

Birmingham Public Schools

**Report to the Board of Education
June 30, 2017**



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To the Board of Education
 Birmingham Public Schools

We have recently completed our audit of the basic financial statements of Birmingham Public Schools (the “School District”) as of and for the year ended June 30, 2017. In addition to our audit report, we are providing the following results of the audit, summary of unrecorded possible adjustments, recommendations for consideration, and informational items which impact the School District:

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We are grateful for the opportunity to be of service to Birmingham Public Schools. We would also like to extend our thanks to Ms. Deborah Piesz, Ms. Michelle Maya, Ms. Inez Thornton, and the entire business office for their assistance and preparedness during the audit. We recognize that preparing for the audit is carried out in addition to your staff’s normal daily activities. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 3, 2017



Results of the Audit

October 3, 2017

To the Board of Education
Birmingham Public Schools

We have audited the financial statements of Birmingham Public Schools (the "School District") as of and for the year ended June 30, 2017 and have issued our report thereon dated October 3, 2017. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 9, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the School District, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 3, 2017 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated June 23, 2017.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note 1 to the financial statements. As noted in Note 12 to the basic financial statements, the School District adopted Governmental Accounting Standards Board Statement No. 77 for the first time in fiscal year 2017.

We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the financial statements was the School District's share of the MPSERS pension plan net pension liability recorded on the government-wide statements for the implementation of GASB Statement No. 68. The School District's estimate as of June 30, 2017 is \$192,979,970, based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The attached schedule summarizes uncorrected misstatements of the financial statements which were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatement with management each year prior to our retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

As required by 2 CFR Part 200, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 CFR Part 200 dated October 3, 2017.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 3, 2017.

Management Consultations with Other Independent Accountants

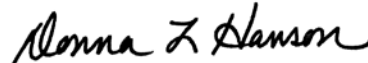
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

This information is intended solely for the use of the Board of Education and management of the School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Donna L. Hanson, CPA
Partner

Summary of Unrecorded Possible Adjustments

Birmingham Public Schools

Summary of Unrecorded Possible Adjustments

Client: **Birmingham Public Schools**
 Opinion Unit: **General Fund**
 Y/E: **6/30/2017**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Fund Balance	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:									
AI	To reverse unearned revenue liability for amounts which have been earned in the auditoriums and print shop account			\$ (474,184)			\$ 474,184		\$ 474,184
JUDGMENTAL ADJUSTMENTS:									
	None								
PROJECTED ADJUSTMENTS:									
	None	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ (474,184)	\$ -	\$ -	\$ 474,184	\$ -	\$ 474,184
PASSED DISCLOSURES:									
	None								

Client: **Birmingham Public Schools**
2015 Building & Site
 Opinion Unit: **Construction Fund**
 Y/E: **6/30/2017**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:									
	None								
JUDGMENTAL ADJUSTMENTS:									
BI	To record construction costs incurred through June 30, 2017 of which were not billed to the School District until fiscal year 2018			\$ 1,526,161				\$ 1,526,161	\$ (1,526,161)
PROJECTED ADJUSTMENTS:									
	None	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ 1,526,161	\$ -	\$ -	\$ -	\$ 1,526,161	\$ (1,526,161)
PASSED DISCLOSURES:									
	None								

Birmingham Public Schools

Summary of Unrecorded Possible Adjustments (Continued)

Client: Birmingham Public Schools
 Opinion Unit: Aggregate Remaining Funds
 Y/E: 6/30/2017

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:									
A1	To record refund owed to Oakland Schools related to Autistic Center			\$ 49,392			\$ (49,392)		\$ (49,392)
JUDGMENTAL ADJUSTMENTS:									
	None								
PROJECTED ADJUSTMENTS:									
	None	\$ -	\$ -	-	\$ -	\$ -	-	\$ -	-
	Total	\$ -	\$ -	\$ 49,392	\$ -	\$ -	\$ (49,392)	\$ -	\$ (49,392)
PASSED DISCLOSURES:									
	None								

Client: Birmingham Public Schools
 Opinion Unit: Governmental Activities
 Y/E: 6/30/2017

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Net Position	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:									
A1	To reverse unearned revenue liability for amounts which have been earned in the auditoriums and print shop account			\$ (474,184)			\$ 474,184		\$ 474,184
A2	To record refund owed to Oakland Schools related to Autistic Center			49,392			(49,392)		(49,392)
JUDGMENTAL ADJUSTMENTS:									
B1	To record construction costs incurred through June 30, 2017 of which were not billed to the School District until fiscal year 2018		\$ 1,526,161	1,526,161					
PROJECTED ADJUSTMENTS:									
	None	\$ -	-	-	\$ -	\$ -	-	\$ -	-
	Total	\$ -	\$ 1,526,161	\$ 1,101,369	\$ -	\$ -	\$ 424,792	\$ -	\$ 424,792
PASSED DISCLOSURES:									
	None								

Recommendations for Consideration

Birmingham Public Schools

Recommendations for Consideration

Recommendations for the Board of Education's consideration:

3 Percent Contribution and Tax Treatment

Effective July 1, 2010, Public Act 75 required that school districts withhold 3 percent from each employee's compensation and forward it to the Michigan Office of Retirement Services (ORS) for deposit into a healthcare trust. In 2012, the Michigan Legislature passed Public Act 300, which changed employee retirement and retiree medical alternatives. The retiree medical alternatives included an option for employees to elect to continue the 3 percent contribution.

Initially, there was much uncertainty regarding the taxation and withholding requirements related to the 3 percent contribution. Law firms have provided guidance that this required contribution is not subject to federal, state, or FICA taxation, and therefore is not subject to withholding; Plante & Moran, PLLC supports this conclusion. However, some districts withheld FICA taxes as a result of the tax treatment uncertainty.

- Public Act 75 and the constitutionality of the withholding of the 3 percent contribution continues to be battled in court.
- Public Act 300 was challenged in the Michigan courts. On April 8, 2015, the Michigan Supreme Court upheld the constitutionality of Public Act 300 and the 3 percent retiree healthcare contributions made by public school employees beginning with the first payroll in February 2013.

During 2016, the Internal Revenue Service (IRS) flip-flopped on the tax treatment of the 3 percent contributions. During the first few months of 2016, the IRS informed some Michigan school districts the Public Act 300 3 percent contributions were subject to income and FICA tax withholding. By August 2016, the IRS reversed its position and was regularly issuing refunds of FICA taxes paid on 3 percent contributions. We are aware the IRS has consistently refunded FICA taxes on 3 percent contributions for the period from the first payroll in 2013 through December 31, 2015. Also, some school districts have applied for and received FICA tax refunds for 3 percent contributions withheld in 2016. The IRS denied a request by the State of Michigan for a private letter ruling on the taxation of the 3 percent contributions under both Public Act 75 and Public Act 300 because the State was not the employer of employees subject to the 3 percent contributions. Consequently, a Michigan school district is requesting an IRS private letter ruling on the taxation of the 3 percent contributions. Also, the IRS has informed some districts a decision about taxation of Public Act 75 3 percent contributions will be held in abeyance pending final resolution of the validity of these contributions in the Michigan courts.

Districts had until April 15, 2017 to file amended forms 941 to recoup 2013 FICA tax collected and paid to the IRS, if necessary. Alternatively, a district can file a protective claim to extend the deadline for filing a refund request for FICA collected. Protective claims for 2013 were required to be filed with the IRS by April 15, 2017. The School District filed its protective claim related to 2013 with the IRS by the deadline. A protective claim for FICA paid in 2014 is required to be filed with the IRS by April 15, 2018. There are specific steps required to claim these refunds, so we recommend the district ask for assistance, if necessary.

Birmingham Public Schools

Recommendations for Consideration (Continued)

Fund Balance Policy

The School District currently has a board policy in place, *Board Policy 6215, Fund Equity*. We recommend this policy be updated as soon as possible to incorporate the fact that the Cash Flow Stabilization Fund is now a component of the General Fund. We also recommend that the policy be updated to reflect the accounting terminology changes which occurred when GASB 54 became effective, mainly in relation to the description of the different components of fund balance.

Capital Assets Policy

The School District currently has a board policy in place, *Board Policy 7455, Accounting System for Fixed Assets*. Based on our review of the policy, it appears to not include language specific to depreciable lives and methods. We recommend the policy be reviewed and amended to include policies pertaining to useful life, salvage values, and depreciation methods of the School District's capital assets.

2015 Building & Site Construction Fund

The School District is currently in the midst of significant construction projects utilizing the proceeds of the voter approved bond issue from 2015. The School District has spent a significant amount of the bond proceeds during fiscal year 2017 and will continue with spending in fiscal year 2018. One unique accounting aspect generally associated with a bonded construction fund relates to the recording of the year-end retainage accrual. Retainage is known as the percentage (generally 10 percent) of total valued construction that has been completed but for which is not yet billed to the School District until the project is verified by the School District as being complete. The School District has accrued for the retainage payable at June 30, 2017, and we recommend that the School District continues with this evaluation and accrual upon preparing for year-end closing of the books at June 30, 2018 as significant construction activity is expected.

As previously discussed with the audit committee, the School District engaged a separate firm to assess the transactions associated with the 2015 Building & Site Construction Fund for the year ended June 30, 2017. The agreed-upon procedures letter indicated all transactions were in compliance with Section 1351(a) of the Revised School Code and the Revised Bulletin for School District Audits of Bonded Construction Funds in Michigan.

The School District should continue to monitor the progress of the construction activity. Once the projects are considered "substantially complete," there are specific reporting requirements that the School District must comply with and many of these reports are time sensitive in relation to when they are due and when construction was considered to be completed.

Informational Items

State Aid Funding

State Aid and the Foundation Allowance

State of Michigan funding for public schools continued to focus on several recurring themes for the fiscal year ended June 30, 2017: limited increases in the foundation allowance, additional funding boosts for districts at the minimum foundation, continued student count blending formula, and additional resources dedicated to assisting with funding the district's retirement/postretirement healthcare obligation (MPERS). One change worth noting was the increase in the number of required school days to 180, up from 175 days, but without a change in the number of required hours of instruction. Many districts were already providing 180 days of instruction, and for those districts, the change did not have an impact.

2016-2017 Foundation: For the 2016-2017 fiscal year, the base foundation increased by \$60, from \$8,169 to \$8,229. The State continued its use of the "2X formula," providing districts at the minimum foundation with an increase of \$120 per pupil to \$7,511. The School District's foundation allowance was increased to \$11,936. In the 2016-2017 State Aid Act, a minimum funding provision continued (Section 20f). This section recognizes that the funding shift toward paying the growing MPERS expense could significantly harm some districts. Just as in 2015-2016, this categorical guarantees at least a \$25 per pupil increase after giving account to the funding changes. For many districts, the increase in the per pupil foundation was significantly offset by the previous elimination of Best Practice and Performance funding. The School District's net increase exceeded the \$25 minimum and no additional funding was provided under this section. This provision continues for 2017-2018.

2017-2018 Foundation: For the 2017-2018 fiscal year, the base foundation, once again, increases by \$60, from \$8,229 to \$8,289. Additionally, using the "2X formula," the minimum foundation allowance increases by \$120 per pupil to \$7,631. Based on these changes, the School District will receive a \$60 increase in its foundation allowance, representing an increase of 0.5 percent. New for 2017-2018, an additional per pupil allocation, Section 22n, was created for students counted in high school. For those students, a new categorical providing additional funding of \$25 per pupil was created. This funding is not rolled into the foundation calculation.

Foundation Calculations for Hold Harmless Districts: Due to an inflationary cap on Hold Harmless District Foundation Allowances, which was put in statute along with the school funding reforms tied to Proposal A in 1994, Hold Harmless districts (currently foundation allowances greater than \$8,229) are capped. Last year, the State Aid Act provided funding under Section 20m, which allows the difference between each Hold Harmless district's inflationary increase and the \$60 increase in the base foundation allowance to be allocated under a separate calculation. This supplemental payment allows Hold Harmless districts to receive the same minimum funding increase as other districts in 2016-2017. For 2017-2018, this allocation has been added back into the district's foundation allowance, allowing full funding of the foundation for Hold Harmless Districts.

Birmingham Public Schools

Informational Items (Continued)

Pupil Membership Blend for 2016-2017 and 2017-2018: The method for counting students was the same for 2016-2017 and for 2017-2018. The funding formula uses calendar year counts with a weighting of 90 percent of the fall count and 10 percent of the February count. 2016 calendar year counts were used for the 2016-2017 fiscal year funding and 2017 calendar year counts are used for the 2017-2018 fiscal year funding.

MPSERS Cost Support: Retirement system contributions are a significant part of a district's labor costs. The contribution rate the School District is required to pay continues to rise, though the growth rate has slowed. The School District has no ability to influence the rate and no choice regarding its participation in the program. To aid a district in meeting its obligation, the 2016-2017 State Aid Act continued to include funding to help pay for some of the increased cost. The categorical aid is formula driven using the School District's MPSERS payroll participation data. This funding is provided in two separate sections of the State Aid Act: Section 147a and Section 147c. The School District received a total of \$929,295 of 147a and \$8,235,173 of 147c categorical aid to help offset the impact of its retirement costs. Section 147c was designed to fund approximately 10 percent of covered payroll and does not increase district resources. Instead, the funding is recognized as revenue and then returned directly to the retirement system. In general terms, this means that the total cost of the retirement system contributions in 2016-2017, representing approximately 36 percent of covered payroll, is recognized as an expenditure in the School District's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the School District is responsible for approximately a 26 percent contribution to the retirement system. The School District budgeted for additional state revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact the state revenue provided is based on prior year School District payroll information.

This retirement funding approach will continue into 2017-2018. However, there are key changes that will impact retirement contributions. The first is the fact that the assumed rate of return within the retirement plan will be decreasing to 7.5 percent from 8 percent. When this assumption is reduced, it has the net effect of increasing the value of the retirement obligation for the plan. This then increases the required contributions to fund the plan. A total of \$48 million has been provided in 147a to pay school districts to offset the impact of this change. Second, for staff hired on or after February 1, 2018, the default employee election will be into a defined contribution (DC) plan; however, an employee can elect the hybrid plan within a specified timeframe. District contributions and state support are also modified for employees electing the DC plan. This will create a change in the district's cost of the benefit for employees new to the retirement system in February 2018. Additional funding is provided under a new State Aid Act, Section 147e, to help support the shift to the new design.

Other State Aid Act Changes Impacting 2017-2018

The amendments to the State Aid Act made several other changes impacting school districts. Several changes we identified that could impact the School District include the following:

Partnership Model - Section 21h provides new funding to assist districts assigned by the MDE to participate in a partnership to improve student achievement, including funds for professional development, increased instructional time, mentors, and other costs impacting student achievement.

MEAP/M-STEP - The MDE is required to make the Kindergarten Entry Assessment (KEA) available to districts in 2017-2018.

Birmingham Public Schools

Informational Items (Continued)

Repayments to State - If a district is overpaid by the State of Michigan, it is required to repay the State. If the repayment creates a hardship, a request for extending payments can be made. In 2017-2018, the amount of time the MDE may grant for a district to repay any overpayments has increased from four to nine years.

Enrollment after Fall Count Day - After the 2016-2017 School Aid amendments were passed, which eliminated the ability to prorate a pupil enrolled after the count day, a supplemental appropriation (HB 5291) was passed, reinstating the opportunity to prorate a student added after the count day. For 2017-2018, the ability to prorate student count for pupils added after the count day continues. For example, this section added 3.00 full-time equivalent students to the Birmingham Public Schools' count for the year ended June 30, 2017.

Transparency Reporting Requirements - These content posting requirements continue and include, but are not limited to, deficit elimination plans, enhanced deficit elimination plans, district credit card information, budget information, procurement and reimbursement policies, and out-of-state travel information. Transparency reports must be updated on the district's website within 15 days of the change.

Adult Education - Several changes were made to the funding formula and eligibility requirements. From now to 2019-2020, funding will shift toward allocations to prosperity regions and subregions. As a result, for districts with significant adult education programs, a careful review of the changes will be important for planning future operations.

GASB Statement No. 75 - Postemployment Benefits Other Than Pensions (OPEB)

Effective for the School District's June 30, 2018 financial statements is GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This upcoming GASB addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the School District to recognize on the face of the government-wide financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement is expected to have a similar impact on the statement of net position as did GASB No. 68 when it was adopted in 2015. Just like GASB No. 68, it is not expected to have an impact on the modified accrual funds (General Fund), and should not impact the School District's budget process. The statement also enhances accountability and transparency through revised note disclosures and required supplementary (or supplemental) information (RSI).

IT ITEMS

Cyber Security

Public schools are not exempt from cyberattacks in which systems and critical data are compromised. School systems store personal information of staff, underage students, and students' parents in addition to other confidential data. It is important that schools protect themselves from both external and internal threats whether they are intentional or accidental threats. For example, ransomware attacks are on the rise and gain media attention with their ability to cripple an organization, including schools and universities. It may be the hacks of large, multimillion dollar companies that we see exposed on the evening news, but public schools can be an enticing target with the amount of data and limited budget to protect themselves.

Birmingham Public Schools

Informational Items (Continued)

Here are some questions to think about regarding cybersecurity issues:

- Do you receive a lot of junk email?
- Are you allowed to access risky or unsafe websites?
- Have you attended any security awareness trainings?
- In the event of an incident, are you familiar with who should be contacted?
- Is there a plan in place in the event of a breach and student records are lost?

Because of the many access points within a school district's IT environment, continued assessment of cybersecurity issues is an essential part of the district's overall data security assessment.

Federal Programs

Written Procedures for Grants - Required for District Federal Grant Participation

As part your annual single audit, we are required to assess the written procedures that exist related to the specific compliance requirements for the federal programs that are selected for testing. The Federal Uniform Guidance, which was effective during the 2014-2015 school year, outlines various requirements related to written procedures and policies. It is important for the School District to be aware of the comprehensive list of required written (board) policies and (administrative) procedures required for federal grant participation. These requirements are described in 2 CFR Part 200 and include the following:

- Written Cash Management Procedures [§200.302(b)(6)]: To implement the requirements of §200.305 payment
- Written Allowability Procedures [§200.302(b)(7)]: To determine the allowability of costs in accordance with Subpart E-Cost Principles
- Written Travel Policy [§200.474(b)]: To ensure costs incurred by employees for travel are reasonable and allowable
- Written Conflict of Interest Policy [§200.318(c)*]: To maintain standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts
- Written Procurement Procedures [§200.319(c)*]: To ensure that all solicitations include the following requirements:
 - i. Incorporate clear and accurate descriptions of technical requirements for the material product or service to be procured
 - ii. Identify all requirements which must be fulfilled
 - iii. Ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition
- Written Procedures for Conducting Technical Evaluations of Proposals and Selecting Participants [§200.320(d)(3)*]: To maintain a method for evaluation proposals received

Birmingham Public Schools

Informational Items (Continued)

*In the Federal Register published on September 10, 2015 (Vol. 80, No. 175), the procurement procedures noted above were formally delayed via an initial two-year grace period. On May 17, 2017, the OMB extended the delay of implementation for an additional year. Therefore, the School District is not required to implement these requirements until July 1, 2018. However, if the extended delay is elected, the School District must document this in writing.

The School District should be aware that the aforementioned requirements for written procedures are more extensive in nature than those required for a financial statement audit, which focuses on key controls related to grants management. The Michigan Department of Education has indicated that districts that do not have the requisite written policies and procedures in place may be excluded from future participation in the grants program. In addition, absence of policies and procedures required under the Uniform Guidance could result in single audit findings.

We encourage the School District to review its policies and procedures to ensure that the items listed above have been addressed and are easily accessible for use and in the event of a fiscal monitoring. Many, if not all, of the items may already be addressed in various forms throughout the School District's policies and procedures; however, it is important the School District be aware of where the written documentation resides. If any items are not currently addressed, we recommend the School District establish the required procedures and document them accordingly.

If you would like further guidance on the requirements related to written policies and procedures, please let us know; we would be happy to provide you with some guidance and resources. Additionally, a group consisting of personnel from various districts throughout the state, audit firms, and MDE representatives was formed to update the model procedures manual. Once completed, the manual will be available on the Michigan School Business Officials website. This tool will provide information about the changes required and how to utilize the manual to assist with customizing your existing policies and procedures.

Procurement Methods

Procurement reform under the Uniform Guidance requires revisions to district purchasing policies and practices when using federal funds. In addition, the Uniform Guidance requires districts to maintain standards of conduct covering conflicts of interest and to maintain specific written procedures for procurement transactions and bid evaluation. The new procurement standards include the following five methods as outlined in 2 CFR Part 200:

- Micro-purchases [§200.320(a)]: Acquisition of supplies or services that does not exceed the Micro-Purchase Threshold (outlined in §200.67 Micro-purchase)
- Small purchases [§200.320(b)]*: Procurement of services, supplies, or other property that does not exceed the Simplified Acquisition Threshold (outlined in §200.88 Simplified Acquisition Threshold)
- Sealed bids [§200.320(c)]*: Bids are publicly solicited for a fixed price contract and awarded to the lowest bidder

Birmingham Public Schools

Informational Items (Continued)

In order for sealed bidding to be feasible, the following conditions should be present [§200.320(c)(1)]:

- i. A complete, adequate, and realistic specification or purchase description is available.
- ii. Two or more responsible bidders are willing and able to compete effectively for the business.
- iii. The procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price.

If sealed bids are used, the following requirements apply [§200.320(c)(2)]:

- i. Bids must be solicited from an adequate number of known suppliers and the invitation for bids must be publicly advertised.
 - ii. The invitation for bids must define the items or services and include any specifications and pertinent attachments.
 - iii. All bids will be opened at the time and place prescribed in the invitation for bids.
 - iv. A firm fixed price contract award will be made in writing to the lowest responsive and responsible bidder.
 - v. Any or all bids may be rejected if there is a sound documented reason.
- Competitive proposals [§200.320(d)*]: Offers are solicited for either a fixed price or cost-reimbursement contract. This method is typically used when it is not appropriate to use the sealed bids methods. The following requirements apply to this method:
 - i. Requests for proposals must be publicized and identify all evaluation factors.
 - ii. Proposals must be solicited from an adequate number of qualified sources.
 - iii. The nonfederal entity must have a written method for conducting technical evaluations of the proposals received and for selecting recipients.
 - iv. Contracts must be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.
 - v. The nonfederal entity may use competitive proposal procedures for qualifications-based procurement of architectural/engineering professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected.
 - Noncompetitive proposals [§200.320(f)]: Procurement through solicitation of a proposal from only one source. This method may be used only when one or more of the following circumstances apply:
 - i. The item is available only from a single source.
 - ii. The public exigency or emergency for the requirement will not permit a delay.
 - iii. Authorized by the federal awarding agency or pass-through in response to a written request.
 - iv. After solicitation of a number of sources, competition is determined inadequate.

* Purchases made using either the small purchase, sealed bids, or competitive proposals methods should also consider any state and local purchasing requirements. The State of Michigan Bid Threshold (MCL 380.1274) would apply to purchases of goods. The School District cannot increase the mandated thresholds; however, school district policies could be more restrictive than the federal requirements. The School District should ensure that all relevant thresholds are considered when drafting and implementing policy revisions.

Birmingham Public Schools

Informational Items (Continued)

Provisions of the Uniform Guidance allowed entities to elect a delay in the adoption of the procurement provisions and for school districts, the required implementation date is July 1, 2018. The School District has elected the delay and is working to finalize policy and procedure revisions to comply with the new requirements.

GASB Statement No. 84 - Fiduciary Activities

GASB Statement No. 84 - *Fiduciary Activities*, is effective for the first time in the School District's June 30, 2020 financial statements. The statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The statement was issued as it was determined by the GASB that there was divergence in practice between governments in what was being reported in a fiduciary fund. This statement was designed to provide a principles-based approach for which governments could apply against their situation to determine if certain activity should be reported in a fiduciary fund. The statement also establishes and defines four types of fiduciary funds: pension trust funds, investment trust funds, private purpose trust funds, and custodial funds. The School District will have to apply the new principle-based rules from this statement to determine if more or less reporting will be required related to fiduciary activities that may exist, upon implementation of this standard.

Sinking Funds

In November 2016, a long-awaited amendment to the Sinking Fund Law was approved by the governor and took effect in March 2017. The State of Michigan Sinking Fund legislation (Sec 1212) was amended to expand what levied dollars are authorized to pay for, as well as placing new limits on the number of mills allowed and the duration those mills can be levied.

Authorized purchases under the law now include:

- 1) Acquisition or upgrading of technology (consistent with the definition of technology under 1351(a) bond programs)
- 2) School security improvement - which includes capital improvements as well as mobile telephone applications to provide the capability for personnel to communicate on site and connect to 911

The tax levied cannot exceed 3 mills (was 5 mills), and the levy cannot exceed 10 years (was 20 years).