

**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. § 124D.10, subd. 8 (j).

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 Accountant's (AICPA) Statement of Auditing Standards (SAS) No. 110,¹ *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 SAS No. 109:² *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.
 - Obtain "UFARS Chapter 10 Edit Report" and review for exceptions.
 - 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.

¹ As clarified and recodified by SAS No. 122, Statements on Auditing Standards; Clarification and Recodification.

² *Id.*

Audit Reporting

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