

**REQUEST FOR PROPOSAL  
CITY OF PAWTUCKET, RHODE ISLAND  
AUDIT AND AGREED-UPON PROCEDURES SERVICES**

**Introduction**

The Pawtucket City Council will receive proposals for auditing service for the fiscal years 2014-2015, 2015-2016, and 2016-2017 for annual audits of the financial records of the City of Pawtucket, including the School Department, the Community Development Block Grant, the Pawtucket Redevelopment Agency, and the City's Federal Programs.

The School Department implemented a Uniform Chart of Accounts (UCOA). 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.

Continuation beyond the initial year will be at the discretion of the City. The City may reserve the right to reject the lowest bidder if it deems that it does not possess the personnel, experience, and other resources to complete the audit in accordance with the audit specifications/requirements. The City may also reject all bids.

The proposals will also include a separate audit report for the same time periods of the Pawtucket Water Supply Board.

Chapter 5, Section 2-503 of the City Charter specifies that the City Council shall employ the services of a certified public accountant or a firm of certified public accountants, none of whom shall be officers or employees of the city, holding a certificate or certificates from the State of Rhode Island, or from any other state with whom the State Board of Accountancy has a reciprocal relationship, to make a detailed post audit of the financial records of the City of Pawtucket.

**Due Dates for Completion of Audit Delivery of Reports**

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). For Pawtucket the fiscal year ends June 30, the reports must be filed by December 31 of each year.

A copy of the final written correspondence, The Auditor's Communication with Those Charged with Governance, shall also be delivered to the State Auditor General.

**Audit Standards**

1. The audit will be required to be conducted in accordance with generally accepted auditing standards established by the American Institute of Certified Public Accountants.
2. The audit shall be conducted in accordance with the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. If a single audit is required then 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 Government and Non-Profit

Organizations, must be followed. The federal government released new federal audit requirements for state and local governments receiving federal funds. The new audit requirements will become effective for the fiscal 2016 audit. References to OMB Circular A-133 as included herein shall be superseded by those new requirements (OMB Guidance 2 CFR part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards - Subpart F – Audit Requirements) for audit periods after fiscal 2015.

### **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 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 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 to the City.

### **Audit Contract**

Any representations made with the submission will be relied upon and if proven to be false will be grounds for termination of the contract, if awarded. False representations will also be grounds for forfeiture of all payments under the contract. This will not limit the City from seeking any other legal or equitable remedies.

Any amendments to the contract for additional work 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, then the city as its option may rescind the option period.

The audit firm should make recommendations for the City to comply with the Governmental Accounting Standards Board (GASB) Statements as they pertain to accounting for capital and capital improvements (fixed assets), and also to continue the reporting format in compliance with applicable financial reporting standards. Audit firm will assist the Finance Director in complying with the Management, Discussion, and Analysis.

A copy of the auditor's report is due no later than December 31, following the close of the fiscal year for each of the three years to be included in the audit. If this is not accomplished by the auditing firm a penalty shall be assessed in the amount of 1% per week for each week the audit is delayed.

The audit fee shall be inclusive of all expenses. The auditor's may bill on a monthly basis for work performed (up to 90% of the contract price). The city requires that along with the bill, a work in progress report also be submitted. The City will retain 10% of the contract price until the auditors give the City all final reports. The dollar cost bid should specifically identify the fee for the audit services and the fee for the agreed-upon procedures. **SEE FEE PROPOSAL SHEET ATTACHED – EXHIBIT A**

### **Audit Scope Requirements**

The City of Pawtucket will provide the auditors with a trial balance and various departmental schedules. Based upon this data provided by the City to the auditors, the auditors shall prepare the financial statements, which shall include the following schedules as well as any other schedules requested by the City, and/or the Director of Revenue and/or the Auditor General 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 Tax Collector's Annual Report within Other Supplementary Information shall meet the requirements of RIGL 45-10-6 for additional information to the basic financial statements.

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.*

A representative of the firm will be expected to appear before the City Council and School Committee to present the findings of the audit and any requested work sessions.

The firm will also provide consent letter to use audit report as an appendix to disclosure documents such as preliminary official statements and final official statements for bond offerings, if needed.

The audited financial statements shall include the following:

#### **INTRODUCTORY SECTION**

List of City Officials  
Organizational Chart

#### **FINANCIAL SECTION**

Independent Auditors' Report  
Management Discussion and Analysis  
Basic Financial Statements:

##### Government-Wide Financial Statements

Statement of Net Position  
Statement of Activities

##### Fund Financial Statements

Balance Sheet – Governmental Funds  
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to Statement of Activities  
Statement of Net Position – Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds  
Statement of Cash Flows – Proprietary Funds  
Statement of Net Position – Fiduciary Funds  
Statement of Changes in Net Position – Fiduciary Funds

Notes to the Financial Statements

Required Disclosures and Other Information

Required Supplementary Information (RSI) to the Financial Statements

Budgetary Comparison Schedule – General Fund – Schedule  
Revenues and Expenditures – Budget and Actual (Budgetary Basis)  
Budgetary Comparison Schedule – General Fund – Schedule of Revenues – Budget and Actual (Budgetary Basis)  
Budgetary Comparison Schedule – General Fund – Schedule of Expenditures – Budget and Actual (Budgetary Basis)  
Budgetary Comparison Schedule – School Unrestricted Fund – Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)  
Schedule of Funding Progress  
Schedule of Changes to City’s Net Pension Liability and Related Ratios  
Schedule of Employer Contributions  
Notes to Required Supplementary Information  
Police and Fire Plan Schedule of City’s Contributions  
Schedule of Investment Returns

Other Supplementary Information

Combining Balance Sheet – Non-major Governmental Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds  
Combining Balance Sheet – City Special Revenue Funds  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – City Special Revenue Funds  
Combining Balance Sheet – HUD Special Revenue Funds  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – HUD Special Revenue Funds  
Combining Balance Sheet – School Restricted Funds  
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – School Restricted Funds  
Combining Balance Sheet – Capital Projects Funds  
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – Capital Project Funds  
Combining Balance Sheet – Permanent Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Permanent Funds  
Combining Statement of Changes in Assets and Liabilities – Agency Funds

**STATISTICAL SECTION**

Tax Collector’s Annual Report  
Computation of Legal Debt Margin

**SINGLE AUDIT SECTION**

- Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by OMB
- 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
- Schedule of Expenditures of Federal Awards and Notes Thereto
- Schedule of Finding and Questioned Costs
- Corrective Action Plan
- Summary Schedule of Prior Year Findings

In addition, the audit firm will also have to complete the following for the School Department:

1. Perform an audit on all school activity savings and checking accounts, and certificates of deposits for each fiscal year, to ensure proper accounting procedures are being applied.
2. Perform Compliance Reporting to insure the Special Education Department, Title I program, and any other major federal funds are in compliance with all Federal Laws and Regulations.
3. Perform an audit on the School Lunch Program.

The auditors will prepare eighty (80) copies of the financial statements and one reproducible copy for additional distribution. Also, we require 20 copies of the Agreed-Upon Procedures report on the School Department’s compliance with the Uniform Chart of Accounts. The auditors will also provide a disk in PDF Format to allow for reproduction of the Audit Report on the City’s Website.

The agreed-upon procedures report shall be provided 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 audit of the Pawtucket Water Supply Board shall make a detailed analysis of financial activity in preparation of a Balance Sheet, Statement of Revenues, and Expenditures, Statement of Changes in Fund Balance, Schedule of Revenues and Expenditures Budget and Actual, and a Statement of Cash Flow. A Schedule of Long-Term Debt Maturities and a Schedule of Authorized but Unissued Debt shall also be prepared. The auditor chosen may also be required to provide consultation on a variety of issues subsequent to the financial audit. Such work would be considered separate from the main audit and would be billable at a standard hourly rate.

The audit shall be accompanied by a certificate of the independent public accountant or firm of accountants regularly auditing the books of the City in accordance with Section 609 (Trust Indentures / Net Revenues) setting forth the Net Revenues for the preceding Fiscal Year.

In accordance with Government Auditing Standards, the firm providing non-audit services must evaluate whether providing the services creates and independence impairment either in fact or appearance with respect to the audit of the City.

The auditors will be required to issue twelve (12) separate bound copies of the Pawtucket Water Supply Board audit only and one reproducible copy for additional distribution in any “nearly final”“,preliminary” or “final” official statement produced to market bonds or notes of the Pawtucket Water Supply Board. The auditors will also provide a disk in PDF Format to allow for reproduction of the Audit Report on the City’s Website and for additional distribution.

Please keep your proposals within a limit of fifteen pages. A brief (2 page) executive summary should accompany each proposal.

### **Scope of Agreed-Upon Procedures Engagement For The Uniform Chart of Accounts**

The audit of the School Department's records must conform to Federal and Rhode Island laws, and the guidelines established by the State Board of Regents of Education. The Pawtucket School Department implemented a new Uniform Chart of Accounts as promulgated by the Auditor General and Commissioner of Education in accordance with Rhode Island General Law 16-2-9-4. This will require additional testing for each fiscal year.

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.

Any amendments to the contract for additional work 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, then the City as its option may rescind the option period.

SEE ATTACHMENT A FOR THE AGREED-UPON PROCEDURES. Please note that the agreed-upon procedures may be subject to subsequent modification.

### **Audit Reports**

1. Draft copies of all audit report (s) and the management letter shall be submitted to the Finance Director and City Council via the City Clerk of the City prior to the exit conference so that there will be adequate time for review.

### **Management Letter**

1. The audit specifications shall provide for the submission of a management letter upon completion of the audit to Director of Finance and City Council via the City Clerk of the municipality, with copies to the State Director of Revenue and the Auditor General.
2. The management letter should 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 the rules and regulations established by the municipality.

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

The following information must be contained in a written representation by the audit firm to the City:

- The current status of the professional license of the firm, partner-in-charge, and senior accountant in charge of the fieldwork;
- Staffing information including:
  1. firm size
  2. number of staff allocated to the audit job,
  3. relevant qualifications and experience of each person assigned to the audit job;
- The amount and type of professional liability coverage;
- a 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;
- information regarding any lawsuits or claims against the firm, pending or resolved;
- a statement of relevant experience including a list of municipal or other governmental audits performed in the last five years;
- expected time budget and completion date for the audit;
- a statement that there exist no client conflicts which would inhibit the ability to perform the audit in accordance with professional standards;
- representation that the private auditor is independent under the requirements of the American Institute of Certified Public Accountants including those in Interpretation 10 Rule 101 of the AICPA Code of Professional Ethics and Government Auditing Standards;
- representation that the private auditor of a municipality meets the continuing educational requirements of Government Auditing Standards.
- 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; and
- representation that the private auditor is familiar with generally accepted accounting principles for state and local government units and with the 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and OMB Guidance 2 CFR part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards - Subpart F – Audit Requirements. The private auditor will conduct the audit and report in accordance with those standards.

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

It is understood that the contract between the City 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). This information includes but is not limited to financial data, analysis, audit documentation, and memorandum. Audit documentation of the independent auditors 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 competent jurisdiction to enforce this provision.

**Other**

Any change in the scope of audit service must be approved by the City Council prior to the work being completed.

The City reserves the right to pay the selected vendor via credit card or Electronic Funds Transfer (EFT) at its sole discretion.

The successful bidder should prepare a written contract, which embodies all of the terms of the RFP to be reviewed by the Law Department and ultimately approved by the City Council.

If you are interested in submitting a proposal for auditing and agreed-upon procedures services for the three fiscal years mentioned previously, please; mark you package “PROPOSAL FOR AUDIT AND AGREED-UPON PROCEDURES SERVICES”. It should be sent to: David P. Moran, President, Pawtucket City Council, C/O Richard J. Goldstein, City Clerk, Pawtucket City Hall, 137 Roosevelt Avenue, Pawtucket, Rhode Island 02860.

Your proposal must be received at the above address NO LATER THAT 4:00 P.M., ON APRIL 22, 2015. All proposals will be opened at a Finance Committee meeting of the Pawtucket City Council.

An evaluation committee will be comprised of individuals knowledgeable about auditing and financial reporting matters. Proposals will be evaluated using the following scoring weights resulting in a maximum score of 100 points:

	<b>Maximum points</b>
Overall qualifications and experience of the firm and the specific engagement personnel to be assigned focusing on experiences with governmental entities and the specific line of business or services provided by the entity to be audited.	40
Overall audit approach and audit strategy described/outlined in the proposal and firm capacity to perform the engagement within the specified timeframe (prior experience of the firm in meeting timelines should be factored in here)	30
Audit fees - See formula for points awarded for audit fees	30

(*) 30	
<b>Maximum evaluation points 100</b>	<b>100</b>

\* Evaluation technique – audit fees

Audit fee score = (lowest qualified bid/bid for firm being evaluated) X 30 points

**Example:** Assuming 3 bids received were: (firm A) - \$40,000, (firm B) - \$46,000, (firm C) - \$50,000

Firm A (the lowest bidder)	awarded 30 points	$\$40,000/\$40,000 \times 30 \text{ points} = 30$
Firm B	awarded 26 points	$\$40,000/\$46,000 \times 30 \text{ points} = 26$
Firm C	awarded 24 points	$\$40,000/\$50,000 \times 30 \text{ points} = 24$

An evaluation grid will be prepared summarizing the scoring by each member of the evaluation committee and the composite ranking. If any firm is disqualified and therefore not evaluated, the reason for such action shall be documented.

**EXHIBIT A**  
**FEE PROPOSAL SHEET**

The following format should be submitted with this request. Billing will need to be separate for the City, including its agencies, and the Pawtucket Water Supply Board.

FEE PROPOSAL

Submitted by: \_\_\_\_\_

	City Audit	Agreed-Upon Procedures – School UCOA	PWSB Audit	Grand Total
FY15	\$	\$	\$	\$
FY16	\$	\$	\$	\$
FY17	\$	\$	\$	\$
TOTAL	\$	\$	\$	\$

**EXHIBIT B:**

**ANTI-KICKBACK ACKNOWLEDGMENT**

**ALL BIDDERS/OFFERORS MUST ATTEST TO THE FOLLOWING:**

The vendor acknowledges, under the pains and penalties of perjury, that he/she has not been offered, paid, or solicited for any contribution or compensation, nor has he/she been granted a gift, gratuity, or other consideration, either directly or indirectly by any officer, employee or member of the governing body of the City of Pawtucket who exercises any functions or responsibilities in connection with either the award or execution of the project to which this contract pertains.

Further, the vendor acknowledges, under the pains and penalties of perjury, that he/she has not offered, paid, or solicited by way of any contribution or compensation, nor has he/she granted a gift, gratuity or other consideration either directly or indirectly to any officer, employee, or member of the governing body of the City of Pawtucket who exercises any functions or responsibilities in connection with either the award or execution of the project to which this project or contract pertains.

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**SIGNATURE OF BIDDER/OFFEROR**

**DATE**

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**TITLE**

**COMPANY**

**Title of RFP or BID:**

**Request for Proposal Audit and Agreed-Upon Procedures Services**

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## 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.

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- ❖ **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.

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### 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)



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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.

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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.

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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)