**Attestation Engagements for**

**Special Purpose Government Entities**

**Department for Local Government**

**October 2015**

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**Introduction**

KRS 65A.030 (1) requires Special Purpose Government Entities (SPGEs) with “the higher of annual receipts from all sources or annual expenditures of less than one hundred thousand dollars ($100,000)” to once every four (4) years contract for the application of an attestation engagement. Further, KRS 65.030 (3) also indicates the Department for Local Government (DLG) shall determine which procedures conducted under attestation standards will apply by SPGEs. The Auditor of Public Accounts (APA) may also establish additional procedures and reporting requirements in accordance with KRS 65.030 (2)(d)(3).

This guidance establishes the minimum procedures applicable to attestation engagements for SPGEs. Each section of this guidance is applicable as follows:

**Section 1**. General attestation engagement procedures required for all SPGEs.

**Section 2**. Additional attestation engagement procedures required for specific categories of SPGE. These procedures are only applicable to the SPGEs identified in Section 2.

SPGE management and their practitioners (CPAs) should review KRS 65A.030 in its entirety for other requirements, deadlines, and penalties for noncompliance with audit and attestation requirements. Also, DLG has promulgated administrative regulations to provide further implementation guidance.

**Attestation Engagements for Special Purpose Government Entities**

**Section 1 - General Attestation Engagement Procedures**

**Required for All SPGEs**

* 1. Attestation engagements should be in the form of an Agreed-Upon Procedures (AUP) engagement, and should comply with general attestation standards in AT Section 201. Although this guidance establishes minimum procedures that should be agreed to by management and the practitioner (CPA), SPGE management may elect additional procedures to be covered by the engagement at their own expense. These additional procedures should be clearly explained in the practitioner’s (CPA) engagement letter and in the AUP report.
  2. Practitioner (CPA) should refer to the “General Agreed-Upon Procedures for Special Purpose Government Entities” for specific procedures. These procedures should be included in the practitioner’s (CPA) engagement letter to the SPGE, along with any entity-specific procedures presented in Section 2 of this guide and any additional procedures requested by the SPGE management.
  3. If any procedure required by this section is not applicable to the SPGE, the practitioner (CPA) should describe the reasons it is not applicable to the SPGE in the AUP report.
  4. SPGE management must take responsibility that the procedures performed by the practitioner (CPA) are sufficient to meet the objectives identified in the general procedures listed in this section. This responsibility should be clearly explained and agreed to in the firm’s engagement letter with management.
  5. The AUP report should be presented in the standard format, identifying procedure(s) as detailed in the AUP engagement letter and findings resulting from those procedures. All findings should be presented, as materiality is not a consideration unless otherwise identified in the procedure itself. The AUP report should include the SPGE’s submitted SPGE 101 – Financial Disclosure Report as Appendix A.
  6. The practitioner (CPA) should permit the SPGE management an opportunity to respond to the result of the report. This is a courtesy to management, as responses are not required by attestation standards given that the findings are not a result of an audit. Any response provided should be attached to the report as Appendix B.
  7. KRS 65A.030(d) requires the audit or attestation engagement to conform to GAGAS and GAAS, as applicable. Any weaknesses in internal controls identified as part of the attestation standard subject to communication under these standards should be presented as Appendix C of the AUP report.
  8. Appropriate management representations must be obtained for all AUP engagements.
  9. AUP engagement reports must be submitted online to the Department for Local Government within twelve (12) months after the end of the SPGE’s fiscal year. [Contact: DLG Cities and Special Districts Branch].
  10. This guidance may be updated annually, and will be placed on the website of the Department for Local Government - SPGE Home Page, and on the website of the Auditor of Public Accounts under the “Resources” section. Updates will be available on or before August 1st each year.

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| **Procedure** | **Reference** |
| * 1. Review minutes of the meetings of the SPGEs governing body. Determine:   2. The governing body met on a routine and consistent basis, and in compliance with the SPGEs articles of incorporation, by-laws, or local ordinance.   3. Minutes were sufficient in detail to identify: debt approved during the year, expenditure approvals, and salary adjustment approvals, and any other information significant to the governance and operations of the SPGE. |  |
| 1.2 Obtain a copy of, or access online, the SPGE’s Financial Disclosure Report submitted to the Department for Local Government (DLG). Through review and inquiry, determine:  a. The Budget Estimates were submitted to DLG by the submission deadline.  b. The data reported agrees to the approved SPGE budget, adopted by the governing board/council/commission and recorded in official meeting minutes.  *Note: Budget categories presented on the DLG budget form may not agree to the classifications used by the SPGE itself. If necessary, note classification differences and explain how the approved budget was compared to DLG budget form to determine compliance.* |  |
| * 1. Obtain a copy of the SPGE’s Financial Disclosure Report submitted to the DLG. Through review and inquiry, determine:  1. The Amendments/Transfers and Year-End-Actuals were submitted to DLG by the submission deadline. 2. The data reported agrees to the SPGE supporting records. For example, actual amounts should agree to the SPGE general ledger or other source records.   *Note: The report should include explanation describing the types of underlying data the practitioner (CPA) used to perform this procedure. Also, the report should include any description of difficulties reconciling this form to the supporting documentation, such as errors, underlying records did not exist, or insufficient records.*  *Also, the SPGE AUP report should include a copy of the submitted Financial Disclosure Report as Appendix A to the report, if available* |  |

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| * 1. For each bank account held by the SPGE, review a sample of bank statements for 4 months during the engagement period, one of which should be the last month of the SPGE’s fiscal year. Determine the following:      1. Obtain bank confirmations to confirm the year-end balances.      2. Bank reconciliations were performed for each month selected. Determine that bank reconciliations are mathematically correct, appropriately trace to bank statement and ledger balances, reconciling items are appropriate, and discrepancies over 3% of the bank balance were investigated.      3. Transfers to/from the bank account(s) were appropriately recorded in the SPGE accounting ledgers and trace to sufficient supporting documentation.   *Note: If a large volume of transfers occurred, it is acceptable to sample the transfers obtaining at least 50% coverage. The practitioner (CPA) should report if the volume of transfers required sampling in his/her judgment.* |  |
| * 1. Using the 4 bank statements selected in Procedure 3 above, scan checks to:      1. Identify any checks made payable to an SPGE employee or member of governing body. For any checks written to such individuals other than routine payroll payments, trace to supporting documentation to determine that payment was for a legitimate business purpose, was authorized, properly recorded in the SPGE’s disbursements ledger, and was in line with governing body policies. |  |
| * 1. From the disbursements ledger:      1. Select for further review any single payment exceeding 5% of total expenditures. Trace payments to supporting documentation to determine that the payment was for a legitimate business purpose, was authorized, properly recorded in the SPGE’s disbursement ledger, and was in line with governing body procurement procedures.      2. Select for further review an additional 25 payments at random. Trace payments to supporting documentation to determine that the payment was for a legitimate business purpose, was authorized, properly recorded, and was in line with governing body procurement procedures. |  |
| * 1. Obtain statements related to all debt and financing arrangements related to the SPGE. Determine:      1. Debt/financing was approved by the governing body.      2. The SPGE is current in its debt service/financing payments. |  |
| * 1. Obtain a list of all paid employees of the SPGE. Select a sample of 5 employees, one of which should be the agency head, and test the following:      1. If employee is on contract, review the contract to determine it is up-to-date and that payments/benefits paid to the employee during the year were in line with contractual requirements.      2. For non-contract employees, sample 4 pay periods to ensure the employee was paid the appropriate pay rate, overtime rate, timesheets were reviewed and approved by a supervisor, and any salary adjustments made during the year were approved by the governing body and appropriately documented in the employee file. |  |
| * 1. For the previous three (3) fiscal years since the last audit or attestation engagement, perform the following procedures:      1. Review minutes of meetings of the SPGE’s governing body to determine that meetings were held in accordance with requirements identified in Procedure 1.1 above during the non-engagement periods.      2. Review the SPGE’s Financial Disclosure Reports submitted to DLG each year to determine that the SPGE complied with completing the form and submitting it to DLG.      3. Based on the financial information reported, determine whether the SPGE is complying with the frequency of engagements and appropriate level of assurance identified in KRS 65A.030.   *Note: This step assumes the “fiscal years since the last audit or attestation engagement” are the most recent three (3) years preceding the engagement period since attestation engagements are required once every four (4) years. However, if the classification of SPGE in any given year caused a change in the status of the SPGE, this period may be shorter than three (3) years. The fiscal period(s) reviewed for this procedure and the fiscal period of the last audit or attestation engagement should be identified in the AUP report.* |  |

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| **Procedure** | **Reference** |
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| *2.1 Rescue Squad Taxing Districts* |  |
| 2.1.1. In performing General Procedure 1.6, also determine that any disbursement paid by tax revenues of the rescue squad taxing district are only for rescue services as described in KRS Chapter 39F. [KRS 39F.160(11)] |  |
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| *2.2 Riverport Authorities* |  |
| 2.2.1. In performing General Procedures 1.6 and 1.8, also determine that no compensation was paid to a member of the authority, and payments to authority members are only actual and necessary expenditures incurred by them in the conduct of the affairs of the authority. [KRS 65.570(1)] |  |
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| *2.3 Emergency Services Boards* |  |
| 2.3.1. In performing General Procedure 1.6, also determine that any disbursement paid by tax and license fee revenues are only for services described in KRS 65.660 or 65.662. [KRS 65.670(2)] |  |
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| *2.4 Water Districts* |  |
| 2.4.1. Determine the treasurer of the commission has an executed bond in an amount and with such surety as determined by the commission. [KRS 74.050] |  |
| 2.4.2. Obtain the annual statement of receipts and disbursements, and any floating or bonded indebtedness prepared for consumer availability for the period under engagement. Ensure the report is mathematically accurate, reconciles to supporting documentation, and presents information as required by KRS 74.240. [KRS 74.240(2) |  |
| 2.4.3. In conjunction with General Procedure 1.7, determine that all money derived from bonds issued under KRS 74.280 to 74.310 complies with KRS 74.300. [KRS 74.300(1)] |  |
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| *2.5 Fire Protection Districts* |  |
| 2.5.1. Determine whether the board has established bonding requirements for any member of a fire department within the fire protection district. If so, determine that the member required to have a bond has an executed bond in an amount and with such surety required by the board. [KRS 75.170(2)] |  |
| 2.5.2. In performing General Procedure 1.6, also determine that any disbursement paid by tax revenues levied under KRS 75.015 are only for the purpose of improving fire protection facilities and services in the subdistrict. [KRS 75.015(5); KRS 75.015(8)]  *Note: KRS 75.015(8) prohibits trustees from expending extra revenue on facilities or services shared by the entire district. Therefore, those funds should only be used for facilities and services within the subdistrict.* |  |
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| *2.6. Air Pollution Control Boards* |  |
| 2.6.1. In performing General Procedures 1.6 and 1.8, also determine that no compensation was paid to a member of the board, other than recovery of actual expenses. [KRS 77.075] |  |
| 2.6.2. In conjunction with General Procedures 1.1, determine that regular meetings of the air pollution board were held at least once each calendar month. [KRS 77.080] |  |
| 2.6.3. Determine the secretary-treasurer and the air pollution control officer each have an executed bond, payable to the district in such sums as the board may fix with approved corporate surety. [KRS 77.100] |  |
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| *2.7. Tourist and Convention Commissions* |  |
| 2.7.1. In performing General Procedures 1.6 and 1.8, determine that payments made from special transient tax revenues collected in accordance with KRS 91A.390 - .392 are spent for the purposes permitted by those statutes. [KRS 91A.390-.392] |  |
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| *2.8. Solid Waste Management Districts* |  |
| 2.8.1. In performing General Procedures 1.6 and 1.8, determine that funds derived from taxes, service charges, sales or other income resulting from the operation of the waste management district shall, if collected or held by another person, be paid to and expended by the district to carry out its duties, functions and responsibilities . [KRS 109.140] |  |
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| *2.9. Planning Commissions* |  |
| 2.9.1. Area Planning Commissions  Note:  KRS 147.635 (2) requires, “The area council shall contract with an independent, reputable certified public accountant to perform an audit of the records, books, and accounts of the area planning commission for each fiscal year.” Therefore, attestation engagements are not permissible for area planning commissions. |  |
| 2.9.2. Independent, Joint and Regional Planning Commissions  Note:  KRS 100.177 requires, “Any planning commission shall have the right to receive, hold, and spend funds which it may legally receive…All bylaws shall describe the method for administration of funds, and an annual audit shall be performed of all receipts, expenditures, and funds on hand by the Auditor of Public Accounts or an independent certified public accountant.” Therefore, attestation engagements are not permissible for independent, joint and regional planning commissions. |  |
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| *2.10. Industrial Development Authorities* |  |
| 2.10.1. In performing General Procedures 1.6 and 1.8, also determine that no compensation was paid to a member of the authority, and payments to authority members are only actual and necessary expenditures incurred by them in the conduct of the affairs of the authority. [KRS 154.50-336(1)] |  |
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| *2.11. Extension Districts* |  |
| 2.11.1. For the four (4) months selected in performing General Procedure 1.4, determine that all revenues realized from a district cooperative extension education tax is paid to the duly elected treasurer of the extension board on or before the fifteenth of the month following collection. [KRS 164.670] |  |
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| *2.12. Library Districts – Public Libraries* |  |
| 2.12.1. In performing General Procedures 1.6 and 1.8, also determine that no compensation was paid to a member of the board, and payments to board members are only reimbursement of expenditures necessary in the performance of their duties. [KRS 173.510] |  |
| 2.12.2. Determine the treasurer of the board has an executed bond, in the sum and form and with the sureties approved by the board. [KRS 173.540] |  |
| 2.13.2. Obtain a copy of the report of “all accounts and records for the fiscal year”, and determine that it reconciles to the underlying accounting records. Also, determine that the report was filed with the board in a timely manner, within ninety (90) days following the close of the fiscal year. [KRS 173.540] |  |
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| *2.13. Library Districts – Formed by Petition* |  |
| 2.13.1. Determine the treasurer of the board has an executed bond, in the sum and form and with the sureties approved by the board. [KRS 173.755] |  |
| 2.13.2. Obtain a copy of the report of “all accounts and records for the fiscal year”, and determine that it reconciles to the underlying accounting records. Also, determine that the report was filed with the board in a timely manner, within ninety (90) days following the close of the fiscal year. [KRS 173.755] |  |
| 2.13.3. Determine that any tax rate increase or decrease complied with the provisions of KRS 173.790 in that it was ordered by the fiscal court, and any increase does not exceed twenty cents ($.20) on each one hundred dollars ($100) of the assessed valuation of all property in the district. |  |
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| *2.14. Sanitation Districts* |  |
| Note:  KRS 220.280 (4) requires, “The board of directors shall have an annual audit made by a certified public accountant, copies of which shall be filed with the Secretary of State and with the county judge/executive of the county or counties in which the sanitation district is located.” Therefore, attestation engagements are not permissible for sanitation districts. |  |