

GORENZ DISTRICT NEWSLINE

A newsletter of audit significance from Gorenz and Associates, Ltd., Peoria, IL December 2009

We've MOVED!

Effective November 30, 2009 our address is **4200 N. Knoxville Ave., Peoria, IL 61614!**

Have you properly coded your Driver's Education revenue and expense?

The Illinois legislature mandated two years ago that the Illinois State Board of Education (ISBE) should garner information on the "profitability" of driver's education programs. The ISBE incorporated account number changes in the Illinois Program Accounting Manual (IPAM) last year in order to capture this information. What we found during our FY09 audits was that most districts were properly coding driver's ed revenues (Accounts 1970 local and 3370 state), but not the expenditures. The IPAM established a new expenditure function of 1700 for Driver's Education Program. Be certain that you are coding ALL related salaries, benefits, purchased services, supplies, etc. to this new account number. We wouldn't want to see the Illinois legislature come to the conclusion that schools are making money on their driver's education programs only because the expenditures have not been properly segregated.

Are you using the new IPAM numbers for tuition?

Another common problem found in our FY09 audits was the continued use of .8 objects for tuition expenses. ISBE changed the .8 object to be used for Termination Benefits as of July 1, 2008. Tuition expenses to private schools have a whole new set of functions, from 1910 for Pre-K to 1922 for Truant Alternative Programs. Tuition paid to other governments also has a new set of functions from 4210 for regular programs to 4280 for "Other Programs".

Do you actually have "Non-Capitalized Equipment"?

ISBE also changed the .7 object for transfers to "Non-Capitalized Equipment". This was done due to a perception at the ISBE that many capital expenditures were inappropriately being charged to supplies. Particularly since the advent of GASB 34 and the institution of capitalization policies by schools that are significantly greater than ISBE's \$500 threshold for grants. If you have established a capitalization policy of greater than \$500, then any purchases between \$500 and your capitalization threshold should be recorded in the .7 object for the appropriate account function. If you are still utilizing the \$500 threshold then you will NEVER use the .7 object.

Do you provide "Other Post Employment Benefits"?

Before you quickly say no, let's define Other Post Employment Benefits. Other Post Employment Benefits is any benefit received by an employee after their termination, other than pension benefits. "Any benefit" would include a discounted health insurance premium due to participation in a group health insurance plan that includes younger individuals in the risk pool. This is a very common scenario and one that will have to be revealed in ALL school audit reports for the fiscal year ending June 30, 2010. Districts that had revenues in excess of \$10 million in 1999 were required to start revealing this actuarially determined information for the fiscal year ended June 30, 2009.

If you decide you want to disclose this unfunded liability, you should contact an actuary now. These calculations are not overly burdensome for the appropriate professional to produce, but with the increased demand for this information it is certain that the actuarial firms performing this type of work are going to be extremely busy.

If you opt not to make this disclosure, we will report an additional exception in the district's audit opinion for not providing this required disclosure in your audited financial statements.

How are you recording payments on your lease purchase contracts and other non-bonded debt?

ISBE also changed the IPAM in this regard. Per the new IPAM and the Annual Financial Report, ALL debt payments should be made in the Debt Service Fund. That means that any capital leases, or other long term debt, that is actually funded in Ed, O&M, or Transportation should be transferred to the Debt Service Fund and then the payments made from there. This even includes ISBE technology revolving loan payments.

Are IMRF auditors coming to see you?

We have had several districts report that IMRF auditors have visited their districts and are questioning the division of the fund balance in the IMRF/Social Security Fund. Many districts have levied equal amounts for IMRF and Social Security for a number of years, due to the unrestricted rates on both levies, and the fact that they were both placed in the same fund. The IMRF auditor's concerns were that possibly one or the other levy has been used to pay for the opposite expenditure, not the one it was designed for. While this is difficult to prove, it is not impossible. The district's we have worked with were able to show the history of expenditures for the last five years and allocated the beginning balance at that time accordingly. Then they came up with a restricted balance division of the fund as of year-end. This allocation will now be tracked in these districts going forward and probably should be at your school too.

Are ALL of the ARRA Funds my district received required to be audited?

Yes. ALL grant funds received under the American Recovery and Reinvestment Act are subject to audit. This is true whether your district is subject to the Single Audit Act (federal grant expenditures exceeding \$500,000) or not. You should be aware that those funds are required to be "segregated" in your accounting records. This means that you must appropriately record the revenue in the assigned ISBE account number AND segregate the related expenditure of those funds in to separate expense accounts. If this has not been done previously you should make every effort to journal entry those expenses to the appropriate accounts as soon as possible. If moving expenses by journal entry be sure to adequately document the amounts and the reason for the transfer.

Another difference with ARRA funds is the definition of eligible expenses. Generally speaking federal grant expenditures spent prior to grant approval are NOT eligible expenses. For ARRA funds this has been changed to the application date, assuming that the application was in "substantially approvable form" (ISBE verbiage, not ours). ISBE has stated that their staff will also be reviewing/auditing ALL ARRA funds. So be sure that your documentation is complete and accurate.

Do we have to bid our audit services?

Well, the answer is NOT YET. Proposed legislation, HB0744 and SB0226 (which have passed their respective houses and contain the exact same language with regard to this topic), would require that school districts bid out their audit services at least once every five years. As currently written the requirement would become effective July 1, 2010, so that means this requirement would not be effective until the fiscal year ending June 30, 2011. That is assuming that the current legislation passes both houses and the governor agrees to sign it.

Our concern with this requirement is not the competitive nature of the bidding process, but the fact that school districts are use to accepting the lowest responsible bidder. This legislation has no such requirement. So, school districts should be looking to utilize an interview process in order to discern the qualifications and expertise of the accounting firm(s) that they are considering to perform this important task.

Gorenz and Associates, Ltd.

Certified Public Accountants
4200 N. Knoxville Ave.
Peoria, IL 61614
(309) 685-7621

Visit us at -
www.gorenzcpa.com