

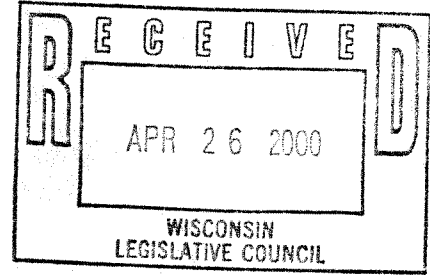
REPORT TO  
LEGISLATIVE COUNCIL RULES CLEARINGHOUSE  
SCHOOL DISTRICT AUDITS  
PI 14, Wisconsin Administrative Code

Wisconsin Statutory Authority - ss. 120.14 (4) and 227.11(2)(a), Stats.

Federal Statutory Authority - None

Court Decisions Directly Relevant - None

CR 00-083



Analysis of the Rule - Rule Effect - Reason for the Rule

The proposed rules make several minor modifications to align s. PI 14.03, minimum standards for audit and standard school district audit contract, with Generally Accepted Accounting Principles as promulgated by the Governmental Accounting Standards Board (GASB) and American Institute of Certified Public Accountants (AICPA). For example:

- Under s. PI 14.03 (1) (b), the rules eliminate the definition of “defalcation” because defalcation or “fraud” is covered under the AICAP audit standards. Other provisions relating to defalcation have been deleted because the rule provisions are inconsistent with the AICAP audit standards.
- Under s. PI 14.03 (2) (d) 1. and the appendix, the rules now refer to financial statements prepared according to GASB standards. Again, current provisions relating to financial statements must be modified because they are inconsistent GASB standards.

The rules also update or eliminate terminology and references to documents that are no longer used in school district audits. For example:

- Under s. PI 14.03 (2) (a) and the appendix, “account groups” is a term no longer used under GASB.
- Under s. PI 14.03 (2) (a) 2. a., the audit guide referred to no longer exists.
- Under s. PI 14.03 (2) (a) 2. c. and the appendix, the references to circular A-128 and the Single Audit Act of 1984 have been updated.
- Under s. PI 14.03 (2) (d) 4., the note following par. (2), and the appendix, the reference to a federal program audit statement is no longer necessary because such statements no longer exist. Also, under the note following par. (2) and (4), the reference to the Division for School Financial Resources and Management Services has been updated.
- Under the note following s. PI 14.03 (4) and the appendix, the reference to the *Wisconsin School District Audit Guide* has been deleted since the guide no longer exists.

The proposed amendments in this rule are considered technical. Therefore, pursuant to s. 227.16 (2) (b), Stats., the department will not hold public hearings regarding these rules.

Agency Procedure for Promulgation

Notice to Legislative Council pursuant to s. 227.15, Stats., and proceeding under the ten day notice/hearing process pursuant to ss. 227.16 to 227.18, Stats.

Description of any Forms (attach copies if available) None

Name and Telephone Number of Agency Liaison(s)

David Carlson, Director, School Financial Services, 266-6968  
Lori L. Slauson, Administrative Rules Coordinator, Policy and Budget, 267-9127

**PROPOSED ORDER OF THE  
STATE SUPERINTENDENT OF PUBLIC INSTRUCTION  
AMENDING RULES**

The state superintendent of public instruction hereby proposes to repeal ss. PI 14.03 (1) and PI 14.03 (2) (d) 4.; to renumber ss. PI 14.03 (1) (e), PI 14.03 (2) (a) 4. and 5, and PI 14.03 (2) (d) 5. to 7.; and to amend ss. PI 14.02 (2) (g), PI 14.03 (2) (a) 1., 2. a. and c., PI 14.03 (2) (d) 1., the note following par. (d), the note following PI 14.03 (4), and the appendix following chapter PI 14, relating to school district audits.

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**ANALYSIS BY THE DEPARTMENT OF PUBLIC INSTRUCTION**

Statutory authority: ss. 227.11 (2) (a) and 120.14 (4), Stats.

Statute interpreted: ss. 120.14 and 115.28 (18), Stats.

The proposed rules make several minor modifications to align s. PI 14.03, minimum standards for audit and standard school district audit contract, with Generally Accepted Accounting Principles as promulgated by the Governmental Accounting Standards Board (GASB) and American Institute of Certified Public Accountants (AICPA). For example:

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- Under s. PI 14.03 (2) (d) 1. and the appendix, the rules now refer to financial statements prepared according to GASB standards. Again, current provisions relating to financial statements must be modified because they are inconsistent GASB standards.

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  - Under s. PI 14.03 (2) (a) 2. a., the audit guide referred to no longer exists.
  - Under s. PI 14.03 (2) (a) 2. c. and the appendix, the references to circular A-128 and the Single Audit Act of 1984 have been updated.
  - Under s. PI 14.03 (2) (d) 4., the note following par. (2), and the appendix, the reference to a federal program audit statement is no longer necessary because such statements no longer exist. Also, under the note following par. (2) and (4), the reference to the Division for School Financial Resources and Management Services has been updated.
  - Under the note following s. PI 14.03 (4) and the appendix, the reference to the *Wisconsin School District Audit Guide* has been deleted since the guide no longer exists.
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**SECTION 1.** PI 14.02 (2) (g) is amended to read:

PI 14.02 (2) (g) Unless transportation is included in the cooperative program, any transportation of pupils shall be furnished by the school district of residence and the applicable transportation state aid shall be claimed by the school district of residence.165

**SECTION 2.** PI 14.03 (1) is repealed.

**SECTION 3.** PI 14.03 (1) (e) is renumbered PI 14.03 (1) (b).

**SECTION 4.** PI 14.03 (2) (a) 1., 2. a. and c. are amended to read:

PI 14.03 (2) (a) 1. The auditor shall conduct an examination of the combined general purpose financial statements including all funds ~~and account groups~~ of the school district for the fiscal year.

2. a. Generally accepted auditing standards as required under s. Accy 1.202. For purposes of the contract under sub. (3), the procedures necessary to comply with the generally accepted auditing standards shall include the applicable procedures outlined ~~by the Wisconsin institute of certified public accountants in the Wisconsin school district audit guide;~~ by the American institute of certified public accountants in the industry audit guide, audits of state and local governmental units; and by the department in the Wisconsin school district audit manual.

c. The applicable provisions of the United States office of management and budget, circular ~~A-128~~ A-133, audits of states ~~and local government~~ and non-profit organizations, issued pursuant to the ~~Single Audit Act of 1984 at 31 USC 7501 to 7507~~ single audit act amendments of 1996 at P.L. 104-156.

**SECTION 5.** PI 14.03 (2) (a) 4. and 5. are renumbered PI 14.03 (2) (a) 3. and 4.

**SECTION 6.** PI 14.03 (2) (d) 1. and the Note following par. (d) are amended to read:

PI 14.03 (2) (d) 1. ~~Report on examination of the school district's combined general purpose financial statements as of June 30 of the fiscal year~~ Auditor's report on the school district's financial statements prepared according to generally accepted accounting principles, as promulgated by the governmental accounting standards' board, with supplemental information as required by the department or requested by the district.

Note: The following forms are available at no charge from the Department of Public Instruction, ~~Division for School Financial Resources and Management Services Team~~, P.O. Box 7841, Madison, WI 53707:

PI 1506 Financial Audit Statement

~~PI 1507 Federal Program Audit Statement~~

**SECTION 7.** PI 14.03 (2) (d) 4. is repealed.

**SECTION 8.** PI 14.03 (2) (d) 5. to 7. are renumbered PI 14.03 (2) (d) 4. to 6.

**SECTION 9.** The Note following PI 14.03 (4) is amended to read:

Note: ~~The Wisconsin School District Audit Guide may be obtained from the Wisconsin Institute of Certified Public Accountants, 180 North Executive Drive, Brookfield, WI 53005.~~

*Audits of State and Local Governmental Units* may be obtained from the American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, NY 10036-8775.

*Governmental Accounting and Financial Reporting Standards* may be obtained from the Governmental Accounting Standards Board of the Financial Accounting Foundation, High Ridge Park, Stamford, CT 06905-0821.

*The Wisconsin School District Audit Manual* may be obtained from the Department of Public Instruction, 125 South Webster Street, P.O. Box 7841, Madison, WI 53707.

*Standards for Audits of Governmental Organizations, Program, Activities and Functions* by the Comptroller General of the United States may be obtained from Superintendent of Documents, Public Documents Department, U.S. Government Printing Office, Washington, D.C. 20402.

All of the above publications are available for examination at the Department of Public Instruction, ~~Division for School Financial Resources and Management Services Team~~, 125 South Webster Street, Madison, ~~Wisconsin~~ WI

**SECTION 10.** The appendix following Chapter PI 14 is amended to read:

#### APPENDIX

#### STANDARD SCHOOL DISTRICT AUDIT CONTRACT

This agreement is entered into this \_\_\_\_ day of \_\_\_\_\_, ~~19~~ 20, between \_\_\_\_\_ (school board on behalf of named school district) hereafter referred to as the district, and \_\_\_\_\_ (name of auditor), hereafter referred to as the auditor. The parties agree as follows:

#### AUDIT SCOPE

The auditor shall conduct an examination of the combined general purpose financial statements, including all funds ~~and account groups~~ of the district as of, and for the year ended June 30, ~~19~~ 20.

The auditor's examination shall be made in accordance with the following:

(a) Generally accepted auditing standards. The procedures necessary to comply with the generally accepted auditing standards, for purposes of this contract, include the applicable procedures outlined ~~by the Wisconsin Institute of Certified Public Accountants, in the WISCONSIN SCHOOL DISTRICT AUDIT GUIDE;~~ by the American Institute of Certified Public Accountants ~~in~~ including the Industry Audit Guide, AUDITS OF STATE AND LOCAL GOVERNMENTAL UNITS; and by the Department of Public Instruction in the WISCONSIN SCHOOL DISTRICT AUDIT MANUAL.

(b) The standards for financial and compliance audits contained in the STANDARDS FOR AUDITS OF GOVERNMENTAL ORGANIZATIONS, PROGRAMS, ACTIVITIES, AND FUNCTIONS, issued by the Comptroller General of the United States;

(c) The provisions of the United States Office of Management and Budget, Circular ~~A-128~~ A-133, ~~AUDITS OF STATE AND LOCAL GOVERNMENT~~ AUDITS OF STATES, LOCAL GOVERNMENTS AND NON-PROFIT ORGANIZATIONS, issued pursuant to the Single Audit Act of 1984.

~~The examination will not include a detailed audit of transactions to the extent which would be required if intended to disclose defalcations or other irregularities, although their discovery may result.~~

Financial statements presented in the auditor's report shall comply with generally accepted accounting principles and conform to the accounting system prescribed by the Department of Public Instruction.

The auditor shall express an opinion on the financial statements of all funds covered in the scope of this engagement. If the auditor is unable to express an unqualified opinion, the auditor shall state fully the reasons for

qualification or disclaimer of opinion. The district recognizes it has the responsibility to correct any deficiency which results in a qualification or disclaimer of opinion.

#### INDEPENDENCE

Implicit in the auditor's expressions of an unqualified opinion on financial statements is the auditor's representation of independence with respect to those statements.

#### TIMING, LOCATION AND CONDUCT OF AUDIT WORK

The district recognizes that its appropriate officers have the responsibility for the proper recording of transactions in the books of account, for the safeguarding of assets and for the substantial accuracy of the financial statements. These district officers have the responsibility to close and balance all accounts and to have prepared the financial statements for all funds ~~and account groups~~ to be examined by the auditor.

The audit shall be conducted on district premises at a mutually agreeable time, and the district shall provide space deemed adequate by the auditor to conduct the examination officially.

The auditor shall observe the adequacy of the systems of internal control for all funds of the district, including those concerned with maintaining compliance with finance-related legal provisions. If material weaknesses are noted, appropriate recommendations shall be reviewed with the appropriate administrator and then included in a separate letter to the district's school board.

Audit workpapers and reports shall be retained for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the Department of Public Instruction or the United States Department of Education to extend the retention period. The district authorizes the auditor to respond directly to inquiries from the Department of Public Instruction or the United States Department of Education, including requests to review audit workpapers. The auditor shall notify the school board of any such inquiries or requests and of the auditor's reply thereto.

#### REPORTS

The auditor shall submit to the district's school board the following reports, with copies of each for transmittal to the Department of Public Instruction and other agencies as required:

- (a) ~~Report on examination of the district's combined general purpose financial statements~~ Auditor's report on the school district's financial statements prepared according to Generally Accepted Accounting Principles as promulgated by the Governmental Accounting Standards Board, as of, and for the year ended June 30, 19 20, with supplemental information as required by the Department of Public Instruction or requested by the district.
- (b) Financial audit statement for the year ended June 30, 19 20, as required by the Department of Public Instruction.
- (c) Management letter, commenting on material weaknesses in internal control and identifying possible noncompliance with finance-related legal provisions with appropriate recommendations.
- (d) ~~Federal program audit statement as required by the Department of Public Instruction.~~
- (e) Federal program audit reports and schedules, as required.

- (f) State program audit reports and schedules, as required.
- (g) Membership audit report, as required by the Department of Public Instruction.
- (h) Other (specify):
- (i) Other (specify):

COMPENSATION AND TERMS OF PAYMENT

Fees shall be based on the time required by the individuals assigned by the auditor plus direct expenses. Individual hourly rates vary according to the degree of responsibility involved and the skill required. (NOTE: Other payment terms may be agreed upon in the contract. This is provided as an example).

\_\_\_\_\_, certified public accountant, is the owner or partner in charge of all work performed and is responsible for all aspects of this engagement.

The auditor estimates the fee for this examination and above-listed reports will range from \$\_\_\_\_\_ to \$\_\_\_\_\_. Should unforeseen difficulties be encountered during the examination which would require additional work by the auditor, an estimate of the cost of such additional work shall be brought to the board's attention prior to the performance of the additional work.

The auditor may submit bills as work progresses and as expenses are incurred.

(Typed Name and Title)    Signature \_\_\_\_\_

Contracting District Officer

(Typed Name and Title)    Signature \_\_\_\_\_

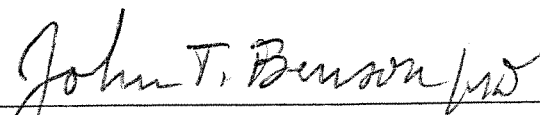
Audit Firm

(Typed Name and Title)    Signature \_\_\_\_\_

Partner (Owner)

The proposed rules contained in this order shall take effect on the first day of the month commencing after the date of publication in the Wisconsin Administrative Register, as provided in s. 227.22(2)(intro.), Stats.

Dated this 24<sup>th</sup> day of April, 2000

  
\_\_\_\_\_  
John T. Benson  
State Superintendent

**FISCAL ESTIMATE FORM**

**1999 Session**

- ORIGINAL       UPDATED  
 CORRECTED       SUPPLEMENTAL

**LRB #**

**Introduction #**

**Admin. Rule # Chapter PI 40**

**Subject**  
School District Audit Procedures

**Fiscal Effect**  
 State:  No State Fiscal Effect  
 Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation.

|  |   |  |
|--|---|--|
| <input type="checkbox"/> Increase Existing Appropriation | <input type="checkbox"/> Increase Existing Revenues | <input type="checkbox"/> Increase Costs - May be possible to Absorb Within Agency's Budget <input type="checkbox"/> Yes <input type="checkbox"/> No<br><br><input type="checkbox"/> Decrease Costs |
| <input type="checkbox"/> Decrease Existing Appropriation | <input type="checkbox"/> Decrease Existing Revenues |  |
| <input type="checkbox"/> Create New Appropriation        |   |  |

Local:  No local government costs

|  |   |   |
|--|---|---|
| 1. <input type="checkbox"/> Increase Costs<br><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | 3. <input type="checkbox"/> Increase Revenues<br><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | 5. Types of Local Governmental Units Affected:<br><input type="checkbox"/> Towns <input type="checkbox"/> Villages <input type="checkbox"/> Cities<br><input type="checkbox"/> Counties <input type="checkbox"/> Others _____<br><input checked="" type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts |
| 2. <input type="checkbox"/> Decrease Costs<br><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | 4. <input type="checkbox"/> Decrease Revenues<br><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory |   |

**Fund Sources Affected**  
 GPR     FED     PRO     PRS     SEG     SEG-S

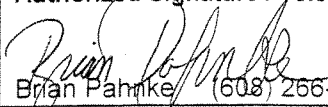
**Affected Ch. 20 Appropriations**

**Assumptions Used in Arriving at Fiscal Estimate:**

These rule modifications are being made in order to be consistent with Generally Accepted Accounting Principles as promulgated by the Governmental Accounting Standards Board and American Institute of Certified Public Accountants. In addition, the rule modifications will update or eliminate terminology and references to documents that are no longer used in school district audits.

The rules are considered technical and will have no fiscal effect on local government, state government, and small business.

**Long-Range Fiscal Implications:**

|  |  |                            |
|--|--|----------------------------|
| <b>Prepared By:</b><br><br>Lori Slauson 267-9127<br>Department of Public Instruction | <b>Authorized Signature / Telephone No.</b><br><br><br>Brian Pahrke (608) 266-2804 | <b>Date</b><br><br>4/24/00 |
|--|--|----------------------------|