guide* provides recommendations and requirements that will meet the individual CMVS’s needs to prepare and submit the annual audit report in conformity with laws, regulations and administrative policies governing CMVS.

The *Guide* also provides detailed information on the financial reporting and audit requirements of the CMVS, including applicable laws and regulations regarding audits of grants awarded by the United States Government and other funding sources.

**102 *Purpose - continued***

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. These standards and principles may have been updated or revised and new guidance may have been issued subsequent the issuance of this *Guide*. The CMVS and its auditors are required to apply all applicable current standards to the audit performed. 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 Department at [virtualschools@mass.gov](mailto:virtualschools@mass.gov).

**103 *Amending the Guide***

This *Guide* contains the minimum audit policies and procedures for the CMVS, as of the date of its promulgation. From time to time, as additional matters require or changes to this *Guide* are appropriate, the Department will amend this *Guide.* The amendments will be published on the Department’s website at <https://www.doe.mass.edu/cmvs/> and should be reviewed annually by the CMVS and their auditor to ensure that theaudit requirements are maintained on a current basis. **It is the CMVS’s responsibility to conform to the current reporting requirements of the Department. Incomplete or incorrect annual audit reports will be rejected by the Department and will require resubmission. (See Sections 302 and 800).**

**104 *Effective Date***

**The *Guide* will be effective for all CMVS with fiscal years ending on or after June 30, 2022, in which an audit is required (See Section 300).**

**105 *Background***

In accordance with M.G.L. c. 71, § 94, each virtual school must 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 Department may issue. Audits must be filed annually on or before January 1st with the Department and the Commonwealth of Massachusetts Office of the State Auditor.

As a special purpose governmental unit, the virtual school will follow the requirements of the Governmental Accounting Standards Board (GASB). GASB is the recognized standard setting body for establishing governmental accounting and financial reporting principles. This *Guide* is updated through the issuance of GASB Statement No. 97. *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment to GASB No. 68.*

**105 *Background - continued***

The virtual school’s activities should be accounted for as a *Business-Type Entity* and report all activity within the Proprietary Fund. The virtual school will maintain their accounting records and related financial reports on the accrual basis of accounting. Also pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and American Institute of Certified Public Accountants (AICPA) Pronouncements*, the virtual school should elect to apply the provisions of all Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions and ARB’s of the Committee on Accounting Procedures, except for those that conflict with or contradict GASB pronouncements.

**PART I AUDIT POLICIES AND PROCEDURES**

### **200 Contracting the Audit**

The CMVS’s board of trustees’ contracts annually with a qualified certified public accounting firm to conduct the audit of the CMVS’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; and if applicable the *U.S Office of Management and Budget’s Uniform Guidance.* The selected audit firm must be familiar with these standards and related Commonwealth of Massachusetts CMVS 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. The Department recommends that management 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 the prior audit.

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 fee. This process should document how the successful bidder was determined to ensure a fair and objective selection process.

The independent auditor engaged to conduct the CMVS 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.

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.

The auditor and the CMVS must fully understand and comply with the independence standards contained within *Government Auditing Standards (2018 Revision)* and the *United States Government Accountability Office (GAO) Government Auditing Standards Answers to Independence Questions.* These documents are available at the GAO website <http://www.gao.gov/> and should be reviewed prior to contracting the independent auditor.

Auditors should determine whether identified threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level. A threat to independence is not acceptable if the threat either (a) could impact the auditor's ability to perform an audit without being affected by influences that compromise professional judgment or (b) could expose the auditor or audit organization to circumstances that would cause a reasonable and informed third party to conclude that the integrity, objectivity, or professional skepticism of the audit firm, or a member of the audit team, had been compromised.

When an auditor identifies threats to independence and based on an evaluation of those threats, determines that they are not at an acceptable level, the auditor should determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. The auditor should exercise professional judgment in making that determination and should take into account whether both independence of mind and independence in appearance are maintained. The auditor should evaluate both qualitative and quantitative factors when determining the significance of a threat.

The auditor is required to document threats to independence that require the application of safeguards and the safeguards applied. For non-audit services, regardless of whether threats to independence are determined to be significant, the auditor is required to document (1) the understanding established with the audited entity regarding the non-audit services to be performed and (2) management’s ability to effectively oversee the non-audit services, including whether management possesses suitable skills, knowledge, or experience to do so. The auditor also should establish and document in writing his or her understanding with the CMVS regarding (1) the objectives of the non-audit service, (2) the services to be performed, (3) the CMVS’s acceptance of its responsibilities, (4) the auditor’s responsibilities, and (5) any limitations of the non-audit service.

In order to conform to the AICPA Statement on Auditing Standard No. 114 (AU Section 380) *The Auditor’s Communication With Those Charged With Governance*, 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 provide documentation for completion of the audit; auditor’s responsibilities, 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 CMVS board of trustees should appoint an audit/finance subcommittee to monitor the audit process. This subcommittee will contract the independent auditor and review the scope and results of the audit. The audit/finance subcommittee also receives notice of any consequential irregularities and findings that the auditor noted during the engagement. Additionally, the subcommittee will develop a Corrective Action Plan to address all relevant findings noted by the auditor. The audit/finance subcommittee will also review all financial information of the CMVS and provide recommendations to the full board of trustees. Further, the Board of Trustees may delegate responsibility to accept the audit to the audit/finance committee who will acknowledge their acceptance of the audit by signing the Acceptance of the Board of Trustees Letter (Appendix A), which will be attached to the final audit package for submission to the Department. If the audited financial statements contain findings consisting of Material Weakness, Significant Deficiency, Non-compliance, and/or Questioned Costs, the Audit/Finance Committee has two options to obtain the full Board of Trustee’s approval. The Audit/Finance Committee must either present the audit to the full Board of Trustees for a vote to accept or the full Board of Trustees must vote to approve the Corrective Action Plan that results from the Department’s review of submitted audited financial statements.

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

**In accordance with M.G.L. c. 71, § 94, each CMVS 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 Department or the Office of the State Auditor may issue.**

During the CMVS’s planning period—the time between the granting of the certificate and the opening of the CMVS to enrolled students—the CMVS may request to have an independent accountant’s review performed, which is less in scope than an audit, in lieu of 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 Acceptance of Board of Trustees (*Appendix A*) must be modified to describe the scope of services provided. Additionally, if during the planning period the CMVS expends in excess of the threshold set by OMB Uniform Guidance (currently $750,000 for fiscal year) in federal expenditures a full audit must be performed in accordance with OMB Uniform Guidance. (The auditors should be aware of any subsequent changes to the threshold).

**If a CMVS wishes to have a review performed in lieu of an audit during the planning period, a formal request by the CMVS’s board of trustees should be made in writing to the Department at least three months prior to the filing deadline (See Section 301 ‘When to File’). The Department’s approval must be obtained prior to contracting for the services.**

**301** ***When to File***

In accordance with M.G.L. c. 71. § 94 (n) and 603 CMR 52.08(3), a Commonwealth of Massachusetts virtual school shall have its independent audit filed annually on or before **January 1st** following the fiscal year end.

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

A CMVS 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 the Department until a complete *Reporting Package* is submitted as follows:

**Paper copies of the reporting package will not be accepted; therefore, the audit will not be considered submitted until the electronic copy is uploaded via the Department’s Security Portal (see instructions below).**

**One** **(1)** electronic copy of the completed *Reporting Package,* including management letter, if any, must be filed via email to the Office of the State Auditor at the following email address: [Kimberly.Stanley@sao.state.ma.us](mailto:Kimberly.Stanley@sao.state.ma.us)(Please note: this filing information may be updated annually).

**302 *What and Where to File – continued***

**One** electronic copy of the completed *Reporting Package* in PDF format must be submitted via the Department’s Security Portal. (The Security Portal is accessible through the Department’s website - See <http://www.doe.mass.edu/>)

**The Virtual School Year End Report** (See Section 900) –file must be submitted via the Department’s Security Portal.

**The Virtual School Year End Report** (See Section 900) signed certification statement must be submitted via the Department’s Security Portal.

An auditperformed in accordance with the *Office of Management and Budget Uniform Guidance* *Audits of States, Local Governments, and Non-Profit Organizations (OMB Uniform Guidance)* must be filed with the Federal Audit Clearinghouse. Please refer to *OMB Uniform Guidance* for the federal filing requirements (See Section 500).

<https://www.whitehouse.gov/omb/>

Please note that updated filing instructions may be provided annually by the Department.

**303 *Penalty for Noncompliance***

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

**400 *Audit Objective***

The objective of the audit is as follows: the expression of an opinion that provides reasonable assurance that the financial statements and notes present fairly, in all material respects, the financial position, results of operations and cash flows of the CMVS, in conformity with accounting principles generally accepted in the United States of America; provides limited assurance on the management discussion and analysis; provides no assurance on the Department’s supplemental information. The auditor will also report on the CMVS’s internal control related to the financial reporting and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance which could have a material effect on the financial statements in accordance with Government Auditing Standards.

If the audit is to be performed in accordance with the Single Audit Act Amendments of 1996 and OMB Uniform Guidance, the auditor will also report on the CMVS’s internal control related to its 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 *CMVS School Responsibility***

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

**402 *Auditor Responsibility***

The AICPA through the Auditing Standards Board 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 CMVS regulations, prior to accepting the audit 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 the audit firm has 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 responsible for planning, directing, performing fieldwork, 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 government auditing, the governmental environment, or specific or unique environment in which the audited entity operates.

*Government Auditing Standards* fieldwork standardsrequire that the auditor plan and perform the audit to obtain sufficient appropriate audit evidence so that audit risk will be limited to a low level that is, in their professional judgment, appropriate for expressing an opinion on the financial statements. *Government Auditing Standards* incorporate the AICPA fieldwork and reporting standards and prescribes additional standards for financial audits performed in accordance with *Government Auditing Standards*.

**402 *Auditor Responsibility - continued***

The fieldwork standards include the following:

* The audit is properly planned and supervised.
* A sufficient understanding of the entity and its environment, including its internal control, is obtained in order to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature timing and extent of further audit procedure.
* Sufficient appropriate audit evidence must be obtained by performing auditor procedures to afford a reasonable basis for an opinion regarding the financial statement under audit.
* An evaluation as to whether the CMVS has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a direct and material effect on the financial statements.
* The audit is designed to provide reasonable assurance of detecting misstatements that result from violation of provisions of contracts or grant agreements that could have a direct and material effect on the financial statements.

The auditor is required to express an opinion or disclaim an opinion on the financial statements and notes to the financial statements of the CMVS. These financial statements generally include of the *Statement of Net Position* and the related Statements of Revenue, Expenses and Changes in Net Position and Cash Flows. In conjunction with the financial statements, the report will include the Management Discussion and Analysis (unaudited).

**403 *Working Papers***

Government Auditing Standards require that working papers contain sufficient information to enable an experienced auditor, having no previous connection with the CMVS audit, to ascertain from them the nature, timing and extent of the procedures performed, audit evidence obtained, and the results or conclusions reached on significant matters. This allows the Department or other appropriate oversight officials, to adequately review the auditor’s work and related conclusions*.* Working papers must be retained by the auditor for a minimum of five years after the issuance date or longer if the Department notifies the auditor.

**500 *Federal Single Audit***

A CMVS that expended $750,000 (currently the fiscal year threshold) or more of federal awards through a combination of direct programs from the federal government, pass-through awards from the Commonwealth of Massachusetts Departments, pass-through awards from other entities, such as other state or local governments and nonprofit organizations are subject to the audit provisions of the Single Audit Act and OMB Uniform Guidance. Information regarding OMB Uniform Guidance can be found at <https://www.whitehouse.gov/omb/>

If the CMVS is required to perform an audit in conformity with OMB Uniform Guidance, these requirements must be included in the school’s audit report submitted to the Department. 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, *Independent Auditors 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*, *Independent Auditors Report On Compliance for Each Major Program And On Internal Control Over Compliance Required by OMB Uniform Guidance,* Summary of Audit Results, Schedule of Findings and Questioned Costs and Acceptance by the Board of Trustees.

**501 *CMVS Responsibility under OMB Uniform Guidance***

The provisions of OMB Uniform Guidance require the CMVS 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 expended and the extent to which the CMVS is subject to an audit in accordance with OMB Uniform Guidance.
* Maintain internal control over federal programs that provides reasonable assurance that the CMVS 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.
* Prepare appropriate financial statements, including the *Schedule of Expenditures of Federal Awards* in accordance with the provisions of OMB Uniform Guidance.
* Ensure audits required by OMB Uniform Guidance 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 Uniform Guidance.
* Electronically prepare, sign and submit the Form SF-SAC *Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations*.

**502 *Auditor Responsibilities***

Prior to auditing the financial statements and conducting the audit of the CMVS, the independent auditor is urged to consult the following requirements: *Single Audit Act Amendments of 1996*, the *OMB Uniform Guidance, Audits of States, Local Governments and Non-Profit Organizations*, the *OMB Uniform Guidance Compliance Supplement*, the AICPA Audit and Accounting Guide for Audits of State and Local Governments and AU-C 035 Compliance Audits.

**503 *OMB Uniform Guidance Penalties***

No audit costs may be charged to federal awards when audits required by OMB Uniform Guidance have not been made or have been made, but not in accordance with the provisions of OMB Uniform Guidance. In cases of continued inability or unwillingness to have an audit conducted in accordance with OMB Uniform Guidance, 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.

**PART II AUDITING AND REPORTING GUIDELINES**

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

The CMVS is classified as a special purpose government entity and operates as a business type entity within the Commonwealth of Massachusetts. GASB Codification Section 2100 ‘Defining the Financial Reporting Entity’ should be referred to when determining the reporting entity for the CMVS.

The financial reporting entity consists of organizations for which the CMVS is [financially accountable](https://checkpoint.riag.com/app/main/docLinkNew?DocID=iGASB%3A750.1040&SrcDocId=T0GASB%3A750.1040-1&feature=ttoc&lastCpReqId=1113277&pinpnt=GASB%3A750.1258&d=d" \l "GASB:750.1258" \t "_top). The CMVS may determine through the exercise of management's professional judgment that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading (see Section 701). In such circumstances, that organization should be included as a component unit.

An organization other than a primary government (such as other stand-alone governments) serves as a nucleus for its reporting entity when it issues financial statements. The financial reporting entity consists of the stand-alone governments and all component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the stand-alone government are such that exclusion would cause the CMVS’s financial statements to be misleading. Any stand-alone government with a voting majority of its governing board appointed by a primary government should disclose that accountability relationship in its financial statements.

**601 *Accounting Principles***

The accounting principles of the CMVS must conform to generally accepted accounting principles (GAAP). These are accounting principles generally accepted in the United States of America 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 CMVS shall maintain their financial records in accordance with GAAP and conduct an annual independent audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of America. These standards incorporate all the American Institute of Certified Public Accountants’ (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.

### **602 Auditing Standards and Guidance - continued**

#### 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 Accounting Standards Codification
* Governmental Accounting Standards Board Current Text
* Government Accounting Standards Board Codification
* OMB Uniform Guidance: Audits of Institutions of States, Local Governments and Non-Profit Organization
* OMB Uniform Guidance, 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
* Massachusetts General Laws c. 71, § 94
* Commonwealth of Massachusetts Virtual School Regulations
* Technical Advisories issued by the Commonwealth of Massachusetts Department of Elementary and Secondary Education

### **603 Audit Objectives**

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

* The financial statements and related notes are presented fairly, in all material respects, in conformity with GAAP.
* The CMVS has implemented and utilized reasonable financial and administrative procedures and internal controls to adequately safeguard assets.
* 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 and related notes.

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

GASB standards requires, subsequent to the first year of operation, that the CMVS issue either comparative or summarized comparative financial statements depending on whether the CMVS has a component unit or not.

**701 *Component Unit Consideration***

In accordance with GASB, the CMVS is considered the primary government. Virtual schools within the Commonwealth of Massachusetts may have associated non-profit organizations. These organizations should be evaluated during the planning stage of the audit to determine whether or not they should be considered a component unit of the CMVS, and how they should be reported in the audit. The financial information for these component units should be reported in conjunction with the CMVS’s financial statements and accounted for in accordance with *GASB Codification Section 2600.* See Appendix B for more information about identifying component units.

In accordance with GASB, component units can be either be treated as (1) “blended” with the CMVS or (2) “discretely presented” from the virtual school. Regardless of treatment, the financial information for the CMVS and each component unit should be presented in individual columns in the financial statements in order to separately distinguish the balances and transactions of the CMVS and the component unit(s). As required by GASB, the auditor should opine on the financial activity of the CMVS and component units based on the treatment of component units.

If the CMVS has a relationship with a separate non-profit or governmental entity, but the entity does not meet the criteria for including the reporting entity’s financial statements as a component unit of the CMVS, then all the transactions incurred between the organization and the CMVS should be evaluated as related party transactions and disclosed in accordance with GAAP and the *Guide*. The Department requires that all related party transactions, whether material or immaterial be disclosed in the notes to the financial statements.

### **800 Reporting Package**

The illustrative reporting packages presented on the Department’s website at <http://www.doe.mass.edu/charter/finance/auditing/> are provided as a guide to the financial reporting format for both charter and virtual schools within the Commonwealth of Massachusetts. The reporting package format of your CMVS depends on whether the CMVS has to conduct an audit in accordance with OMB Uniform Guidance and/or has a component unit. The appropriate reporting package applicable to the CMVS should be submitted. Please note that there are several differences between charter and CMVS in Massachusetts, therefore we ask you and your accountant use these guides, as applicable.

Some variations from the illustrations may be appropriate, to conform to proper disclosures required by the CMVS, GAAP, and this *Guide*. The reporting package to be submitted to the Department must include the following:

**Minimum Reporting Package** - *No**OMB Uniform Guidance audit required*:

* Management Letter, if any (under separate cover)
* Management Discussion and Analysis
* Independent Auditors’ Report
* Statement of Net Position
* Statement of Revenues, Expenses and Changes in Net Position
* Statement of Cash Flows (Direct Method)
* Notes to Financial Statements
* Independent Auditors 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
* Schedule of Prior Audit Findings
* Board of Trustees Acceptance letter *(*See Appendix A)

**Reporting Package** - OMB Uniform Guidance audit required

In additional to the items listed above in the ‘Minimum Reporting Package’, the following should be included if an OMB Uniform Guidance audit is required:

* Management Letter, if any (under separate cover)
* Schedule of Expenditures of Federal Awards
* Notes to Schedule of Expenditures of Federal Awards
* Independent Auditors’ Report on Compliance for Each Major Program and On Internal Control Over Compliance Required by OMB Uniform Guidance
* Summary of Auditors’ Results
* Schedule of Findings Relating to the Financial Statement Audit
* Schedule of Findings and Questioned Costs Relating to Federal Programs
* Schedule of Prior Audit Findings
* Board of Trustees Acceptance letter
* Summary Schedule of Prior Year Audit Findings
* CMVS 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 <https://www.fmcsa.dot.gov/sites/fmcsa.dot.gov/files/docs/sf-sac.pdf> for copy of report and instructions for filing *(does not have to be submitted to the Department)*

**Other Reporting Requirements by the Department:**

* CMVS End of Year Financial Report (See Section 900)

**801 *Management Discussion and Analysis***

The Management Discussion and Analysis (MD & A) is prepared by the virtual school’s management to introduce the basic financial statements and provides an analytical overview of the virtual school’s financial activities. Although not part of the basic financial statements, the MD & A is considered required supplemental information for all virtual schools and is presented before the basic financial statements. The auditor should follow the guidance of SAS 120 *Required Supplementary Information*.

**802 *Basic Financial Statements***

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

**803 *Statement of Net Position***

The *Statement of Net Position* reports all financial and capital resources of the CMVS and reflects the difference between assets and liabilities as net position. GASB requires that the *Statement of Net Position* be presented using the following categories: *Current Assets, Non-Current Assets, Deferred Outflow of Resources, Current Liabilities, Non-Current Liabilities Deferred Inflow of Resources* and *Net Position.*

The CMVS should determine the classification of transactions as Assets, Deferred Outflows of Resources, Liabilities or Deferred Inflows of Resources. The following are provided as basic definitions:

**Assets** – Resources with present service capacity that the government presently controls

**Liabilities** – present obligations to sacrifice resources that a CMVS has little or no discretion to avoid.

**Deferred Outflows of Resources** – consumption of assets by a CMVS that is applicable to a future reporting period

**Deferred Inflows of Resources** – acquisition of assets by a CMVS that is applicable to a future reporting period.**803 *Statement of Net Position - 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.

CURRENT

Assets:
cash and cash equivalents
accounts receivable
grants receivable - federal
grants receivable - private
contributions receivable
prepaid expenses
short term investments

Deferred outflows of resources

Liabilities:
accounts payable
accrued expenses
advances on contracts
current debt payable
current lease obligation

Deferred inflow of resources

NON CURRENT
land and building
building/leasehold improvements
furniture and equipment
restricted cash and cash equivalents
long-term investments
reserve for future capital projects

Non current lease obligation
non current debt
deferred loss



**803 *Statement of Net Position - continued***

The following ***do not*** meet the definition of Deferred Outflows of Resources and Deferred Inflow of Resources as they have present service capacity or represent a present obligation to sacrifice resources.

*Deferred Outflows of Resources*

* Prepayments

*Deferred Inflows of Resources*

* Resources received in advance of an exchange transaction

Amounts included within the *Net Position* should be broken down into the following three categories:

* *Net Investment in Capital Assets* - 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 *Net 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**: Net Investment in Capital Assets

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

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

The *Statement of Revenue, Expenses and Changes in Net Position* reflects the operating and non-operating activities of the virtual 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.

**804 *Statement of Revenue, Expenses and Changes in Net Position - continued***

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

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

Operating Revenues:
Tuition
Grants, state
Grants, federal
Grants, private
Nutrition funding, state
Nutrition funding, federal
Program fees
Contributions in kind transportation
Transportation aid

Non operating revenues and expenses:
Grants, private
Contributions, in kind
Contributions
Rental income
Investment income
Interest expense
Fundraising expense
Management fees revenue

Capital contributions:
Capital contributions
Capital grants and gifts

Operating Expenses:
Salaries
Payroll taxes
Fringe benefits 
Office supplies and materials
Professional development
Dues, licenses and subscriptions
Recruitment advertising
Travel expenses
Contracted services
Instructional technology
Testing and assessment
Staff stipend
Health services
Student transportation
Depreciation
Food services
Athletic services
Utilities
Maintenance of building and grounds
Maintenance of equipment
Rental/lease of building and grounds
Rental/lease of equipment
Insurance
Management fee
In kind transportation

**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 virtual school, in accordance with GASB 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 operating net position 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:

Operating Activities

Inflows:
Receipts from tuition
Receipts from state grants
Receipts from federal grants
Other operational cash inflows

Outflows:
Payments to employees
Payments of employee benefits
Payments to vendor and suppliers
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 borrowing money 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* - Include cash flow from the purchases and sales of all investments and any dividends or interest earned on these investments.

**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:

* Disclosure of management fees paid, or management fees received by a school during the fiscal year and the nature of the service(s) provided and any amounts owed at the end of the fiscal year.
* Management fees paid or received as a separate line item in the Statement of Revenue, Expenses and Changes in Net Position.
* Related party transactions, whether material or not***`***
* Management Discussion and Analysis – explanation of any operational loss and statement if it was budgeted for.
* Management Discussion and Analysis – Explanation of methodology how the school projected their budgeted tuition amount.

See Illustrative Notes to Financial Statements posted on the Department’s website at

<http://www.doe.mass.edu/charter/finance/auditing/>

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

The *Schedule of Findings and Questioned Costs* must identify significant deficiencies, 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 reporting.

In addition, if an audit is required to be conducted in accordance with OMB Uniform Guidance this section should identify the federal audit findings required to be reported by section 501(a) of OMB Uniform Guidance, including significant deficiencies, material weaknesses and material instances of noncompliance, questioned costs, as well as any abuse involving federal awards that are material to the major programs. The results of the audit should be included in the *Summary of Audit Results* section.

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 virtual 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:* | Virtual school’s plan to correct the condition. |
| *Responsibility:* | Individual at the CMVS responsible for the implementation of the corrective action. |
| *Timing:* | Timeframe for implementation of corrective action. |

**809 *Schedule of Prior Audit Findings***

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

**810 *Schedule of Expenditures of Federal Awards***

The *Schedule of Expenditures of Federal Awards* reports all federal activity within the virtual school, inclusive of federal expense transactions associated with grants, cost reimbursement contracts, cooperative agreements and direct appropriations; the disbursement of funds passed through to subrecipients; 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.

**811 *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 CMVS audit inclusive of the federal awards it administers and the audit results in accordance with OMB Uniform Guidance. This information is required by OMB Uniform Guidance to be prepared at the completion of each audit and submitted, along with the audit report to the Federal Audit Clearinghouse electronically.

**812 *CMVS Board of Trustees Acceptance Letter***

The Department requires that each CMVS include a *Board Acceptance Letter* certifying that the board of trustees accepts the information included in the *Reporting Package (*See Appendix A*)*. 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.

**813 *Management Letter***

Issues identified that are not material but more than inconsequential may be communicated in a management letter. In addition, items identified that may improve operational efficiency and effectiveness or otherwise improve the virtual school’s internal control may also be communicated in a management letter. When a management letter is issued only for the purpose of providing management with efficiency comments or to communicate nonsignificant deficiencies a reference to the management letter does not need to be made in the *Independent Auditors 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*. Otherwise, a reference to the management letter should be made in the body of this report.

### **900 Virtual School End of Year Financial Report**

The CMVS is required to submit a *Virtual School End of Year Financial Report (VSEOYFR)* to the Department on a date annually determined by the Department, but generally on or before February 1 of each year. The Department has provided a standard reporting format in the *VSEOYFR*. Information about the prescribed reporting format templates along with the filing instructions are available at <https://www.doe.mass.edu/cmvs/finance/fy2021-vseoyfr.xlsx>.

At the time of the publication of this Guide, the prescribed format consists of the following schedules, though this is subject to change:

Schedule 1 – *Statement of Net Position*

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

Schedule 3 – *Schedule of Functional Expenses*

Schedule 4 *– Schedule B Virtual School Building Information, as applicable*

Schedule 5 – *Audit Questionnaire*

Schedule 6 – *Certification, Checks and Comments*

The VSEOYFR is not complete unless the signed Certification Statement is sent to the Department via upload through the security portal.

**The VSEOYFR is considered unaudited information for purposes of the *Reporting Package* but does require compliance testing as noted in Section 1011 of this *Guide*.**

### **1000 Compliance Requirements**

The compliance requirements identified below have been developed by the Department and the Office of the Inspector General of the Commonwealth of Massachusetts as being inherently risky and highly susceptible to non-compliance. 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***

It is recommended that the CMVS, under the direction of the CMVS board of trustees, is required to establish and maintain adequate accounting records and internal control procedures. A CMVS 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 May 10, 2004)*. Auditors should consult the compliance supplement for OMB Uniform Guidance 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 AU Section 314 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements the 2011 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 AU 314 and OMB Circular A-87, if applicable.
* Assess the adequacy of the internal controls pertaining to compliance requirements for OMB Uniform Guidance, if applicable.
* Determine if the CMVS operates in accordance with its credit card policies to ensure procurement and travel policies are not circumvented.
* Determine if school operated in accordance with its policy for emergency purchases made with a credit card that would otherwise follow the SMVS’s procurement policy.
* Select a sample of 5 credit card transactions (a combination of emergency and regular purchases) to determine if the CMVS’s policies were being followed.

**1002 *Record Keeping***

In accordance with the Department’s CMVS regulations the CMVS is required to maintain their financial system and records in accordance with accounting principles generally accepted in the United States of America. Financial books and records of the CMVS must reflect the source of all assets, liabilities, net position, revenues, and expenses recorded during the fiscal year.

*Recommended Audit Procedures:*

* Determine whether the CMVS maintains a financial system of recording and documenting all financial transactions.
* Review supporting documentation for selected transactions during the audit to determine if they are properly supported.
* Determine that the financial system properly tracks and reports each school separately.

**1003 *Related Party Disclosure***

The CMVS will follow [M.G.L. Chapter 268A](https://malegislature.gov/Laws/GeneralLaws/PartIV/TitleI/Chapter268a), the conflict of interest law and file financial disclosures pursuant to [M.G.L. c. 71, s 90(u)](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXII/Chapter71/Section94). The CMVS 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 CMVS or members of its management. Thus, the CMVS 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, FASB Accounting Standards Codification 850 *Related Party Disclosures, Government Auditing Standards* and the requirements of M.G.L. Chapter 268A.
* Obtain a listing of the related party transaction that occurred during the year whether material or not.
* 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 CMVS during the year and disclosed **all** the required transactions in the accompanying notes to the financial statements.
* Determine that all transactions, between the network schools and other component units are properly disclosed in the notes to the financial statements.

**1004 *Reporting***

In accordance with the provisions of [603 CMR 52.08](https://www.doe.mass.edu/lawsregs/603cmr52.html?section=08) the CMVS is required to submit both financial and non-financial reports. These reports include the *Annual Report and Enrollment Reports.*

*Enrollment Reports* – The CMVS shall submit a Pre-Enrollment Report to the Department in accordance with the deadlines set by the Department.

*Capital Plan (if applicable)*

*Financial Audit* – Each CMVS shall have an independent audit conducted of its accounts consistent with GAAS, *Government Auditing Standards,* and any guidance issued by the Department or the State Auditor.

*Recommended Audit Procedures:*

* Review the virtual school's procedures, if applicable, for preparing these required reports.
* Examine a sample of the enrollment reports, along with any supporting schedules used to prepare them and determine if the reports were prepared in accordance with the virtual school's procedures, were properly supported and filed in a timely manner.
* Determine if the prior year audit report was submitted to the Department in a timely manner, including approved extensions.
* Review approval received for capital plan, if applicable.

**1005 *Required Policies***

In accordance with the Department regulations the CMVS must have formalized policies/procedures related to: student code of conduct (including criteria and procedures for expulsion); enrollment policy; criminal background checks; complaint procedures and multi-hazard evacuation plan, as applicable.

*Recommended Audit Procedures:*

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

**1006  *Board of Trustees***

In accordance with the Commonwealth of Massachusetts’ [M.G.L. c. 30A, §§18-25](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIII/Chapter30A/Section18), Open Meetings of Governmental Bodies, the CMVS shall conduct public meetings.

*Recommended Audit Procedures:*

* Become familiar with M.G.L. c. 30A, §§18-25, Open Meetings of Governmental Bodies.
* Examine evidence and determine that public meeting were properly conducted in accordance with the above requirements.

**1007  *Occupancy***

In accordance with the provisions of 603 CMR 52.04 the CMVS shall provide written documentation that the facility to be used, as applicable, is approved for use as a school by the building inspector in the municipality in which the CMVS 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, if applicable.
* Examine the evidence of insurance coverage.

**1008  *Procurement Policy***

The CMVS administrator who serves as procurement officer must obtain a Massachusetts Certified Public Purchasing Official (MCPPO) certificate.

*Recommended Audit Procedures:*

* Examine evidence and determine that the CMVS administrator who serves as procurement officer has participated and obtained the certificate of completion of the Public Contracting Overview. If the individual has not participated in the required seminars, determine if the individual in enrolled in or on waitlists for the required seminar.

**1009 *Virtual Amendments***

In accordance with the provisions of 603 CMR 52.10 any major changes in the material terms of the CMVS certificate must be approved by the Commissioner prior to the changes becoming effective. The regulations for CMVS at 603 CMR 52.10(2) state:

*[i]f a Commonwealth of Massachusetts virtual school desires to change the terms of its certificate, the virtual school's board of trustees shall vote on and submit to the Commissioner a request in writing to amend its certificate. Changes requiring approval by the Commissioner before they can be implemented include all information specified as the Terms of Certificate. Changes requiring advance approval include, but are not limited to:*

*(a) School name;*

*(b) Membership of the board of trustees;*

*(c) Maximum enrollment;*

*(d) Grades served;*

*(e) Enrollment region;*

*(f) Mission, purpose, and special focus;*

*(g) Educational programs, instructional methodology, and services for students that are inconsistent with those specified in the virtual school’s certificate;*

*(h) Governance or leadership structure;*

*(i) Bylaws;*

*(j) Schedule (length of school year, school week, or school day);*

*(k) Identity of software or curriculum providers;*

*(l) Contractual relationships with an individual or entity providing or planning to provide substantially all the virtual school's educational services;*

*(m) Support and storage of critical data;*

*(n) Accountability Plan;*

*(o) Enrollment policy and application for admission;*

*(p) Expulsion policy; and*

*(q) Location of facilities, if such change involves relocating to or adding a facility in another municipality or school district.*

*Recommended Audit Procedures:*

* Determine if the CMVS made any changes to their programs or initial governance that requires an amendment to their certificate. If so, determine if the board of trustees approved the amendment request, communicated the changes to the Department, and subsequently received approval from the (603 CMR, § 52.10) prior to implementation.

**1010 *Massachusetts Teachers Retirement System***

In accordance with M.G.L. c. 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’s (MTRB) business practices, all employees who qualify must be enrolled within 30 days of employment.

*Recommended Audit Procedures:*

* Review and become familiar with 808 CMR 4.00 – *Eligibility for Membership*, M.G.L. c. 32 and MTRB business practices.
* Determine by selecting a sample of employees that are contributing to the plan to confirm that the appropriate percentage of their salary is being withheld.
* Examine evidence that eligible employees are enrolled in MTRS within 30 days of employment and that payroll deductions are being withheld and remitted to MTRB on a monthly basis by the 10th day of the month following the reporting period.
* Determine the extent to which any outstanding payments are owed to MTRB by the virtual school.

**1011 *Virtual School End of Year Financial Report***

The CMVS is required to submit a *Virtual School End of Year Financial Report* (*VSEOYFR*) to the Department following its fiscal year end (See Section 900). The Department has developed a standard reporting format for the *VSEOYFR*. The *Recommended Audit Procedures* listed below should be applied to the report submitted for the previous fiscal year end. (i.e., as part of the fiscal year 2022 audit, the *VSEOYFR* report for the year ended June 30, 2021 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 amounts reported.
* Test mathematical accuracy of the schedules and supporting worksheets.
* For financial data, review accounting records and ascertain if all applicable accounts were included in schedules 1, 2, 3, and 6.
* Please review schedules 4 and 5 to ascertain if the factual data contained in these schedules is correct.

Obtain written representation from management that the reports are the actual copies submitted to the Department and contain accurate data

### **APPENDIX A**

*Print on letterhead of CMVS*

**ACCEPTANCE OF THE BOARD OF TRUSTEES**

We, the board of trustees of \_\_(Name of CMVS)\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_or designee, have voted to accept the representations of management and the expression of the opinions made by (Insert Auditors Name) as embodied in the financial statements and independent auditor's reports for the year ended June 30, 20XX (Insert both years if comparative).

We also certify that the representations made by management and the disclosures in the financial statements are accurate and have been correctly and completely disclosed as required by accounting principles generally accepted in the United States of America and the *Commonwealth of Massachusetts Virtual School Audit Guide* for the period ended June 30, 20XX. (Insert both years if comparative).

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Board President or Treasurer

or Other Designated Person

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date

### **APPENDIX B**

**CMVS with Component Units**

The following information from *GASB Codification Section 2600* should be considered when determining the proper treatment for CMVS with component units:

**Component unit defined –** Organizations that are legally separate organizations from the PG for which the primary government is financially accountable or closely related. In addition, other legally separate organizations where the nature and significance of their relationship with the primary government is such that exclusion of the organization from the reporting entity would cause the reporting entity’s financial statements to be misleading are considered component units.

The PG is financially accountable if:

1. The primary government appoints a voting majority of the organizations governing board and:
   * + 1. Is able to impose its will on the organization
       2. Is in a relationship of financial benefit or burden with the organization
2. The organization is fiscally dependent upon the primary government and the PG is in a relationship of financial benefit/burden with the organization

Organization is fiscally dependent if the primary government must:

* + - Approve the organizations budget
    - Approve the organizations levy, tax rates or other charges
    - Approve organizations debt

Organization has a financial benefit/burden relationship if any one of the following

occurs:

* + - PG is legally entitled to or can otherwise access the organization’s resources
    - PG is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to the organization
    - PG is obligated in some manner for the organization’s debt

1. And/or the primary government’s financial statements will be misleading if excluded

Entities that do not met the financial accountability criteria may still be included as a component unit if they are closely related to or are financially integrated with the PG. Determination is based on professional judgment, given the nature, facts and circumstances and significance of the relationship between the PG and the component unit.

**Reporting Requirement**

A legally separate, tax-exempt organization should be reported as a component unit of the CMVS if all of the following criteria are met

* + - The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the PG;
    - The PG is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the organization; and
    - The economic resources received or held by the organization that the PG is entitled to or has the ability to otherwise access, are significant to the PG.

*Criteria for blended treatment:*

Component unit’s governing board is substantially the same as that of the PG and:

* + - There is a financial benefit/burden relationship between the PG and the component unit, or (2) management of the PG has operational responsibility for the component unit (management has operational responsibility for a component unit if it manages the activities of the component unit in essentially the same manner in which it manages its own programs). Management consists of persons below the level of the governing board, responsible for the day-to-day activities of the PG
    - The component unit provides services almost entirely to the PG, or almost exclusively benefits the PG, or the component unit’s debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the PG.
    - The component units total outstanding debt, including leases is expected to be repaid entirely, or almost entirely with the resources of the PG

*Criteria for discrete treatment:*

* + - All other nonblended component units; and
    - Entities that should be included based on professional judgment based on the nature and significance to the PG.