Charter School Audit Guide

New York State
Education Department
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Planning for 2016-17

Please submit suggestions for the 2016-17 Audit Guide to the attention of Susan DuFour at CHARTERSCHOOLS@nysed.gov. Items submitted throughout the year will be reviewed in January 2017 by the Audit Guide committee.

What is New for 2015-16

- SECTION 4: (New) Accounts Receivable
- SECTION 4: (New) Pensions
- SECTION 4: (New) Investments
- SECTION 4: Clarification Per Pupil Funding
- SECTION 5: Clarification of Education Corporations and Single Audits for Education Corporations that operate more than one charter school
- SECTION 5: Clarification of Related Parties
- SECTION 6: (New) Green Book
- SECTION 7: Clarification of Uniform Guidance (Single Audit)
- SECTION 8: Clarification of CSP Agreed-Upon Procedures requirements when a Single Audit is required for a charter school's first year of operations.
- (New) Weighted Lottery information has been added to Section 6, Section 8, Appendix B and G.
- SECTION 5 DELETION: The following was deleted: Supplementary Information For charter schools operating different grade levels at multiple sites/locations under one charter, (for example elementary grades at one site and middle school grades at another), the financial statements should include statements of activities broken down for each site/location as supplementary schedules

Members of the 2015 Audit Guide Committee includes:

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What Was New in 2014-15

- **EDGAR / OMB Uniform Compliance (Audit Guide Section 7):** For 2014-15 auditors should test that schools have board approved policies and written procedures by June 30, 2015 for compliance with the new regulations- which schools can then implement on July 1, 2015.

- **Management Letters (Audit Guide Section 6)**: When deficiencies in internal control that are not significant are not included in the audit report the written communication to those charged with governance **must be referred** to within the Independent Auditor's Report on Internal Controls Over Financial Reporting.

  Government Auditing Standards for Deficiencies in Internal Control - 7.19 states "…When auditors detect deficiencies in internal control that are not significant to the objectives of the audit but warrant the attention of those charged with governance, they should include those deficiencies either in the report or communicate those deficiencies in writing to audited entity officials. **Auditors should refer to that written communication in the audit report** if the written communication is separate from the audit report. When auditors detect deficiencies that do warrant the attention of those charged with governance, the determination of whether and how to communicate such deficiencies to audited entity officials is a matter of professional judgment."

- **Statement of Cash Flow (Audit Guide Section 5):** Beginning with 2014-15 the direct method for the Statement of Cash Flow is strongly encouraged. While the direct and the indirect methods of preparing the statement of cash flow are allowable under accounting standards, the direct method has been proposed by the Financial Accounting Standards Board (FASB) as a tool to improve the not-for-profit reporting model.

- **The Schedule of Functional Expenses (Audit Guide Section 5)** must conform to the template provided in Appendix D.

- **Operating Reserves (Audit Guide Section 4)**: Auditors should inquire if a school has adopted a policy for operating reserves. If a policy has been adopted the auditor should determine if terms of the policy are appropriate and being followed. To be a viable operating reserve there should be a board approved policy about the purpose and use of operating reserves. The purpose of the policy is to define and set goals for reserve funds, clearly describe authorization for use of reserves and outline requirements for reporting and monitoring.

Other Items:

- **School safety (Audit Guide Section 6):** Auditors should verify that the certificate of occupancy and annual fire safety inspection report has been obtained and is up to date.

- **Education Corporations (Audit Guide Section 5):** This section has additional detail, including:

  For those Education Corporations that operate more than one school combining schedules (not consolidated statements) must be issued as supplemental information and provide information by school.

- **Enhanced Per Pupil Revenue:** Additional per pupil revenue was received by certain charter schools in New York City to assist with facility costs.

- **Additions or clarifications were made to these areas of Audit Guide Section 6:**
  - General Requirements detailed in the Charter School's Charter Agreement
  - Lottery preferences are not permitted for schools that receive CSP funding

- **Nonprofit Revitalization Act of 2013:** This act promotes good governance in part by requiring all nonprofits to adopt conflict of interest policies. Also, entities with over $1 million in annual revenue and 20 or more employees to adopt whistleblower policies.

Introduction

In New York State ("NYS"), charter schools are defined as "independent and autonomous public schools" [Education Law §2853(1)(c)] and are authorized by the New York Charter Schools Act of 1998 (Article 56 of the New York State Education Law, (the" Act")). NYS charter schools are legally organized as not-for-profit education corporations [Education Law §2853(1)] and are subject to the terms of a contractual agreement, or charter, between the school and the chartering entity which approved the school's application for a charter. Charter schools are non-sectarian, tuition-free, open to all students residing in NYS, governed by the school's own self-selecting board of trustees and independent of existing school districts.

The Act authorizes several entities as "chartering entities" or "authorizers" that can receive and approve applications for charters and then conduct oversight and evaluation of the charter schools that the entity has approved. Prior to 2010, the Act authorized the NYS Board of Regents and the Board of Trustees of the State University of New York ("SUNY") as statewide chartering entities and all local boards of education as chartering entities for their respective school districts [§2851(3)]. Amendments to the Act in 2010 removed the authority of local boards of education to approve applications for new charters although those boards remain the chartering entities for any charter schools they had previously authorized (only the New York City Chancellor, on behalf of the New York City Department of Education ("NYCDOE") and the Buffalo Board of Education have exercised the option to approve charter schools in their districts). All applications for new charters must now be submitted to either the NYS Board of Regents or the SUNY Board of Trustees. In addition, local boards of education continue to have the authority to approve applications for the conversion of existing public schools to charter schools within their respective school districts.

About the Guide

The New York Charter Schools Act requires that a charter school shall be subject to the financial audits, the audit procedures, and the audit requirements set forth in its charter. Such procedures and standards shall be applied consistent with Generally Accepted Auditing Standards ("GAAS") and Generally Accepted Government Auditing Standards ("GAGAS"). Independent audits of financial statements shall be required at least once annually. Such audits are required to be comparable in scope to those required of other public schools, keeping in mind that charter schools are required to follow the accounting standards set by the Financial Accounting Standards Board ("FASB") and schools are required to follow the accounting standards set by the Government Accounting Standards Board ("GASB").

This Audit Guide (the "Guide") was developed to provide assistance to auditors of charter schools authorized by NYS Board of Regents as well as for any charter school receiving Federal Charter School Program ("CSP") funds through the NYS Education Department ("NYSED") (see Section 8 and Appendix B of this Guide). This guidance is focused on helping auditors understand the differences between charter schools and other non-profit entities, as well as providing specific guidance to the auditor and charter school management about the form and content of reports and testing required by NYSED and NYS law for Regents-authorized charter schools. Other charter entities are encouraged to adopt the Guide as they see fit.

Charter school officials are encouraged to read the Guide in order to understand the areas their independent auditor will be focusing on in addition to routine financial matters. **THE AUDITOR SHOULD NOT CONSIDER THIS DOCUMENT TO BE ALL-INCLUSIVE OR A SUBSTITUTE FOR PROFESSIONAL JUDGEMENT. FURTHERMORE, THE AUDITOR CLEARLY NEEDS TO FOLLOW PROFESSIONAL STANDARDS THAT ARE REFERENCED BUT NOT REPEATED AS PART OF THIS DOCUMENT.**

NYSED would like to acknowledge the assistance of the staff of the NYCDOE, the SUNY Charter Schools Institute, school officials, and several audit practitioners in preparing this document. Comments or questions regarding this Guide should be sent to NYSED Charter School Office.

Authoritative Nature

Charter schools authorized by the NYS Board of Regents are required, under the terms of their charter agreement with the Regents, to follow the audit requirements set forth by NYSED. This Guide was written to provide standardized guidance to auditors of Regents-authorized charter schools to ensure that audits of those schools are performed in accordance with the charter agreement requirements. Any charter school, regardless of authorizer, currently receiving funding through the NYSED CSP grant is required to adhere to the terms of the Agreed-Upon Procedures ("AUP") Report on CSP funds as described in Section 8 and Appendix B of the Guide.

Background

This Guide was developed by NYSED in response to a variety of factors that affect charter schools in NYS:

- The statutory increase in the "cap" on the number of charters that can be issued to charter schools to 460
- The award of $697 million under "Race to the Top" funding from the Federal government to NYS schools
- The award of a $113 million grant to NYS under the Federal Charter School Program ("CSP")
- Differences found in audit quality and auditor understanding of the charter school environment

NYSED's responsibilities for monitoring the use of public funds, including the CSP grant, necessitate a very high level of audit quality. This Guide is intended to enhance the auditor's understanding of the requirements for charter schools, detail certain specific procedures required by NYSED, standardize reporting of audit results and findings, and provide guidance on matters specific to charter schools in NYS.

As a pass-through entity, NYSED is responsible for monitoring the proper use of funds and compliance with CSP grant requirements by each school awarded funds under this grant. NYSED has determined that the most efficient method of monitoring grant compliance in this area is to allow each charter school's independent auditor, who is already reviewing records of the charter school, to perform additional procedures as part of the audit and to issue a separate report on those procedures. See Section 8 and Appendix B for further information on this requirement.

Section 1: Audit Requirements and Deadlines

In accordance with the charter school's charter agreement, the charter school shall retain an independent Certified Public Accountant ("CPA"), licensed in New York State, to perform an audit of the charter school's annual financial statements in accordance with GAAS and GAGAS issued by the Comptroller General of the United States as well as any additional requirements and guidelines provided by the Board of Regents.

Auditor's Reports

Some, and possibly all, of the following reports, prepared by the charter school's independent CPA will be necessary for a charter school and are covered in this Guide:

A. Agreed-upon Procedures Report on Initial Statement of Controls
B. Opinion on Audited Financial Statements
C. 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 (the "Yellow Book" Report)
D. Agreed-upon Procedures Report on Charter School Program (CSP) Grant
E. Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Uniform Guidelines (the "Single Audit Report")

Deadlines

The Agreed-Upon Procedures report on the Initial Statement of Controls is due no later than forty-five days (45) after the commencement of the Agreed-Upon Procedures engagement. The engagement shall commence within sixty (60) days after the date on which the charter school has received and disbursed more than $50,000 in monies received from payments from school districts, under §2856 of the Education Law, or from grants or other revenue sources.

The audited financial statements must be submitted to NYSED by **November 1** of each fiscal year after the conclusion of the charter school's first year of providing instruction to students. The audit must include a management letter, if applicable, and other reports required by GAGAS. The charter school must submit the management letter along with a corrective action plan addressing any weaknesses or problems identified in the report. No extensions are available.

If the charter school expends $750,000 or more in federal funds during the fiscal year, an independent audit as prescribed in the Federal Office of Management and Uniform Guidelines must also be completed and filed with the Federal Government and NYSED by **November 1**. See further details on OMB's Uniform Guidelines (Single Audits) in Section 7. NYSED can approve an extension of the deadline for completion of the Single Audit no later than the Federal due date of 9 months after year-end, i.e. March 31st of the following year.

The Agreed-Upon Procedures report on the CSP grant must be submitted to NYSED by **November 1** of each year it is required.

Section 2: Auditor Requirements

An audit in accordance with GAGAS requires the auditor to comply with more stringent independence standards, Continuing Professional Education ("CPE") and peer review requirements, and perform additional procedures beyond those performed in an audit under GAAS. A separate 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 (the "Yellow Book" report) is issued to provide school management and those charged with school governance with the results of the additional procedures. Full details of Generally Accepted Government Auditing Standards and the most recent version of GAGAS are available on the Government Accountability Office ("GAO") website at http://www.gao.gov/yellowbook.

Independence

Audits performed in accordance with GAGAS require the auditor to comply with additional guidelines governing independence and require documentation of the consideration of any threats to independence. The Governmental Audit Quality Center ("GAQC") of the American Institute of Certified Public Accountants ("AICPA") has prepared a comparison of the differences between the AICPA and the Yellow Book or GAGAS independence rules for non-audit services. This comparison is available on the GAQC website (to GAQC members and non-members) at:
http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/2012MayAICPAGAOComparision.pdf

Continuing Professional Education ("CPE")

Audits performed in accordance with GAGAS require the auditor to obtain CPE that directly relates to government auditing, the government environment, or the specific and unique environment in which the audited entity operates. Auditors performing work in accordance with GAGAS, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAGAS, are required to obtain at least 24 hours of CPE every two years that meet the requirements above. Auditors who are involved in any amount of planning, directing, or reporting on GAGAS audits and auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS audits should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2-year period) that enhances the auditor's professional proficiency to perform audits. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year period. Auditors hired or initially assigned to GAGAS audits after the beginning of an audit organization's 2-year CPE period should complete a prorated number of CPE hours.

Peer Review

Audit firms performing audits under GAGAS are required to have an external peer review, performed by reviewers independent of the audit organization being reviewed, at least once every 3 years.

Section 3: Initial Statement of Controls

Initial Statement of Controls ("Initial Statement") and Agreed Upon Procedures Report on the Initial Statement

In accordance with section 5.1 of a school's charter, NYSED requires the charter school to provide an Initial Statement to NYSED concerning the status of management and financial controls no later than one hundred-twenty (120) days from the date the charter was issued by the Board of Regents. The Initial Statement must address whether the charter school has documented adequate controls and implemented them, when applicable, relating to:

1. preparing and maintaining financial statements and records in accordance with Generally Accepted Accounting Principles ("GAAP");
2. payroll procedures;
3. accounting for contributions and grants;
4. procedures for the creation and review of interim and annual financial statements, which procedures shall specifically identify the individual(s) who will be responsible for preparing and reviewing such financial statements and ensure that such statements contain valid and reliable data;
5. existence of appropriate internal financial controls and procedures;
6. safeguarding of assets including cash and equipment;
7. compliance with applicable laws and regulations;
8. ensuring that the purchasing process results in the acquisition of necessary goods and services at the best price;
9. following appropriate guidance relating to budget development and administration; and
10. following appropriate guidance relating to a code of ethics and cash management and investments.

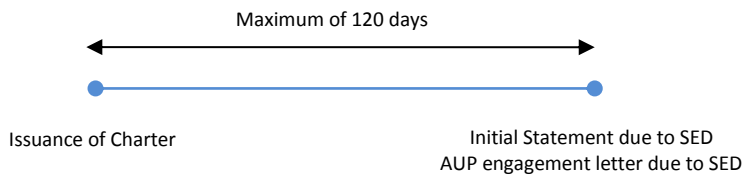
The Initial Statement shall be reviewed and ratified by the charter school's Board of Trustees prior to its submission to NYSED.

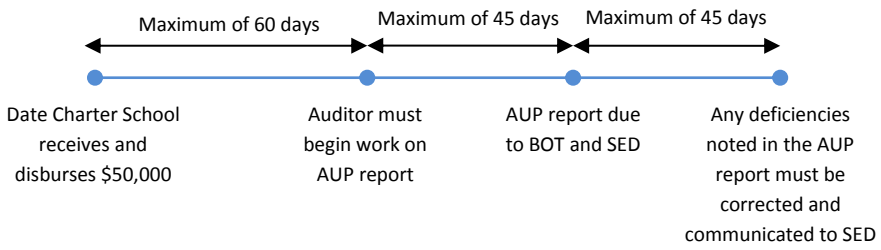
After completing the initial statement of internal controls, the charter school shall thereafter retain an independent CPA licensed in New York State to perform an agreed-upon procedures engagement (the "Independent Accountant's Report") in accordance with attestation standards established by the AICPA. The purpose of the engagement will be to assist the school's Board of Trustees and NYSED in evaluating the Initial Statement and the procedures, policies and practices established thereunder. The engagement shall commence within sixty (60) days after the date on which the charter school has received and disbursed more than $50,000 in monies received from payments from school districts,

under §2856 of the Education Law, or from grants or other revenue sources. NYSED has set forth a standard format for the Independent Accountant's Report as shown in Appendix A.

The resulting Independent Accountant's Report should be provided to the school's Board of Trustees no later than forty-five days (45) after the commencement of such engagement with a copy to NYSED. In the event that the Independent Accountant's Report reveals that any of the above management and financial controls (subparagraphs (a) – (i) of this section) are not in place, the charter school shall remedy such deficiencies no later than forty-five (45) days from the date the Independent Accountant's Report was received by the Board of Trustees and shall provide to NYSED within that forty-five (45) day period a statement that all deficiencies identified in the Independent Accountant's Report have been corrected, including the date they were corrected and who was responsible for implementing the corrections. Such statement shall identify the steps undertaken to correct the identified deficiencies. NYSED may require additional evidence to verify the correction of all such deficiencies. All documents required to be submitted pursuant to this paragraph shall be submitted electronically in accordance with guidance provided by NYSED.

Timeline of Initial Statement of Controls and related reports





Section 4: Auditing Charter School Financial Statements

All charter school audits shall be conducted in accordance with GAAS issued by the AICPA and GAGAS issued by the Comptroller General of the United States. The procedures included in the Guide offer additional best practices to provide assistance for independent certified public accountants conducting an audit of a public charter school to ensure that the charter school's financial statements are presented fairly in all material respects. **THE PROCEDURES SHOULD BE VIEWED AS ADDITIONAL PROCEDURES UNIQUE TO CHARTER SCHOOLS AND SHOULD BE CONSIDERED IN ADDITION TO THE AUDIT REQUIREMENTS REQUIRED UNDER GAAS AND GAGAS.**

Cash

As part of the charter agreement, charter schools agree to establish an escrow account of no less than a set dollar amount as determined by NYSED. This amount is established to pay for legal and audit expenses that would be associated with a dissolution should it occur. The auditor should verify that the escrow account has been established and that it is funded at a minimum of the level established in Section 8.5 of the charter school's charter agreement.

Accounts Receivable

In planning and performance of an audit the auditor should consider use of confirmations of accounts receivable balances. AICPA Statement on Auditing Standards AU Section 330 *The Confirmation Process* requires that the auditor use external confirmation procedures for accounts receivable unless: the overall account balance is immaterial, external confirmations would be ineffective, or the auditor's assessed level of risk of material misstatement at the relevant assertion level is low.

Further guidance of confirmations can be found within AICPA Statement on Auditing Standards AU Section 326 *Audit Evidence* and AU section 505 *External Confirmation.*
http://www.aicpa.org/Research/Standards/AuditAttest/Pages/clarifiedSAS.aspx

Charter school's primary receivable source is from public funding of basic school tuition due from school district of residence of the students attending the Charter School. Other sources of receivables are, but not limited to, food service through USDA, E-Rate, or Federal/State Grants (see section 7). See Appendix H for example confirmation that could be used for per-pupil aid receivables from resident districts.

Food service receivable and revenues, if applicable to the Charter School, can be obtained through the NYSED Child Nutrition Management System http://portal.nysed.gov/pls/cn_port/cn8200$.startup. The auditor should consider obtaining this free public information to confirm revenue and receivables. The auditor will need the SFA Name and LEA Code to look up the charter school reports that are available to the public (if you click "find" within the search window, a list of all NYS School will show). The information can be used to verify existence and completeness of the account balances.

Accrued Payroll and Benefits

Accrued payroll for a charter school is unique from other not-for-profit organizations as the teachers and many other staff members are 10 or 11 month employees vs. typical 12 month employees at other organizations. Auditors must take into consideration that this expense should be fully accrued as of June 30th, even if the teachers are being paid over the summer months, if their services have been completed as of June 30th. Be aware of the timeframe of teacher contracts. Some contracts may cover the period from July 1 to June 30; therefore, the summer months pay should not

be accrued as of June 30th. In addition, auditors should consider whether other related expenses such as 401(k) contributions, taxes, and other benefits are expensed over the appropriate period.

Pension

As guidance for multiple employer pension plans in the accounting standards set by the Financial Accounting Standards Board (FASB) is not specific, the disclosures are subject to judgment as to what is informative and valuable to the user of the financial statements. We suggest, at a minimum, the following disclosures be made:

- Plan description
- Plan benefits
- Contribution requirements – employees
- Contribution requirements – employer
- Pension expense recognized for period(s) presented

As charter schools are legally organized as not-for-profit education corporations, and they are required to follow the accounting standards set by FASB, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) does not specifically apply. However, information could be included if deemed to be of significance to the users of the financial statements. Those disclosures include:

- Funded status of the plan
- School's allocable % of asset/liability
- Plan investment asset allocation
- Actuarial assumptions
- Discount rate

Investments

Currently, there are no laws or regulations that govern the ability of a charter school to hold investments. The board of directors/governors of the charter school have the ultimate fiduciary responsibility and should have an approved investment policy that is authorized by the Board and included within the board minutes. It is best practice to review this policy regularly and notation of such review should be included in the board minutes, as well.

If the School holds institutional funds or donor restricted funds, at a minimum, the School should be following the provisions and rules enacted in the September 2010 New York Prudent Management of Institutional Funds Act (NYPMIFA) concerning the expenditure of charitable endowment funds. A guide and information on NYPMIFA can be found at: http://www.charitiesnys.com/nypmifa_new.jsp.

The auditor should inquire whether an investment policy exists and if the charter school is performing its fiduciary responsibility to oversee the investments. The auditor should obtain the investment policy, verify if it is being followed as outlined and whether it is comprehensive to address fiduciary responsibility. Potential areas to review for inclusion are: investment philosophy, investment objectives, who manages (internal or external advisor), risk tolerances, time horizons, allowable or unallowable investment holdings, or portfolio allocations, among others.

Per-Pupil Funding

Charter schools receive public funding based on the number of students the charter school serves and the basic charter school tuition rate for the school district of residence of the students attending the charter school. Calculations must be made of the number of Full Time Equivalent ("FTE") students from each district of residence. Therefore, it is expected that testing of the revenue associated with student FTEs will comprise a substantial portion of the audit. This testing is generally broken down into two parts:

1. Testing of student existence/enrollment and verification of attendance
2. Verification of funding rate per student (determined by the student's resident district)

Student existence testing

The auditor should test that the school's internal reporting system reconciles to the full time equivalent roster. The auditor has two methods of testing existence: (1) through sending confirmations to districts of residence to confirm FTE and per-pupil aid (see Appendix H (for example confirmation) or (2) selecting a sample of students from the full time equivalent roster or similar document and test for proof of existence by looking through student files. Auditors should also verify the reported dates per the FTE report through review of attendance records, especially for any students who have transferred in or out during the year. Auditors can also consider whether report cards or other evidence of student enrollment for the year can provide the documentation needed. The auditor should also test to be sure the student has valid proof of residency, by looking at documents such as a lease or utility bill, and that the proper district is being billed for the services.

Consideration for Special Education ("SPED") students

All students who are identified to need special education services have an Individualized Education Program ("IEP"), formalized for his or her unique needs. Based on this IEP, the student is categorized into one of three levels of service, as defined by §3602(19)(b)(1)-(4) of the Education Law as follows; 0-20% service, 20-60% service, or 60% or more service required. While it is outside the scope of the audit as well as the auditor's expertise to evaluate whether the student has been assessed in the correct tier, auditors should test that the student is being funded at the appropriate level based on the IEP. Although charter schools may provide services to students that go beyond what is required in that student's IEP, it is inappropriate for a charter school to bill for more services than are required under the IEP. The auditor should also test to be sure that the proper district is being billed for the services.

Recalculation of rate

To test the calculation of the core pupil aid received, the auditor should first verify the rate used in the calculation. The charter school basic tuition rate is included on the NYSED website at https://stateaid.NYSED.gov/charter under tuition by year. Auditors should verify that the charter school is using the student's resident district rate for the correct school year. Auditors should also verify that the appropriate special education funding rate is used. This rate is determined from historical data by school districts on an annual basis. A spreadsheet to determine the rate can be obtained from the NYSED website at https://stateaid.NYSED.gov/speced under Special Education Aid Information.

The auditor should obtain the charter school's FTE Reconciliation or equivalent which details all students and attendance dates (date admitted, date discharged, and FTE). The auditor should select a sample of students from this report in which to perform existence testing, as discussed above. The auditor should recalculate the FTE which essentially calculates the number of days attended between admission date and discharge date divided by total length of the school year. There is also an FTE Calculator available on the NYSED website at https://stateaid.NYSED.gov under State Aid / Attendance and Enrollment / FTE Calculator which can be used to recalculate individual student FTEs. To recalculate the core aid in total, the auditor should multiply the rate by

the number of full time equivalents as determined on the FTE reconciliation form or equivalent by the district and compare to the total core pupil aid for the fiscal year being audited.

Auditors should verify that per pupil billing did not exceed the maximum approved enrollment**.** Maximum approved enrollment can be found within the charter agreement. SUNY charter agreements allow school enrollment to go over or under their chartered enrollment by 20%. All charter schools must not bill above maximum approved enrollment.

The auditor should consider vouching payments received from the funding source (the local school district typically received bi-monthly during the school year) to the bank statements. This total should be reconciled to the total core pupil aid for the fiscal year being audited. Included in the reconciliation will be any amounts due from the funding source included in accounts receivable at year end or any amounts payable to the funding source included in accounts payable at year end as amounts are trued up to actual based on actual numbers submitted at year end. This Year End FTE Reconciliation will be prepared subsequent to the year-end date. The New York City Department of Education maintains a website (https://vendorportal.nycnet.edu) which provides this information for all NYC charter schools. The auditor should consider requesting this information from the charter school. **No Child Left Behind (NCLB or "Title") funding**

Auditors should obtain support for additional funding via the NYSED website. This information is included at https://www.oms.NYSED.gov/cafe/reports . The information is arranged by county and school and can be obtained for the prior five years. Available information includes No Child Left Behind Funding (Title funding), IDEA Allocation, as well as an Agency Summary Report. This information should be reconciled to the amounts recognized on the general ledger for the fiscal year being audited. These grants are cost reimbursement grants and therefore revenue should not be recognized in excess of grant funds expended.

Co-locations

Many charter schools are co-located, meaning they are allowed by the local school district to use what would be otherwise empty space in its under-utilized buildings. Clearly, these charter schools are at a distinct financial advantage over those charter schools who must maintain their own location. When a charter school is co-located within a local school district building, the charter school is not charged rent but typically has an agreement with the local school district for use of that space. The charter school should disclose in its financial statements any agreement in place with the local school district as well as any rent that is charged, including fees charged for after-school or weekend usage. The charter school's financial statements should also disclose any payments related to utilities and maintenance of these facilities. In addition, the note disclosure should include the square footage of space being used by the charter school.

In some cases, a charter school may be co-located within the same building as another charter school. In this situation, expenses to maintain the facility should be allocated between the two schools. The auditor should review this allocation to determine that the method of allocation appears reasonable, whether it is based on FTE students, square footage, or some other reasonable method of allocation.

Management fees

Many charter schools utilize a third party to provide back office support for the charter school such as hiring, continuing professional development, accounting, or public relations and allow it to take advantage of economies of scale in regard to purchases, etc. These management organizations can either be Charter Management Organizations ("CMOs") which are non-profit organizations or Education Management Organizations ("EMOs") which are for-profit organizations. In either case, these organizations typically charge a management fee for the services provided. As with the majority of long term agreements, the auditor should obtain a copy of the agreement between the charter school and the

management organization and verify that the school's authorizer approved the agreement. Auditors should consider the materiality of the expense to determine whether recalculation of the expense is deemed necessary and if disclosure is required in the notes to the financial statements.

Operating Reserves

Auditors should inquire if a school has adopted a policy for operating reserves. If a policy has been adopted the auditor should determine if terms of the policy are appropriate and being followed.

To be a viable operating reserve there should be a board approved policy about the purpose and use of operating reserves. The purpose of the policy is to define and set goals for reserve funds, clearly describe authorization for use of reserves and outline requirements for reporting and monitoring.

Fraud Considerations

The Statements on Auditing Standards and related Clarified Statements require that an auditor obtain knowledge about the entity's business and the industry in which it operates. In obtaining this knowledge, information may come to the auditor's attention which should be considered in identifying risks of material misstatement due to fraud. As part of these procedures, the auditor should perform the following:

1. Make inquiries of management and others within the entity to obtain their views about the risks of fraud and how they are being addressed.

2. Consider any unusual or unexpected relationships that have been identified in performing analytical procedures in planning the audit.

3. Consider whether one or more fraud risk factors exist.

4. Consider other information that may be helpful in the identification of risks of material misstatement due to fraud.

The United States Government Accountability Office lists the following conditions that might indicate a heightened risk of fraud which should be considered when identifying potential fraud:

1. Economic, programmatic, or entity operating conditions threaten the entity's financial stability, viability or budget;

2. The nature of the entity's operations provide opportunities to engage in fraud;

3. Management's monitoring of compliance with policies, laws, and regulations is inadequate;

4. The organizational structure is unstable or unnecessarily complex;

5. Communication and/or support for ethical standards by management is lacking;

6. Management is willing to accept unusually high levels of risk in making significant decisions;

7. Operating policies and procedures have not been developed or are outdated;

8. Key documentation is lacking or does not exist;

9. Asset accountability or safeguarding procedures is lacking;

10. Improper payments;

11. False or misleading information;

12. A pattern of large procurements in any budget line with remaining funds at year end, in order to "use up all of the funds available";

13. Unusual patterns and trends in contracting, procurement, acquisition, and other activities of the entity or program.

Auditors should consider the following factors that are common areas of fraud risk in charter schools.

1. Heightened risk of misappropriation of assets due to the high use of credits cards (personal and school issued) by employees of the charter school for charter school expenses. The auditor should be cognizant of this risk and develop audit steps to test appropriateness of expenses, if deemed appropriate. In addition, the auditor should consider additional testing related to expense reimbursements testing for proper approval of expenses and authorized signatures on checks.

2. The auditor should inquire regarding the existence of transactions with related parties and examine Board minutes, agreements, conflict of interest statements from Board of Trustees and key employees and other underlying documents to ascertain whether there are any material related party transactions not being disclosed. The auditor should test any material related party transactions, including transactions with management companies (CMOs and EMOs) and gain an understanding of the business purpose of such transaction and the reasonableness of the value of goods or services being provided. In the event there are transactions with a related party with which a member of the Board of Trustees has a conflict of interest, the Board minutes should be examined to ascertain whether there was a recusal from such Board member in relation to voting on procurement of such goods or services in which the member has a conflict of interest. The auditor should also gain an understanding of purchasing and procurement policies to ascertain dollar thresholds and goods and/or services that are required to be procured through a competitive bidding process.

Section 5: Presentation of Charter School Financial Statements

The charter school shall maintain financial statements that are prepared in accordance with GAAP. All statements required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, should be presented including a Statement of Financial Position as of the end of the reporting period, Statement of Activities for the reporting period, and Statement of Cash Flows for the reporting period. In addition, the statements shall include the required note disclosures and a supplemental Schedule of Functional Expenses. The Schedule of Functional Expenses must be in the format provided in Appendix D and subject to the auditing procedures applied in the audit of the financial statements. Such supplemental schedule is not a required part of the financial statements and should be included for the purposes of additional analysis. Alternatively, the Schedule of Functional Expenses can be included as part of the basic financial statements.

Statement of Cash Flow

Beginning with 2014-15 audits the direct method for the Statement of Cash Flow is strongly encouraged . While the direct and the indirect methods of preparing the statement of cash flow are allowable under accounting standards, the direct method is proposed under the FASB not for profit reporting model.)

Schedule of Functional Expenses

The Schedule of Functional Expenses must present the nature of the expenses incurred in each category of program and supporting services reported in the Statement of Activities and follow the format provided in Appendix D. Classifications not applicable to the charter school may be eliminated.

If not otherwise presented, charter schools employing management companies should obtain and provide in note disclosure a breakdown of contracted services in a similar format to the Schedule of Functional Expenses to facilitate comparisons among NYSED authorized schools.

> **Note on allocation of expenses:** Charter schools must use allocation methods that are fair and reasonable to allocate costs for the Schedule of Functional Expenses. Such allocation methods, as well as the statistical basis used to calculate allocation percentages, should be documented and retained for review upon audit. Salaries of employees who perform tasks for more than one program must be allocated among all programs for which they work. The cost of supplies that are purchased for distribution among multiple programs must be allocated among these programs if direct charges are not possible. Allocation percentages and methodology should be reviewed, at a minimum, on an annual basis by both management and the Board of Trustees and adjusted as necessary.

Education Corporations

Education Corporations- One School

Upon issuance of a charter by the NYS Board of Regents to a charter school, the charter school is incorporated as an education corporation and is issued a provisional charter/certificate of incorporation (see Education Law Section 2853(1)(a)).

Education Corporations- Multiple Schools

The NYS Charter School statute also permits an education corporation to operate more than one charter school (Education Law Section 2853(1)(b-1). In those cases, each individual charter school is not a separate education corporation; the entity to which the provisional charter/certificate of incorporation is granted is the governing education

corporation with the authority to operate those charter schools for which charter agreements were executed between the education corporation and the authorizer. For Education Corporations that operate more than onecharter combining schedules (not consolidated statements) must be issued as supplemental information and provide information by charter.

Education Corporations- Mergers

Mergers of education corporations have an effective date that is the first day of a fiscal year or aligned with a quarterly financial date. The preference is for the effective date to be the first day of a fiscal year. For effective dates that fall on a quarterly date, a full accounting must be maintained for each education corporation on the closing date as individual entities. Beginning with the effective date combined opening financials must be maintained as the merged education corporation. Financials are required the day prior to the effective date to ensure that everything is accounted for and moved into the merged entity. For Education Corporations that have merged and operate more than one charter combining schedules (not consolidated statements) must be issued as supplemental information and provide information by charter.

OMB Single audit clarification for Education Corporations that operate more than one charter school:

- If the Education Corporation has received and passed-through to their schools $750,000 or more in federal funds, the Education Corporation would be required to have an audit in accordance with the Uniform Guidance.

- Any separate corporation that expends over $750,000 or more in federal funds in total (whether received directly or through a pass-through entity) during the fiscal year would be required to have an audit in accordance with the Uniform Guidance.

- If a consolidated financial statement is being audited (more than one corporation is being consolidated in accordance with GAAP), a consolidated single audit must be conducted if the parent corporation expends $750,000 or more in federal funds.

Related Parties

According to FASB ASC 958-810 *Reporting of Related Entities by Not-for-Profit Organizations*, not-for-profit organizations with a controlling financial interest in another not-for-profit organization through direct or indirect ownership of a majority voting interest in that other not-for-profit organization should consolidate with that other organization, unless control does not rest with the majority owner, in which case consolidation is prohibited. Auditors should consider whether the related party and the charter school have the same board members, overlapping members of management, etc. and whether those charged with governance are similar between the two organizations. Auditors need to also consider whether the entities are operating with a shared economic interest. If the answer is yes, then the related party may need to be consolidated with the charter school for financial statement purposes. When there are consolidated statements, a statement of activities broken down by related parties should be included as supplementary information.

Contributed Goods, Services and Other Assets

Charter schools often receive contributions of cash, other assets, and certain services. Other assets contributed to a charter school may include securities, use of facilities, materials and supplies and curriculum materials. In accordance with FASB ASC 958-605, contributions must be recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form and type of contribution.

Donated space in School District facilities

Many charter schools, especially those located in New York City, are provided space in a building owned by the school district/NYCDOE at minimal or no charge to the charter school. The value of this space is often very difficult

for the charter school to determine and therefore is often not recorded in the financial statements. In order to aid in comparison of financial statements of district-located and non-district located charter schools, the audited financial statements should include a note disclosure describing the current facility arrangement and if any amount has been recorded in the financial statements for donated district space. The note should include the current square footage in use by the charter school. For charter schools located in shared facilities, appropriate allocations of square footage should be made for shared space such as a gymnasium, cafeteria or auditorium. Allocations should be made based on a reasonable allocation methodology, such as a percentage of each school's enrollment to the total enrollment at the shared facility.

Other Services provided by a local district

Similar to donated district space as described above, often the local school district will provide transportation or other services, such as food service or special education services, at no cost to the charter school. To the extent which the charter school can determine the value, these items should be recorded in the financial statements as in-kind revenues and expenses. To aid in comparison, charter schools recording values for donated transportation or other district-provided services should disclose the amount recorded or the fact that services were received but the charter school was unable to determine a value.

A sample note disclosure for contributions of space and other services is as follows:
The Charter School is located in a New York City Department of Education facility and utilizes approximately _____ square feet at no charge. In addition, the Charter School received donated transportation, food service and special education services from the local district. The Charter School was unable to determine a value for these services.

Section 6: 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 (the "Yellow Book" report)

Audits performed under GAGAS require issuance of a separate report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that could have a material effect on the financial statements (the "Yellow Book" report). The Yellow Book report should be issued for any audit performed in accordance with GAGAS, regardless of the results of the audit and whether or not there are any findings to report.

Internal control over financial reporting

The auditor must describe the scope of their consideration of internal control over financial reporting as part of the audit of the financial statements. The auditor need not provide an opinion on internal control over financial reporting. Any material weaknesses or significant deficiencies in internal control over financial reporting identified during the audit, or continuing from a previous year, must be included in the Yellow Book report. These may include lack of controls in place over financial reporting such that significant audit entries were required or concerns regarding segregation of duties.

When deficiencies in internal control that are not significant are not included in the audit report the written communication to those charged with governance **must be referred** to within the Independent Auditor's Report on Internal Controls Over Financial Reporting. Government Auditing Standards under section 7.19 Deficiencies in Internal Control states "…When auditors detect deficiencies in internal control that are not significant to the objectives of the audit but warrant the attention of those charged with governance, they should include those deficiencies either in the report or communicate those deficiencies in writing to audited entity officials. Auditors should refer to that written communication in the audit report if the written communication is separate from the audit report. When auditors detect deficiencies that do warrant the attention of those charged with governance, the determination of whether and how to communicate such deficiencies to audited entity officials is a matter of professional judgment."

Compliance with Provisions of Laws, Regulations, Contracts and Grant Agreements

As part of the financial statement audit, the auditor will determine whether the audited entity is in compliance with material provisions of laws, regulations, contracts and grant agreements that could impact the financial statements. Any evidence of fraud or noncompliance found throughout the audit should be evaluated to determine if a finding is necessary in the Yellow Book report. 'Standards for Internal Control in the Federal Government', known as the Green Book, contains the federal standards for an effective internal control system. Examples of audit findings to be evaluated include:

- Indications of fraud
- Noncompliance with provisions of laws or regulations (such as the charter contract or NYS laws) – **see further detail below**

- Noncompliance with provisions of contracts or grants that could have a material effect on the financial statements (such as Federal or foundation grants or contracts)

- Abuse that is material, either quantitatively or qualitatively

Reporting Findings

If, based on the results of the audit and the above guidance, as well as relevant GAGAS standards, the auditor determines that findings should be reported to management and those charged with governance, the auditor should follow the guidance included in GAGAS in developing written communication of the findings. See the flowchart at Appendix F.

Findings should include the following elements:

1. Criteria
2. Condition
3. Cause
4. Effect or Potential Effect
5. Recommendation
6. Management Response

Corrective Action Plan

The auditee's response to the finding(s) should be included in the report, unless the auditee refuses to provide comments or is unable to provide them in a reasonable period of time. The auditee's response should include what actions will be taken to correct the finding, the date the actions were or will be implemented and who is responsible for implementation. If auditee comments are not provided, the auditor should indicate in the report that the auditee did not provide a response. In addition, the charter school is responsible for providing a copy of the Corrective Action Plan to NYSED along with the audited financial statements and required reports.

Sample Yellow Book reports are included in Appendix E for reference. These reports have been modified to conform to the presentation applicable to charter schools.

Requirements of laws, regulations, contracts and grants agreements to be tested as part of the audit

General requirements as detailed in the Charter School's Charter Agreement

Each charter school signs a charter agreement between the school and the Board of Regents of the State of New York to establish a charter school under the New York Charter Schools Act of 1998. The auditor should obtain this charter agreement and consider the charter school's compliance with the requirements as established in the agreement. Many of the specific requirements of all schools are discussed in more detail below. Some general requirements include the following:

The charter school must:

1. Operate under the mission statement as set forth in the application.

2. Abide by a Code of Ethics.

3. Establish a board of trustees, which does not consist of teachers, school administrators, school employees, or persons with an interest in a for-profit contract with the Charter School, except to the extent permitted by the General Municipal Law.

4. Operate monthly board meetings pursuant to the by-laws of the charter school set forth in the application, which shall be in accordance with the Open Meetings Law.

5. Establish, implement and disseminate a school disciplinary code. The student handbook posted to the web should include the school disciplinary code.

6. Obtain CSO approval for non-material programmatic changes to the operation of the school and/or the charter, and obtain Regents approval for material changes.

The auditor shall obtain the charter agreement and inquire of management if there are policies and procedures in place to ensure the charter school is abiding by the requirements established in the charter agreement. If the auditor determines that the charter school is not in compliance with these requirements, the auditor should consider including such a finding in the Yellow Book report and the communication to those charged with governance.

Age, Grade Range, Number of Students

In the charter school application, the charter school is required to establish grade levels and enrollment goals. As defined by the charter school's charter agreement and the sample charter available from New York State, the charter school must make all reasonable efforts to recruit students but is allowed to enroll a lesser or greater number of students in each grade or from one year to the next without being deemed in material breach of the charter as long as enrollment variation does not substantially alter the charter school's educational design as described in the application. However, the charter school must obtain written approval from NYSED prior to the following:

1. Enrolling any student, who, if enrolled, would cause the charter school's enrollment to exceed the total maximum enrollment of the charter school as set forth in the application for the charter.

2. Commencing or continuing instruction where the total number of students enrolled is less than eighty-five percent (85%) of the projected enrollment for a given year as set forth in the Application or if the total enrollment is less than fifty (50) students.

The charter school should demonstrate good-faith efforts to attract and retain a comparable or greater enrollment of students with disabilities, English language learners and students eligible for free or reduced-price lunch when compared to the enrollment figure for such students in the school district in which the charter school is located [§2854(2)(a)]. See guidance on enrollment and retention targets at http://www.p12.nysed.gov/psc/enrollment-retention-targets.html.

Lottery system

In accordance with Section 2854(2) of the Education Law, charter schools must enroll each eligible student who submits a timely application by the first day of April each year, unless the number of applications exceeds the capacity of the grade level or building. In such cases, students shall be accepted from among applicants by a random selection process, i.e., a lottery.

When a lottery is conducted, the school is required to provide an enrollment preference to pupils returning to the charter school in the second or any subsequent year of operation, pupils residing in the school district in which the charter school is located, and siblings of pupils already enrolled in the charter school. In conducting its lottery, a charter

school may not discriminate on the basis of ethnicity, national origin, gender, or disability or any other ground that would be unlawful if done by a traditional public school. Likewise, admission of students shall not be limited on the basis of intellectual ability, measures of achievement or aptitude, athletic ability, disability, race, creed, gender, national origin, religion, or ancestry. However, the Education Law permits the establishment of a single-sex charter school or a charter school designed to provide expanded learning opportunities for students at-risk of academic failure or students with disabilities and English language learners.[1]

The commissioner has established regulations detailing the requirements of the charter school lottery process. *See, 8 NYCRR 119.5*. The independent auditor should obtain a copy of the charter school's approved lottery procedures, and should review documentation evidencing the school's actual lottery process to ensure that it complies with the approved procedures and all applicable laws and regulations. If the auditor finds that the charter school has not developed adequate procedures, or believes the procedures in place are not being followed or are unlawful, the auditor should consider observing the next live lottery or comparing the applications received with the applications selected in the lottery. See Appendix G for procedures to consider during a live lottery observation. If there is concern regarding a school's lottery procedures, the auditor should also consider including such a finding in the Yellow Book report and in a communication to those charged with governance.

Weighted Lottery

Schools receiving CSP funds are allowed to weight their lotteries to favor specific at-risk student subgroup. Schools receiving CSP funds must request permission from the NYSED Charter School Office to conduct a weighted lottery, regardless of authorizer.

Schools receiving CSP funds must use the NYSED Weighted Lottery Generator (WLG), for the purpose of weighting for at-risk subgroups, and must retain a copy of the lottery PDF. This PDF is generated after the WLG process is complete. See Appendix G for guidance on using the NYSED Weighted Lottery Generator. This information can also be found at *http://www.p12.nysed.gov/psc/documents/WeightedLotteryGuidance.pdf* .

Hiring Procedures of the School

According to §2854 (3)(a-2) of the Education Law, the Board of Trustees of a charter school shall require, for purposes of a criminal history record check, the fingerprinting of all prospective employees as well as consent to a criminal history records search. Results from fingerprint checks must be obtained to ensure clearance for employment. In addition, the employee responsible for obtaining background checks on prospective employees should not perform his/her own background check. The auditor should ensure that this policy is in place at the charter school and is being followed for all potential employees of the charter school. The auditor should consider testing that this evidence is obtained in conjunction with other payroll testing done as part of the audit. If these procedures are not in place or not being followed, the auditor should include such a finding in the Yellow Book report and the communication to those charged with governance.

Insurance Coverage

According to §2851(2)(o) of the Education Law, the charter school shall obtain insurance which shall include adequate insurance for liability, property loss and personal injury of students. The auditor should obtain evidence that such insurance is in place.

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[1] Lottery preferences designed to target students at-risk of academic failure, students with disabilities, and/or English language learners are not currently permitted for schools that receive CSP funding.

Certificate of Occupancy and Fire Safety Inspections

According to §2851(2)((j) of the Education Law, as part of the application, the charter school needs to provide information regarding the facilities to be used by the charter school, including the location of the charter school, if known, and means of transportation. The charter school must also obtain a certificate of occupancy for such facilities prior to the date on which instruction is to commence at the charter school. As part of the process for maintaining an up to date certificate of occupancy, the charter school should maintain an up to date fire safety inspection report. Auditors should verify that this certificate of occupancy and annual fire safety inspection report has been obtained and is up to date.

Section 7: OMB Uniform Guidance (Single Audits)

A Charter school that expends $750,000 or more in Federal awards during the fiscal year must have a single audit conducted for that year in accordance with the provisions of Uniform Guidance and GAGAS. This audit must be submitted to the federal government and NYSED. Federal awards are subject to a single audit, whether expended as a direct recipient or a subrecipient. Payments received for goods or services provided as a contractor are not considered Federal awards. Subrecipient and contractor determinations set forth the considerations used to determine whether payments are considered Federal awards or a payment for contractor goods or services.

Characteristics which support the classification of the entity as a subrecipient or a contractor are as follows:

Subrecipient: (1) Determines who is eligible to receive what Federal assistance; (2) Has its performance measured in relation to whether objectives of a Federal program were met; (3) Has responsibility for programmatic decision making; (4) Is responsible for adherence to applicable Federal program requirements specified in the Federal award; and (5) In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.

Contractor: (1) Provides the goods and services within normal business operations; (2) Provides similar goods or services to many different purchasers; (3) Normally operates in a competitive environment; (4) Provides goods or services that are secondary to the operation of the Federal program; and (5) Is not subject to compliance requirements of the Federal program as a result of the agreement, though similar requirements may apply for other reasons.

Federal awards typically expended by a charter school may include, but are not limited to, the following:

- Charter School Program (CSP), including replication and expansion grants
- Title I, Part A
- Title II, Part A
- Title III, Part A
- Race to the Top
- National School Breakfast, Lunch and Snack Program
- Summer Food Service Program

Funding received from the USAC Schools & Libraries Program (E-Rate) is not listed in the CFDA catalogue and is exempt from Single Audit requirements; therefore, revenue recorded from discounts or reimbursements received under E-Rate should not count towards the $750,000 threshold in determining the need for a Single Audit. Funding received from IDEA (Special Education) grants awarded from a local district are considered a vendor/contractor relationship and therefore also do not count towards reaching the $750,000 threshold requiring a Single Audit. See memo regarding vendor status of IDEA funding on the NYSED website at:

http://www.p12.nysed.gov/specialed/finance/2011-12-ASEP-flowthrough.htm.

Criteria for a low-risk auditee:
A charter school that meets all of the following conditions for each of the preceding two audit periods must qualify as a low-risk auditee and is eligible for reduced audit coverage:

(a) Single audits were performed on an annual basis. The data collection form and the reporting package was submitted to the FAC within 30 days after receipt of the audit report, or 9 months after the end of the audit period.

(b) The auditor's opinion on whether the financial statements were prepared in accordance with GAAP, or a basis of accounting required by state law, and the auditor's in relation to opinion on the schedule of expenditures of Federal awards were unmodified.

(c) There were no deficiencies in internal control which were identified as material weaknesses under the requirements of GAGAS.

(d) The auditor did not report a substantial doubt about the charter school's ability to continue as a going concern.

(e) None of the Federal programs had audit findings from any of the following in either of the preceding two audit periods in which they were classified as Type A programs:

(1) Internal control deficiencies that were identified as material weaknesses in the auditor's report on internal control for major programs,

(2) A modified opinion on a major program in the auditor's report on major programs; or

(3) Known or likely questioned costs that exceeded five percent of the total Federal awards expended for a Type A program during the audit period.

If the charter school meets the criteria to be considered a low-risk auditee, the auditor need only audit the major programs and such additional Federal programs with Federal awards expended that, in aggregate, all major programs encompass at least 20% of total Federal awards expended. Otherwise, the auditor must audit the major programs and such additional Federal programs with Federal awards expended that, in aggregate, all major programs encompass at least 40% of total Federal awards expended.

Major Program Determination:
The auditor must use a risk-based approach to determine which Federal programs are major programs. This risk-based approach must include consideration of current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the Federal program. A major program can be identified by performing the following steps:

Step 1: The auditor must identify the larger Federal programs, which must be labeled Type A programs. Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding the levels outlined in the table below:

Total Federal awards expended	Type A/B threshold
Equal to or exceed $750,000 but less than or equal to $25 million	$750,000.00
Exceed $25 million but less than or equal to $100 million	Total Federal awards expended times .03.
Exceed $100 million but less than or equal to $1 billion	$3 million.
Exceed $1 billion but less than or equal to $10 billion	Total Federal awards expended times .003.
Exceed $10 billion but less than or equal to $20 billion	$30 million.
Exceed $20 billion	Total Federal awards expended times .0015.

Federal programs not considered Type A above must be classified as Type B programs. All Type A programs classified as high risk must be tested as a major program regardless of the percentage of coverage obtained over federal awards expended.

Step 2: The auditor must identify Type A programs which are low-risk. For a Type A program to be considered low-risk, it must have been audited as a major program in at least one of the two most recent audit periods, and, in the most recent audit period, the program must have not had: (1) internal control deficiencies which were identified as material weaknesses in the auditors' report on internal control for major programs, (2) a modified opinion on the program in the auditors' report on major programs, and (3) known or likely questioned costs that exceed 5% of the total federal awards expended by the program.

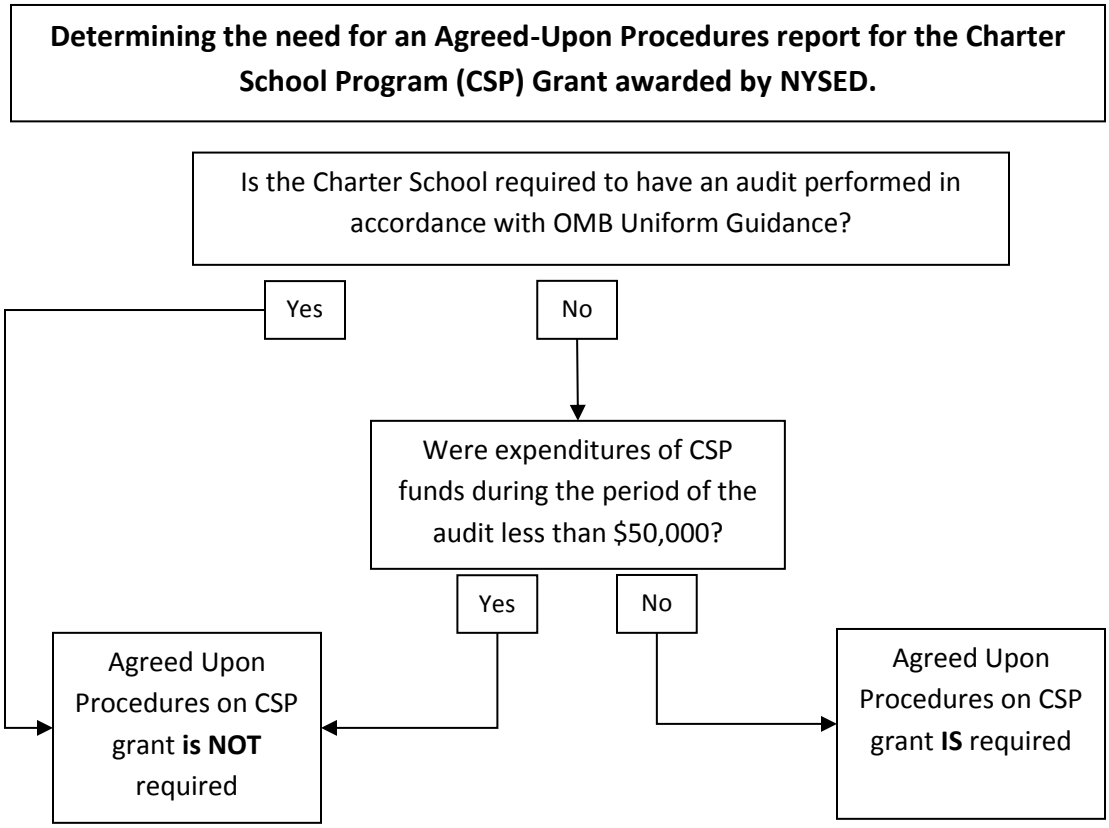
Step 3: The auditor must identify Type B programs which are high-risk using professional judgment and the criteria in for Federal program risk. However, the auditor is not required to identify more high-risk Type B programs than at least one fourth the number of low-risk Type A programs identified as low-risk under Step 2. The auditor is not expected to perform risk assessments on relatively small Federal programs. Therefore, the auditor is only required to perform risk assessments on Type B programs that exceed 25 of the Type A threshold determined in Step 1.

At the conclusion of the Single Audit, the auditor must issue a report on (1) 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, (2) compliance for each major federal program and report on internal control over compliance in accordance with Uniform Guidance, and (3) an opinion on the Schedule of Federal Expenditures ("SEFA"). Issuance of the opinion on compliance requires the auditor to determine whether the charter school complied with the direct and material compliance requirements for the major program(s) tested in the Single Audit. Gaining an understanding of internal control over compliance as it relates to each direct and material compliance requirement is necessary as part of the risk assessment process to determine where controls may not be adequate or further procedures are needed in order to determine compliance. If the auditor finds the entity is lacking controls over maintaining compliance with the direct and material requirements of the program, or controls in place are not operating effectively, this must be reported as a finding in the schedule of finding and questioned costs. The auditor must also disclose any questioned costs greater than $25,000. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs).

Auditors should refer to OMB Uniform Guidance and the most recent Compliance Supplement (available at www.whitehouse.gov/omb/circulars) for further guidance in performing and reporting on a Single Audit.

Section 8: Agreed-Upon Procedures Report on CSP Funding

NYSED was awarded a significant grant under the Federal Charter Schools Program to pass through to charter schools approved to receive CSP funding by NYSED. To ensure adequate monitoring of CSP funding when expenditures of all federal awards are less than the threshold for a Single Audit (currently $750,000), NYSED has set forth guidance on specific procedures which are required for charter schools receiving CSP funding through NYSED. If CSP funding is received directly from the Federal government or through a different source than NYSED, the AUP report on the CSP grant is not required. Please refer to the following flowchart to determine if the charter school is required to have their auditor perform the additional procedures and submit the specified report to NYSED.



If the Agreed-Upon Procedures report is required, the report is due by November 1 of each fiscal year, corresponding to the date the audited financial statements must be submitted to NYSED. The period of the Agreed-Upon Procedures report should correspond to the period of the audit. For example, in the initial year of audit, the audit period may cover more than 12 months. In this case, the Agreed-Upon Procedures report should cover the same period as the audit, even if it is more than 12 months. In subsequent years this will typically be the fiscal year.

If a Single Audit is required for the first year the school is in operation, an Agreed-Upon Procedures Report on the CSP grant would not be required; however, the Single Audit only covers the 12 month period ending with the charter school's fiscal year end. If the charter school expended $50,000 or more of CSP funds in its interim period (from inception until the year in which the charter school opened), an Agreed-Upon Procedures Report on the CSP grant may be required. If the Single Audit for the 12 month period of the charter school's first year of operations reported no findings, the Agreed-Upon Procedures Report on the CSP grant for the interim period is not required. If any findings are reported as a result of the Single Audit, an Agreed-Upon Procedures Report on the CSP grant is required for the period from inception through the end of its interim period.

Required Agreed-Upon Procedures Report for CSP Funding

If the charter school is subject to the above requirements for the Agreed-Upon Procedures on the CSP grant, the following procedures must be performed by the Charter School's Independent Auditor.

a. Obtain the detail of expenditures incurred for the period under review relating to the CSP grant from the Charter School's accounting software and reconcile to the grant revenue recorded by the Charter School. If the CSP grant revenue does not equal the grant expenditures, investigate the differences.

b. Obtain the NYSED approved CSP grant award information, including the budget and any amendments, to determine if the revenue and expenditures recorded for the period appear reasonable.

c. Select a sample of expenditures from the detail obtained in Procedure #1.

    a. Payroll - Select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less

    b. Other expenses – Select 10 items or 10% of the total number of items charged to the grant, whichever is less

    c. Using the above selected items:

        i. Determine if the expenditure is in accordance with the purpose of the grant and that pre-opening expenditures are charged to pre-opening periods. (See non-regulatory guidance on the CSP grant at http://www.p12.nysed.gov/psc/grants.html)

        ii. Determine if the expenditure falls into an approved budget category

        iii. Determine if the expenditure was charged to the appropriate fiscal period

d. Obtain FS-25 form(s) submitted to NYSED during the period under review.

    a. Trace expenditures selected in Procedure #3 to requests for reimbursement. Determine that items requested for reimbursement had previously been expended or were expended within a month following the request for reimbursement. If items have not yet been requested for reimbursement, inquire of responsible Charter School officials as to the plan for requesting reimbursement, and determine if a receivable is recorded, if appropriate.

b. If FS-25 forms include amounts on Line 4 of the FS-25 (Cash Expenditures Anticipated During Next Month), determine if the total of funds expended within 1 month following the date of the request is at least the amount shown on Line 4.

e. Subgrantees who wish to weight their lotteries for specific at-risk subgroups must conduct their lottery using the NYSED Weighted Lottery Generator. For schools requiring an agreed-upon procedure report, the auditor must determine that:
   - The school received permission from the NYSED Charter School Office for the weighted lottery
   - Documentation to support that a weighted lottery was held and adhered to the NYSED Weighted Lottery Guidance (see Appendix G.)

   See example report in Appendix B.

Appendix A – Template for Independent Accountant's Report on the Initial Statement

CPA letterhead

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES

To the Board of Trustees of ABC Charter School:

We have performed the procedures identified below, which were agreed to by the management of ABC Charter School and the New York State Education Department solely to assist the specified parties in evaluating the School's assertion to the New York State Education Department that it has financial controls in place for transactions relating to the following:

1. Preparing and maintaining financial statements and records in accordance with accounting principles generally accepted in the United States of America ("GAAP");
2. Payroll procedures;
3. Accounting for contributions and grants;
4. Procedures for the creation and review of interim and annual financial statements, which procedures shall specifically identify the individual(s) who will be responsible for preparing and reviewing such financial statements and ensuring that such statements contain valid and reliable data;
5. Existence of appropriate internal financial controls and procedures;
6. Safeguarding of assets including cash and equipment;
7. Compliance with applicable laws and regulations;
8. Ensuring that the purchasing process results in the acquisition of necessary goods and services at the best price;
9. Following appropriate guidance relating to budget development and administration; and
10. Following appropriate guidance relating to a code of ethics, and cash management and investments.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specific users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and the related results are as follows:

Procedure #1: We will obtain a copy of the Financial Policies and Procedures Manual ("FPPM") of the School and read it to ascertain whether it includes accounting procedures for the preparation of the School's financial statements in conformity with accounting principles generally accepted in the United States of America.

Result: We observed that…

Procedure #2: We will read the FPPM to ascertain whether it includes payroll procedures for the School and determine whether the School has hired an outside vendor to process the payroll.

Result: We observed that…

Procedure #3: We will read the FPPM to ascertain whether it includes procedures for accounting for contributions and grants.

Result: We observed that…

Procedure #4: We will identify and interview the person(s) responsible for financial management of the School regarding the existence and understanding of procedures for the creation and review of interim and annual financial statements.

Result: We identified *(name, title)* as the person(s) responsible for financial management of the School and (s)he represented that…

Procedure #5: We will read the available trial balance and documentation supporting cash receipts, cash disbursements and payroll expenses on a sample basis to observe the status of implementation of the accounting procedures.

Result: We observed that…

Procedure #6: We will interview the person(s) responsible for financial management of the School regarding the existence and understanding of appropriate internal financial controls and procedures, including procedures related to ensuring that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported.

Result: We identified *(name, title)* as the person(s) responsible for financial management of the School and (s)he represented that …

Procedure #7: We will interview the person(s) responsible for financial management of the School regarding compliance with applicable laws and regulations and how they stay current with all laws and regulations. We will also obtain and review a copy of the School's code of ethics.

Result: We identified *(name, title)* as the person(s) responsible for financial management of the School and (s)he represented that …

Procedure #8: We will review the FPPM to ascertain whether it includes procedures for ensuring the purchasing process results in the acquisition of necessary goods and services at the best price.

Result: We observed that…

Procedure #9: We will interview the person(s) responsible for financial management of the School regarding the existence of procedures for budget development and administration to determine if the School is following appropriate guidance. We will obtain a copy of the most recent budget to determine if the budget was approved by the Board of Trustees of the School.

Result: We identified *(name, title)* as the person(s) responsible for financial management of the School and (s)he represented that … We observed that…

Procedure #10: We will read the FPPM to ascertain whether it includes procedures for ensuring the School has procedures for cash management and investments, if applicable.

Result: We observed that…

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of ABC Charter School and the New York State Education Department, and it is not intended to be and should not be used by anyone other than the specified parties.

CPA Signature
Date

Appendix B – Template for Independent Accountant's Report on CSP Funding

CPA letterhead

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES

To the Board of Trustees of ABC Charter School:

We have performed the procedures identified below, which were agreed to by the management of ABC Charter School and the New York State Education Department solely to assist the specified parties in evaluating the School's assertion to New York State Education Department that it has maintained compliance with the requirements of the CSP grant and Federal and NYSED guidelines in managing the CSP grant.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specific users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our results are as follows:

Procedure #1: We will obtain the detail of expenditures incurred for the period under review relating to the CSP grant from the Charter School's accounting software and reconcile to the grant revenue recorded by the Charter School. If the CSP grant revenue does not equal the grant expenditures, we will investigate the differences.

Result:

Procedure #2: We will obtain the NYSED approved CSP grant award information, including the budget and any amendments, to determine if the revenue and expenditures recorded for the period appear reasonable.

Result:

Procedure #3: We will select a sample of expenditures from the detail obtained in Procedure #1.

a. Payroll – We will select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less.

b. Other expenses – We will select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less

c. Using the above selected items, we will:

   i. Determine if the expenditure is in accordance with the purpose of the grant and that pre-opening expenditures are charged to pre-opening periods. (See non-regulatory guidance on the CSP grant at http://www.p12.nysed.gov/psc/grants.html)

   ii. Determine if the expenditure falls into an approved budget category

iii. Determine if the expenditure was charged to the appropriate fiscal period

Result:

Procedure #4: We will obtain FS-25 form(s) submitted to NYSED during the period under review and perform the following.

a. Trace expenditures selected in Procedure #3 to requests for reimbursement. Determine that items requested for reimbursement had previously been expended or were expended within a month following the request for reimbursement. If items have not yet been requested for reimbursement, inquire of responsible charter school officials as to the plan for requesting reimbursement, and determine if a receivable is recorded, if appropriate.

b. If FS-25 forms included amounts on Line 4 (Cash Expenditures Anticipated During Next Month), we will select one FS-25 and determine if funds were expended within 1 month following the date of the request.

Procedure #5: For schools with a weighted lottery during the period under review we will

a. Obtain documentation that the school received permission from the NYSED Charter School Office for the weighted lottery

b. Obtain the results of the weighted lottery.
   - Note that weighted lotteries must be conducted using the NYSED Weighted Lottery Generator (WLG). When the WLG is used, a copy of the 'lottery PDF' should be observed. (This PDF is generated after the WLG has conducted the lottery.)

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on ABC Charter School's compliance with the requirements of the CSP grant. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of ABC Charter School and the New York State Education Department, and it is not intended to be and should not be used by anyone other than the specified parties.

CPA Signature
Date

Appendix C – Auditor Checklist for Audits of NYSED Authorized Charter Schools

SED- Authorized Charter School Audit Compliance Practice Aid

Charter School: _____

Year Ended: _____

Compliance Practice Aid	Yes	No	N/A	Explanation
1. Applicable for schools in their first year of operations:				
a. Has the school provided the initial statement of controls to SED?				
b. Was the initial statement of controls ratified by the Board prior to submission to SED?				
c. Has the auditor prepared and submitted the Agreed-Upon Procedures (AUP) report on the initial statement of controls to the school?				
d. If there were any findings, has the school remedied the findings within 45 days of the auditors' report?				
2. Applicable for both new and continuing schools:				
a. Have the financial statements been prepared on the accrual basis in accordance with GAAP?				
b. Has the audit been conducted in accordance with GAAS, GAGAS, and, if applicable, OMB Uniform Guidance?				
b (1). Have the independence considerations been documented?				
b (2). Has the CPA firm had an independent peer review within the last 3 years?				
b (3). Are all engagement team members compliant with the CPE requirements?				
c. Do the financial statements include a statement of functional expenses that follows Appendix D of the Guide?				
d. Have expense allocations been included as part of the audit, and have the auditors concluded they are reasonable?				
e. Do the financial statements disclose any facilities (including square footage), transportation services, or other services provided by the local district?				
f. Is the required report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts and grant agreements been prepared?				
g. If the school has expended over $750,000 in Federal Funds, has a Single Audit been completed?				

g (1). Has the required report on compliance and internal control over compliance of major programs and the SEFA been prepared?				

Appendix C – Auditor Checklist for Audits of NYSED Authorized Charter Schools, Cont'd

SED- Authorized Charter School Audit Compliance Practice Aid

Charter School: _____

Year Ended: _____

Compliance Practice Aid	Yes	No	N/A	Explanation
3. Areas of compliance with the Charter Agreement, applicable for both new and continuing schools:				
a. Does the school operation the mission as set forth in the application?				
b. Does the school abide by the Code of Ethics?				
c. Has the school established a board of trustees?				
d. Does the school operate pursuant to the by-laws of the charter school as set forth in the application?				
e. Has the school established grade level and enrollment goals and is the school making all reasonable efforts to recruit students to meet these goals?				
e (1). If necessary has the charter school obtained written approval from NYSED if enrollment levels are outside of these parameters?				
f. Has the school established adequate procedures for its lottery system for enrollment?				
g. Has the school established adequate procedures for its personnel hiring system, including criminal history record check and fingerprinting in accordance with the New York Charter Schools Act of 1998?				
h. Has the school obtained adequate insurance for liability, property loss and personal injury of students?				
i. Has the school obtained and maintained an up to date Certificate of Occupancy and Fire Safety Inspection?				
j. Has the school established and funded an escrow account in accordance with Section 8.5 of the Charter Agreement?				

4. Has an Agreed Upon Procedures Report bene prepared for the Charter School Program ("CSP") Grant awarded by NYSED if expenditures of CSP Funds during the period of audit were above $50,000 and the charter school is not required to have an audit performed with OMB Uniform Guidance?				
5. If the school weights there lottery and receives CSP funds was the NYSED Weighted Lottery Generator used?				

Appendix D – Sample Schedule of Functional Expenses

		Statement of Functional Expenses as of June 30, ?								
		?								?
		Program Services				Supporting Services				
	No. of Positions	Regular Education	Special Education	Other Education	Total	Fund-raising	Management and General	Total	Total	
Personnel Services Costs (12)		$	$	$	$	$	$	$	$	$
Administrative Staff Personnel										
Instructional Personnel										
Non-Instructional Personnel										
Total Salaries and Staff										
Fringe Benefits & Payroll Taxes (1)										
Retirement										
Management Company Fees										
Legal Service										
Accounting / Audit Services										
Other Purchased/Professional/Consulting Services (2)										
Building and Land Rent / Lease										
Repairs & Maintenance (3)										
Insurance										
Utilities (4)										
Supplies / Materials (5)										
Equipment / Furnishings (6)										
Staff Development										
Marketing / Recruitment (7)										
Technology (8)										
Food Service										
Student Services (9)										
Office Expense (10)										
Depreciation										
OTHER (11)										
Total Expenses		$	$	$	$	$	$	$	$	$

Notes to Schedule of Functional Expense Template

The following detail ties to Statement of Functional Expense line items on prior page:

1. ***Fringe Benefits & Payroll Taxes:*** Health and Dental, Social Security, Medicare, Unemployment, Other
2. ***Other Purchased/Professional /Consulting Services:*** SPED Services, Nurse Consultants (Assessment, Technology, Other), Payroll, Security, Background, Public Relations
3. ***Repairs and Maintenance:*** Facility, Equipment
4. ***Utilities:*** Electric, Gas, Telephone
5. ***Supplies:*** Teaching Supplies, Textbooks/Workbooks, Curriculum, Classroom, Maintenance Instruction
6. ***Equipment /Furnishings:*** Instructional, Non-Instructional, Athletic, Music, Office Equipment
7. ***Marketing/Recruitment:*** Student , Staff
8. ***Technology:*** Hardware, Software, Internet, Wiring, Other
9. ***Student Services:*** Field Trips, Assessment Testing, Transportation, Special Events, Uniforms
10. ***Office Expense:*** Leases (i.e. copier), Printing, Postage, Copying
11. ***Other:*** Interest, Board Development, Bad Debt, Misc. Fees (i.e. Licensing), Uniforms, All Other (If you have questions contact school authorizer)
12. ***Personnel Services Costs Guidance (see below)***

Administrative Staff Personnel

CEO, Executive Director, Head of School, Founder
Principal, Vice-Principal, Assistant Principal, Deans
Director of curriculum, Instruction, Development, Special Projects
CFO, Controller, Director of finance, Accountant, Bookkeeper
Operations, Business, and HR Managers
Office Manager, Secretary, Receptionist, Clerk
Technology, data, Assessment and Accountability Managers
Parent coordinator, School Culture, Family Engagement

Instructional Personnel

Teachers-Regular, Sped, and specialists
Teacher assistant, Aide, and Substitutes
Teachers-Regular, Sped, and specialists
Teacher assistant, Aide, and Substitutes
Social Worker, Therapist, and Counselor
Tutors
Intervention
Apprentice

Non-Instructional Personnel

Nurse
Librarian
Security
Custodian
Food Service worker
Bus Matron, Monitor

Definitions

Administrative Staff personnel
Staff involved in establishing and administering policy for operations and business support services. Activities include planning, evaluating and supervising staff, and coordinating instructional activities.

Instructional Personnel
Staff involved in the direct instruction of students and other duties related to the instructional program such as teaching, lesson planning, evaluating student work, monitoring and supervising students.

Non-Instructional Personnel
Positions that do not require a teaching license and are not directly involved with instructional programs and supervision of students

Appendix E –From the AICPA Audit Guide, *Government Auditing Standards and OMB Uniform Guidance (Singe Audits*)

Please refer to the AICPA Audit Guide for further guidance

Sample 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.

Example 1

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 (No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters Identified)*

INDEPENDENT AUDITOR'S REPORT

[*Appropriate Addressee*]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Example Entity, which comprise the consolidated statement of financial position as of June 30, 20X1, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 20X1. [2]

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Example Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal

[2] If the auditor expressed a modified opinion on the financial statements (i.e., a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue, as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

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control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters[3] [4]

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*][5]

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[3] *Other matters* are certain findings of fraud or abuse. As per industry practice, the reference to "other matters" in both the heading and the following paragraph typically appears in all reports, even if the report does not present or refer to findings of fraud or abuse or even if the only findings of fraud or abuse are presented in or referred to from the section on internal control over financial reporting.

[4] Paragraph 4.26 of *Government Auditing Standards* notes that when auditors detect instances of noncompliance with violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements or other financial data significant to the audit objectives that are less than material but warrant the attention of those charged with governance, they should communicate those findings in writing to audited entity officials.

[5] Because this report relates to the audit of the financial statements, and is based on the generally accepted auditing standards audit procedures performed, it is subject to the provisions of AU-C section 700. Therefore, it should be dated the same date as the auditor's report on the financial statements, which according to paragraph .41 of AU-C section 700 is "no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements."

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Example 2

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 (No Material Weaknesses Identified; Significant Deficiencies Identified; and Reportable Instances of Noncompliance and Other Matters Identified)

INDEPENDENT AUDITOR'S REPORT

[*Appropriate Addressee*]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Example Entity, which comprise the consolidated statement of financial position as of June 30, 20X1, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 20X1. [6]

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Example Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or

[6] If the auditor expressed a modified opinion on the financial statements (i.e., a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue, as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

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significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)*] that we consider to be significant deficiencies. [*List the reference numbers of the related findings, for example, 20X1-1, 20X1-3, and 20X1-4*].

> [***NOTE:*** This guide recommends identifying each finding with a reference number. This report can, as an alternative, describe findings rather than refer to a separate schedule. Further, in an audit in accordance with Office of Management Uniform Guidance findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards* should be reported in the schedule of findings and questioned costs.]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* [7] and which are described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)*] as items [*list the reference numbers of the related findings, for example, 20X1-2 and 20X1-5*].

[***NOTE:*** *The referenced findings in this section include those that are instances of noncompliance and those that are fraud or abuse that are not significant deficiencies.*]

Example Entity's Response to Findings

Example Entity's response to the findings identified in our audit are described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs) "or previously" if findings and responses are included in the body of the report*]. Example Entity's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.[8]

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[7] An audit conducted in accordance with OMB Uniform Guidance, the auditor should apply a financial statement materiality consideration in reporting in the *Government Auditing Standards* report fraud and illegal acts involving federal awards that are subject to Uniform Guidance reporting. That is because those findings already are reported in the Uniform Guidance (Single Audit) report and reporting findings that are not material to the financial statements again in the *Government Auditing Standards* report would be unnecessarily duplicative.

[8] Although the auditor does not audit management's responses to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under *Government Auditing Standards*. As noted in paragraph 4.33 of *Government Auditing Standards*, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*][4]

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Example 3

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 (Material Weaknesses and Significant Deficiencies Identified; and Reportable Instances of Noncompliance and Other Matters Identified)

INDEPENDENT AUDITOR'S REPORT

[*Appropriate Addressee*]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Example Entity, which comprise the consolidated statement of financial position as of June 30, 20X1, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 20X1. [9]

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Example Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)*], we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal

[9] If the auditor expressed a modified opinion on the financial statements (i.e., a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue, as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

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control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)*] to be material weaknesses. [*List the reference numbers of the related findings, for example, 20X1-1, 20X1-3, and 20X1-4*].

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)*] to be significant deficiencies. [*List the reference numbers of the related findings, for example, 20X1-2, and 20X1-5*].

> [***NOTE:*** This guide recommends identifying each finding with a reference number. This report can, as an alternative, describe findings rather than refer to a separate schedule. Further, in an audit in accordance with Office of Management Uniform Guidance, findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards* should be reported in the schedule of findings and questioned costs.]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* [10] and which are described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)*] as items [*list the reference numbers of the related findings, for example, 20X1-2 and 20X1-5*].

[***NOTE:*** *The referenced findings in this section include those that are instances of noncompliance and those that are fraud or abuse that are not significant deficiencies.*]

[10] An audit conducted in accordance with OMB Uniform Guidance, the auditor should apply a financial statement materiality consideration in reporting in the *Government Auditing Standards* report fraud and illegal acts involving federal awards that are subject to OMB Uniform Guidance (Single Audit) reporting. That is because those findings already are reported in the OMB Uniform Guidance (Single Audit) report and reporting findings that are not material to the financial statements again in the *Government Auditing Standards* report would be unnecessarily duplicative.

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Example Entity's Response to Findings

Example Entity's response to the findings identified in our audit are described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs) "or previously" if findings and responses are included in the body of the report*]. Example Entity's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.[11]

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*][4]

[11] Although the auditor does not audit management's responses to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under Government Auditing Standards. As noted in paragraph 4.33 of Government Auditing Standards, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

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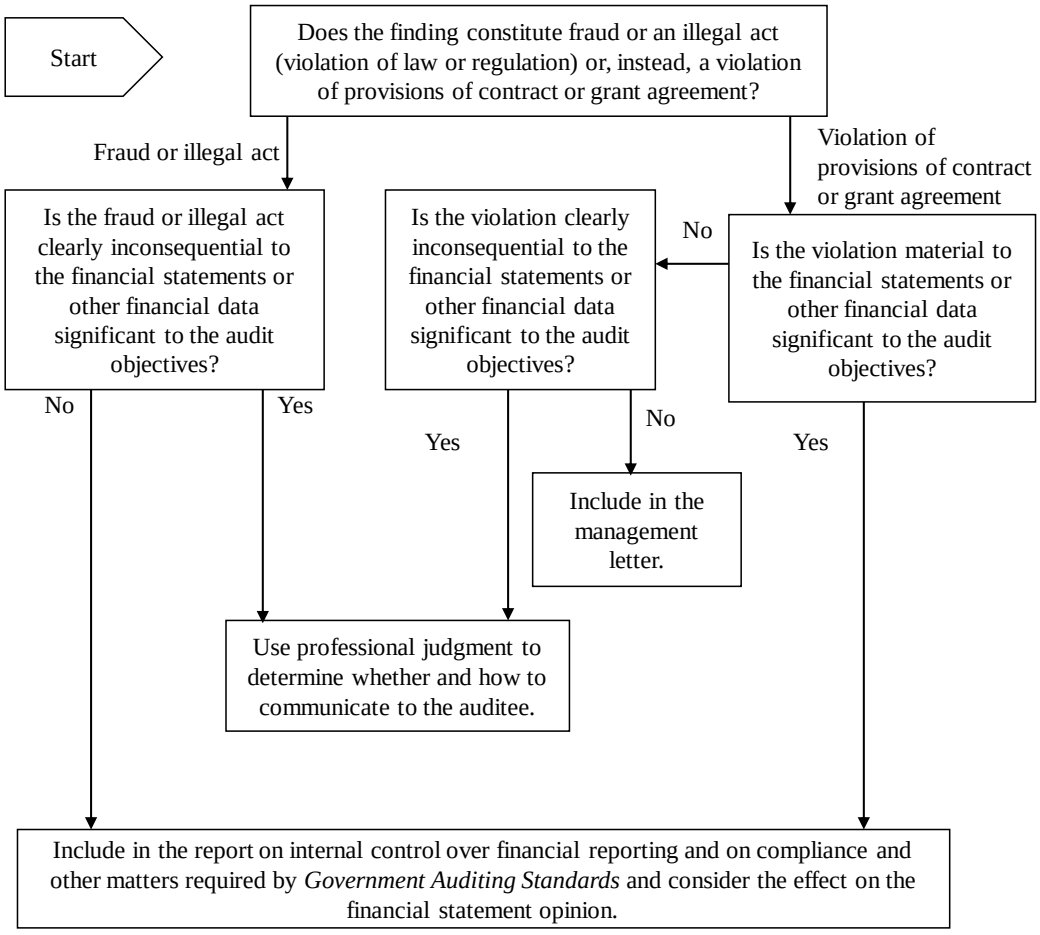
Appendix F – Finding Flowchart - From the AICPA Audit Guide, *Government Auditing Standards and Uniform Guidance (Single Audits)*

Exhibit 4-1
Evaluation and Reporting of Findings of Fraud and Noncompliance Under *Government Auditing Standards*



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Appendix G –

A. Procedures to Consider During Lottery Observations

Auditors should consider performing some of the following procedures when observing a Charter School's lottery. These are not required procedures. Not all procedures may be applicable to all lotteries.

Possible Procedures:

Obtain a copy of the Charter School's documented lottery procedures.

Discuss with responsible school personnel if the procedures as documented are in place and will be utilized in the lottery drawing.

Determine if lottery preferences are in alignment with NYS laws and regulations and the Charter School's Charter Agreement.

Determine if management has appropriately grouped applicants according to preferences, including order of preferences. Select a sample of applications to test.

Determine method of lottery (i.e. drawing balls or cards, random number generator, etc).

Attend and observe actual lottery drawing to determine procedures are followed and no personal preferences affect the random nature of the lottery.

Make sure all applicants are given a number (and a waiting list is generated if more students apply than seats are available).

Determine method of communication of lottery results to families.

Make sure confidential information remains confidential during the lottery process (for example, preferences for free/reduced price lunch).

B. NYSED Weighted Lottery Guidance

(also located at: http://www.p12.nysed.gov/psc/documents/WeightedLotteryGuidance.pdf)

Introduction

Prior to amendments made to the 2014 Federal Non-Regulatory Charter Schools Program (CSP) Guidance, charter schools receiving CSP funds were not permitted to weight admissions lotteries to favor certain student subgroups.[12]

[12] A charter school with fewer applicants than spaces available does not need to conduct a lottery pursuant to Section 5210(1)(H) of the ESEA. NYS Education Law §2854(2)(b) requires that charter schools conduct a lottery if applications exceed capacity at the grade level or building.

With the approval of the US Department of Education, New York State charter schools may now weight admissions through the use of the Weighted Lottery Generator created by the New York State Education Department's Charter School Office.

Please review the guidelines set forth below for use of the NYSED Weighted Lottery Generator. To avoid jeopardizing a CSP award, schools receiving CSP funds must not use weighted lotteries until they obtain permission from the NYSED Charter School Office.

Purpose of the NYSED Weighted Lottery Generator

Consistent with Section 5204(a)(1) of ESEA, the NYSED Weighted Lottery Generator is designed to give slightly better chances for admission to a subset of educationally disadvantaged students.[13] The NYSED Weighted Lottery Generator does not reserve or set aside seats for individual students or sets of students, and may not be used for the purpose of creating schools to exclusively serve a particular subset of students. [14]

All charter schools, including those which use the NYSED Weighted Lottery Generator, must continue to fulfill their existing legal responsibilities related to outreach, recruitment, and retention of students with disabilities, English language learners, and students who are eligible for free or reduced-price lunch.

Guidelines for use of the NYSED Weighted Lottery Generator

PRIOR TO USING THE NYSED WEIGHTED LOTTERY GENERATOR ALL SCHOOLS MUST:

1. Modify the existing enrollment policy, or develop an enrollment policy that specifically refers to the use of the NYSED Weighted Lottery Generator. In addition to items currently required by the school's authorizer, the enrollment policy must:

    a. Identify the order in which the school will enroll returning students, students who live in the district of location, students who are siblings of currently enrolled students, and children of employees;[15]

    b. Explain the rationale for using the NYSED Weighted Lottery Generator;

    c. Articulate a plan that evidences the school's outreach, recruitment and retention of economically disadvantaged students, English language learners, or students with disabilities;

[13] Section 1115(b)(2) of the ESEA describes educationally disadvantaged students as those who are economically disadvantaged, students with disabilities, migrant students, limited English proficient students, neglected or delinquent students, and homeless students.

[14] See Section 5204(a)(1) of the ESEA.

[15] Education Law §2854 was amended to allow charter schools to admit children of employees provided the total enrollment of this subgroup may not comprise more than 15% of their overall school population. Schools must not exceed the statutory threshold for children of employees, regardless of their position in the lottery.

d. Identify only ONE at-risk subgroup of educationally disadvantaged students to be weighted (i.e., choose economically disadvantaged students, English language learners, or students with disabilities);

e. State that the school will only run the NYSED Weighted Lottery Generator once each academic year, and will obtain NYSED approval to use the Generator should the school's enrollment policy change in any way;

f. State that the school will not rollover the lottery waitlist from year to year.

2. Obtain authorizer approval of the school's enrollment policy.

3. Submit the policy approved by the authorizer to the NYSED Charter School Office by email to CHARTERSCHOOLS@nysed.gov with the subject heading "NYSED Weighted Lottery Generator Approval"

4. Approval requests for the 2015-16 school year must be received by the NYSED Charter School Office no later than March 18, 2016. All approval requests for subsequent school years must be received no later than December 15th of the year prior to the intended lottery.

Use of the NYSED Weighted Lottery Generator

USING THE NYSED WEIGHTED LOTTERY GENERATOR

1. Develop a list of all student applicants including the following information: student first and last name, at-risk identification and grade level in the upcoming school year.

2. Upon opening the NYSED Weighted Lottery Generator, read the tabs entitled Introduction, Purpose, Guidelines and Use. Click "Confirm."

3. Select ONE at-risk weighting category to weight educationally disadvantaged students: economically disadvantaged, English language learners, or students with disabilities.[16]

5. Enter or copy and paste student information into the Applicant Information Worksheet and identify those students who are eligible for weighting criteria (enter "1" for at-risk identification).

6. Submit the applicant information worksheet to run the lottery. NOTE: Schools cannot run the lottery more than once to preference for more than one category of at-risk student.

7. Weighting proportions for educationally disadvantaged enrollment will appear.

[16] Schools that wish to weight for different subgroup in subsequent years categories must revise their enrollment policy to reflect the subgroup being weighted. The policy must then be submitted to the authorizer for approval. Upon receiving authorizer approval the policy must be submitted to the NYSED Charter School Office for final approval.

8. Each weighting strata is given an applied weight based on selected criteria and the composition of the applicant pool.

9. Students are randomly assigned a number which is multiplied by the associated strata weight; the product is linked to the students' information and ranked in a new admissions list in lottery results generated in a PDF. Information linking students to each weighting strata is removed from the PDF for the purposes of public lottery display.

10. Schools must save detailed lottery records, including but not limited to printed and electronic documentation of the process, inputs and results for a period of no less than 3 years after the date of the lottery. Again, lotteries may only be run once for each academic year.

11. Schools should have readily available copies of the saved PDF generated from the lottery as required by the Commissioner's regulations.

12. If the enrollment policy changes in any way schools must obtain approval from its authorizer and the NYSED Charter School Office before using the NYSED Weighted Lottery Generator in future CSP years.

PLEASE NOTE: Failure to strictly follow the procedures set forth above may jeopardize CSP funding.

Appendix H – Accounts Receivable and Per-Pupil Aid Confirmation Template

[Date]

[NAME OF CONTACT]
[RESIDENT SCHOOL]
[ADDRESS]

Our auditors, [CPA FIRM NAME AND ADDRESS] are conducting an audit of our financial statements for the year ended June 30, 20X2. Please confirm or correct the following understanding of information:

(1) Cash payments received by the [NAME OF Charter School] from the [RESIDENT SCHOOLS] for the period of July 1, 20X1 to June 30, 20X2 and FTE for such period:

$_____ 20X2 Total per pupil aid
$_____ 20X2 Sp. Ed Revenue
$_____ 20X2 IDEA, part B

FTE's for per pupil aid: _____
FTE's for Sp. Education per pupil aid: _____

(2) Also, please confirm the amount paid per student for: per pupil aid and per special education aid:

Per Pupil: $_____
Sp. Education per Pupil: $_____

(3) Balance due to the [NAME OF Charter School] from
the [RESIDENT SCHOOLS] as of June 30, 20X2: $_____

(4) Balance due from the [NAME OF Charter School] to
the [RESIDENT SCHOOLS] as of June 30, 20X2: $_____

Please confirm any amounts charged to [NAME OF Charter School] for the year ended June 30, 20X2: $_____. What were the charges for:_____
_____

Upon completion, please return this letter directly to our auditors at the address listed above. Thank you for your time and cooperation.

Sincerely,

[BUSINESS OFFICIAL]
[NAME OF CHARTER SCHOOL]

The amount shown is in agreement with our records, with the following exceptions: _____
_____
_____

Name and Title _____

Signature _____

Date _____

Appendix J - Additional Resources

New York State Education Department Charter School Office http://www.p12.nysed.gov/psc/

Generally Accepted Governmental Auditing Standards (GAGAS) http://www.gao.gov/yellowbook

AICPA Governmental Audit Quality Center (GAQC)
http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Pages/GAQC.aspx

AICPA Governmental Audit Quality Center (GAQC) Independence Comparison
http://www.aicpa.org/interestareas/professionalethics/resources/tools/downloadabledocuments/2012mayaicpagaocomparision.pdf

OMB Uniform Guidelines:
https://www.whitehouse.gov/sites/default/files/omb/financial/grant_reform/proposed-omb-uniform-guidance-for-federal-financial-assistance.pdf

CSP Budget categories and approved expenditures http://www.p12.nysed.gov/psc/grants.html

Initial Charter Agreement Template for Charter Schools Authorized by the Board of Regents
http://www.p12.nysed.gov/psc/OversightPlan.html

NYS Education Law Article 56 (The New York Charter Schools Act of 1998, as amended in 2007 and 2010)
http://codes.lp.findlaw.com/nycode/EDN/II/56

Charter school basic tuition rates by district https://stateaid.NYSED.gov/charter

Charter school special education tuition rate – spreadsheet to calculate by district
https://stateaid.NYSED.gov/speced

Student Full-time Equivalent (FTE) Calculator https://stateaid.NYSED.gov under State Aid / Attendance and Enrollment / FTE Calculator

New York City Department of Education enrollment and tuition payment website (accessible to charter school personnel) https://vendorportal.nycenet.edu/vendorportal/Login.aspx.

New York State Education Funding (Title grants, CSP, IDEA) reports by school:
http://www.oms.nysed.gov/cafe/reports/

New York State Education Department enrollment and retention targets
http://www.p12.nysed.gov/psc/enrollment-retention-targets.html

Appendix K – Definition of Terms

AICPA - American Institute of Certified Public Accountants

ASC - Accounting Standards Codification

AUP - Agreed-Upon Procedures – Specific set of procedures performed by an independent accountant – typically referred to as the *AUP on the Initial Statement* or *AUP on CSP Grant*

BOT – Board of Trustees

CMO - Charter Management Organization - organized as a non-profit (similar to an EMO)

Compliance Supplement – Issued annually by the GAO, provides guidance in performing a Single Audit

CPA – Certified Public Accountant

CPE - Continuing Professional Education

CSO – Charter School Office

CSP – Charter Schools Program

DOE - Department of Education

EMO - Education Management Organization – organized as a for-profit (similar to a CMO)

FASB – Financial Accounting Standards Board

FTE – Full Time Equivalent

GAAP - Generally Accepted Accounting Principles

GAAS - Generally Accepted Auditing Standards

GAGAS - Generally Accepted Government Auditing Standards

GAO - United States Government Accountability Office

GAQC - Governmental Audit Quality Center – section of the AICPA which provides guidance to auditors in performing Governmental and Single Audits

IEP - Individualized Education Program – prepared for each special education student

Initial Statement – Initial Statement of Controls provided by the Charter School to NYSED concerning the status of management and financial controls

NYCDOE – New York City Department of Education

NYSED – New York State Education Department

SEFA - Schedule of Federal Expenditures – included in financial statements audited in accordance with OMB Uniform Guidance

Single Audit – Audit conducted in accordance with OMB Uniform Guidance

SPED – Special Education

WLG – NYSED Weighted Lottery Generator