



What's New in the TEA's FASRG Update 12 for 04-05?

School Finance Update # 63

**Source: Adapted from: Region One Education Service
Center Frances Guzman, Chief Financial Officer**

Statement of Auditing Standards 99

- The new auditing standard, **Statement of Auditing Standards 99 (SAS 99)**, Consideration of Fraud in a Financial Statement Audit, applies to the annual independent audit beginning with the audit for fiscal year 2004 (the fiscal period ended June 30, 2004 or August 31, 2004, depending upon the school districts' fiscal year end).
- Under SAS 99, school districts' **auditors will be expected to perform procedures to assess the risk of fraud.**
- The management of a school district **is responsible for implementing appropriate administrative systems and policies** that will sufficiently diminish the risk of fraud.
- **Independent auditors will examine** fiscal transactions, records, documents, procedures, processes, policies and/or systems, in addition to making observations and obtaining written evidence of close supervision and management of individuals that have access to fiscal assets and financial accounting processes.
- It is to be noted that school districts that **provide evidence of proactive steps to adequately** diminish the risk of fraud will achieve a more favorable assessment by their independent auditors.

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- It is recommended that school districts that have an enrollment of 5,000 and larger **perform a periodic self-assessment of the risk for fraud**. If a school district does not have an internal audit department, the self-assessment may be obtained through an engagement with a public accounting firm. This is recommended, because a self-assessment may provide a school district an opportunity to implement appropriate changes prior to the independent auditors' procedures under SAS 99.
- Additionally, certain procedures, policies and aspects of administrative systems will provide evidence of a proactive environment to diminish the risk of fraud, including:
 - Separation of employees' roles and responsibilities relating to receipt of cash and access to accounting controls; **(Yes -Questionnaire)**
 - Establishment of an audit committee of the board of trustees; **(Yes)**
 - Employee disclosure to the governing board and administration of a substantial interest in a business arrangement of the employee or immediate family prior to the award of contracts, or authorization of purchase orders and payment of invoices; **(Yes -Questionnaire)**
 - Policies that require a monthly financial report to the board of trustees; **(Yes -Practice)**
 - Policies that address employee and board member relationships with vendors and suppliers; **(Yes -Questionnaire)**

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- Policies that address acceptance of gifts, entertainment or favors; (Yes - Questionnaire)
- Policies that address kickbacks or secret commissions; (Yes -Questionnaire)
- Job descriptions that address access to accounting systems, and the organizational hierarchy of authorization, recording and approval of transactions; (Yes -Questionnaire)
- Processes to verify adherence to authorized access to accounting system components, and the organizational hierarchy of authorization, recording and approval of transactions; (Yes -Questionnaire)
- Policies that require dual signatures on checks; (Yes -Questionnaire)
- Implementation of a written code of ethics or conduct; (Yes -Questionnaire)
- Periodic training on an entities' written code of ethics or conduct; (Yes - Questionnaire)
- Periodic training on fraud awareness to administrators assigned responsibility for supervising and managing individuals that have access to fiscal assets and accounting controls; (Yes -Questionnaire)
- Written policies communicating expectations for honest and ethical conduct; (Yes -Questionnaire)
- Reporting systems to promote prompt reporting of suspected fraud to appropriate levels of internal management; (Yes -Questionnaire)
- Policies that address prompt investigation of suspected fraud; (Yes - Questionnaire)

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- Policies that address immediate dismissal of any employee that has committed fraud; (Yes - Questionnaire)
- Policies to require prompt analysis of factors that contributed to any instances of fraud, and reporting this information to the audit committee of the board and administration; (Yes - Questionnaire)
- Policies that require background and credit checks of applicants for positions that involve access to fiscal assets and accounting controls (Yes - Questionnaire)
- Systems to promote reporting fraud on a confidential basis; (Yes - Questionnaire)
- Policies addressing actual or apparent conflicts of interest, such as business agreements between employees or their immediate family and the school district; (Yes - Questionnaire)

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- Written policies requiring true and accurate disclosure of information in reports and documents filed with the entity, including expense, attendance, production, travel, financial, or similar reports and statements; **(Yes -Questionnaire)**
- Written policies prohibiting the preferential disclosure of information that would provide a competitive advantage to selected vendors or suppliers during the competitive procurement process and prior to award of a contract by administration or board, except for information required to be disclosed by law or appropriate responses to inquiries about specifications in requests for qualifications, proposals or bids; **(Yes -Questionnaire)**
- Policies requiring a full-faith effort by employees to comply with applicable governmental laws, rules and regulations; **(Yes -Questionnaire)**

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- Policies requiring the prompt internal reporting of violations of the code of ethics or conduct to an appropriate person or persons; (Yes -Questionnaire)
- Accountability for adherence to written standards, policies and/or the code of ethics through an annual performance evaluations; and (Yes -Questionnaire)
- Periodic assessments by management of the risk of fraud through an internal audit function in mid- to large- enrollment school districts. (Yes -Questionnaire)
- It is expected that independent auditors will not automatically reach an adverse conclusion about the risk for fraud if one or more of the above factors are not evidenced during the annual audit. However, independent auditors will expect a greater degree of sophistication in larger school districts in relation to the implementation of systems to diminish the risk for fraud. The American Institute of Certified Public Accountants has provided extensive guidance to independent auditors about this new auditing requirement. (Yes -Questionnaire)



Fund Code Changes

Fund Codes	Description of change(s)
202 - ESEA, title VII Part C, Emergency Immigrant Education Program	Deleted effective 8/31/04
204 - ESEA, Title IV, Part A – Safe and Drug Free Schools and Communities Act	Minor edits
207 – Reserved for future state use	Fund code deleted 9/01/03
210 – Reserved for future state use	Fund code deleted 9/01/03
214 – Reserved for future state use	Fund code deleted 8/31/04
215 – ESEA, Title I, Part D, Subpart 1 - Prevention and Intervention Programs for Children and Youth who are Neglected, Delinquent, or at Risk	Fund code deleted 8/31/04
216 – Reserved for future state use	Fund code deleted 9/01/03
217 - ESEA, Title V, Part D, Subpart 9 - Foreign Language	Fund code deleted 8/31/04
219 – Reserved for future state use	Fund code deleted 9/01/03
221 – Reserved for future state use	Fund code deleted 9/01/03
231 - Job Training Partnership Act, Title II A (JTPA)	Fund code deleted effective 8/31/05
232 - Job Training Partnership Act, Title II B (JTPA)	Fund code deleted effective 8/31/05
233 - Job Training Partnership Act, Title II C (JTPA)	Fund code deleted effective 8/31/05
234 - Job Training Partnership Act, 8% (JTPA)	Fund code deleted effective 8/31/05
235 – Reserved for future state use	Fund code deleted 8/31/03
254 – Reserved for future state use	Fund code deleted 8/31/03
257 – Reserved for future state use	Fund code deleted 8/31/03
260 – Reserved for future state use	Fund code deleted 8/31/04
262 - Title II, Part D, Subpart 1, Enhancing Education Through Technology	Minor edits to the title
263 - Title III, Part A, English Language Acquisition and Language Enhancement	Minor edits to the title
265 - Title IV, Part B 21st Century Community Learning Centers	Minor edits to the title
271 - Workforce Investment Act Youth Activities (Effective September 1, 2005)	New fund code effective 9/1/05
272 - Medicaid Administrative Claiming Program – MAC (Effective September 1, 2005)	New fund code effective 9/1/05
291 - Shared Services Arrangements - ESEA, Title III, Part B, Subpart 4 - Emergency Immigrant Education Program	Fund code deleted 8/31/04



Fund Code Changes



295 - Shared Services Arrangements - ESEA Title III Part C- Education for the Homeless Children and Youth	Minor edits
296 – Reserved for future state use	Fund code deleted 8/31/03
299 – Reserved for future state use	Fund code deleted 8/31/03
303– Reserved for future state use	Fund code deleted 8/31/03
304 – Reserved for future state use	Fund code deleted 8/31/03
305 – Reserved for future state use	Fund code deleted 8/31/03
306 - Shared Services Arrangements - ESEA, Title V, Part D, Subpart 9 - Foreign Language	Fund code deleted effective 8/31/04
308 – Reserved for future state use	Fund code deleted 8/31/03
310 – Reserved for future state use	Fund code deleted 8/31/03
320 - Shared Services Arrangements - Job Training Partnership Act, Title II A (JTPA)	Fund code deleted effective 8/31/05
321 - Shared Services Arrangements - Job Training Partnership Act, Title II B (JTPA)	Fund code deleted effective 8/31/05
322 - Shared Services Arrangements - Job Training Partnership Act, Title II C (JTPA)	Fund code deleted effective 8/31/05
323 - Shared Services Arrangements - Job Training Partnership Act, 8% (JTPA)	Fund code deleted effective 8/31/05
324 – Reserved for future state use	Fund code deleted 8/31/03
341 – Reserved for future state use	Fund code deleted 8/31/03
344 – Reserved for future state use	Fund code deleted 8/31/03
345 – Reserved for future state use	Fund code deleted 8/31/03
349 - Shared Services Arrangements – Title II, Part D, Subpart 1 Enhancing Education Through Technology	Minor edits to title
350 - Shared Services Arrangements - Title III, Part A, English Language Acquisition and Language Enhancement	Minor edits to title
389 - Master Mathematics Teacher	Fund code deleted 8/31/04 will be reported under fund code 421
409 – Basic Skills Programs for High School Students/High School Completion and Success	Title addition
421 - Master Reading Teacher / Master Mathematics Teacher	Change in title and combined programs

Function Codes

Function Codes	Description of change(s)
11 – Instruction	Additions and deletions to include/exclude columns
12 – Instructional Resources and Media Services	Additions and deletions to include/exclude columns
13 – Curriculum Development and Instructional Staff Development	Additions and deletions to include/exclude columns
23 – School Leadership	Additions and deletions to include/exclude columns
31 – Guidance, Counseling and Evaluation Services	Additions and deletions to include/exclude columns
32 – Social Work Services	Additions and deletions to include/exclude columns
36 – Cocurricular/Extracurricular Activities	Additions and deletions to include/exclude columns Change in title.
41 – General Administration	Additions and deletions to include/exclude columns
50 – Support Services – Non Student Based	Change in title effective 9/01/05.
51 – Plant Maintenance and Operations	Additions and deletions to include/exclude columns. Change in title effective 9/01/05
52 – Security and Monitoring Services	Additions and deletions to include/exclude columns
53 – Data Processing Services	Additions and deletions to include/exclude columns
91 – Contracted Instructional Services Between Public Schools	Additions and deletions to include/exclude columns
94- Payments to Other School Districts under the Public Education Grant Program Deleted Effective September 1, 2004	Deleted effective September 1, 2004
96 - Payments to Charter Schools	Deleted effective September 1, 2004
99 – Other Intergovernmental Charges	Minor changes



Function Codes

- Function 11 will include
 - Graduation expenditures/expenses
 - Instructional computer labs, staff, supplies, etc.
 - grade books
 - grade book software
 - report cards
 - student handbooks and related costs
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Object Codes

Object Codes	Description of change(s)
1540 – Capital Assets – District Defined	Minor edits
1550 - Assets Purchased Under Capital Leases	Minor edits
3420 - Reserve for Retirement of Long-Term Debt	Minor edits
5831 - Teacher Retirement/TRS Care - On-Behalf Payments	Added Health Reimbursement Accounts
6144 - Teacher Retirement/TRS Care - On-Behalf Payments	Added Health Reimbursement Accounts
6412 - Travel and Subsistence - Students	Clarification
6494 - Reclassified Transportation Expenditures/Expenses	Clarification
6499 - Miscellaneous Operating Costs	Minor edits
6640 - Capital Assets - District Defined	Minor edits
6650 - Capital Assets Under Capital Leases	Minor edits



6412 Travel and Subsistence - Students

- This code is used to classify the cost of transportation (rental of vans, buses and other vehicles), meals, participation fees, room, and other expenses associated with students traveling for school sponsored events. (Do not use function 34)

6494 Reclassified Transportation Expenditures/Expenses

- This code can be used as an option to identify expenditures/expenses for transportation costs other than those incurred for the purpose of transporting students to and from school. **Expenses from various expenditure object codes for salaries, fuel, etc. in Function 34 (Student Transportation) should be reclassified to this expenditure object code with the appropriate function assigned.**
- Examples of such costs include those associated with field trips (Function 11) and co-curricular/extracurricular activities (Function 36). Identification of the costs of transporting students for any purpose other than to and from school is required under Section 34.010, TEC.

Miscellaneous Changes in FAR Module

Section No.	Topic	Description of change(s)
1.8	Federal/State Administrative Requirements and Cost Principles	Minor edits
1.4.13.2	Exhibit 26- Food Service Operation Fund Chart Compliance Monitoring - Organization Codes	Minor edits
1.8.2.7	State Program Indirect Cost Rates	Update Career and Technology
Appendix 1	Summaries of GASB Statements 1 through 44	Added GASB Statements 42 through 44
Appendix 5	Account Code Listings	Updated list
Appendix 8	Other Federal Regulations	Updated Section for new NCLB requirements

State Program Indirect Cost Rates

- For programs financed under the Foundation School Program Act, rules of the state board of education provide that allocations must be used in the program areas prescribed by law, except for percentages as indicated below. **The percentages indicated below can be used for any legal purpose including indirect costs** (State Board of Education Rule defines indirect costs on functions 34 - school transportation, 41 - general administration; 81 - facilities acquisition and construction and 9X series in the General Fund relating to Intergovernmental transfers) in support of the program.

- **Exhibit 61. Indirect Cost Allowable Percentage**

- **Program**

- Percentage Allowable

- Bilingual Education

- 15%

- Compensatory Education

- 15%

- Gifted and Talented

- 15%

- **Career and Technology**

- **10%**

- Special Education

- 15%



Summary of Statement No. 42

- **Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries**

This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally should be measured using a service units approach, an approach that compares the service units provided by the capital asset before and after the impairment event or change in circumstance. Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.

Impairment losses should be reported in accordance with the guidance in paragraphs 41 through 46, 55, 56, 101, and 102 of Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and paragraphs 19 through 24 of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. If not otherwise apparent from the face of the financial statements, the description, amount, and financial statement classification of impairment losses should be disclosed in the notes to the financial statements. If evidence is available to demonstrate that the impairment will be temporary, the capital asset should not be written down.

Impaired capital assets that are idle should be disclosed, regardless of whether the impairment is considered permanent or temporary.

An insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset should be netted with the impairment loss. Restoration or replacement of the capital asset using the insurance recovery should be reported as a separate transaction. Insurance recoveries should be disclosed if not apparent from the face of the financial statements. Insurance recoveries for circumstances other than impairment of capital assets should be reported in the same manner.

The provisions of this Statement are effective for fiscal periods beginning after December 15, 2004. Earlier application is encouraged.

GASB Statement No. 43

- **Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans**

This Statement establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26, Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, with modifications to reflect differences between pension plans and OPEB plans.

The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This Statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. A related Statement, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions (referred to as the related Statement), addresses standards for the measurement, recognition, and display of employers' OPEB expense/expenditures and related liabilities (assets); note disclosures; and, if applicable, required supplementary information (RSI). The measurement and disclosure requirements of the two Statements are related, and disclosure requirements are coordinated to avoid duplication when an OPEB plan is included as a trust or agency fund in an employer's financial report. In addition, reduced disclosures are acceptable for OPEB trust or agency funds when a stand-alone plan financial report is publicly available and contains all required information.

GASB Statement No. 44

- **Economic Condition Reporting: The Statistical Section—An Amendment of NCGA Statement 1**

This Statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, **that guide the preparation of the statistical section**. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government.

Three shortcomings have been identified in the statistical section since NCGA Statement 1 was issued in 1979. **First**, NCGA Statement 1 presented a list of fifteen required schedules with no additional explanation of the nature of the information they were to contain. As a result, some governments prepared their statistical sections differently from others, thereby diminishing the usefulness and comparability of the information. **Second**, the statistical section requirements were oriented to general purpose local governments. Consequently, other types of governments had little guidance on how to adapt the requirements to their circumstances, resulting in incomplete and inconsistent application of the standards and, therefore, additional loss of comparability and usefulness.

Third, the requirements for the statistical section did not encompass the new information that governments are presenting as a result of GASB Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments.

The statistical section is a required part of a comprehensive annual financial report (CAFR), although governments are not required to prepare a statistical section if they do not present their basic financial statements within a CAFR. These circumstances are not altered by this Statement. However, this Statement does apply to any statistical section that accompanies a government’s basic financial statements. The provisions of this Statement are effective for statistical sections prepared for periods beginning **after June 15, 2005**.

Auditing

4.5	Introduction Comparison of Generally Accepted Auditing Standards and Government Auditing Standards	Updated for Yellow Book Standards
4.5.1.1	GAS Qualifications	Updated for Yellow Book Standards
4.5.2	Fieldwork Standards	Updated for Yellow Book Standards
4.5.3	Reporting Standards	Updated for Yellow Book Standards
4.6.3.2	Risk Assessment	Update for SAS 99

Purchasing

Appendix 1	Catalog Purchasing Guidelines	Minor edits
	Construction Manager-At-Risk Contracts	Minor edits

State Compensatory Education

9.4	Risk Assessments Processes and Identification of Schools Requiring a Local Audit	New guidelines
Exhibit 7	Risk Indicators for Electronic Auditing System of School Districts and Charter Schools	Updated to meet new requirements
9.4.1.3	Instructions for Calculating Random Sample Using the Statistical Toolbox	Minor edits

Exhibit 7. Risk Indicators for Electronic Auditing System of School Districts and Charter Schools

- Go to TEA web site – State Comp. Module

GASB 34

10.3.4.3

Statement of Net Assets

Accretion of Interest

The [GASB Comprehensive Implementation Guide--2003](#) states that **accrued interest** on any capital-related debt, including deep-discount (capital appreciation) debt, generally should not be included in the **computation of the invested in capital assets**, net of related debt component of net assets. The amount of the “borrowing attributable to the acquisition, construction, or improvement” of a capital assets is the proceeds, rather than the total amount, including interest, that will be paid at maturity. The accrued interest liability would be included in unrestricted net assets.



Summary

- **The Superintendent has assigned the responsibility to follow up on the implementation of changes and standards of for FARAG 12. to the CFO, Financial Management Dept. Compliance Dept. and various program managers.**