



Guidance to Early Childhood Iowa Area Boards Regarding Financial Agreed Upon Procedures Tool UU

Iowa law requires the Department of Management and the Early Childhood Iowa State Board to develop guidance for Early Childhood Iowa Area Boards with the responsibility of having audits conducted of their funds.

Legal Reference

256I.5 Early childhood Iowa coordination staff.

1. The department shall provide administrative support for implementation of the early childhood Iowa initiative and for the state board. The department shall adopt rules in consultation with the state board to provide fiscal oversight of the initiative. The fiscal oversight measures adopted shall include but are not limited to all of the following:

- a. Reporting and other requirements to address the financial activities employed by area boards.
- b. Regular audits and other requirements of fiscal agents for area boards.
- c. Requirements for area boards to undertake and report on fiscal and performance reviews of the programs, contracts, services, and other functions funded by the area boards.

Administrative Rules governing the above requirement will be updated to reflect the process approved through this guidance.

Area boards required to have full financial audits

Area boards that expend over \$500,000 in federal funding are required to have full audits for the funds and an agreed-upon procedures audit would **not** satisfy this requirement. These audits must include an evaluation of the area board's compliance with laws, regulations and provisions related to contracts or grant agreements which could have a direct and material effect on each major program. The auditor must be advised of these requirements prior to beginning the audit. The auditor must include a separate opinion on compliance in the audit report.

The independent CPA firm conducting the audit engagement shall review the ECI Area board's principles and standards for allocating both direct and indirect costs that apply to federal cost-based awards. Refer to Tool DD.

Area boards that expend less than \$500,000 in federal funding have the choice to determine the financial review of their funding. They may decide to have a full audit conducted or they can coordinate with the fiscal agent's review to conduct the following Agreed-upon Procedures.

Agreed-upon Procedures

All ECI Area boards that that expend less than \$500,000 in federal funding and do not have an audit conducted must utilize the agreed-upon procedures as a part of the fiscal agent's audit. One benefit of this method is the reduction of audit costs, however, more coordination with the fiscal agent is necessary, including the following steps:

- i. Discuss with a responsible official of the fiscal agent the requirement in Iowa law for an agreed-upon procedure of the board's financial activity.
- ii. Document name of responsible official and discussion. (fiscal agent)
- iii. Obtain the organization's concurrence to conduct the agreed-upon procedure. Ask for the concurrence in writing. Governing body action may be required. Both the fiscal agent and the auditing firm should concur.
- iv. Obtain a letter of engagement or estimate letter that delineates what is to be included in the agreed-upon procedure. It must include the note disclosure.
- v. Discuss billing arrangements.

Responsibilities of ECI Area Board and Fiscal Agent:

- Close the books within 60 days of the end of the fiscal year.
- Prepare and provide a summary of financial data.
- Provide procedures for who does what, where documentation is stored.
- Provide the annual report to the auditing company that will be conducting the review.
- Ensure claims meet public purpose: (meet legislation)
- ECI Area Board is responsible for grant requirements:
 - Early Childhood Compliance Requirements: Review of area boards policies and procedures for this funding
 - School Ready Compliance Requirements:
 - Review of area boards policies and procedures (General Aid (other), and Quality Improvement funding.
 - Eligibility requirements for family support and preschool support programming. Review procedures in place, test it.
- Provide supporting documentation as requested by the Auditor

Steps to Include in the Agreed-upon Procedure:

1. Gain an understanding of the grants received by the ECI Area boards, including the authorization procedures within the local area. Analyze the internal control of ECI funds and prepare comments and recommendations for any for any control weaknesses noted.
2. Obtain the Summary of financial data. Verify its accuracy; trace to the underlying accounting records.
 - Receipts: confirm amounts received from State of Iowa and test the distribution of the amounts between the early childhood and school ready funds.
 - Disbursements:
 - Gain an understanding of the various programs and the parameters for making disbursements from each funding category.
 - Early Childhood funds (see Tool G) and any locally developed policies, procedures about the funding

- Administration (Tool G)
- Program
- School Ready funding categories (Tool G) and any locally developed policies, procedures about funding.
 - Quality Improvement (Tool II)
 - Administration (Tool G)
 - Family Support (Tool FF)
 - Preschool Supporting (Tool CC)
 - Other (General Aid)
- Interest must be used for program use and may not contribute to administrative expenses.
 - Scan disbursement records for unusual items and items that do not appear to meet or be in agreement with your understanding of how funds are to be spent. For an explanation, contact the ECI area director. Prepare comment and recommendation for any items not adequately explained.
 - Select and trace a reasonable number of transactions to the supporting documentation, noting whether or not the local authorization procedures were followed. Be sure to consider any eligibility and other program-specific requirements. Testing must include sufficient transactions to ensure footnote disclosures are materially correct. Prepare comment and recommendation for any items not adequately supported.
 - Effective for FY '13 funds, all financial reviews will be conducted according to Government Accounting Standards (GAS), also known as the Yellow Book. As with a financial statement audit, a Yellow Book audit's objective is to provide an opinion on whether the financial statements are free of material misstatements, but it also includes assessing internal controls and compliance issues.
 - **Definition of Government Auditing Standards** - The set of accounting standards for audits of government organizations, programs, activities, and functions and of government assistance received by organizations produced by the United States Government Accountability Office (GAO). The general standards include independence, due care, continuing professional education, supervision and quality control. These standards are for use by auditors of government entities and entities that receive government awards and audit organizations performing GAS audits.

3. Fund balances:

- Carry Forward: The ECI Area board is allowed to carry forward 20% of the School Ready and Early Childhood allocation for the program year. (Tool G). Early Childhood Iowa areas reporting a carryover balance of school ready or early childhood funds in excess of 20% of the current year's allocation will receive a reduction equal to the excess amount above the 20% in their next year's school ready or early childhood allocation, based on accrual reporting.

- **Funding Categories:** Verify that the annual report financial statement fund balances (by funding category) match the summary of financial data in the footnote.

4. The independent CPA firm conducting the audit engagement shall review the ECI Area board's principles and standards for allocating both direct and indirect costs that apply to federal cost-based awards. (Tool DD.)

If an area board is Closing

If an ECI area board is closing or margining with another board, contact the ECI State Office for any corresponding guidance.

Timeline for Audit procedures

ECI funds are to be reviewed through the procedures outlined in the guidance anytime after the close of the annual records until March 31 of the following year. The audit or agreed-upon procedure must cover the state fiscal year (July 1 - June 30). The auditor must email or send a copy of the final audit report to the Early Childhood Iowa State Office in the Department of Management within 10 calendar days of report being accepted by the area board.

If the auditing firm needs to modify the date of completion of the review process, notify the ECI State office.