

WISCONSIN LEGISLATIVE COUNCIL STAFF

RULES CLEARINGHOUSE

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CLEARINGHOUSE REPORT TO AGENCY

[THIS REPORT HAS BEEN PREPARED PURSUANT TO S. 227.15, STATS. THIS IS A REPORT ON A RULE AS ORIGINALLY PROPOSED BY THE AGENCY; THE REPORT MAY NOT REFLECT THE FINAL CONTENT OF THE RULE IN FINAL DRAFT FORM AS IT WILL BE SUBMITTED TO THE LEGISLATURE. THIS REPORT CONSTITUTES A REVIEW OF, BUT NOT APPROVAL OR DISAPPROVAL OF, THE SUBSTANTIVE CONTENT AND TECHNICAL ACCURACY OF THE RULE.]

CLEARINGHOUSE RULE 00-083

AN ORDER to repeal PI 14.03 (1) and (2) (d) 4.; to renumber PI 14.03 (1) (e) and (2) (a) 4. and 5. and (d) 5. to 7.; and to amend PI 14.02 (2) (g) and 14.03 (2) (a) 1. and 2. a. and c. and (d) 1. and Note and (4) Note and chapter PI 14 Appendix, relating to school district audits.

Submitted by **DEPARTMENT OF PUBLIC INSTRUCTION**

04-26-00 RECEIVED BY LEGISLATIVE COUNCIL.
05-10-00 REPORT SENT TO AGENCY.

RS:JLK:rv;tlu

LEGISLATIVE COUNCIL RULES CLEARINGHOUSE REPORT

This rule has been reviewed by the Rules Clearinghouse. Based on that review, comments are reported as noted below:

1. STATUTORY AUTHORITY [s. 227.15 (2) (a)]

Comment Attached YES NO

2. FORM, STYLE AND PLACEMENT IN ADMINISTRATIVE CODE [s. 227.15 (2) (c)]

Comment Attached YES NO

3. CONFLICT WITH OR DUPLICATION OF EXISTING RULES [s. 227.15 (2) (d)]

Comment Attached YES NO

4. ADEQUACY OF REFERENCES TO RELATED STATUTES, RULES AND FORMS [s. 227.15 (2) (e)]

Comment Attached YES NO

5. CLARITY, GRAMMAR, PUNCTUATION AND USE OF PLAIN LANGUAGE [s. 227.15 (2) (f)]

Comment Attached YES NO

6. POTENTIAL CONFLICTS WITH, AND COMPARABILITY TO, RELATED FEDERAL REGULATIONS [s. 227.15 (2) (g)]

Comment Attached YES NO

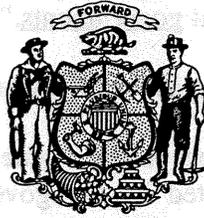
7. COMPLIANCE WITH PERMIT ACTION DEADLINE REQUIREMENTS [s. 227.15 (2) (h)]

Comment Attached YES NO

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CLEARINGHOUSE RULE 00-083

Comments

[NOTE: All citations to "Manual" in the comments below are to the Administrative Rules Procedures Manual, prepared by the Revisor of Statutes Bureau and the Legislative Council Staff, dated September 1998.]

2. Form, Style and Placement in Administrative Code

a. SECTION 2 indicates that s. PI 14.03 (1) is repealed. It appears that it should indicate that s. PI 14.03 (1) (b) is repealed.

b. In s. PI 14.03 (2) (a) 2. c., the reference to the public law and single audit act amendments of 1996 should be changed to a reference to the U.S. Code. A reference to a public law or named federal act may be included in a note. [See s. 1.07 (3) (a), Manual.]

c. SECTION 5 indicates that s. PI 14.03 (2) (a) 4. and 5. are renumbered s. PI 14.03 (2) (a) 3. and 4. However, s. PI 14.03 (2) (a) 3. and 4. currently exist and are not affected by this proposed order. It appears that the proposed order should specify that s. PI 14.03 (2) (a) 3. is repealed.

3. Conflict With or Duplication of Existing Rules

In the appendix, item (c) of the "Audit Scope" refers to the "Single Audit Act of 1984." In light of the changes made to s. PI 14.03 (2) (a) 2. c., it appears that this reference should be updated to reflect the 1996 legislation.

5. Clarity, Grammar, Punctuation and Use of Plain Language

a. In s. PI 14.03 (2) (a) 2. c., it appears that “states and local government” should be changed to “states and local government governments.”

b. In s. PI 14.03 (2) (d) 1., the apostrophe following “standards” should be eliminated.

c. In s. PI 14.03 (2) (d) 1., the phrase “generally accepted accounting principles” is modified by the phrase “as promulgated by the governmental accounting standards board.” However, in current s. PI 14.03 (2) (a) 4. the phrase “generally accepted accounting principles” is not modified by the latter phrase. Was a distinction intended between the two provisions? If not, the phrase “generally accepted accounting principles” should be treated in the same way in both provisions.

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

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

Federal Statutory Authority - None

Court Decisions Directly Relevant - None

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

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

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

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

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

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

Agency Procedure for Promulgation

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

Description of any Forms (attach copies if available) None

Name and Telephone Number of Agency Liaison(s)

David Carlson, Director, School Financial Services, 266-6968

Lori L. Slauson, Administrative Rules Coordinator, Policy and Budget, 267-9127

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

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

ANALYSIS BY THE DEPARTMENT OF PUBLIC INSTRUCTION

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

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

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

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

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

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

SECTION 1. PI 14.02 (2) (g) is amended to read:

PI 14.02 (2) (g) Unless transportation is included in the cooperative program, any transportation of pupils shall be furnished by the school district of residence and the applicable transportation state aid shall be claimed by the school district of residence.465

SECTION 2. PI 14.03 (1) is repealed.

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

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

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

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

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

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

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

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

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

PI 1506 Financial Audit Statement

~~PI 1507 Federal Program Audit Statement~~

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

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

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

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

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

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

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

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

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

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

APPENDIX

STANDARD SCHOOL DISTRICT AUDIT CONTRACT

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

AUDIT SCOPE

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

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

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

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

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

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

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

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

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

INDEPENDENCE

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

TIMING, LOCATION AND CONDUCT OF AUDIT WORK

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

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

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

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

REPORTS

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

(a) ~~Report on examination of the district's combined general purpose financial statements~~ Auditor's report on the school district's financial statements prepared according to Generally Accepted Accounting Principles as promulgated by the Governmental Accounting Standards Board, as of, and for the year ended June 30, 19 20, with supplemental information as required by the Department of Public Instruction or requested by the district.

(b) Financial audit statement for the year ended June 30, 19 20, as required by the Department of Public Instruction.

(c) Management letter, commenting on material weaknesses in internal control and identifying possible noncompliance with finance-related legal provisions with appropriate recommendations.

~~(d) Federal program audit statement as required by the Department of Public Instruction.~~

(e) Federal program audit reports and schedules, as required.

JUN 05 2000



State of Wisconsin Department of Public Instruction

Mailing Address: P.O. Box 7841, Madison, WI 53707-7841
125 South Webster Street, Madison, WI 53702
(608) 266-3390 TDD (608) 267-2427 FAX (608) 267-1052
Internet Address: www.dpi.state.wi.us

John T. Benson
State Superintendent

Steven B. Dold
Deputy State Superintendent

May 26, 2000

Dear Colleague:

The Department of Public Instruction will hold a public hearing to consider the amending of chapter PI 14, proposed permanent rules, relating to school district audits. The hearing will be held as follows:

June 15, 2000
3:00 – 4:30 p.m.

Madison
GEF 3 Building
125 South Webster St.
Room 041

The hearing site is fully accessible to people with disabilities. If you require reasonable accommodation to access any meeting, please call David Carlson, Director, School Financial Services, at (608) 266-6968 or leave a message with the Teletypewriter (TTY) at (608) 267-2427 at least 10 days prior to the hearing date. Reasonable accommodation includes materials prepared in an alternative format, as provided under the Americans with Disabilities Act.

The administrative rule is available on the internet at http://www.dpi.state.wi.us/dpi/dfm/sfms/audit_1.html. A copy of the proposed rule and the fiscal estimate may be obtained by sending an email request to lori.slauson@dpi.state.wi.us or by writing to Lori Slauson, Administrative Rules Coordinator, Department of Public Instruction, 125 South Webster Street, P.O. Box 7841, Madison, WI 53707. Written comments on the proposed rules received at the above address no later than June 22, 2000, will be given the same consideration as testimony presented at the hearing.

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

- Under s. PI 14.03 (1) (b), the rules eliminate the definition of “defalcation” because defalcation or “fraud” is covered under the AICAP audit standards. Other provisions relating to defalcation have been deleted because the rule provisions are inconsistent with the AICAP audit standards.
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- Under s. PI 14.03 (2) (a) 2. c. and the appendix, the references to circular A-128 and the Single Audit Act of 1984 have been updated.
- Under s. PI 14.03 (2) (d) 4., the note following par. (2), and the appendix, the reference to a federal program audit statement is no longer necessary because such statements no longer exist. Also, under the note following par. (2) and (4), the reference to the Division for School Financial Resources and Management Services has been updated.
- Under the note following s. PI 14.03 (4) and the appendix, the reference to the *Wisconsin School District Audit Guide* has been deleted since the guide no longer exists.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven B. Dold", is written over a printed name and title.

Steven B. Dold
Deputy State Superintendent

