

**OFFICE OF THE  
STATE AUDITOR**

**Minnesota Legal Compliance  
Audit Guide for  
Charter Schools**

## ORDER

Pursuant to Minn. Stat. § 6.65, I hereby prescribe the form and scope of the Minnesota Legal Compliance Audit Guide for Charter Schools. The attached audit guide is hereby incorporated in its entirety. The audit guide consists of the following sections:

Page 1-1	Charter Schools
Page 2-1	Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota School Districts and Charter Schools
Page 3-1	Examples of Independent Auditor's Reports

These sections will comprise the minimum procedures and audit scope for legal compliance for charter schools in Minnesota.

/s/

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Rebecca Otto  
State Auditor

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## INTRODUCTION

This Legal Compliance Audit Guide was prepared by the Office of the State Auditor pursuant to Minn. Stat. §§ 6.65 and 124E.16 in consultation with representatives from the Attorney General's Office, towns, cities, counties, school districts, and private sector public accountants. The purpose of the task force was to establish minimum compliance guidelines for verification by auditors engaged in the process of auditing political subdivisions of the state.

This guide is divided into specific sections and presented in checklist form to assist the auditor of government units in the verification of statutory compliance. The guide is not meant to be a complete compilation of all laws affecting municipalities or a complete analysis of the laws cited throughout. The checklist is meant to act as a reference guide regarding minimum legal compliance, and municipal auditors must examine, in addition to applicable laws cited in the guide, those laws creating, granting power to, and restricting the municipal entities they are auditing.

Under each section, except for the initial question establishing the transaction covered by the topic heading and except where the explanation of a given question indicates otherwise, all questions should be answered in the affirmative. A negative answer indicates a compliance problem, and the user of the checklist is directed to the statutory section indicated on the left-hand side of the page. If after examination of the appropriate statute, the auditor using this audit guide is still unsure as to whether there has been legal compliance, he or she should check with legal counsel before rendering the opinion on compliance contained at the end of each section.

### AUDITOR'S REPORTS ON COMPLIANCE

Chapter 3 contains five model reports, one of which is to be completed by the auditor following his or her completion of the appropriate compliance sections.

These reports or the language from these reports must be issued as part of the audits of the governmental entities or relief associations.

## PREPARATION OF MINUTES

Auditing for legal compliance will require a review of the minutes of the charter school board. A charter school must comply with the Minnesota Open Meeting Law, Minn. Stat. ch. 13D. Pursuant to Minn. Stat. § 13D.01, subd. 4:

The votes of the members of the state agency, board, commission, or department; or of the governing body, committee, subcommittee, board, department, or commission on an action taken in a meeting required by this section to be open to the public must be recorded in a journal kept for that purpose. . . . The vote of each member must be recorded on each appropriation of money, except for payments of judgments, claims, and amounts fixed by statute.

In addition, subd. 5 states, “[t]he journal must be open to the public during all normal business hours where records of the public body are kept.”

The above provision requires that the individual votes of each member of the charter school board on “an action” be specifically recorded except for votes on “payments of judgments, claims, and amounts fixed by statute.”

Having satisfied minimum requirements, the question of how elaborate and extensive the minutes should be is largely a policy matter for determination by the particular body in the exercise of reasonable judgment and discretion. The Attorney General has explained:

...there may be circumstances in which it would be advisable for the town board to provide for the minutes to include information over and above what is necessary to satisfy minimum statutory requirements for a record of its official actions.

Op. Atty. Gen. 851-C, March 5, 1992. For example, the board’s reasons for reaching a particular decision could be crucial in defending a challenge to the action taken. The inclusion of such information may be deemed appropriate under other circumstances, such as where the body determines that the public interest warrants the award of a particular contract to a bidder other than the lowest bidder.

Unless a charter school adopts a records retention schedule (and notifies the Minnesota Historical Society), it may not destroy public records without the permission of the records disposition panel. Applications may be made to the State Archives Department for such permission. For instance, sealed bids received by a charter school must be kept forever, unless the charter school (1) adopts the School District General Records Retention Schedule; in which case, the charter school must maintain these records for six years; (2) adopts its own properly approved records retention schedule; or (3) receives authority to dispose of the records from the records disposition panel. Under Minn. Stat. § 124E.03, subd. 5, a charter school must comply with Minn. Stat. §§ 138.163 and 138.17 governing the management of local records.

A political subdivision that wishes to adopt the appropriate General Records Retention Schedule can find information on the State Archives website (<http://www.mnhs.org/preserve/records/retentionsched.php>).

For information and assistance in disposing of or transferring government records, contact:

Minnesota Historical Society  
State Archives Department  
345 Kellogg Boulevard West  
St. Paul, Minnesota 55102-1906  
(651) 259-3260

<http://www.mnhs.org/preserve/records/index.htm>

Questions about the Minnesota Government Data Practices Act should be directed to:

Minnesota Department of Administration  
Information Policy Analysis Division  
201 Administration Building  
50 Sherburne Avenue  
St. Paul, Minnesota 55155  
(651) 296-6733  
(800) 657-3721

<http://www.ipad.state.mn.us>

In future years, this *Minnesota Legal Compliance Audit Guide* will be updated, and additional compliance sections may be added. If you have comments or suggestions with regard to future editions, please contact us at:

Office of the State Auditor  
525 Park Street, Suite 500  
St. Paul, Minnesota 55103  
(651) 296-2551  
(651) 296-4755 (Fax)  
<http://www.auditor.state.mn.us>

# **CHARTER SCHOOLS**

# LEGAL COMPLIANCE AUDIT GUIDE

## CHARTER SCHOOLS

### Introduction

Charter schools must comply with statutes as specified in Minn. Stat., ch. 124E, including Minn. Stat. § 124E.16. Pursuant to Minn. Stat. § 124E.16, subd. 1, charter school audits must be conducted in compliance with Minn. Stat. § 6.65, which requires legal compliance audits and the promulgation of this Legal Compliance Audit Guide.

Charter School audits “must comply with the requirements of sections 123B.75 to 123B.83 governing school district finance, except when the commissioner [of education] and authorizer approve a deviation made necessary because of school program finances.” *See* Minn. Stat. § 124E.16, subd. 1.

Charter schools must comply with the Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota schools. *See* section 2.

Audit Report. Charter School audit reports must comply with Minn. Stat. § 124E.16, and auditors should review this statute. Specific requirements include the following:

“The charter school, with the assistance of the auditor conducting the audit, must include with the report, as supplemental information: (1) a copy of management agreements with a charter management organization or an educational management organization and (2) service agreements or contracts over the lesser of \$100,000 or ten percent of the school's most recent annual audited expenditures. The agreements must detail the terms of the agreement, including the services provided and the annual costs for those services. ... ” Minn. Stat. § 124E.16, subd. 1 (c).

“A charter school independent audit report shall include audited financial data of an affiliated building corporation under section 124E.13, subdivision 3, or other component unit.” Minn. Stat. § 124E.16, subd. 1 (d).

“If the audit report finds that a material weakness exists in the financial reporting systems of a charter school, the charter school must submit a written report to the commissioner explaining how the charter school will resolve that material weakness. An auditor, as a condition of providing financial services to a charter school, must agree to make available information about a charter school's financial audit to the commissioner and authorizer upon request.” Minn. Stat. § 124E.16, subd. 1 (e).



Minn. Stat. Section	CHARTER SCHOOLS	Yes	No	Workpaper Reference
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<b>Part I. Charter School Conflicts of Interest</b>					
§ 124E.07, subd. 3 (b)	-	“An individual is prohibited from serving as a member of the charter school board of directors if: (1) the individual, an immediate family member, or the individual's partner is a full or part owner or principal with a for-profit or nonprofit entity or independent contractor with whom the charter school contracts, directly or indirectly, for professional services, goods, or facilities; or (2) an immediate family member is an employee of the school.”			
§ 124E.07, subd. 3 (d)	-	“Any employee, agent, or board member of the authorizer who participates in initially reviewing, approving, overseeing, evaluating, renewing or not renewing the charter school is ineligible to serve on the board of directors of a school chartered by that authorizer.”			
§ 124E.14, (a)	-	“No member of the board of directors, employee, officer, or agent of a charter school shall participate in selecting, awarding, or administering a contract if a conflict of interest exists. A conflict exists when: (1) the board member, employee, officer, or agent; (2) the immediate family of the board member, employee, officer, or agent; (3) the partner of the board member, employee, officer, or agent; or (4) an organization that employs, or is about to employ any individual in clauses (1) to (3), has a financial or other interest in the entity with which the charter school is contracting. A violation of this prohibition renders the contract void.”			
§ 124E.14 (b)	-	“The conflict of interest provisions under Minn. Stat. § 124E.14, do not apply to compensation paid to a teacher employed as a teacher by the charter school or a teacher who provides instructional services to the charter school through a cooperative formed under Minn. Stat. ch. 308A when the teacher also serves on the charter school board of directors.”			
§ 124E.14 (c)	-	“A board member, employee or officer must not receive compensation from a group health insurance provider.”			
	A.	Has the charter school complied with the Minn. Stat. §§ 124E.07 and 124E.14 conflict of interest prohibitions quoted above?			

<b>Part II. Purchase of Merchandise</b>					
§§ 124E.16, subd. 1, and 15.054	A.	Officers and employees of a charter school are prohibited from selling or buying property or materials owned by the charter school. <u>Employees</u> may make purchases from the charter school if the following criteria are met.			
		For all purchases:			
		1. Was the property or materials purchased by the employee not needed for charter school purposes?			
		2. Was the purchase made through sealed bids or public auction?			
		3. Was the employee <u>not</u> directly involved with the sealed bid or auction process?			
		4. Was the applicable “notice” law followed, and did the same require at least one week of published notice?			

Minn. Stat. Section	CHARTER SCHOOLS	Yes	No	Workpaper Reference
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	This section does not apply to property or materials acquired or produced by charter schools for sale to the general public in the ordinary course of business.			
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<b>Part III. Designation of Depository</b>				
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§ 124E.16, subd. 1	Pursuant to Minn. Stat. § 124E.16, subd. 1, charter schools are subject to and must comply with §§ 118A.01, 118A.02, 118A.03, 118A.04, 118A.05, and 118A.06.			
§ 118A.01, subd. 4	“Public funds” for the purpose of this section means all general, special, permanent, trust, or other funds, regardless of source or purpose, held or administered by a charter school, unless otherwise restricted. Minn. Stat. § 118A.01, subd. 4.			
§ 118A.02, subd. 1	A. In the case of a charter school:			
	1. Has each depository of public funds been designated by the charter school’s governing body, or by its treasurer or chief financial officer, if the charter school has authorized them to make such a designation?			
§ 118A.01, subd. 3	2. Is each depository one of the following:			
	a. a savings association;			
	b. a commercial bank;			
	c. a trust company;			
	d. a credit union; or			
	e. an industrial loan and thrift company?			

<b>Part IV. Insuring or Securing Deposits</b>				
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§ 118A.03, subs. 1 & 3	A. If a charter school desires to deposit an amount in excess of deposit insurance, it must obtain a bond or collateral which, when computed at its market value, shall be at least ten percent more than the amount of the excess deposit.			
	B. Complete the spreadsheet in this section to determine the amount of the charter school’s funds that are not insured and thus need to be either bonded or collateralized. Deposits held by credit unions are covered by separate deposit insurance rules promulgated by the National Credit Union Administration (NCUA).			
	C. Was collateral coverage sufficient? (Answer after completing the spreadsheet on pages 1-13.)			

Minn. Stat. Section	CHARTER SCHOOLS	Yes	No	Workpaper Reference
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**Part V. The Bond and Collateral**

	A. If a bond was furnished by the depository to the charter school, answer the following question:			
§ 118A.03, subd. 1	1. Was the bond executed by a corporate surety company authorized to do business in the state?			
	B. If the depository assigned collateral to the charter school, answer the following questions:			
§ 118A.03, subd. 2	1. Was the collateral one of the following:			
	a. U.S. government treasury bills, notes, or bonds;			
	b. issues of a U.S. government agency or instruments that are quoted by a recognized industry quotation service available to the government entity;			
	c. a general obligation of a state or local government, with taxing powers, rated "A" or better;			
	d. a revenue obligation of a state or local government, with taxing powers, rated "AA" or better;			
	e. unrated general obligation securities of a local government with taxing powers pledged as collateral against funds deposited by that same local government entity;			
	f. an irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or			
	g. time deposits insured by a federal agency?			
§ 118A.03, subd. 7	2. Was the collateral placed for safekeeping:			
	a. in a restricted account at the Federal Reserve Bank; or			
	b. in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository?			
§ 118A.03, subd. 7	3. Did the charter school approve of the selection of the safekeeping entity?			
§ 118A.03, subd. 4	4. Was the collateral assignment in writing?			
	5. Did the assignment provide that, upon default, the depository shall release the collateral pledged to the charter school on demand?			

Minn. Stat. Section	CHARTER SCHOOLS	Yes	No	Workpaper Reference
§ 118A.03, subd. 3	C. Collateral pledged must equal at least ten percent more than the uninsured and unbonded amount on deposit. The depository may, at its discretion, furnish both a bond and collateral aggregating the required amount.			
	1. If a bond was used or standby letters of credit issued by Federal Home Loan Banks were pledged, was the amount of excess deposit less than or equal to the amount of the bond or standby letters of credit?			
	2. If other collateral was pledged, was the amount of collateral at least ten percent more than the uninsured amount on deposit?			
[12 U.S.C. § 1823(e)]	D. Assignment [Federal Statutory Requirements]			
	1. Was the written assignment approved by the depository's board of directors or loan committee?			
	2. Was the assignment an official record of the depository?			

Part VI. Public Investments				
§ 118A.05, subd. 2	A. Were all repurchase agreements and reverse repurchase agreements <u>only</u> entered into with:			
	1. a financial institution qualified as a depository of public funds;			
	2. any other financial institution which is a member of the Federal Reserve System <u>and</u> whose combined capital and surplus equals or exceeds \$10,000,000;			
	3. a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or			
	4. a securities broker-dealer licensed pursuant to chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt?			
§ 118A.06	B. Are all investments held in safekeeping? If so:			
	1. Is the government entity's ownership of all securities in which the fund is invested evidenced by written acknowledgments identifying the securities by the names of the issuers, maturity dates, interest rates, CUSIP numbers, or other distinguishing marks?			
	2. Were investments, contracts, and agreements held in safekeeping with:			
	a. a Federal Reserve Bank;			
	b. any bank authorized under the laws of the United States or any state to exercise corporate trust powers, including, but not limited to, the bank from which the investment is purchased;			
	c. a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; <u>or</u>			

Minn. Stat. Section	CHARTER SCHOOLS	Yes	No	Workpaper Reference
	d. a securities broker-dealer, or an affiliate of it, that			
	(1) is registered as a broker-dealer under Chapter 80A or is exempt from the registration requirements;			
	(2) is regulated by the Securities and Exchange Commission; and			
	(3) maintains insurance through the Security Investor Protection Corporation (SIPC) or excess insurance coverage in an amount equal to or greater than the value of the securities held?			
	C. Were the securities sold or pledged under the repurchase agreement or reverse repurchase agreement permissible direct investments under Minn. Stat. § 118A.04 (see L and M below)?			
§ 118A.05, subd. 2	D. Were all reverse repurchase agreements only entered into:			
	1. for a period of 90 days or less; and			
	2. only to meet short-term cash needs and not to generate cash for investments?			
§ 118A.05, subd. 3	E. Were all securities lending agreements (including custody agreements) entered into only with:			
	1. a financial institution qualified as a depository; or			
	2. a financial institution which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000, having an office in Minnesota?			
	F. Did the custodian or entity operating the securities lending program only enter into securities lending transactions with those entities identified in Part VI.A. (above)?			
§ 118A.05, subd. 5	G. Guaranteed investment contracts or			
	1. Were all guaranteed investment contracts or agreements only entered into with an issuer or guarantor that was a U.S. commercial bank, a domestic branch of a foreign bank, a U.S. insurance company, or its Canadian subsidiary, or the domestic affiliates of any of the foregoing?			
	2. Was the issuer's or guarantor's long-term and short-term unsecured debt:			
	a. rated in one of the highest two categories by a nationally recognized rating agency, <u>or</u>			
	b. was the term of the guaranteed investment contract 18 months or less, and was the credit quality of the issuer's short-term unsecured debt rated in the highest category by a nationally recognized rating agency (regardless of the credit quality of the issuer's or guarantor's long-term unsecured debt)?			

Minn. Stat. Section	CHARTER SCHOOLS	Yes	No	Workpaper Reference
	H. Did all guaranteed investment contracts give the charter school withdrawal rights in the event the issuer's or guarantor's credit quality was downgraded below "A?"			
§ 118A.05, subd. 4	I. Did the charter school only invest in shares of a Minnesota joint powers investment trust whose investments were restricted to securities described in Minn. Stat. §§ 118A.04 and 118A.05?			
	J. Mutual Funds			
	Did the charter school only invest in shares of an investment company that met the criteria in either 1 or 2 below:			
	1. a. registered under the Federal Investment Company Act of 1940;			
	b. whose shares were registered under the Federal Securities Act of 1933;			
	c. whose fund received the highest credit rating;			
	d. that was rated in one of the two highest risk rating categories by at least one nationally recognized statistical rating organization; <u>and</u>			
	e. that only invests in financial instruments with a final maturity no longer than 13 months?			
	2. a. registered under the Federal Investment Company Act of 1940;			
	b. which holds itself out as a money market fund meeting the conditions of SEC Rule 2a-7; <u>and</u>			
	c. is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization?			
	K. Did the charter school only invest in units of a short-term investment fund:			
	1. established and administered pursuant to regulation 9 of the Comptroller of the Currency; and			
	2. in which investments are restricted to securities described in Minn. Stat. §§ 118A.04-.05?			
§ 118A.04	L. Were all other funds invested in instruments which met at least one of the following criteria:			
	1. In governmental bonds, notes, bills, mortgages, and other securities, which were direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, excluding mortgage-backed securities defined as "high risk" (see Section M - Mortgage-Backed Securities);			

Minn. Stat. Section	CHARTER SCHOOLS	Yes	No	Workpaper Reference
	2. In a general obligation of a state or local government with taxing powers which was rated "A" or better by a national bond rating service;			
	3. In a revenue obligation of a state or local government with taxing powers which was rated "AA" or better by a national bond rating service;			
	4. In a general obligation of the Minnesota Housing Finance Agency which was a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating service;			
§ 118A.04, subd. 4	5. In commercial paper issued by a United States corporation or its Canadian subsidiary and that:			
	a. was rated in the highest quality category by at least two nationally recognized rating agencies, <u>and</u>			
	b. matures in 270 days or less;			
§ 118A.04, subd. 5	6. In time deposits fully insured by the Federal Deposit Insurance Corporation;			
	7. In bankers' acceptances issued by United States banks; or			
§ 118A.04, subd. 7	8. In its own temporary obligations issued under Minn. Stat. §§ 429.091, subd. 7 (special assessments); 469.178, subd. 5 (tax increment bonds); or 475.61, subd. 6?			
§ 118A.04, subd. 8	Note: A debt service fund can purchase any issue payable from the fund.			
§ 118A.04, subd. 2	M. Mortgage-Backed Securities			
	Charter schools may only purchase mortgage-backed securities that are direct obligations or guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.			
§ 118A.04, subsd. 2 and 6	Mortgage-backed securities purchased shall not be "high risk." Minn. Stat. § 118A.04, subd. 6, states "high risk mortgage-backed securities" are:			
	1. interest-only or principal-only mortgage-backed securities; and			
	2. any mortgage derivative security that:			
	a. has an expected average life greater than ten years; or			
	b. has an expected average life that:			
	(1) will extend by more than four years as the result of an immediate and sustained parallel shift in the yield curve of plus 300 basis points, or			

Minn. Stat. Section	CHARTER SCHOOLS	Yes	No	Workpaper Reference
	(2) will shorten by more than six years as the result of an immediate and sustained parallel shift in the yield curve of minus 300 basis points; or			
	c. will have an estimated change in price of more than 17 percent as the result of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.			
	3. Were all mortgage-backed securities purchased by the government entity after August 1, 1993, not "high risk?"			

<b>Part VII. Broker Acknowledgment Certification</b>				
§ 118A.04, subd. 9	A. Annually, prior to completing an initial investment transaction with each broker, did the charter school provide to that broker a written statement of investment restrictions?			
	B. Did the broker acknowledge receipt of the investment restrictions and agree to handle the charter school's account in accordance with the restrictions?			
	C. Did the charter school retain documentation of compliance with A and B above?			

<b>Part VIII. Claims and Disbursements - General Provisions</b>				
§ 124E.16, subd. 1	Pursuant to Minn. Stat. § 124E.16, subd. 1, charter schools are subject to and must comply with Minn. Stat. §§ 471.38, 471.391, 471.392, and 471.425.			
§ 471.38, subd. 1	A. Has every person or the person's agent claiming payment put such claim in writing (which includes an electronic transaction record) in items?			
§ 471.38, subd. 1	B. Has each declaration for payment (described below) been signed to the effect that such account, claim, or demand is just and correct and that no part of it has been paid?			
§ 471.38, subd. 2	Note: The provisions of this section do not apply to any claim or demand for an annual salary or fees of jurors or witnesses, fixed by law, nor to the salary or wages of any employee whose salary or wages have been fixed on an hourly, daily, weekly, or monthly basis, by the governing board of the municipality, and which is now authorized by law to be paid on a payroll basis.			
§ 471.391, subd. 1	Declaration Form - The declaration is sufficient if in the following form: "I declare under the penalties of law that this account, claim or demand is just and correct and that no part of it has been paid."  _____ (Signature of Claimant)			



Minn. Stat. Section	CHARTER SCHOOLS	Yes	No	Workpaper Reference
§ 471.391, subd. 2	The check or order-check by which the claim is paid may have printed on its reverse side, above the space for endorsement thereof, the following statement: "The undersigned payee, in endorsing this check (or order-check) declares that the same is received in payment of a just and correct claim against the [charter school], and that no part of it has heretofore been paid." When endorsed by the payee named in the check or order-check, such statement shall operate and shall be deemed sufficient as the required declaration of the claim.			
§ 471.392	C. Any person who willfully and falsely makes the declaration provided for is guilty of a felony.			
§ 471.425, subd. 2	D. Prompt Payment of Local Government Bills			
	Standard payment period is:  - 35 days from receipt for governing boards that meet at least once a month;  - 45 days from receipt of goods or services or invoice, whichever is later, for governing boards that do not meet at least once per month; and  - 45 days from receipt for joint powers entities.			
§ 471.425, subd. 2	1. Were all bills paid within the time period set by the terms of the contract or within the standard payment period?			
§ 471.425, subd. 4	The charter school must pay interest on bills not paid in a timely manner. The interest rate is 1½ percent per month or part of a month. The minimum monthly interest on a bill of \$100 or more is \$10.			
§ 471.425, subd. 4	2. For bills paid after the time period set by the contract or the standard payment period, did the charter school calculate and pay interest as required by law?			
§ 471.425, subd. 4a	3. Did each contract between the charter school and a prime contractor require the prime contractor to pay subcontractors within ten days of receipt of payment from the charter school or pay interest at the rate of 1½ percent per month or any part of a month?			
	Note: The interest penalties in these questions do not apply to good faith disputes.			

§§ 124E.16, subd. 1 & 471.38, subds. 3 and 3a	<b>Part IX. Claims and Disbursements - Electronic Funds Transfer</b>			
	A. Charter schools may make electronic funds transfers under certain conditions.			
	1. A charter school may make electronic funds transfers for:			

Minn. Stat. Section	CHARTER SCHOOLS	Yes	No	Workpaper Reference
	a. a claim for payment from an imprest payroll bank account or investment of excess money;			
	b. payment of tax or aid anticipation certificates;			
	c. payment of contributions to a pension or retirement fund;			
	d. vendor payments; and			
	e. payment of bond principal, bond interest, and a fiscal agent service charge from the debt redemption fund.			
	B. Did the charter school use electronic funds transfers only for the above enumerated transactions?			
	C. Did the charter school enact a plan containing the following policy controls requiring:			
	1. annual delegation of authority to make electronic funds transfers to a designated business administrator?			
	2. the disbursing bank to keep a certified copy of delegation of authority?			
	3. identification of the initiator of each electronic transfer?			
	4. the initiator to document the request and obtain approval for each transfer from the designated business administrator, prior to the transaction?			
	5. written confirmation of each transaction within one business day?			
	6. a list of transactions to be submitted to the charter school's board at the next regular meeting after the transaction?			

<b>Part X. Related Party Lease Costs</b>				
§ 124E.02	For purposes of this Part:			
	- A "related party" is an affiliate or immediate relative of the other interested party, an affiliate of an immediate relative who is the other interested party, or an immediate relative of an affiliate who is the other interested party.			
	- "Affiliate" is a person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with another person.			
	- "Immediate family" means an individual whose relationship by blood, marriage, adoption, or partnership is no more remote than first cousin.			
	- "Person" means an individual or entity of any kind.			
	- "Control" means the ability to affect the management, operations, or policy actions or decisions of a person, whether by owning voting securities, by contract, or otherwise.			





**UNIFORM FINANCIAL ACCOUNTING  
AND REPORTING STANDARDS (UFARS)  
FOR MINNESOTA SCHOOL DISTRICTS  
AND CHARTER SCHOOLS**

## LEGAL COMPLIANCE AUDIT GUIDE

### UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS (UFARS) FOR MINNESOTA SCHOOL DISTRICTS AND CHARTER SCHOOLS

#### Introduction

Minnesota law requires that the audits of all school districts, all governmental units formed by joint powers agreements entered into by school districts, and all service cooperatives and education districts must include a determination of compliance with uniform financial accounting and reporting standards (UFARS). Minn. Stat. §§ 6.65; 123B.77, subd. 3. This requirement applies to charter schools under Minn. Stat. § 124E.16, subd. 1.

Minn. Stat. § 6.65 states (emphasis added):

The state auditor shall prescribe minimum procedures and the audit scope for auditing the books, records, accounts, and affairs of political subdivisions in Minnesota. The minimum scope for audits of all political subdivisions must include financial and legal compliance audits. Audits of all school districts must include a determination of compliance with uniform financial accounting and reporting standards. The state auditor shall promulgate an audit guide for legal compliance audits, in consultation with representatives of the state auditor, the attorney general, towns, cities, counties, school districts, and private sector public accountants.

Minn. Stat. § 123B.77, subd. 3, states (emphasis added):

By November 30 of the calendar year of the submission of the unaudited financial data, the district must provide to the commissioner audited financial data for the preceding fiscal year. The audit must be conducted in compliance with generally accepted governmental auditing standards, the federal Single Audit Act, and the Minnesota legal compliance guide issued by the Office of the State Auditor. An audited financial statement prepared in a form which will allow comparison with and correction of material differences in the unaudited financial data shall be submitted to the commissioner and the state auditor by December 31. The audited financial statement must also provide a statement of assurance pertaining to uniform financial accounting and reporting standards compliance and a copy of the management letter submitted to the district by the school district's auditor.

#### Uniform Financial Accounting and Reporting Standards (UFARS)

The uniform financial accounting and reporting standards to be used by school districts for automated state reporting purposes are described in the [UFARS Manual](#) and in School Business Bulletins issued by the Minnesota Department of Education. The UFARS Manual and School Business Bulletins provide an account code structure and guidance on application of accounting principles. At any point in time, parts of the UFARS Manual may have been superseded by legislative, program, and accounting principle changes. The School Business Bulletins serve as updates to the UFARS Manual for such changes. It is the auditor's responsibility to stay abreast of current developments.

## UFARS Compliance

In order to determine compliance with UFARS, the auditor should consider the following items.

### Account Coding

Conformance with UFARS includes the classification of revenues and expenditures into appropriate UFARS codes. UFARS revenue and expenditure codes consist of 17 digits organized into six dimensions. Chapter Ten of the [UFARS Manual](#) defines how the six dimensions may be combined into valid 17-digit codes for state reporting purposes.

1. Revenue and expenditure account codes that have been developed by school districts for their internal use must be linked (crosswalked) to the appropriate 17-digit UFARS codes. In some cases, the internal district code bears little resemblance to the UFARS code. The underlying UFARS codes, not the district codes, are used for automated reporting to the state.
2. Audit procedures should be developed to ensure that revenues and expenditures have been recorded in the proper UFARS codes.
  - A. Such procedures must include tests of controls as identified in and where required by the American Institute of Certified Public Accountants (AICPA) Statement of Auditing Standards - Clarity, Section AU-C 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*. The procedures developed should be in response to assessed risks identified pursuant to Section AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*. Sampling may be used to determine the reasonableness of recorded UFARS amounts and classifications based on examination of source documentation.
  - B. Such audit procedures may include the following:
    - Verify appropriate UFARS coding as part of a test of transactions (individual revenue and expenditure transactions).
    - Test linkage (crosswalk) of internal use account codes to the appropriate 17-digit UFARS codes.
    - Review the “UFARS Turnaround Edit Report” for errors. (To access the report, select “Minnesota Funding Reports (MFR)” at <http://w20.education.state.mn.us/MDEAnalytics/Data.jsp>, then use the drop downs.)
    - Verify appropriate UFARS coding as part of testing of revenue and expenditure account totals for the year.
    - Other tests that are considered necessary.

Auditors should use their judgment in determining the nature, timing, and extent of testing necessary to provide a statement of assurance pertaining to UFARS compliance.

## Audit Reporting

The Auditor's Report on Compliance should indicate that the audit was conducted to determine conformance with UFARS standards. Chapter Three of this audit guide includes suggested wording for Auditor's Reports on Compliance.



**CHARTER SCHOOLS  
EXAMPLES OF INDEPENDENT AUDITOR'S REPORTS**

## LEGAL COMPLIANCE AUDIT GUIDE

### EXAMPLES OF INDEPENDENT AUDITOR'S REPORTS

Minnesota Legal Compliance Charter Schools Combined Report	3-2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-3

Independent auditor's report for *charter schools*. (Note: Eliminate this paragraph from the report.)

## MINNESOTA LEGAL COMPLIANCE

### Independent Auditor's Report

(Governing body)  
(Entity)

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of (*list of opinion units*) of \_\_\_\_\_ as of and for the year ended \_\_\_\_\_, and the related notes to the financial statements, which collectively comprise the \_\_\_\_\_'s basic financial statements, and have issued our report thereon dated \_\_\_\_\_.

The *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains two categories of compliance to be tested in audits of charter schools: uniform financial accounting and reporting standards, and charter schools.

In connection with our audit, nothing came to our attention that caused us to believe that \_\_\_\_\_ failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the \_\_\_\_\_'s noncompliance with the above referenced provisions.

- If legal compliance findings are reported, use the following wording:

In connection with our audit, nothing came to our attention that caused us to believe that \_\_\_\_\_ failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*, except as described in the Schedule of Findings and Questioned Costs as items (*list related finding reference numbers*). However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the \_\_\_\_\_'s noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

(Signature)  
(Date)

Auditor's internal control and compliance report based on an audit of financial statements performed in accordance with *Government Auditing Standards* and the *Minnesota Legal Compliance Audit Guide for Charter Schools*. (Note: Eliminate this paragraph from the report.)

**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***

Independent Auditor's Report

[governing body]  
[entity]

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of (*list related opinion units*) of \_\_\_\_\_ as of and for the year ended \_\_\_\_\_, and the related notes to the financial statements, which collectively comprise the \_\_\_\_\_'s basic financial statements, and have issued our report thereon dated \_\_\_\_\_.

**Internal Control over Financial Reporting\***

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

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

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

### **Compliance and Other Matters\*\***

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

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains two categories of compliance to be tested in audits of charter schools: uniform financial accounting and reporting standards, and charter schools.

In connection with our audit, nothing came to our attention that caused us to believe that \_\_\_\_\_ failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the \_\_\_\_\_'s noncompliance with the above referenced provisions. \*\*\*

### **Other Matters**

\_\_\_\_\_’s responses to the internal control and legal compliance findings (*adjust as necessary for what they responded to*) identified in our audit have been included in the [name of report where responses/corrective action plans are included]. The \_\_\_\_\_’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them. **[Leave out if no findings and no responses are included.]**

## Purpose of this Report

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

(Signature)

(Date)

\*paragraphs to be used when no significant deficiencies or material weaknesses are identified.

- If significant deficiencies, but no material weaknesses are identified, use the following wording:

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies (**a deficiency**) in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item (*list item numbers*) that we consider to be significant deficiencies (**a significant deficiency**).

- If material weaknesses are identified, use the following wording:

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies (**a deficiency**) in internal control over financial reporting that we consider to be material weaknesses (a material weakness) and significant deficiencies. **(If no significant deficiencies, adjust last sentence.)**

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the \_\_\_\_\_'s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, as items *[list finding numbers]* to be material weaknesses, and items *[list finding numbers]* to be significant deficiencies. **(If no significant deficiencies, adjust last sentence.)**

**\*\*Paragraph to be used when there are no reportable instances of noncompliance or other matters.**

- If instances of noncompliance are reported, use following wording:

As part of obtaining reasonable assurance about whether \_\_\_\_\_'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as items *(list related finding reference numbers)*.

\*\*\*Paragraph when there are no legal findings.

- If legal compliance findings are reported, use the following wording:

In connection with our audit, nothing came to our attention that caused us to believe that \_\_\_\_\_ failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*, except as described in the Schedule of Findings and Questioned Costs as items (*list related finding reference numbers*). However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the \_\_\_\_\_'s noncompliance with the above referenced provisions.