

Town of Foster  
Request for Proposals

Request for Auditing Services

The Town Council of the Town of Foster is soliciting bids for an independent audit of the books, accounts and other evidence of financial transactions of the Town for three fiscal years ending June 30, 2013, June 30, 2014, and June 30, 2015.

Specifications may be obtained on the Town of Foster web site [www.townoffoster.com](http://www.townoffoster.com) or at the Finance Department, Town Hall, 181 Howard Hill Road, Foster, Rhode Island.

Sealed bids are to be submitted to the Foster Town Clerk, 181 Howard Hill Road, Foster, RI 02825 by **June 20, 2013 at 3PM** and will be opened at the Town Council meeting that evening. The contract will be awarded at the **June 27, 2013 Town Council Meeting**.

Bids are to be sealed and identified as “**Audit Bids**” on the outside of the envelope. The Town Council reserves the right to reject any bidder if it deems that it does not possess the personnel, experience and other resources to complete the audit in accordance with the specifications herein.

Published: June 6, 2013

Legal Ad

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Kelli M. Russ  
Treasurer/Finance Director

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John L. Lewis, Jr.  
Council President, Town of Foster

## Town of Foster

### Request for Proposals

#### INTENT

It is the intent of the attached specifications to set forth the requirements for the Audit of the comprehensive annual financial statements of the Town of Foster for its fiscal years ending June 30, 2013, 2014, and 2015, to include the Foster School Department, or other reporting requirements required by the R.I. Department of Education, and the submission of the Towns CAFR to the GFOA for the Certificate of Achievement for Excellence in Financial Reporting.

The auditors engaged to perform the annual audit of the School Department shall also be engaged to report on their tests of compliance with the School UCOA requirements in an agreed-upon procedures compliance attestation format.

It shall be understood that the financial audit shall be conducted in accordance with accounting standards generally accepted in the United States of America, standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United State (Yellow Book) and the standards contained in the amended (July 1996) Single Audit Act of 1984 and the provisions of revised OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

## Instructions to Bidders

### Town of Foster, Rhode Island

1. Receipt and Opening of Proposals:  
Sealed proposals (Bid) will be accepted in the Town Clerk's Office, Foster Town Hall, 181 Howard Hill Road, Foster, Rhode Island, 02825, until the time indicated on the request for proposals and will then be publicly opened and read at the time and place indicated on the advertisement for bids.
2. Form of Bid:  
The total bid amount for each year shall include the amount of the fee and the amount of expenses. Bids submitted in any other manner will not be accepted. (See Bid Form page #11)
3. Submission of Bids:
  - a. Sealed envelopes containing **3 copies** of bids must be addressed to the Town Clerk's Department, Foster Town Hall, 181 Howard Hill Road, Foster, Rhode Island 02825 and must be marked with the name and address of the bidder, date and hour of bid opening, and the name of item in bid call (Audit Bids).
  - b. Any bidder may withdraw the firm's bid by written request at any time prior to the advertised time of opening. Telephonic (fax or e-mail) bids amendments, or withdrawals will not be accepted.
  - c. Unless otherwise specified, no bid may be withdrawn for a period of sixty (60) days from the date and time of bid opening.
  - d. Negligence on the part of the bidder in preparing the bid confers no rights for the withdrawal of the bid after it has been opened.
  - e. Proposals received prior to the time of the opening will be kept sealed. No responsibility will attach to a Town officer or person for premature opening of a proposal not properly address and identified.
  - f. Bid proposals must cover all three (3) periods.
    1. Audit and Agreed-Upon Procedures period July 1, 2012 to June 30, 2013
    2. Audit and Agreed-Upon Procedures period July 1, 2013 to June 30, 2014
    3. Audit and Agreed-Upon Procedures period July 1, 2014 to June 30, 2015

*The contract shall apply to three fiscal years. Each year must be treated as a separate engagement.*

## **Due dates for Completion of Audit and Delivery of Reports**

1. An annual audit shall be completed and final audit reports (inclusive of all audit communications) related to the financial statements shall be delivered to the municipality, State Auditor General, and State Director of Revenue within six months after the close of the fiscal year for each year (as required by Section 45-10-5 of the General Laws). The Town of Foster has a fiscal year ending June 30; therefore, the reports must be filed by December 31 of each year. A copy of final written correspondence between audit firm and those charged with governance (e.g. Statement on Auditing Standards – Auditor’s Communication with Those Charged with Governance) shall also be delivered to the State Auditor General.

## **Qualifications of Auditor**

1. The firm selected for the audit shall be a firm of certified public accountants holding a valid certification in the State of Rhode Island or from another state having equal professional standards.
2. The private auditor must meet the independence requirements of the American Institute of Certified Public Accountants including the provisions of Interpretation 10 of Rule 101 of the AICPA Code of Professional Ethics and the independence requirements of Government Auditing Standards.
3. The senior accountant in charge of the fieldwork shall be a certified public accountant.
4. The audit organization and the individuals responsible for planning, directing, conducting substantial portions of the fieldwork, or reporting on government audits shall meet the continuing educational requirements of Government Auditing Standards issued by the Comptroller General of the United States.
5. The audit organization shall have an appropriate internal quality control system in place and participate in an external quality control review program as required by Government Auditing Standards.
6. The audit organization shall provide a copy of their most recent external quality control review report and letter of comment to the municipality engaging the auditor.

## **Audit Contract**

1. The audit contract must cover three fiscal years. Each year must be treated as a separate audit. The auditor shall draft the contract for Council approval.
2. Audit contracts shall specify an audit fee for each year’s audit. The audit fee shall be inclusive of all expenses.
3. Continuation beyond the initial fiscal year of the three-year contract will be at the discretion of the Town Council.
4. Any representation made with the submission will be relied upon and if proven to be false will be grounds for termination of the contract. False representations will also be grounds for forfeiture of all payments under the contract. This will not limit the municipality from seeking any other legal or equitable remedies.
5. Three copies of the proposal must be submitted.

## **Audit Standards**

1. The Auditor's examinations are to be made in accordance with generally accepted auditing standards established by the American Institute of Certified Public Accountants.
2. The audit shall also be conducted in accordance with the standards for financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of United States. In any year a Single Audit is required, the standards contained in the amended (July 1996) Single Audit Act of 1984 and the provisions of revised OMB Circular A-133, *Audits of State, Local Governments and Non-profit organizations* must also be followed.
3. The GFOA established the Certificate of Achievement for Excellence in Financial Reporting Program (CAFR Program) in 1945 to encourage and assist state and local governments to go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure and then to recognize individual governments that succeed in achieving that goal. The CAFR shall be in a format that meets the requirements of the GFOA for submission to this program.

## **Audit Scope**

Note: If the general operations of the School Department do not qualify as a special revenue fund, in accordance with generally accepted accounting principles, and is merged with the general fund for financial reporting purposes, the specific "school unrestricted fund" information will be presented within the Supplementary Information section of the annual financial report. The Supplementary Information will consist of: *a Balance Sheet, a Statement of Revenues, Expenditures and Changes in Fund Balance, and a Budget and Actual Statement.*

Other schedules may be required by the Town and/or the State of Rhode Island Director of Revenue, Auditor General, and Department of Education or as required by the applicable section of the general laws such as, Rhode Island General Law Section (RIGL) 45-10-6 (contents of Audit Report). The Statistical Section of the Comprehensive Annual Financial Report, prepared in accordance with generally accepted accounting principles, shall meet the requirements of RIGL 45-10-6 for additional information to the basic financial statements.

Also, the Town has created an OPEB Trust Fund effective June 30, 2013.

The proposed fee should include an estimate to complete an audit taking into account these changes. Any amendments to the contract for additional work beyond the normal anticipated procedures will be negotiated in good faith. Provided, however, in the event that the parties cannot mutually agree on additional work to be performed and the cost for said work, the town, as our option, may rescind the option period.

1. The scope of the audit should encompass not only the fair presentation of the basic financial statements, but also the fair presentation of the financial statements of individual funds and component units.
  - A. The financial statements to be presented, audited and reported upon by the private auditor shall include:
    - a. basic financial statements-
      - i. government-wide financial statements,
      - ii. fund financial statements, and
      - iii. notes to the financial statements
    - b. Supplementary financial statements, schedules and information.
      - i. Required – budgetary comparison schedules – in detail for the General Fund and School Unrestricted Fund
      - ii. Schedule of Funding Progress – Pension Plans
      - iii. Notes to required supplementary information
      - iv. Combining financial statements for: non-major funds, restricted special revenue funds, and capital project funds (if more than one)
      - v. Combining Statement of Net Assets for Agency Funds
  - B. Management’s Discussion and Analysis shall be reported in accordance with GASB-34.
  - C. Supplementary Schedule of Expenditures of Federal Awards with auditor’s opinion thereon shall be reported if the Town is subject to a Single Audit in a particular fiscal year.
  - D. If applicable, an audit of major Federal programs will be performed in accordance with criteria outlined in OMB Circular A-133.

### **Audit Reports**

1. Content of Audited Financial Statements –Audit Reports
  - A. There will be issued one set of financial statements that report both the Town and School Department’s individual funds and in combination.
  - B. **Draft** copies of all audit reports and the management letter shall be submitted to the Treasurer/Finance Director and School Business Manager prior to exit conferences so that there will be adequate time for review before the conference is held.

- C. Reports to be submitted, depending on the Scope of the engagement, may include Reports on:
- a. Basic Financial Statements including Management's Discussion and Analysis, based on an audit performed in accordance with generally accepted auditing standards and *Government Auditing Standards*
  - b. Supplementary financial statements, schedules and information
  - c. Compliance and on Internal Control over Financial Reporting based on an audit of financial statements performed in accordance with Government Auditing Standards
  - d. Reports required under trust agreements, loan agreements, etc.
  - e. Reports and summaries related to federal financial assistance (as appropriate in the circumstances) as required by OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.
  - f. Other reports requested by the municipality and/or Director of Revenue and/or the Auditor General or as required by the applicable section of the general laws.

#### **Nature of Agreed-Upon Procedures Services Required**

The Foster School Department implemented a new Uniform Chart of Accounts (UCOA) as promulgated by the Auditor General and Commissioner of Education in accordance with Rhode Island General Law 16-2-9.4. Each municipal school district, regional school district, collaborative, or charter school, which is required to adopt the UCOA, shall have additional compliance testing procedures designed to assess compliance with UCOA requirements and the entity's effectiveness of internal control over compliance with those requirements.

See Appendix A for the agreed-upon procedures. Please note that the agreed-upon procedures may be subject to subsequent modification.

Ten copies of the final agreed-upon procedures report on the School Department's compliance with the Uniform Chart of Accounts shall be delivered to the Treasurer/Finance Director of the Town of Foster.

Foster shall provide the agreed-upon procedures report along with the audited financial statements to the Rhode Island Department of Education and the Office of the Auditor General at the conclusion of the annual audit or the revised timeline established by the Rhode Island Department of Education and the Office of the Auditor General.

The dollar cost bid should specifically identify the fee for the audit services and the fee for the agreed-upon procedures.

## **Management Letter**

1. There shall be a single management letter upon completion of the audit reporting on both the Town and School Department.
2. The management letter shall include comments, and/or recommendations beyond those included in the reports described above, on such matters as:
  - a. Policies, procedures and practices employed by the municipality.
  - b. Control deficiencies that are not significant deficiencies or material weaknesses.
  - c. Use of resources to provide a governmental service in a reasonable, judicious, economical, and efficient manner.
  - d. Compliance with state laws pertaining to the municipality and with rules and regulations established by the municipality.
3. Required recipients of the management letter, include the Town Council, School Committee, the Treasurer/Finance Director, the School Business Manager, the State Director of Revenue and the Auditor General.

## **Additional Information To Be Provided to the Municipality**

The following information must be contained in a written representation by the audit firm to the Town as part of the bid:

1. The current status of the professional license of the firm, the partner-in-charge, and senior accountant in charge of the fieldwork.
2. Staffing information including:
  - a. firm size
  - b. number of staff allocated to the audit job
  - c. relevant qualifications and experience of each person assigned to the audit job
  - d. the amount and type of professional liability coverage
3. List of any professional complaints pending or resolved against the firm or any of its partners with the state boards of accountancy, or any self-regulatory, professional or government authority including but not limited to the AICPA, or Rhode Island Board of Accountancy.
4. Information regarding any lawsuits or claims against the firm, pending or resolved.
5. A statement of relevant experience including a list of municipal or other governmental audits performed in the last five years.
6. Expected time budget and completion date for the audit.
7. A statement that there exist no client conflicts which would inhibit the ability to perform the audit in accordance with professional standards.
8. Representation that the private auditor is independent under the requirements of the American Institute of Certified Public Accountants including those in Interpretation 10 of Rule 101 of the AICPA Code of Professional Ethics and *Government Auditing Standards issued by the Comptroller General of the United States*.
9. Representation that the private auditor of the municipality meets the continuing educational requirements of Government Auditing Standards.

10. Representation that the private auditor has an appropriate internal quality control system in place and has participated in an external quality control review program as required by *Government Auditing Standards*. The firm, will provide the Auditor General with a copy of its most recent external quality control review report including letter of comment or a representation that a letter of comment was not issued.
11. Representation that the auditor is familiar with generally accepted accounting principles for state and local government units and with generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants; Government Auditing Standards issued by the Comptroller General of the United States; the Single Audit Act of 1984 as amended in July 1996 and the provisions of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and will conduct the audit and will report in accordance with those standards.

### **Access to Audit Information and Audit Documentation by Auditor General**

It is understood that the contract between the Town and the audit firm shall require the auditor or the audit firm to release any and all information obtained in the course of the engagement to the Rhode Island State Auditor General (or his designee). The information includes but is not limited to financial data, analysis, audit documentation, and memorandum. Audit documentation of the independent auditor shall be made available to the Auditor General (or his designee) upon request. The request for such information by the Auditor General shall be responded to promptly. Failure to provide this information shall constitute a breach of contract, and; the contract shall give the Auditor General standing in a court of competent jurisdiction to enforce this provision.

### **Other Audit and Reporting Requirements**

1. Prior to commencement of field work, the auditors will provide the Town and School Department:
  - a. A time table for performing the examinations and
  - b. A request specifying the assistance and specific informational needs to be provided by the Town of Foster Finance Department and School Business Office
2. An exit conference may be conducted at the conclusion of each year's examination. The participants would include representatives from the Town of Foster Finance Department, the School Department, Town Council, School Committee, and the firm performing the examination. At the exit conference, the firm's representative, should at a minimum:
  - a. Review and explain findings, conclusions and recommendations included in the reports
  - b. Explain any observations which may be helpful but which do not warrant inclusion in the reports
  - c. Obtain concurrence regarding all findings, conclusions, and recommendations
3. Auditors are required to provide twenty-five (20) printed copies each of the Audited financial statements and twenty (20) management letters to the municipality and School Department.

One unbound copy of each report is required as well as one copy in PDF format for display on the Internet.

4. Other Accounting or Audit Services - Any and all additional audit or accounting related work, not specified herein requires written approval of the Town Council before work commences. Requests must be made in writing. No work will commence without written consent. No billing for additional audit related work would be recognized as being valid without prior written consent from the Council chairperson.
5. In accordance with Government Auditing Standards, if the firm provides non-audit services, it must evaluate whether providing the services creates independence impairment with respect to the audit of the Town.

# BID FORM

## ANNUAL AUDIT AND AGREED-UPON PROCEDURES

TO: CAROL LYONS SHOLLY, TOWN CLERK  
 TOWN OF FOSTER  
 181 HOWARD HILL ROAD  
 FOSTER, RI 02825

WE, THE UNDERSIGNED, PROPOSE TO FURNISH TO THE TOWN OF FOSTER:

Three (3) years auditing and agreed-upon procedures services for fiscal years ending June 30, 2013, 2014, 2015. Included but not limited to: Issuance of the Town's Comprehensive Annual Financial Statements, including the Foster School Department, and tests of compliance with the School UCOA requirements in an agreed-upon procedures compliance attestation format. Submission of the Towns CAFR to the GFOA awards program for the Certificate of Achievement for Excellence in Financial Reporting.

**DID YOU DEVIATE FROM THE SPECIFICATIONS IN ANY WAY: \_\_\_YES\_\_\_NO**  
 (IF YES, YOU MUST SUBMIT DETAILED DESCRIPTIONS OF ALL DEVIATIONS)

	<u>6/30/13</u>	<u>6/30/14</u>	<u>6/30/15</u>	TOTALS
<b>Auditing Services</b>				
1. Town	\$ _____	\$ _____	\$ _____	\$ _____
2. School	\$ _____	\$ _____	\$ _____	\$ _____
<b>Agreed-upon Procedures</b>				
3. School	\$ _____	\$ _____	\$ _____	\$ _____
Yearly total	\$ _____	\$ _____	\$ _____	\$ _____**

\*\*Total contract price in Words: \_\_\_\_\_

Payments to the auditors will be made in a three equal (3) progress payment format. Payment scheduling will be the responsibility of the Treasurer /Finance Director for payments one (1) and two (2). Payment three (3), (the final payment) will be made upon satisfactory completion of the audit and required exit conference meeting. Invoices will be submitted directly to the Town Finance Department.

BY: \_\_\_\_\_  
 (SIGNATURE)

\_\_\_\_\_  
 (COMPANY NAME)

\_\_\_\_\_  
 PRINT NAME AND TITLE

\_\_\_\_\_  
 ADDRESS

\_\_\_\_\_

\_\_\_\_\_  
 DATE

## Uniform Chart of Accounts (UCOA) – Annual Compliance Testing Requirements

### OVERVIEW:

Each municipal school district, regional school district, collaborative, or charter school, which is required to adopt the Uniform Chart of Accounts (UCOA), shall have additional compliance testing procedures designed to assess compliance with UCOA requirements and the entity's effectiveness of internal control over compliance with those requirements. The auditors engaged to perform the annual audit of the entity shall also be engaged to report on their tests of compliance with UCOA requirements in an agreed-upon procedures compliance attestation format.

A minimum sample of transactions shall be selected and tested for compliance with UCOA provisions. Additionally, selected UCOA compliance requirements shall be included within the agreed-upon procedures compliance work program.

The municipal school district, regional school district, collaborative, or charter school shall provide the agreed-upon-procedures report along with the entity's audited financial statements to the Rhode Island Department of Education and the Office of the Auditor General at the conclusion of the annual audit or not later than six months after fiscal year-end. For those school districts, regional school districts, collaboratives, or charter schools which have adopted a fiscal year end other than June 30, the agreed upon procedures report shall be provided by December 31 for the activity related to the year ended on the preceding June 30.

### COMPLIANCE TESTING REQUIREMENTS:

Auditors shall follow the guidance included in the AICPA Codification of Statements on Standards for Attestation Engagements – AT Section 601 – Compliance Attestation – paragraphs .01 through .29

- 1. A minimum sample of randomly selected expenditure transactions for the municipal school district, regional school district, collaborative, or charter school shall be tested for compliance with UCOA coding requirements.**

Select a sample of 35, 45, or 60 (see below) transactions from the universe of all expenditures in the final UCOA format upload file for the fiscal year as reported to the Rhode Island Department of Education (RIDE). A detailed transaction level file should be obtained from the entity's accounting system to correspond with the final UCOA upload file provided to RIDE for the preceding fiscal year. RIDE will provide a Validation Totals Report to each school district, collaborative, and charter school to confirm the final upload file information. The sample of transactions to be tested for compliance with UCOA coding shall be selected randomly from the detailed transaction file for the fiscal year.

Sample size shall be determined as follows:

- Smaller school districts, regional school districts, collaboratives, or charter schools having aggregate fiscal year expenditures of less than \$5 million shall utilize a minimum sample size of **35** transactions to be tested for UCOA coding compliance.

## **Uniform Chart of Accounts (UCOA) – Annual Compliance Testing Requirements**

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- School districts, regional school districts, collaborative, or charter schools, having aggregate fiscal year expenditures greater than \$5 million but less than \$50 million, shall utilize a minimum sample size of **45** transactions to be tested for UCOA coding compliance provided there are no significant deficiencies and material weaknesses in internal control over financial reporting related to the accounting and financial reporting practices as reported in the current and prior audit. School districts, regional school districts, collaboratives, or charter schools with expenditures greater than \$5 million which also have significant deficiencies and material weaknesses in internal control over financial reporting related to the accounting and financial reporting practices as reported in the current and prior audit shall utilize a minimum sample size of **60** transactions.
- School districts, regional school districts, collaboratives, or charter schools, having aggregate fiscal year expenditures greater than \$50 million, shall utilize a minimum sample size of **60** transactions to be tested for UCOA coding compliance.

Examine supporting vendor invoices, journal entries, and other supporting documentation to determine if the expenditure has been appropriately classified based upon UCOA classification requirements included in the Uniform Chart of Accounts guidance for the fiscal year. The segments of the account number to be tested for compliance shall include the following:

- Fund/Subfund
- Location
- Function
- Program
- Subject
- Object
- Job classification (for applicable personnel costs)

For personnel costs selected for testing, Location (school/department) and Job Classification shall be tested by tracing the employee to the entity's assignment roster for the applicable school year.

All noncompliance found in the sample of expenditure transactions tested for compliance with UCOA classification requirements shall be reported. Each instance of noncompliance shall describe the transaction and the specific noncompliance observed.

**2. Total activity (revenue and expenditures) of the entity for the fiscal year as reported (uploaded) to the UCOA database as of the final upload date shall be reconciled to the total activity within each Fund/Subfund of the municipal school district, regional school district, collaborative, or charter school as reported in the final audited financial statements.**

Any variance in revenue or expenditures between the total amounts reported (uploaded) to the UCOA database and audited amounts reported within the Fund/Subfund of the municipal school district, regional school district, collaborative, or charter school shall be reported. For UCOA reporting purposes, transfers between funds on a GAAP basis (e.g., transfer of appropriations from the municipality's general fund to the unrestricted school fund) are treated as revenues in the unrestricted school fund.

## Uniform Chart of Accounts (UCOA) – Annual Compliance Testing Requirements

**Note:** When variances are reported between the UCOA upload file and the audited financial statements, the entity may be required to amend its UCOA upload file to include final amounts which reflect audit adjustments.

- 3. Costs for debt service and lease and rental of buildings must be recorded consistent with specific UCOA requirements. Amounts charged to Function 421 should be reconciled to the sum of expenditures considered debt service for financial reporting purposes and annual or longer term leases for rental of the main school facility (or facilities if the school has more than one location). Short-term leases should not be included in Function 421.**

### UCOA Rules to be Tested:

- ❖ *Debt Service related to buildings or building and land leases is included in Function 421 (Debt Service); these are **not** charged to Function 321 (Building Upkeep, Utilities, and Maintenance).*
- ❖ *Expenditures for rental of the main facility (or facilities if the school has more than one location) must be charged to Function 421 (Debt Service). This provides a level of comparability between those that rent facilities and those that own them.*
- ❖ *Annual or Longer term Leases must be charged to Function 421 (Debt Service). Short-term leases and rentals should be charged to Function 321 (Building Upkeep, Utilities and Maintenance).*
- ❖ *Short-term or revolving credit debt is included in Function 332 (Business Operations); these are **not** charged to Function 421 (Debt Service).*

- 4. Payroll costs are subject to various UCOA coding requirements. Determine if the entity's procedures for payroll related costs support the following UCOA requirements:**

- **Benefit costs are charged in the same manner as direct wages – e.g., to the same Fund/Subfund, Location, Function, Program, Subject, and Job Classification and in the same proportion when allocated to more than one Fund/Subfund. Healthcare benefit costs are allocated consistent with the employees wages based on actual insurance premiums or, in the case of employers who are self insured, based on working rates.**
- **The entity has made a determination as to whether any employee meets the conditions that would require allocation of salary and benefits to more than one Fund/Subfund, Location, Function, Program or Subject and has supporting documentation for that determination, (e.g., department heads, nurses who also teach, etc.)**
- **Wages for Short-term substitute teachers are charged to Subject 0000. Wages for short-term substitute teacher support personnel and long-term substitute teachers should follow the Location, Program, and Subject accounts as used with the employees whom they are replacing.**

Determine whether the entity's payroll system directly interfaces with the entity's general ledger accounting system and whether it is designed to post directly to the appropriate UCOA account or if there are a significant amount of manual adjustments and journal entries to allocate payroll related cost

## Uniform Chart of Accounts (UCOA) – Annual Compliance Testing Requirements

to the appropriate UCOA account. Determine if the entity has reasonable and sufficient procedures in place to meet the payroll and related benefit requirements of the UCOA.

Review one payroll period posting to assess compliance with UCOA payroll allocation requirements (this may be satisfied through payroll transactions tested in the sample of transactions tested for compliance in compliance testing requirement No. 1).

If the entity is using the intra-fund UCOA allocation tool, allocations are performed within the UCOA database and therefore testing is not required for benefit allocations made within that Fund/Subfund.

### UCOA Rules to be Tested:

- ❖ *In all cases, compensation costs and related benefit costs for each employee must be accounted for in the same Fund/Subfund – they may not cross Funds. Districts may NOT account for the compensation in one Fund/Subfund and the benefits in another. For example, if 50% of an individual’s salary is charged to the General Fund and 50% to a Special Revenue Fund, then the allocations of Benefits MUST follow the exact same percentages. When related to a particular grant, if the grant is insufficient to cover all the costs, the same prorated amount for each category (compensation and benefits) shall be used up to the limit of the grant.*
- ❖ *Allocation to the Function segment for Salary and Benefits for employees that perform multiple functions are to be recorded using the following guidelines. If an employee has a “Hands-On” relationship to the multiple activities being performed and performance of those duties requires a minimum of 20% of their time, those costs must be charged to the appropriate Function accounts accordingly. If however, the role is more of an oversight role of supervising or managing others who perform the “Hands-On” work, then no charges must be made for these activities, even if the amount of time expended exceeds 20% of the employee’s time.*
- ❖ *For Department Heads, House Leaders, and System-wide Supervisors, that portion of regular salary for teaching periods is charged to object 51110 (Regular Salaries); for non-teaching periods, that prorated portion is charged to Object 51132 (Department Heads, House Leaders, and System-wide Supervisors). Stipends for these positions are to be charged to Object 51401 (Stipend – Other).*
- ❖ *For Nurse Teachers, even if face-to-face teaching occurs, charge to Function 216 (Student Health Services – Medical), not Function 111 (Instructional Teachers).*
- ❖ *Nurses and other non-standard instructors included in Function 216 (Student Health Services – Medical) who teach classes representing **less** than 10% of their time must code instruction time to Subject 2500 (Non-Instruction) unless the application of the rule would violate a rule or rules of a higher authority – refer to the Account Level Use Rules and Requirements for the precedence order of UCOA Rules. Those that teach **more** than 10% of their time must record instruction time to Subject 0000 (General Education).*
- ❖ *Wages for Short-term substitute teachers (Job Classifications 1295-1299) in Object 51115 (Salaries – Substitutes) when used with Function 112 (Substitute Teachers) is charged to Subject 0000. With Functions 221 and 222, use the appropriate Subject that is assigned to the Teacher for which the Substitute has been engaged to replace. Wages for Long-term substitute teachers (Job Classification 1294) should follow the Location, Program, and Subject accounts as used with the teacher whom they are replacing.*

## Uniform Chart of Accounts (UCOA) – Annual Compliance Testing Requirements

5. Professional Development costs are subject to various UCOA coding requirements. Determine if the entity has complied with the UCOA requirements for reporting Professional Development costs for three of the five Object accounts:
- Object 51113 represents the portion of a teacher’s regular salary, as specified in a contract or agreement, for professional days.
  - Object 51302 represents additional payments made to a teacher for after-hours school-based professional development.
  - Object 53301 represents third-party vendor costs (on-site or off-site) for providing professional development. For instruction-related personnel, the professional development costs should be posted to Function 222. For all other personnel, the professional development costs should be posted to the same Function account as the base wages.

A review of union contracts and the adopted budget will provide information related to professional development to be offered to teachers.

Review payroll records to verify compliance with UCOA rules for Objects 51113 and 51302. (This may be satisfied by testing one payroll record which includes postings to both Object accounts and which may have been selected in compliance testing requirement 1 or 4).

Select a sample size of 5 transactions posted to Object 53301 (If less than 5 total transactions, sample all transactions). Examine the supporting vendor invoice to identify the specific employee(s) receiving professional development services and trace the employee name to the payroll record to determine the Function account to which base wages (Object 51113) were charged. Verify the professional development costs were posted to the proper Function account based on the UCOA rules for the Function series. (Expenditures selected in Compliance Testing Requirement No. 1 may be also used to satisfy this compliance testing requirement.)

### UCOA Rules to be Tested:

**DEFINITION: Object 51113 - Professional Days.** Full-time, part-time, and prorated portions of the costs for professional development days for employees of the District.

- ❖ Include in **Object 51113** (Professional Days) the amount prorated from Object 51110 (Regular Salaries) the actual number of days included in applicable contracts and agreements relating to Professional Days or Professional Development or prorated based on the anticipated number of days if not specified in the contracts.
- ❖ For **Object 51113**, use Function 222 only for employees whose Regular Salary (Object 51110) is charged to the 100 and 200 Function Series. For all others, use the same Function account used for their Regular Salary in the 300, 400, and 500 Series. Functions 000, 411, 421, 422, 441, 997, 998, and 999 may not be used. For each employee, use the same Location, Program, Subject, and Job Classification account number as is used with Object 51110 (Regular Salaries).

**DEFINITION: Object 51302 – Professional Development - School.** Amounts paid to District employees (in addition to regular salaries) for professional development that is related to School-based (and budgeted at the School level) professional development.

## Uniform Chart of Accounts (UCOA) – Annual Compliance Testing Requirements

- ❖ **Object 51302** (*Professional Development – School*) - only that Professional Development that is paid on an hourly basis.
- ❖ For **Object 51302**, use Function 222 only for employees whose Regular Salary (Object 51110) is charged to the 100 and 200 Function Series. For all others, use the same Function account used for their Regular Salary in the 300, 400, and 500 Series. Functions 000, 411, 421, 422, 441, 997, 998, and 999 may not be used. For employees whose Function account is in the 100 or 200 series, 511, or 512, as used with Object 51110 (Regular Salaries), use the specific Subject account for the subject they have received Professional Development known as the "Follow the Topic" concept. If not Subject-specific, for General Education courses related to Instruction, use Subject 0000. For courses not related to Instruction, use Subject 2500. For employees whose Function account is in the 300 or 400 series, 521, 531, or 532, as used with Object 51110 (Regular Salaries), use Subject 2500 **only**.

**DEFINITION: Object 53301 – Purchased Professional Development and Training Services.** Services supporting the professional development and training of District personnel, including instructional and administrative employees.

- ❖ For **Object 53301**, use Function 222 only for employees whose Regular Salary (Object 51110) is charged to the 100 and 200 Function Series. For all others, use the same Function account used for their Regular Salary in the 300, 400, and 500 Series. Functions 000, 411, 421, 422, 441, 997, 998, and 999 may not be used. Use the specific Subject account for the Subject to which Professional Development Services are rendered ("Follow the Topic"). For General Education courses related to Instruction, use Subject 0000. For courses not related to Instruction, use Subject 2500.

## Uniform Chart of Accounts (UCOA) – Annual Compliance Testing Requirements

### COMPLIANCE REPORTING REQUIREMENTS

Auditors shall follow the guidance included in the AICPA Codification of Statements on Standards for Attestation Engagements – AT Section 601 – Compliance Attestation – paragraphs .01 through .29

The auditor shall provide a written report in accordance with the applicable sections of the Statements on Standards for Attestation Engagements as highlighted above.

Additionally, any noncompliance with UCOA requirements and the effectiveness of the entity's internal control over compliance with UCOA requirements should be considered in drafting the Independent Auditor's 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*.

Management comments provided to the entity should be inclusive of any recommendations to improve compliance or controls over compliance with UCOA requirements.

A sample report follows:

#### **Independent Accountant's Report on Applying Agreed-Upon Procedures**

We have performed the procedures enumerated in Exhibit 1, which were agreed to by the Rhode Island Department of Education (RIDE), solely to assist RIDE in evaluating the (entity's) compliance with the Uniform Chart of Accounts during the fiscal year ended June 30, 20xx and the effectiveness of the (entity's) internal control over compliance with the aforementioned compliance requirements as of June 30, 20xx. Management is responsible for the (entity's) compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this 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.

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 information and use of the Rhode Island Department of Education, the *Entity*, and the Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

**Uniform Chart of Accounts (UCOA) – Annual Compliance Testing Requirements**

**EXHIBIT 1**

**REQUIREMENT 1:**

A minimum sample of randomly selected expenditure transactions for the municipal school district, regional school district, collaborative, or charter school shall be tested for compliance with UCOA coding requirements.

**PROCEDURES:**

Obtain a copy the school entity’s signed acknowledgment of the UCOA File Validation Totals Report received from the RI Department of Education (RIDE). Obtain a detailed transaction level file from the school entity’s accounting system which corresponds with the final UCOA upload file provided to RIDE.

Describe procedures for selecting the sample, the sample size selected, and the tests performed. Please note - If an interim file is used for selecting the sample, reconcile changes from the interim file to the final upload and determine the significance of any changes and whether additional testing is warranted.

**RESULTS:**

For each instance of noncompliance, enter the transaction detail in the table below. Highlight the account number segment that is not in compliance, as shown in the example below. Describe the purpose of each transaction, the error(s), and correction(s) immediately following the table. Rows may be added or deleted from the table, as necessary.

Item	Fund/ Subfund	Location	Function	Program	Subject	Object	Job Class (personnel costs only)	Date	Payee	Amount	Corrected per final UCOA file
A	10000000	05105	214	10	2500	51110	1712	03/15/12	Nurse Employees	\$5,000.00	Yes
B	XXXXXXXX	XXXXX	XXX	XX	XXXX	XXXX	XXXX	XX/XX/XX	XXXXXXXXXXXXXXXXXXXXXXXXXXXX	\$X,XXX,XXX.XX	Yes/No
C	XXXXXXXX	XXXXX	XXX	XX	XXXX	XXXX	XXXX	XX/XX/XX	XXXXXXXXXXXXXXXXXXXXXXXXXXXX	\$X,XXX,XXX.XX	Yes/No

A – The regular salaries for nurse employees were charged to Function 214, but should have been charged to Function 216.

B -

C -

**SCHOOL RESPONSE:** (if applicable)



## Uniform Chart of Accounts (UCOA) – Annual Compliance Testing Requirements

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### **REQUIREMENT 3:**

Costs for debt service and lease and rental of buildings must be recorded consistent with specific UCOA requirements. Amounts charged to Function 421 should be reconciled to the sum of expenditures considered debt service for financial reporting purposes and annual or longer-term leases for rental of the main school facility (*or facilities if the school has more than one location*). Short-term leases should not be included in Function 421.

### **PROCEDURES:**

Subtotal expenditures posted to Function 421 (Debt Service) in the final UCOA upload file and compare to the amounts reported in the audited financial statements for debt service payments and rental payments under long-term lease agreements for main school facilities. Determine the reasons for any variances.

### **RESULTS:**

Describe results.

**SCHOOL RESPONSE:** (if applicable)

### **REQUIREMENT 4:**

Payroll costs are subject to various UCOA coding requirements. Determine if the entity's procedures for payroll related costs support the following UCOA requirements:

- a. Benefit costs are charged in the same manner as direct wages – e.g., to the same Fund/Subfund, Location, Function, Program, Subject and Job Classification and in the same proportion when allocated to more than one Fund/Subfund. Healthcare benefit costs are allocated consistent with the employees wages based on actual insurance premiums or, in the case of employers who are self-insured, based on working rates.
- b. The entity has made a determination as to whether any employee meets the conditions that would require allocation of salary and benefits to more than one Fund/Subfund, Location, Function, Program, or Subject and has supporting documentation for that determination, (e.g., department heads, nurses who also teach, etc.)
- c. Wages for Short-term substitute teachers are charged to Subject 0000. Wages for short-term teacher support personnel and long-term substitute teachers should follow the Location, Program, and Subject as used with the employees whom they are replacing.

## Uniform Chart of Accounts (UCOA) – Annual Compliance Testing Requirements

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### PROCEDURES:

Determine whether the entity's payroll system directly interfaces with the entity's general ledger accounting system and whether it is designed to post directly to the appropriate UCOA account or if there are a significant amount of manual adjustments and journal entries to allocate payroll related cost to the appropriate UCOA account. Determine if the entity has reasonable and sufficient procedures in place to meet the payroll and related benefit requirements of the UCOA.

Review one payroll period posting to assess compliance with UCOA payroll allocation requirements (this may be satisfied through payroll transactions tested in the sample of transactions tested for compliance in compliance testing requirement No. 1). Describe sample selection process. (Please note - If the entity is using the intra-fund UCOA allocation tool, allocations are performed within the UCOA database and therefore testing is not required for benefit allocations made within that Fund/Subfund.)

### RESULTS:

Describe payroll system and whether the system interfaces directly with the general ledger system and whether it is designed to post directly to the proper UCOA code or if there are a significant amount of manual adjustments and journal entries to allocate payroll costs. Conclude if the entity's procedures are reasonable and sufficient to meet the payroll and related benefit requirements of UCOA.

Describe results of compliance tests performed. Each instance of noncompliance shall describe the transaction detail (including dollar amount) and the specific noncompliance observed. Also, please note whether the error was corrected in the final upload file.

**SCHOOL RESPONSE:** (if applicable)

### REQUIREMENT 5:

Professional Development costs are subject to various UCOA coding requirements. Determine if the entity has complied with the UCOA requirements for reporting Professional Development costs for three of the five Object accounts:

- a. Object 51113 represents the portion of a teacher's regular salary, as specified in a contract or agreement, for professional days.
- b. Object 51302 represents additional payments made to a teacher for after-hours school-based professional development.
- c. Object 53301 represents third-party vendor costs (on-site or off-site) for providing professional development. For instruction-related personnel, the professional development costs should be posted to Function 222. For all other personnel, the professional development costs should be posted to the same Function account as the base wages.

## **Uniform Chart of Accounts (UCOA) – Annual Compliance Testing Requirements**

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### **PROCEDURES:**

Review union contracts and adopted budget to identify professional development offered to teachers.

Review payroll records to verify compliance with UCOA rules for Objects 51113 and 51302. (This may be satisfied by testing one payroll record which includes postings to both Object accounts and which may have been selected in compliance testing requirement 1 or 4).

Describe procedures for selecting a sample of transactions posted to Object 53301 (Expenditures selected in Compliance Testing Requirement No. 1 may be also used to satisfy this compliance testing requirement). Examine the supporting vendor invoice to identify the specific employee(s) receiving professional development services and trace the employee name to the payroll record to determine the Function account to which base wages (Object 51113) were charged. Verify the professional development costs were posted to the proper Function account based on the UCOA rules for the Function series.

Describe any additional procedures performed.

### **RESULTS:**

Describe results of compliance tests performed. Each instance of noncompliance shall describe the transaction detail (including dollar amount) and the specific noncompliance observed. Also, please note whether the error was corrected in the final upload file.

**SCHOOL RESPONSE:** (if applicable)