

BUDGETING AND FINANCIAL REPORTING II

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September 2023

Alabama Association of School Business Officials Training

BUDGETING & FINANCIAL REPORTING II

AGENDA

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- **GASB Update**
 - Recent pronouncements that could affect Alabama LEAs
 - GASB Financial Reporting Model Project
- **Government Auditing Update**
 - 2018 GAO Yellow Book
- **Governmental Internal Controls Update**
 - 2014 GAO Green Book

Common Acronyms in Presentation

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- **GASB** – Governmental Accounting Standards Board
- **FASB** – Financial Accounting Standards Board
- **GAO** – Government Accountability Office
- **GAAP** – Generally Accepted Accounting Principles
- **SLG** – State and Local Governments
- **SEA** – Service Efforts and Accomplishments

GASB UPDATE

Materials in this presentation were graciously supplemented by Lisa Parker, Senior Project Manager with the Governmental Accounting Standards Board and supplemented by presentations/training attended and research by the presenter. The views expressed in this presentation are those of the presenter. Official positions of the GASB on accounting matters are reached only after extensive due process and deliberation.

Objectives of Financial Reporting for State and Local Governments

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**Governmental financial reports
are used primarily to**

Compare
actual
financial
results with
legally
adopted
budget

Assess
financial
conditions
and results
of
operations

Assist in
determining
compliance
with finance-
related
laws, rules
and
regulations

Assist in
evaluating
efficiency
and
effectiveness

GAAP Hierarchy for LEAs – GASB 76

Effective for periods after June 15, 2015

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Category	Sources	Due Process
A	GASB Statements	Formally approved by GASB Board for the purpose of creating, amending, superseding, or interpreting standards AND exposed for a period of public comment
B	GASB Technical Bulletins and Implementation Guides; AICPA Literature specifically cleared by GASB	Cleared by GASB Board, specifically made applicable to state and local government entities AND exposed for a period of public comment

IMPLEMENTATION DATES FOR SLG GOVERNMENTS

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GASB Statements	Effective for Fiscal Period Beginning After	September 30th FY End
GASB 94	June 15, 2022	FY 2023
GASB 95	Temp relief due to COVID-19	Postponed GASB 87 to FY 2022
GASB 96	June 15, 2022	FY 2023
GASB 97	June 15, 2021	FY 2022
GASB 98 CAFR to ACFR	Ending After December 15, 2021	FY 2022
GASB 99	June 15, 2022 (Leases, PPPs & SBITAs)	FY 2023
GASB 100	June 15, 2023	FY 2024
GASB 101	December 15, 2023	FY 2025

GASB 94, PPPs & APAs

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- GASB 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements
 - ▣ Issued March 2020
 - ▣ Effective Date: Fiscal years beginning after June 15, 2022 (FY 2023)
- PPPs – agreements between government and another party engaged in providing services to government's constituents
 - ▣ Toll roads concessions, community post offices, urban renewal projects, delivery of fiber internet
- Largest P3 – University of California, Merced
 - ▣ \$1.35 billion design, build, finance, operate and maintain (DBFOM) project; APA project
 - ▣ Student housing, classrooms, teaching and research space, student wellness, counseling facilities and recreational spaces for up to 10,000 students

Public Private Partnerships & APAs

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GASB 94, PPPs & APAs

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- PPP – an arrangement in which a government (transferor) contracts with an operator (governmental or nongovernmental) **to provide public services** by conveying control of a right to operate a nonfinancial asset, such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction
- Generally result in government transferring obligation to provide certain public services to an external entity

GASB 94, PPPs & APAs

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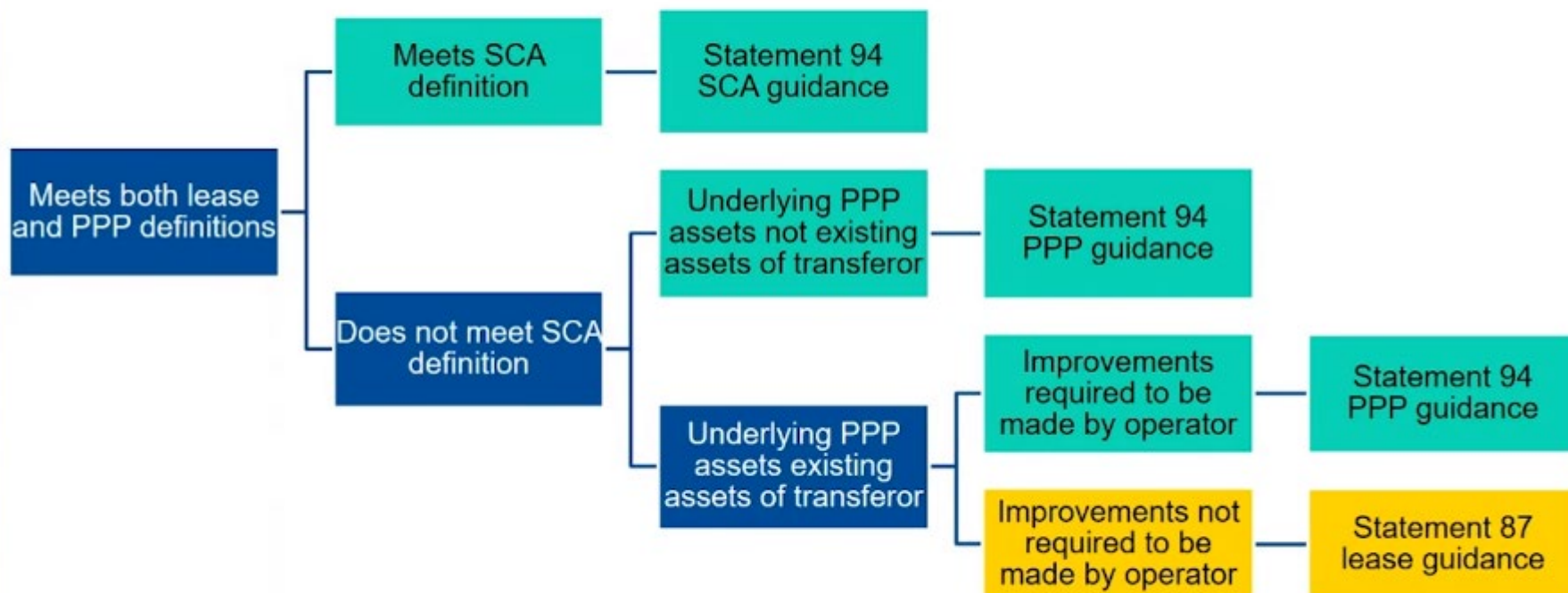
- Some PPPs are Service Concession Arrangements (SCAs) – a PPP in which all are met:
 - ▣ Transferor conveys right and obligation to provide public services through use and operation of underlying PPP asset in exchange for significant consideration (e.g. up-front payment, installment payments, new facility or improvements to existing facility)
 - ▣ Operator compensated by fees **from third parties**; excludes collect & remit arrangements
 - ▣ Transferor determines or has ability to modify or approve which services are provided, to whom services are provided and prices or rates charged for services
 - ▣ Transferor entitled to significant residual interest in the service utility of underlying PPP asset at end of agreement
 - ▣ Ex. Government transfers operation of toll road; government receives up-front payment and operator collects tolls; toll road reverts back to government at end of agreement

GASB 94, PPPs & APAs

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- PPPs that meet definition of a lease should apply GASB 87 if
 - ▣ Existing assets of transferor are the only underlying PPP assets
 - ▣ Improvements are not required to be made by operator to existing assets
 - ▣ PPP does not meet definition of SCA
- Big difference – PPPs are required to provide public service

Lease or PPP?



GASB 94, PPPs & APAs

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- Accounting for PPPs is determined by source of the underlying asset

Type I

Underlying asset is an existing asset of transferor, with or without operator improvements

Type II

Underlying asset is new asset purchased or constructed by the operator and PPP is a SCA

Type III

Underlying asset is new asset purchased or constructed by the operator and PPP is not a SCA

GASB 94, PPPs & APAs

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- Transferor recognition and measurement for PPPs
 - ▣ Recognize a receivable for installment payments to be received
 - Measure at the present value of PPP payments expected to be received during PPP term, reduced by provision for estimated uncollectible amounts; using rate transferor charges operator
 - Amortize discount to interest revenue
 - ▣ Include
 - Fixed payments
 - Variable payments based on index or rate using index or rate at commencement
 - Variable payments fixed in substance
 - Minimum payment for payments based on usage
 - Residual value guarantee payments fixed in substance
 - If required & amount can be reasonable estimated
 - ▣ Remeasure receivable under certain circumstances

GASB 94, PPPs & APAs

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- Transferor recognition and measurement for PPPs
 - ▣ Type I: If underlying asset is existing asset → Continue to recognize underlying PPP asset
 - ▣ If underlying asset is purchased or constructed
 - Type II: SCA → Recognize asset when placed into service at acquisition value (how much would it cost govt to purchase)
 - Type III: Not SCA → Recognize receivable for asset based on operator's estimated carrying value of asset as of expected date of transfer in ownership (Operator's historical cost less accumulated at expected date of transfer)
 - ▣ Recognize an asset for improvements made by operator to PPP asset at acquisition value when improvements placed into service

GASB 94, PPPs & APAs

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- Transferor recognition and measurement for PPPs
 - ▣ Recognize a deferred inflow of resources as the sum of the following assets when related assets are recognized
 - Amount of initial measurement of receivable for installment payments
 - PPP payments received from operator at commencement
 - Amount of initial measurement for PPP asset purchased or constructed under SCA
 - Amount of initial measurement for improvements to underlying PPP asset
 - Amount of initial measurement of receivable for PPP asset purchased or constructed under PPP that not a SCA
 - ▣ Recognize deferred inflow of resources as inflow of resources (revenues) in systematic and rational manner over PPP term

GASB 94, PPPs & APAs

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- Availability Payment Arrangements
 - Government compensates an operator for activities that may include designing, constructing, financing, maintaining or operating an underlying nonfinancial asset for a period of time
 - Payments are based on asset's **availability for use** rather than on tolls, fees, or similar revenues or other measures of demand
 - In an APA, government procures a capital asset or service, rather than receiving compensation to allow another to provide public services

GASB 94, PPPs & APAs

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- Accounting and reporting for APAs
 - ▣ Components of APA related to the design, construction or financing of a nonfinancial asset in which asset transfers to government at the end of agreement
 - Report as a financed purchase of underlying nonfinancial asset
 - ▣ Components of APA related to providing services for the operation or maintenance of asset
 - Account for as outflows of resources (expense) by the government in the period to which payments relate

GASB 94, PPPs & APAs

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- Availability Payment Arrangement Example
- Prince George County Public Schools, Maryland
 - ▣ First district in the US to accelerate the delivery of a group of public K-12 school buildings
 - ▣ Through a design-build-finance-maintain (DBFM) Alternative Financing Model
 - ▣ Expected to save \$174 million in deferred maintenance and construction costs & build new schools faster
 - ▣ *A Guide to K-12 Public Private Partnerships* – Brailsford & Dunleavy
 - <https://p3resourcecenter.com/wp-content/uploads/2021/08/A-Guide-To-K-12-P3-Partnerships.pdf>

GASB 96, Subscription-Based Information Technology Arrangements

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- ❑ Issued May 2020
- ❑ Effective Date: Fiscal years beginning after June 15, 2022 (FY 2023); Applied retroactively by restating all periods presented
- ❑ Statement:
 - ▣ Defines a Subscription-Based Information Technology Arrangement (SBITA)
 - ▣ Establishes that a SBITA results in a right-to-use subscription asset (intangible) & corresponding liability
 - ▣ Provides capitalization criteria for outlays other than subscription payments, including implementation costs
 - ▣ Requires note disclosures regarding a SBITA
 - ▣ In general, standards for SBITAs are based on standards established in Statement 87, *Leases*
- ❑ Requires recognition of Subscription Asset and Subscription Liability

GASB 96, SBITAs

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- Prior to this Statement, there was no accounting or financial reporting guidance for SBITAs
- Objective of GASB 96:
 - ▣ Better meet the information needs of FS users by:
 - Establishing uniform accounting and financial reporting guidance for SBITAs
 - Improving comparability among governments
 - Enhance understandability, reliability, relevance and consistency of information about SBITAs

GASB 96, SBITAs

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□ Exclusions

- Contracts that convey control of right to use another party's combination of IT software **and** tangible capital assets that meet definition of lease under GASB 87 **IF** software component insignificant when compared to cost of underlying tangible capital asset
- Governments that provide right to use their IT software and associated tangible assets to other entities through SBITAs
- Contracts subject to GASB 94, PPPs & APAs
- Licensing arrangements that provide a perpetual license to use vendor's software (GASB 51, Intangible Assets)

GASB 96, SBITAs

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□ Definition

- Contract that conveys control of the right to use another party's (SBITA vendor's) IT software, alone or in combination with tangible capital assets
- Excludes contracts that solely provide IT support services
- Includes contracts that contain **both** a right-to-use IT asset component and an IT support services component

GASB 96, SBITAs

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- Subscription Term – period during which government has a noncancellable right to use underlying IT asset, plus the following:
 - ▣ Periods covered by govt's option to extend
 - ▣ Periods covered by govt's option to terminate
 - ▣ Periods covered by vendor's option to extend
 - ▣ Periods covered by vendor's option to terminate

Test: Govt determines it is **Reasonably Certain** to extend OR terminate
- Periods for which both govt and vendor have option to terminate without permission from other party are excluded from term (or where both have to agree to extend)

GASB 96, SBITAs

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- Government should reassess term if one or more of the following occur:
 - Govt or SBITA vendor exercises an option that was previously determined reasonably certain WOULD NOT
 - Govt or SBITA vendor does not exercise option that was previously determined reasonably certain WOULD
 - Event specified in SBITA contract that requires extension or termination takes place

GASB 96, SBITAs

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- ❑ Short-term SBITAs
 - ▣ Maximum possible term of 12 months or less
 - ▣ Including options to extend, regardless of their probability of being exercised
 - ▣ Periods for which both govt & SBITA vendor have an option to terminate without permission from other party s/b excluded from term
 - ▣ Recognized short-term subscription payments as outflows (expenses)

GASB 96, SBITAs

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- Recognition and measurement for SBITAs other than Short-Term SBITAs
 - ▣ At commencement of subscription term, government should recognize:
 - Subscription liability
 - Intangible right-to-use asset (subscription asset)

GASB 96, SBITAs

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- Subscription liability measured at present value of subscription payments & should include:
 - ▣ Fixed payments
 - ▣ Variable payments that depend on index or rate, measured using index or rate as of commencement
 - ▣ Variable payments fixed in substance
 - Example: payments based on usage, but there is a minimum required payment each period
 - ▣ Payments for penalties for terminating SBITA, if included in subscription term
 - ▣ Subscription contract incentives receivable from vendor
 - ▣ Any other payments to SBITA vendor reasonably certain of being required

GASB 96, SBITAs

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- Subscription liability
 - ▣ Discounted using interest rate vendor charges govt
 - ▣ If not readily determinable, use government's incremental borrowing rate
 - Estimate of interest rate that would be charged for borrowing subscription payments during term
 - ▣ Government should calculate amortization of discount on the liability and report as outflow of resources (interest expense)
 - ▣ Subscription payments allocated first to accrued interest liability and then to subscription liability

GASB 96, SBITAs

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- **Remeasure liability** if one or more of the following changes occur (and expected to significantly affect amount of liability)
 - ▣ Change in subscription term
 - ▣ Change in estimated amounts for subscription payments
 - ▣ Change in interest rate vendor charges govt
 - ▣ Contingency for variable payments is resolved and those payments will now be made
 - ▣ IF liability remeasured, liability should also be adjusted for any change in index or rate used to determine variable payments (don't remeasure solely for rate/index change)
 - ▣ Update discount rate as part of remeasurement (but not solely for change in incremental borrowing rate)

GASB 96, SBITAs

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□ Subscription Asset

- Measure subscription asset as the sum of the following, less any SBITA vendor incentives:
 - Amount of the initial measurement of subscription liability
 - Payments associated with SBITA contract made to vendor at commencement of term
 - Capitalizable initial implementation costs – see next slide
- Subscription asset should be amortized over shorter of the subscription term or useful life of the underlying IT asset
 - Reported as outflow of resources (amortization expense)
- Subscription asset generally should be adjusted by same amount of liability when liability is remeasured

GASB 96, SBITAs

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- Outlays other than subscription payments:
- Preliminary Project Stage – Expense as incurred
 - ▣ Evaluating alternatives, determining needs, selecting vendor
- Initial Implementation Stage – Capitalize as part of the subscription asset (unless short-term SBITA)
 - ▣ Configuration, coding, testing and installation
- Operation and Additional Implementation Stage – Expense as incurred
 - ▣ Maintenance, troubleshooting, other activities related to ongoing access
- Training costs – Expense as incurred, regardless of stage

GASB 96, SBITAs

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- Financial statements prepared using Current Financial Resources Measurement Focus
 - ▣ Report expenditure and other financing source in period subscription asset is initially recognized
 - Measured at subscription liability
 - ▣ Subscription payments account for consistent with debt service payments on long-term debt
 - Debit expenditure; credit cash

GASB 96, SBITAs

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- Notes to Financial Statements
 - ▣ General description of SBITAs
 - ▣ Total amount of subscription assets, and related accumulated amortization; separate from other capital assets
 - ▣ Amount of outflows for variable payments and/or other payments not included in measurement of liability
 - ▣ Principal and interest requirements, separately, for each of five subsequent years; five-year increments thereafter
 - ▣ Commitments under SBITAs before commencement
 - ▣ Components of any loss associated with impairment

GASB 96, SBITAs

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- How to prepare?
 - ▣ Similar approach to GASB 87, Leases
 - ▣ Prepare an inventory of all SBITAs
 - Review contracts awarded & expenditure details for related object codes
 - ▣ May be able to use GASB 87 implementation software for GASB 96

GASB 98, The Annual Comprehensive Financial Report

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- Term *comprehensive annual financial report* replaced with *annual comprehensive financial report* (ACFR)
- Effective: Fiscal years ending after December 15, 2021

GASB 99, Omnibus 2022

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- ❑ Issued April 2022
- ❑ Effective Date
 - ▣ Requirements related to leases, PPPs and SBITAs effective for fiscal years beginning after June 15, 2022 (FY 2023)
- ❑ Omnibus – of, relating to, or providing for many things at once
 - ▣ Omnibus bill – proposed law that covers a number of diverse or unrelated topics
- ❑ Addresses practice issues identified during implementation and application of certain GASB Statements

GASB 99, Omnibus 2022

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- Leases, PPPs & SBITAs
- Additional guidance on determining contract term
 - ▣ Exclude from term options to terminate where both parties can terminate without permission from other party
 - ▣ Generally exclude options to terminate that depend on action/inaction of either party (e.g. default on payments)
 - ▣ Exclude periods in lease term after which a purchase option is reasonably certain to be exercised (considered option to terminate)
- Additional guidance on calculating contract receivables and liabilities, respectively
 - ▣ Include variable payments that depend on index or rate or that are fixed in substance
 - ▣ Exclude all other variable payments – those based on future performance or usage

GASB 99, Omnibus 2022

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- Additional guidance on remeasurement of contract receivable or liability
 - ▣ Don't remeasure solely for change in index/rate used for variable payments
 - Original Statement language “not required to be remeasured”
 - Omnibus language “should not be remeasured”
 - ▣ Don't remeasure for change in incremental borrowing rate (when used for discount rate)
 - ▣ Remeasure with change in rate charged by one party to the other if used for discount rate (lessor to lessee; SBITA vendor to government)

GASB 99, Omnibus 2022

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- Reassess term for short-term leases & SBITAs
 - ▣ If reassessed term is greater than 12 months, no longer short-term; use original inception date
 - ▣ Term should be assessed beginning at date of modification for purposes of measuring asset or liability
- Omnibus 2022 other topics
 - ▣ Financial Guarantees – guarantee of obligation of legally separate entity or individual
 - ▣ Other Derivative Instruments – Neither investment or hedging
 - ▣ Replacement of LIBOR

GASB 100, Accounting Changes and Error Corrections

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- Issued June 2022
- Effective: Fiscal years beginning after June 15, 2023 (FY 2024)
- Statement establishes accounting and financial reporting requirements for:
 - Accounting changes
 - 1) Change in accounting principle; 2) change in accounting estimate; 3) change to or within financial reporting entity
 - Correction of an error in previously issued financial statements (error correction)

GASB 100, Accounting Changes and Error Corrections

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Change in Accounting Principle

What it is...

- Change from one GAAP principle to another GAAP principle; newly adopted principle preferable (but both acceptable)
 - ▣ Must be more reliable, relevant, timely, consistent, comparable or understandable)
- Implementation of new authoritative pronouncements

Change in Accounting Principle

What it's not...

- Initial adoption and application to transactions or other events that are:
 - ▣ Clearly different in substance from those previously occurring
 - ▣ Are occurring for the first time
 - ▣ Were previously immaterial
- Change from applying non-GAAP to applying GAAP
 - ▣ **Error!**

GASB 100, Accounting Changes and Error Corrections

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- Change in Accounting Estimate
 - ▣ Amounts subject to measurement uncertainty
 - ▣ Outputs determined based on inputs such as data, assumptions and measurement methodologies
 - ▣ Change occurs when inputs change
 - ▣ Justified on the bases that the new methodology is preferable; except in cases where change is required

Examples:

Change in method used to depreciate capital assets; useful life estimate

Change in valuation technique used to measure fair value

Change in methodology or assumptions for allowance for uncollectible AR

GASB 100, Accounting Changes and Error Corrections

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- Change to or Within Financial Reporting Entity
 - ▣ Addition or removal of a fund resulting from movement of continuing operations (not new operations)
 - ▣ Change in fund's presentation as major or nonmajor
 - ▣ Addition or removal of a component unit
 - ▣ Change in component unit's presentation as blended or discretely presented
- Error Correction
 - ▣ Results from mathematical mistakes, mistakes in application of accounting principles, or oversight or misuse of facts that existed at the time financial statements were issued

GASB 100, Accounting Changes and Error Corrections

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- Change in Accounting Principle
 - ▣ Retroactively restate financial statements for all prior periods presented
 - ▣ Restate beginning net position for earliest period presented to report cumulative effect on periods prior to those presented
- Notes to Financial Statements
 - ▣ Nature of the change
 - FS line items affected; Identify new pronouncement implemented
 - ▣ Reason for change except for new pronouncement
 - ▣ Why application of new standard is preferable

GASB 100, Accounting Changes and Error Corrections

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- Change in Accounting Estimate
 - ▣ Report prospectively in the reporting period in which the change occurs
- Notes to Financial Statements
 - ▣ Nature of change in accounting estimate
 - Identification of financial statement line items affected
 - ▣ If change in measurement methodology
 - Reason for the change
 - Explanation for why new methodology is preferable, except when required

GASB 100, Accounting Changes and Error Corrections

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- ❑ Change to or within Financial Reporting Entity
 - ▣ Reported by adjusting current reporting period's beginning net position as if the change occurred as of the beginning of reporting period
- ❑ Notes to Financial Statements
 - ▣ Nature of change to or within reporting entity
 - ▣ Reason for the change, except for change in fund's presentation on from meeting or not meeting major fund threshold

GASB 100, Accounting Changes and Error Corrections

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- Error Correction
 - ▣ Retroactively restate financial statements for all prior periods presented
 - ▣ Restate beginning net position for cumulative effect of error correction of the earliest period presented
- Notes to Financial Statements
 - ▣ Date of the error and its correction
 - Periods affected by error; line items affected
 - For FS that present a single period, effect on prior period's change in net position had the error not occurred
 - For comparative FS, effect of error correction on change in net position of the prior period

GASB 100, Accounting Changes and Error Corrections

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□ Notes to Financial Statements

▣ Government should disclosure

- Effects on beginning net position, fund balance or fund net position of earliest period adjusted or restated
 - Each change in accounting principle (including implementation of new pronouncements)
 - Each change to or within financial reporting entity
 - Each error correction
- Disclosed in tabular format that reconciles beginning balances as previously reported to beginning balances as adjusted or restated
- Unless separately displayed in the financial statements

	12/31/20X1 As Previously Reported	Change to or within the Financial Reporting Entity (A)	Change to or within the Financial Reporting Entity (B)	Error Correction (C)	12/31/20X1 As Restated
Government-Wide					
Governmental Activities	\$ 768,033	\$ -	\$ -	\$ 71,312	\$ 839,345
Business-Type Activities	543,163	(2,184)	-	-	540,979
Total Primary Government	\$ 1,311,196	\$ (2,184)	\$ -	\$ 71,312	\$ 1,380,324
Governmental Funds					
Major Funds:					
General Fund	\$ 631,607	\$ -	\$ -	\$ -	\$ 631,607
Fund A	100,922	-	-	-	100,922
Nonmajor Funds	40,486	-	-	-	40,486
Total Governmental Funds	\$ 773,015	\$ -	\$ -	\$ -	\$ 773,015
Proprietary Funds					
Major Funds:					
Enterprise Fund C	\$ 418,910	\$ -	\$ -	\$ -	\$ 418,910
Enterprise Fund D	74,831	(2,184)	-	-	72,647
Nonmajor Funds	49,422	-	-	-	49,422
Total Proprietary Funds	\$ 543,163	\$ (2,184)	\$ -	\$ -	\$ 540,979
Fiduciary Funds					
Pension and Other Employee Benefit Trust Funds	\$ 3,071,227	\$ -	\$ -	\$ -	\$ 3,071,227
Discretely Presented Component Units					
ABC Authority	\$ 1,696	\$ -	\$ -	\$ -	\$ 1,696
QRS Foundation	-	2,184	-	-	2,184
XYZ Foundation	-	-	1,500	-	1,500
Nonmajor Component Units	2,730	-	-	-	2,730
Total Discretely Presented Component Units	\$ 4,426	\$ 2,184	\$ 1,500	\$ -	\$ 8,110

Reporting Units Affected by Adjustments to and Restatements of Beginning Balances

	Funds	Government-Wide		Component Units	
	Enterprise Fund D	Governmental Activities	Business-Type Activities	QRS Foundation	XYZ Foundation
12/31/X1, as previously reported	\$ 74,831	\$ 768,033	\$ 543,163	\$ -	\$ -
Change from blended to discrete presentation	(2,184)	-	(2,184)	2,184	-
Addition of discretely presented component unit	-	-	-	-	1,500
Error correction	-	71,312	-	-	-
12/31/X1, as restated	\$ 72,647	\$ 839,345	\$ 540,979	\$ 2,184	\$ 1,500

GASB 100, Accounting Changes and Error Corrections

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- Required Supplementary Information and Supplementary Information (including MD&A)
 - ▣ Change in accounting principle or reporting entity
 - Reporting periods should be adjusted or restated in same manner as FS
 - For prior periods earlier than those presented in FS, RSA or SI should not be restated
 - If prior-period information presented in RSI or SI is not consistent with current-period information, explanation should be provided
 - Include reference to related note disclosure in MD&A

GASB 100, Accounting Changes and Error Corrections

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- Required Supplementary Information and Supplementary Information (including MD&A)
 - ▣ Error correction
 - Restate for periods presented in financial statements
 - If error affects periods earlier than those presented in FS, all affected information should be corrected by restating information for those periods in RSI or SI, if practicable
 - Information affected should be identified as restated or not restated, as appropriate
 - Explanation of error should be provided
 - If not practicable, explanation of why it is not practicable s/b provided

GASB 101, Compensated Absences

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- ❑ Issued June 2022
- ❑ Effective: Fiscal years beginning after December 15, 2023 (FY 2025)
- ❑ Background – Replaces Statement 16
 - ▣ Lack of guidance for certain types of leave
 - ▣ Inconsistent application of those standards
- ❑ Statement establishes standards of accounting and financial reporting for:
 - ▣ Compensated absences
 - ▣ Associated salary related payments

GASB 101, Compensated Absences

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- Compensated absence is leave for which an employee may receive one or more
 - ▣ Cash payment when leave is used for time off
 - ▣ Other cash payments, such as payment for unused leave upon termination of employment
 - ▣ Noncash settlements, such as conversion to defined benefit postemployment benefits
 - ▣ Payment could occur during employment or upon termination of employment
 - ▣ Examples: vacation (annual) leave, sick leave, paid time off (PTO), holidays, parental leave, bereavement leave, certain types of sabbatical leave (employee not required to perform any significant duties for government)

GASB 101, Compensated Absences

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- Recognition and measurement
 - ▣ Liabilities should be recorded (using economic resources measurement focus) for:
 - Leave that has not been used
 - Leave that has been used but not yet paid or settled
 - Aggregation not required
 - Accrued payroll can be used for leave used but not paid
 - Include applicable salary-related payments

GASB 101, Compensated Absences

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- Liability should be recognized for leave that has not been used if all of the following are true:
 - ▣ Leave is attributable to services already rendered
 - Employee has performed services required to earn leave
 - ▣ Leave accumulates
 - Carried forward from reporting period in which it was earned to a future reporting period
 - ▣ Leave is ***more likely than not*** to be used for time off or otherwise paid in cash or settled through noncash means
 - A likelihood of more than 50 percent
 - Change from *probable* in Statement 16
 - GASB believes application of probable could be interpreted as a high threshold; may result in understatement of liability

GASB 101, Compensated Absences

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- ❑ Exclude from recognition as liability
 - ▣ Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits
 - ▣ Compensated absences dependent upon occurrence of sporadic events
 - Parental leave, military leave, jury duty leave
 - Recognize liability when leave commences
 - ▣ Unlimited leave & holiday leave taken on a specific date
 - Recognize liability when leave is used

GASB 101, Compensated Absences

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- Liability for compensated absences
 - ▣ Measured using employee's pay rate as of the date of FS
 - ▣ If some or all of leave is MLTN to be paid at a rate different from employee's pay rate, government should measure liability using that pay rate
 - ▣ Leave not attributable to specific employee (e.g. shared employee leave pool), measure liability using estimated pay rate representative of employee group
 - ▣ Leave MLTN to be settled through noncash means, measure liability based on settlement amount
 - ▣ Changes in measurement of liability, recognized in period of change

GASB 101, Compensated Absences

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- Salary-related payments
 - ▣ Obligations that a government occurs related to providing leave in exchange for services rendered
 - Ex. Employer share of Social Security and Medicare taxes
 - ▣ Government should include in measurement of liability for compensated absences salary-related payments that are directly and incrementally associated with leave
 - Depends on amount of salary to be paid
 - Payment in addition to the payment for the salary
 - ▣ SRPs related to pension or OPEB
 - Pension/OPEB expense or liability; not included in comp. abs.

GASB 101, Compensated Absences

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□ Notes to Financial Statements

▣ For the purposes of the long-term liabilities disclosure, government should present either:

- The separate increases or decreases OR
- A net increase or a net decrease in its liability for compensated absences
 - Change from GASB 34 which required separate disclosure of increases and decreases in long-term liability for comp abs
- No longer required to disclose which governmental funds typically have been used to liquidate liability for comp abs

Implementation Guide No. 2023-1, Implementation Guidance Update 2023

63

- ❑ Issued June 2023
- ❑ Provides guidance that clarifies, explains or elaborates on GASB Statements
- ❑ Provides additional guidance
 - ▣ GASB 87, *Leases*
 - ▣ GASB 96, *Subscription-Based Information Technology Arrangements*
 - ▣ GASB 100, *Accounting Changes and Error Corrections*

Implementation Guide No. 2023-1, Implementation Guidance Update 2023

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- Q—Is a licensing agreement for a vendor's computer software that automatically renews until cancelled a licensing agreement that provides a perpetual license?
- A—No. A provision under which a licensing agreement automatically renews until cancelled is an option to terminate the agreement at each renewal date. An agreement that includes an option to terminate is not a purchase, whereas a perpetual license is a purchase in which a government is granted a permanent right to use the vendor's computer software. Therefore, a licensing agreement for a vendor's computer software that automatically renews until cancelled does not provide a perpetual license.
- GASB 96 does not apply to perpetual licenses to software

CURRENT GASB TECHNICAL AGENDA PROJECTS

Materials in this presentation were graciously supplemented by Lisa Parker, Senior Project Manager with the Governmental Accounting Standards Board and supplemented by presentations/training attended and research by the presenter. The views expressed in this presentation are those of the presenter. Official positions of the GASB on accounting matters are reached only after extensive due process and deliberation.

Technical Agenda Overview

Revised August 28, 2023

CONCEPTUAL FRAMEWORK PROJECTS	Current Stage	Timing

COMPREHENSIVE PROJECTS	Current Stage	Timing
Financial Reporting Model	Exposure Draft Redeliberations	
Revenue and Expense Recognition	Preliminary Views Redeliberations	

MAJOR PROJECTS	Current Stage	Timing
Going Concern Uncertainties and Severe Financial Stress	Initial Deliberations	
Infrastructure Assets	Initial Deliberations	

PRACTICE ISSUES	Current Stage	Timing
Classification of Nonfinancial Assets	Initial Deliberations	
Risks and Uncertainties Disclosures	Exposure Draft Redeliberations	

PRE-AGENDA RESEARCH ACTIVITIES
Subsequent Events

Conceptual Framework: Recognition

Considered whether and when information should be reported in financial statements

Status: Removed from technical plan as of June 2023 in light of decisions made regarding Financial Reporting Model project

Financial Reporting Model Reexamination

What?

In September 2018, the Board proposed improvements to the financial reporting model— Statements 34, 35, 37, 41, and 46, and Interpretation 6

Why?

A review of those standards found that they generally were effective, but that there were aspects that could be significantly improved

When?

Exposure Draft
issued June
2020

Financial Reporting Model Improvements

68

- ❑ Exposure Draft Issued June 2020
- ❑ Public comments were due in February 2021
- ❑ Followed by public hearings in March and April 2021
- ❑ Available at:
 - ❑ <https://gasb.org/exposedocuments>
 - ❑ GASB Codification Instructions Working Files
 - Include proposed revisions to GASB codification
- ❑ Final Statement anticipated no earlier than December 2023

Financial Reporting Model Improvements

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- Effective Date and Transition
 - Effective based on government's total annual revenues for first fiscal year beginning after June 15, 2022 (FY 2023)
 - Total revenues of \$75 million or more → Fiscal years beginning after June 15, 2024 (FY 2025)
 - Total revenues less than \$75 million → Fiscal years beginning after June 15, 2025 (FY 2026)
 - Earlier application is encouraged

Financial Reporting Model Improvements

70

- ❑ Objective: Improve key components of the financial reporting model
- ❑ Purpose: Enhance effectiveness by providing information essential for decision making and assessing government's accountability; address certain application issues

Financial Reporting Model Improvements

71

- Statement establishes or modifies existing accounting and financial reporting guidance requirements:
 - ▣ Management's discussion and analysis
 - ▣ Unusual or infrequent items
 - ▣ Presentation of governmental fund financial statements
 - ▣ Short-term financial resources measurement focus and accrual basis of accounting in governmental funds
- → June 2023, Board tentatively agreed to remove issues related to reporting of governmental funds from the scope of this project and the guidance from a final Statement

Financial Reporting Model Improvements

72

- Statement establishes or modifies existing requirements related to the following:
 - ▣ Proprietary funds
 - Operating vs. Nonoperating
 - ▣ Other Items
 - Component unit presentation
 - Budgetary comparison information
 - Financial trends information

Financial Reporting Model Improvements

73

- Management's Discussion & Analysis
 - ▣ Potential improvements identified in pre-agenda research:
 - Reducing boilerplate information
 - Specific information that generally is the same from government to government
 - Increasing focus on explanation of reasons for changes from year to year in government-wide and fund FS
 - Reducing repetition within MD&A
 - Clarifying requirements related to currently known facts, decisions or conditions

Financial Reporting Model

Improvements

74

- MD&A precedes basic financial statements and is part of required supplementary information
- Should provide objective and easily readable analysis of government's financial activities
 - ▣ Based on currently known facts, decisions or conditions
- Financial managers knowledgeable about:
 - ▣ Transactions and events in report
 - ▣ Fiscal policies
 - ▣ Other conditions that may significantly effect financial position or results of operations
- Written in a manner that can be understood by users who may not have a detailed knowledge of governmental accounting and financial reporting
 - ▣ Include explanations and interpretations improve understandability

Financial Reporting Model

Improvements

75

- Should discuss current-year balances and results in comparison with prior year, emphasis on current year
 - ▣ Analysis should assist user in understanding WHY
- Avoid unnecessary duplication
 - ▣ Explanations should not be repeated after presented initially; referenced rather than duplicated
- Focus on primary government
 - ▣ When appropriate, refer users to component unit's separately issued FS

Financial Reporting Model Improvements

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- Information confined to these topics
 - ▣ Introduction – overview of FS; focus on significant differences in information provided by each; measurement focus & basis of accounting
 - ▣ Financial Summary – condensed financial information comparing CY to PY
 - Present information to support analysis of financial position and results of operations
 - 16 elements – total assets & deferred outflows; total liabilities & deferred inflows; total net position; program revenues by source; change in net position; etc.

- (1) Total assets, distinguishing between capital and other assets
- (2) Total deferred outflows of resources
- (3) Total liabilities, distinguishing between long-term liabilities and other liabilities
- (4) Total deferred inflows of resources
- (5) Total net position, distinguishing between the net investment in capital assets, restricted amounts, and unrestricted amounts
- (6) Program revenues, by major source, distinguishing between charges for services, operating grants and contributions, and capital grants and contributions
- (7) General revenues, by major source
- (8) Total revenues
- (9) Program expenses, at a minimum by function or identifiable activity, as appropriate
- (10) Total expenses
- (11) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, transfers, and unusual or infrequent items
- (12) Contributions to term and permanent endowments or permanent fund principal
- (13) Transfers
- (14) Unusual or infrequent items
- (15) Change in net position
- (16) Ending net position.

Financial Reporting Model Improvements

78

▣ Detailed analysis

- Analysis to assist users in assessing whether financial position has improved or deteriorated
- **Analysis should explain reasons for significant changes and indicate magnitude of those changes**
- Include facts, decisions, or conditions about which user may not be aware

▣ Significant Capital Asset and Long-Term Debt Activity

- Discussion of significant additions and disposals of capital assets
- Significant long-term debt, lease, PPP and SBITA activity; agreements entered into, changes in credit ratings, changes to debt limitations

Financial Reporting Model Improvements

79

- ▣ Currently Known Facts, Decisions, or Conditions
 - GASB provided examples of specific types of information that should be included; examples rather than requirements; less boilerplate and allows managers to conform information to specifics of their government
 - Expected to have significant effect on financial position; expected to produce significant differences from current period
 - Trends in economic and demographic data; changes in population, enrollment
 - Changes from subsequent year's budget; appropriation levels, tax rates; planned spending
 - Actions taken by government after end of reporting period related to postemployment benefit liabilities, capital asset improvement plans, long-term debt, lease agreements, PPPs and SBITAs
 - Actions taken by other parties that will affect government
 - New legislation or regulations; changes in State Appropriations

Financial Reporting Model Improvements

80

- Boilerplate Information
 - ▣ Only MD&A requirement that generally would result in same presentation for all governments
 - Present a brief discussion of the basic financial statements, including relationship of the statements to each other and differences in information they provide
- Focus on Explanations
 - ▣ Explanations of reasons for changes from year to year were not thorough enough
 - ▣ Previous requirements should be modified to emphasize the focus on detailed analysis of comparisons, including magnitude of the reasons for the changes to improve understandability

Financial Reporting Model Improvements

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- Unusual or Infrequent Items
 - Event/transaction abnormal and unrelated to ordinary or typical activities
 - Event/transaction would not be reasonably expected to recur in foreseeable future
- ▣ Present individually unusual OR infrequent items as the last presented flow(s) of resources prior to net change in resource flows; Statement 34 required unusual AND infrequent
- ▣ Display unusual or infrequent items as the last presented flow of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.
- ▣ Disclose the program or function or identifiable activity to which an unusual or infrequent item is related; whether within the control of management

Sample City
Statement of Short-Term Financial Resource Flows
Governmental Funds
for the Year Ended June 30, 20X5
(amounts expressed in thousands)

See Exhibit 19 for an illustration of an optional combining statement of nonmajor funds.

	General Fund	Transportation Special Resources Fund	Debt Service Fund	Infrastructure Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
INFLOWS OF RESOURCES FROM CURRENT ACTIVITIES						
Taxes:						
Sales tax	\$ 104,142	\$ 51,442	\$ —	\$ 123,983	\$ —	\$ 279,567
Property tax	—	—	78,930	—	—	78,930
Franchise tax	22,706	—	—	—	416	23,122
Use tax	34,880	—	—	6,188	—	41,068
Hotel/motel tax	157	—	—	—	7,713	7,870
Special assessment tax	—	—	—	—	2,739	2,739
Payments in lieu of taxes	15,737	—	—	—	—	15,737
Intergovernmental	1,597	30,337	—	—	18,654	50,588
Charges for services	13,905	6,848	—	—	13,042	33,795
Licenses, permits, and fees	3,532	—	—	—	—	3,532
Fines and forfeitures	7,853	—	—	—	121	7,974
Investment earnings	6,792	2,295	—	11,028	325	20,440
Miscellaneous	2,075	—	46	128	273	2,522
Transfers in	1,980	—	—	—	917	2,897
Total inflows of resources from current activities	215,356	90,922	78,976	141,327	44,200	570,781
OUTFLOWS OF RESOURCES FROM CURRENT ACTIVITIES						
General government	29,097	60,535	—	2,168	66	91,866
Public safety	142,770	—	—	6,067	15,652	164,489
Public works	1,882	16,934	—	2,446	173	21,435
Culture and recreation	21,354	—	—	36	740	22,130
Social and economic development	11,614	—	—	—	13,787	25,401
Transfers out	—	—	—	917	2,390	3,307
Total outflows of resources from current activities	206,717	77,469	—	11,634	32,808	328,628
Net flows from current activities	8,639	13,453	78,976	129,693	11,392	242,153
NET FLOWS FROM NONCURRENT ACTIVITIES						
Debt service:						
Principal	(1,262)	—	(54,214)	(8,742)	—	(64,218)
Interest and other charges	(54)	—	(22,221)	(6,029)	—	(28,304)
Long-term debt issued	—	—	30,649	119,681	—	150,330
Premium on debt issued	—	—	1,600	6,249	—	7,849
Payment to bond refunding escrow agent	—	—	(32,230)	—	—	(32,230)
Capital outlay	(1,103)	—	—	(151,907)	(5,034)	(158,044)
Proceeds from the sale of capital assets	275	—	—	—	—	275
Transfers in	650	—	—	192	386	1,228
Transfers out	(662)	—	—	(17,377)	(3,290)	(21,329)
Total net flows from noncurrent activities	(2,156)	—	(76,416)	(57,933)	(7,938)	(144,443)
UNUSUAL OR INFREQUENT ITEM						
Flood damage	(7,500)	—	—	—	—	(7,500)
Net change in fund balances	(1,017)	13,453	2,560	71,760	3,454	90,210
Fund balances—beginning of period	55,009	4,024	65,729	548,550	14,879	688,191
Fund balances—end of period	\$ 53,992	\$ 17,477	\$ 68,289	\$ 620,310	\$ 18,333	\$ 778,401

Other Improvements to Financial Reporting

83

Proprietary Fund SRECNP

- Statement of Revenues, expenses, and changes in fund net position should distinguish between operating and nonoperating revenues and expenses
- Separately report noncapital subsidies

Operating Revenues & Expenses

- Operating revenues and expenses are anything other than nonoperating revenues and expenses
- Nonoperating revenues and expenses are:
 - Subsidies received and provided
 - Revenues/expenses related to financing
 - Resources from disposal of capital assets and inventory
 - Investment income and expenses

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

for the Year Ended June 30, 20X5

(amounts expressed in thousands)

See Exhibit 21 for an illustration of an optional combining statement of internal service funds.

	Enterprise Funds				Internal Service Funds
	Public Utility	Transit Authority	Golf Courses	Total	
OPERATING REVENUES					
Charges for services	\$ 41,003	\$ 18,636	\$ 2,561	\$ 62,200	\$ 42,523
Miscellaneous	283	33	104	420	78
Total operating revenues	41,286	18,669	2,665	62,620	42,601
OPERATING EXPENSES					
Personnel services	13,991	—	—	13,991	5,786
Contractual services	13,952	16,406	4,893	35,251	4,117
Insurance claims and expenses	—	—	—	—	26,388
Depreciation	11,767	8,972	2,375	23,114	415
Other	1,067	—	165	1,232	7,834
Total operating expenses	40,777	25,378	7,433	73,588	44,540
Operating income (loss)	509	(6,709)	(4,768)	(10,968)	(1,939)
NONCAPITAL SUBSIDIES					
Intergovernmental revenue	—	—	—	—	881
Transfers in	—	2,090	110	2,200	300
Transfers out	(1,980)	—	—	(1,980)	—
Total noncapital subsidies	(1,980)	2,090	110	220	1,181
Operating income (loss) and noncapital subsidies	(1,471)	(4,619)	(4,658)	(10,748)	(758)
OTHER NONOPERATING REVENUES (EXPENSES)					
Investment earnings	1,496	75	103	1,674	446
Other	—	—	—	—	3
Interest expense	(1,910)	(448)	(963)	(3,321)	—
Capital contributions	2,938	—	—	2,938	—
Transfers in	1,032	15,360	2,384	18,776	1,215
Total other nonoperating revenue (expenses)	3,556	14,987	1,524	20,067	1,664
Increase/decrease in fund net position	2,085	10,368	(3,134)	9,319	906
Total fund net position—beginning of period	331,657	177,997	29,423	539,077	12,387
Total fund net position—end of period	\$ 333,742	\$ 188,365	\$ 26,289	\$ 548,396	\$ 13,293

Other Improvements to Financial Reporting

85

Budgetary Comparisons

- Presented as RSI for general fund and each major resources fund with legally adopted budget
- Includes variance columns for original to final budget and final budget and actuals
- Variance explanations in Notes to RSI

Major Component Units

- Governments should present each major component unit in a separate column in Statements of Net Position and Statement of Activities
- If separate presentation reduces readability, include combining statements after fund FS

Required Supplementary Information
Sample City
Budgetary Comparison Schedule
Transportation Special Resources Fund
for the Year Ended June 30, 20X5
(amounts expressed in thousands)

Current and noncurrent format is not a requirement.

	Budgeted Amounts		Variance	Actual Amounts	Variance
	Original	Final	Final Budget— Over (Under) Original Budget	(Budgetary Basis)	Final Budget— Over (Under) Actual Amounts
BUDGETARY INFLOWS OF RESOURCES FROM CURRENT ACTIVITIES					
Taxes	\$ 49,825	\$ 49,825	\$ —	\$ 51,442	\$ 1,617
Intergovernmental	29,750	29,750	—	30,337	587
Charges for services	6,720	6,720	—	6,848	128
Investment earnings	1,900	1,900	—	2,295	395
Total budgetary inflows of resources from current activities	88,195	88,195	—	90,922	2,727
BUDGETARY OUTFLOWS OF RESOURCES FROM CURRENT ACTIVITIES					
General government	58,665	61,555	(2,890)	60,535	1,020
Public works	16,265	16,945	(680)	16,934	11
Total budgetary outflows of resources from current activities	74,930	78,500	(3,570)	77,469	1,031
Net change in fund balances	13,265	9,695	(3,570)	13,453	3,758
Budgetary fund balance, July 1	4,024	4,024	—	4,024	—
Budgetary fund balance, June 30	\$ 17,289	\$ 13,719	\$ (3,570)	17,477	\$ 3,758
Reconciliation to GAAP basis					
Total fund balance GAAP basis				\$ 17,477	

Required Supplementary Information
Notes to Budgetary Comparison Schedules
(amounts expressed in thousands)

Note A—Actual Budget Results

	<u>General Fund Over (Under)</u>	<u>Transportation Fund Over (Under)</u>
BUDGETARY INFLOWS OF RESOURCES FROM CURRENT ACTIVITIES		
Differences—final budget to actual:		
The City experienced an increase in inflows of resources for taxes from budgeted amounts primarily due to the opening of the new shopping center 3 months earlier than expected.	\$ 6,170	\$ 1,617
Actual amounts of interest inflows of resources exceeded budgeted amounts as the City saw higher interest rates than expected.	3,692	395
BUDGETARY OUTFLOWS OF RESOURCES FROM CURRENT ACTIVITIES		
Differences—original budget to final budget:		
The original budget was amended for public safety as the new police station #453 was completed 7 months behind schedule. The original budget included salaries and benefits for new officers and administrative staff, in addition to noncapital building outflows of resources. Station #453 will be opening in the next fiscal year and these outflows of resources have been included in the next year's budget.	\$ 4,526	\$ —
UNUSUAL OR INFREQUENT ITEM		
Differences—original budget to final budget:		
The City experienced flood damage during the current fiscal year. During the year, the City increased the original budget to account for the spending required to address the damage.	\$ (7,500)	\$ —

<p>Note: This explanation of significant differences is shown in a tabular format. Governments can show this information in other styles such as paragraph form if they choose.</p>

Sample City
Statement of Net Position
6/30/20X5
(amounts expressed in thousands)

This presentation is an alternative presentation of using a combining statement (Exhibit 12) in order not to reduce the readability of this statement.

Alternatively, the internal balances could be reported on separate lines as assets and liabilities.

ASSETS

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Cash and cash equivalents	\$ 253,130	\$ 78,702	\$ 331,832	\$ 60,133
Investments	528,563	—	528,563	52,203
Receivables, net	61,500	12,688	74,188	34,259
Internal balances	256	(256)	—	—
Inventories	—	465	465	2,282
Prepaid expenses	—	868	868	—
Notes receivable	3,767	3,558	7,325	—
Other assets	2,033	—	2,033	1,399
Capital assets:				
Nondepreciable capital assets	717,614	125,752	843,366	162,390
Depreciable capital assets, net	1,127,765	451,124	1,578,889	305,932
Total assets	<u>2,694,628</u>	<u>672,901</u>	<u>3,367,529</u>	<u>618,598</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related items	88,021	2,817	90,838	4,615
OPEB related items	506	95	601	78
Debt refundings	1,375	1,082	2,457	9,452
Total deferred outflows of resources	<u>89,902</u>	<u>3,994</u>	<u>93,896</u>	<u>14,145</u>

Sample City
Combining Statement of Net Position
Discretely Presented Component Units
6/30/20X5
(amounts expressed in thousands)

This presentation is an alternative presentation using a combining statement in order not to reduce the readability of Exhibit 2.

	Energy Authority	Airport	Nonmajor Component Units	Total (See Exhibit 2)
ASSETS				
Cash and cash equivalents	\$ 10,928	\$ 31,958	\$ 17,247	\$ 60,133
Investments	9,487	27,744	14,972	52,203
Receivables, net	2,946	6,486	24,827	34,259
Inventories	—	1,517	765	2,282
Other assets	—	407	992	1,399
Capital assets:				
Nondepreciable capital assets	171	147,234	14,985	162,390
Depreciable capital assets, net	7,857	252,813	45,262	305,932
Total assets	<u>31,389</u>	<u>468,159</u>	<u>119,050</u>	<u>618,598</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	814	2,404	1,397	4,615
OPEB related items	42	—	36	78
Debt refundings	—	9,185	267	9,452
Total deferred outflows of resources	<u>856</u>	<u>11,589</u>	<u>1,700</u>	<u>14,145</u>

Revenue and Expense Recognition

- Objective: Develop a comprehensive, principles-based model that would establish categorization, recognition and measurement guidance applicable to wide range of revenue and expense transactions
- Development of guidance applicable to topics for which existing guidance is limited
- Improvement of existing guidance
- Consideration of performance based obligation approach
- Assessment of existing and proposed guidance based on this conceptual framework

Revenue and Expense Recognition

What?

The Board is redeliberating stakeholder input on an Invitation to Comment as part of developing a comprehensive model for recognition of revenues and expenses

Why?

Guidance for exchange transactions is limited; guidance for nonexchange transactions could be improved and clarified

When?

Preliminary Views issued June 2020

Revenue and Expense Recognition Model

Categorization

Identify the *type* of transaction



Recognition

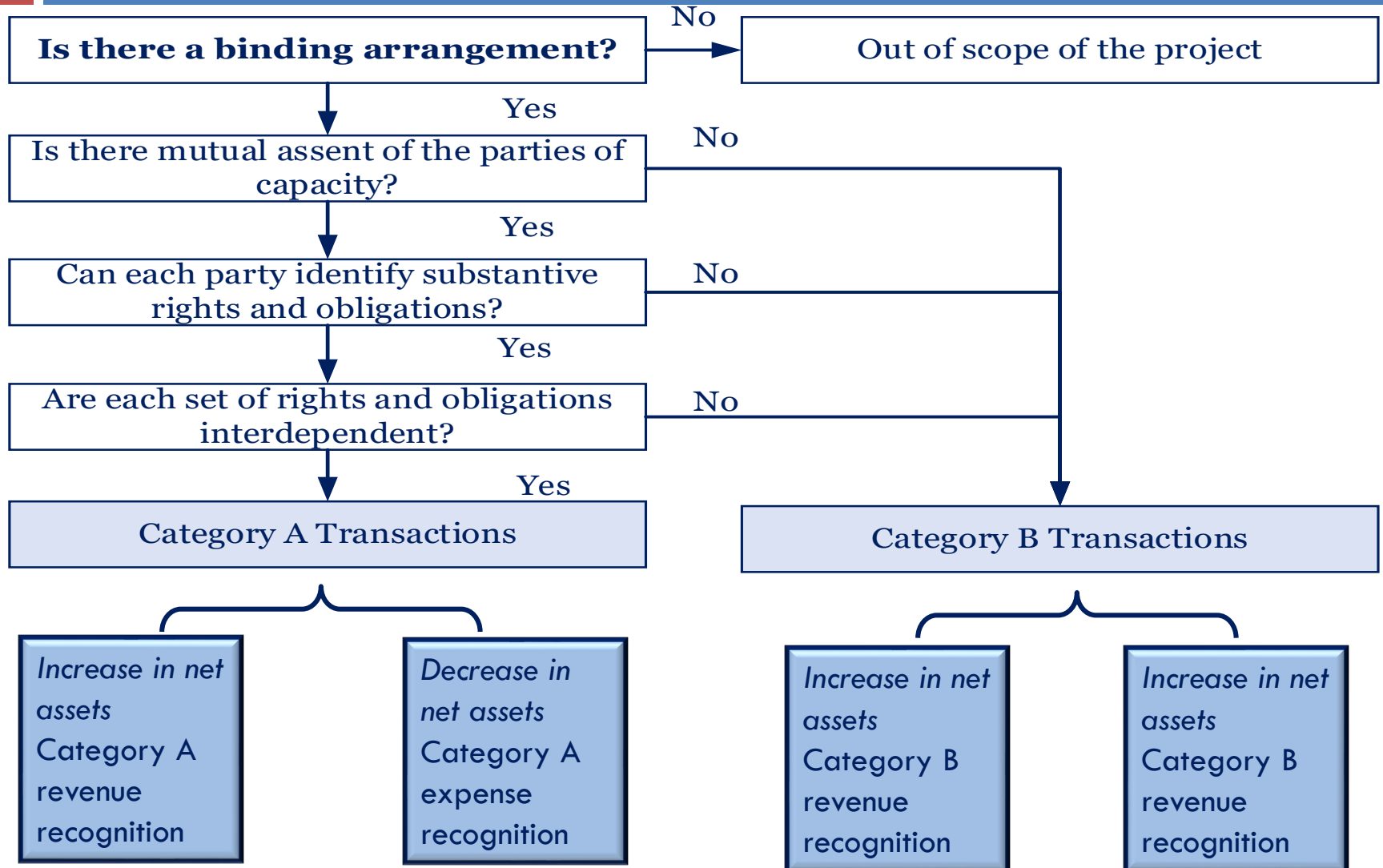
Determine *what* element should be reported and *when*



Measurement

Determine the *amount* to report

Categorization Component



Revenue and Expense Recognition

Step 1: Categorization

- **Is there a binding agreement?**
- **Binding Agreement** – understanding between two/more parties; creates rights, obligations, or both; includes rebuttable presumption of enforceability and have economic substance
 - ▣ Contractual agreements such as grants, memorandums of understanding, and contracts; legislation is an example of binding agreement
- **Enforceability** – ability of one/more parties to compel other parties in the transaction to comply with the terms
 - ▣ (e.g. governments rely on property liens to enforce tax collection); most prevalent form of enforceability relies on court action;
- **Economic substance** – there is an expected change in the risk, amount, or timing of the government's cash flows
- **Failure to identify binding agreement w/ enforceability & economic substance** – outside the scope of this project

Revenue and Expense Recognition

Step 1: Categorization

- **Is there mutual assent of the parties of capacity?**
- **Mutual assent** – requirement that all parties to the transaction approve the terms and conditions of the binding arrangement
 - ▣ Sales tax transactions do not require mutual assent, even if subject to voter referendum
 - ▣ Person who wishes to access public transportation is approving the terms/conditions, therefore mutual assent exists
- **Parties of capacity** – parties that approve the terms/conditions of a binding agreement have capacity to bind themselves or the entity that they represent
 - ▣ If governing body of the city authorizes city manager as only party that can sign contracts on behalf of the city, the city manager is the only party of capacity
- **Failure to identify mutual assent among parties of capacity** – Category B
- **In Jan/Feb 2023, Board redeliberated categorization method & tentatively decided to remove mutual assent of parties of capacity

Revenue and Expense Recognition

Step 1: Categorization

- **Can each party identify substantive rights and obligations?**
 - ▣ Revenue transactions
 - Government's obligations would require the provision of goods or services
 - Government's rights would require the right to receive consideration for the provision of goods or services
 - ▣ Expense transactions
 - Right to receive goods or services from counterparty and government's obligation would require provision of consideration for goods or services
 - ▣ Some transactions have rights or obligations but not both
 - Right to receive consideration from donor pledge
 - ▣ Failure to identify rights and obligations – Category B

Revenue and Expense Recognition

Step 1: Categorization

- **Are rights and obligations interdependent?**

- ▣ Interdependent rights and obligations are linked – rights are dependent on the obligations and obligations are dependent on the rights
- ▣ Interdependent rights and obligations
 - Performance obligations
 - Consideration for that performance
- ▣ Interdependent rights and obligations not present – Category B

Model Outcomes

Category A	Category B
Fees for specific services (water, electricity, lottery, tuition)	Taxes (property tax, income tax, sales tax)
Expenditure-driven grants	Purpose-restricted grants (and donations)
Research grants and revolving loans	Donations (unrestricted donations, pledges, perpetual trusts)
Medicaid fees for services	Punitive fees (fines, penalties, forfeitures)
Most expenses	Special assessments (capital and service)
	Regulatory fees (driver's licenses, building permits, marriage licenses, professional service licenses)
	Capital fees (passenger facility charges, impact fees)

Revenue and Expense Recognition

Step 2: Recognition

- **Category A**

- Revenue should be recognized when (or as) a government satisfies its performance obligation(s) at a point in time or over time

- **Category B**

- Revenue should be recognized based on compliance with time requirements. Absent time requirements, when a legally enforceable claim arises.
- Derived revenue transactions: income and sales tax
 - Recognition when underlying transaction or activity on which the tax or fee is imposed occurs
- Imposed revenue transactions – assessments by governments on nongovernmental entities: property taxes; fines and penalties
 - Property tax revenue – legally enforceable claim exists when governing body takes action to:
 - Impose a property tax rate or
 - Identify the total amount of property tax that is apportioned to specific property owners

Revenue and Expense Recognition

Step 3: Measurement

- **Revenues and expenses should be measured based on the most liquid item in a transaction**
 - ▣ Revenue transactions – measured relying on the amount of consideration received or receivable
 - ▣ Expense transactions – measured relying on the amount of consideration paid or payable

Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Cleared	January 23, 2018
Redeliberations Began	June 2018
Preliminary Views Expected	June 2020

Certain Risk Disclosures

Exposure Draft Redeliberations

What?

State and local governments face a variety of risks that could negatively affect:

- 1) Level of services provided
- 2) Ability to meet obligations as they come due

Why?

Essential information about certain risks that are prevalent among SLGs is not routinely disclosed because not explicitly required

When?

Exposure Draft issued June 2022

Risks and Uncertainties Disclosures

Exposure Draft Redeliberations

Statement establishes financial reporting requirements for governments exposed to **risks resulting from current vulnerabilities due to:**

Certain Concentrations:

Exposure to risks based on concentrations that create a lack of sufficient diversity related to an aspect of a significant revenue source or expense
May limit government's ability to acquire resources or control spending

Certain Constraints:

Exposure to risks based on constraints common in the governmental environment that may limit ability to acquire resources or control spending
May be imposed by external party or by formal action in government's highest level of decision-making authority

Risks and Uncertainties Disclosures

Exposure Draft Redeliberations

- Certain Concentrations

- ▣ Principal employers

- ▣ Principal industries

- ▣ Principal resource providers

- Ex. Private developer is primary property taxpayer in tax increment financing district sizable to the City; developer filed for Ch. 7 bankruptcy
 - Will loss of property tax revenue effect ability to pay debt service on bonds?

- ▣ Composition of principal inflows of resources

- Ex. School district receives general state formula aid, accounting for XX percent of total revenues; State announces reduction in appropriation by YY percent
 - Will school district be able to provide same level of services?

- ▣ Workforce covered by collective bargaining agreements

- Ex. Uniformed firefighters are members of State Association of Firefighters, public employee union that collectively bargains; existing labor contract expiring and negotiations have been contentious and ongoing
 - Will labor disruption effect ability to provide services to residents and businesses?

- ▣ Suppliers of material, labor, or services

Risks and Uncertainties Disclosures

Exposure Draft Redeliberations

- Certain Constraints

- ▣ Limitations on raising revenue

- Ex. Property tax increases are capped at 1 percent per year
 - Extensive structural restoration needed for certain roads/bridges & construction costs rising sharply
 - Will property tax cap effect City's ability to provide level services?

- ▣ Limitations on spending

- ▣ Limitations on the incurrence of debt

- ▣ Mandated spending

- Ex. Wastewater Authority subject to state environmental regulations mandated by State Dept. of Ecology
 - Dept of Ecology proposed new regulations that would reduce allowable level of certain pollutants in effluent by one-third
 - Will compliance effect ability to meet other obligations as they come due?

Risks and Uncertainties Disclosures

Exposure Draft Redeliberations

- Disclosure Criteria: Impact of a Potential Event

- ▣ Event

- Likelihood
 - Timing

- ▣ Impact or Effect

- Likelihood
 - Timing
 - Magnitude

Risks and Uncertainties Disclosures

Exposure Draft Redeliberations

- Disclosure Criteria

- ▣ Government should apply disclosure criteria if all of the criteria are met:
 - A concentration or constraint is known to the government prior to the issuance of FS
 - An event associated with the concentration or constraint either:
 - Has occurred OR
 - Is ***more likely than not*** (likelihood of more than 50 percent) to begin to occur within 12 months of financial statement date or shortly thereafter
 - It is at least ***reasonably possible*** (more than remote: “slight”; less than likely) that within three years of FS date event will cause a ***substantial*** (beyond material) effect on government’s ability to
 - Continue to provide services at current level OR
 - Meet its obligations as they come due

Risks and Uncertainties Disclosures

Exposure Draft Redeliberations

- Notes to Financial Statements

- ▣ For each concentration or constraint, a government should disclose
 - Description of concentration or constraint
 - Description of each event associated with the concentration or constraint including
 - Description of actions taken by government to mitigate the substantial effect

Going Concern Uncertainties and Severe Financial Stress – Initial Deliberations

- Concept of going concern uncertainties not specifically developed for SLG
- Inconsistency in reporting Going Concern Opinion in MD&A and Notes
- Even when governments experience severe financial stress, few dissolve or cease operations
- Existing GASB standards do not contain guidance for an earlier disclosure that would be more beneficial to users
- Project is considering following issues:
 - ▣ How should existing guidance be clarified or improved to reduce diversity in practice
 - ▣ Define severe financial stress & how it differs from going concern uncertainties
 - ▣ Common indicators that govt is exposed to severe financial stress; used to evaluate exposure
 - ▣ If exposed to severe financial stress, what relevant information should govt disclose in notes

Infrastructure Assets – Initial Deliberations

- Address issues related to accounting and financial reporting for infrastructure assets
 - ▣ Prior to GASB 34, reporting infrastructure only required for BTAs
 - ▣ With GASB 34, infrastructure assets reported and accounted for using either NBV (historical cost less accumulated depr) OR
 - ▣ Modified approach – not required to be depreciated if meeting two conditions:
 - Asset management system that includes condition assessments and estimates annual amount to preserve and maintain condition level established and disclosed by govt
 - Govt documents that infrastructure being preserved at or above a condition level established and disclosed by govt
 - ▣ Preservation method (reporting a capital use charge in statement of activities based on changes in asset's condition level) considered but ultimately not included in guidance
- Examples of infrastructure – roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings should be considered infrastructure, except those that are ancillary part of network of infrastructure assets

Infrastructure Assets – Initial Deliberations

- **Objectives**

- Make the reporting of infrastructure assets:

- ▣ More comparable across governments and more consistent over time
- ▣ More useful for decision makers and assessing accountability
- ▣ More relevant to assessments of a government's economic condition
- ▣ Better reflect the capacity of those assets to provide service and how that capacity may change over time

- **Timeline:**

- ▣ April 2024 – Preliminary Views first draft
- ▣ July – October 2024 – Comment period
- ▣ January – April 2026 – Exposure Draft & comment period
- ▣ February 2027 – Final Statement?

Classification of Nonfinancial Assets

Initial Deliberations

- Term nonfinancial assets appears several times in GASB literature
 - ▣ Generally, example provided is capital assets
 - ▣ GASB 87, *Leases*, described nonfinancial assets as a broader category than capital assets
 - ▣ Delineation between nonfinancial assets and capital assets is unclear
- GASB Statement No. 34 includes intangible assets in definition of capital assets
- GASB Statements No. 87, 94 & 96 include right-to-use intangible assets as capital assets
- Nonfinancial assets other than tangible capital assets are pervasive among governments and would be primary focus of project

Classification of Nonfinancial Assets

Initial Deliberations

- Accounting and Financial Reporting Issues to be Considered:
 - ▣ How should existing definitions be modified? Should new classifications be added?
 - Should right-to-use intangible assets resulting from Statements No. 87, 94 & 96 continue to be classified as capital assets?
 - Intangible assets?
 - Capital assets held for resale?
 - ▣ If added, how should additional classifications be defined?
 - ▣ If added or modified, what should be the effect on FS presentation?
- Timeline:
 - ▣ September 2023 – Exposure Draft
 - ▣ October - December 2023 – Comment period
 - ▣ March – April 2024 – Redeliberations
 - ▣ June 2024 – Final Statement?

CURRENT GASB PRE-AGENDA RESEARCH ACTIVITIES

Materials in this presentation were graciously supplemented by Lisa Parker, Senior Project Manager with the Governmental Accounting Standards Board and supplemented by presentations/training attended and research by the presenter. The views expressed in this presentation are those of the presenter. Official positions of the GASB on accounting matters are reached only after extensive due process and deliberation.

Subsequent Events

What?

Statement No. 56,
March 2009,
provided guidance
on subsequent
events

Guidance dates to
AICPA audit
literature from
1972

Why?

Standards have
never been
evaluated for
appropriateness to
SLGs,
effectiveness,
consistence with
conceptual
framework, or
usefulness of
information

When?

The Board added
the pre-agenda
research in
December 2021

Topics to Be Considered

How prevalent are recognized and nonrecognized subsequent events among state and local governments?

How prevalent are subsequent events disclosures? What types of subsequent events do governments disclose in practice?

What difficulties do governments have, if any, distinguishing between subsequent events that require adjustments to the financial statements (recognized events) and those disclosed?

What difficulties do governments have, if any, determining whether information that became available prior to the issuance of the financial statements reflects conditions that existed as of the date of the financial statements?

What other issues do governments and auditors have, if any, in applying the standards?

How are the standards applied to events occurring after the issuance of the financial statements when a government reissues the financial statements?

Topics to Be Considered

How do the nature and timing of subsequent events relate to those of the events being addressed by the Risks and Uncertainties Disclosures project?

What impact might the proposed changes to MD&A in the Financial Reporting Model project have on subsequent events reporting?

What information are governments disclosing about subsequent events? Is that information essential to users for making decisions and assessing government accountability?

What disclosures do users need, if any, about subsequent events that they are not currently receiving? How would they use that information?

What essential information, if any, do users need regarding recognized subsequent events?

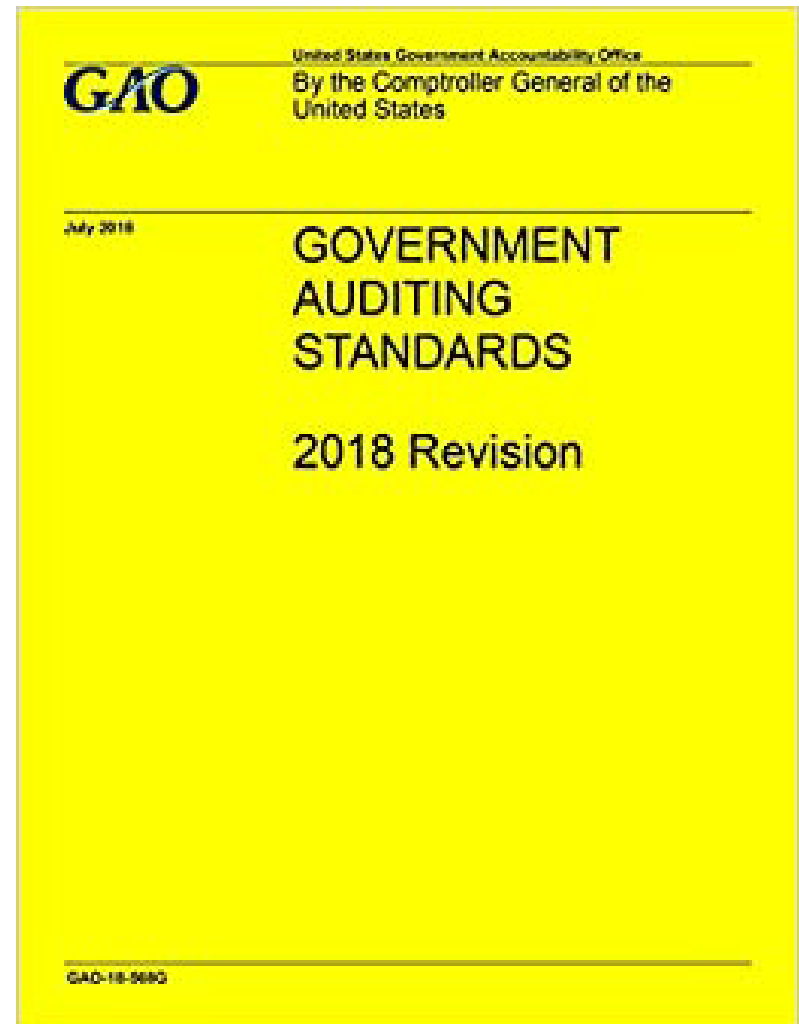
GAO AUDIT GUIDANCE UPDATE

Materials in this presentation came from multiple sources including Government Accountability Office; State of Alabama; and Office of Management and Budget. The views expressed in this presentation are those of the presenter. Official positions of the GASB on accounting matters are reached only after extensive due process and deliberation.

GAO's Government Auditing Standards

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- The 2018 revision of the Yellow Book is effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after **June 30, 2020**, and for performance audits beginning on or after **July 1, 2019**.
- **Why 7th revision?**
 - Represents a modernized version that takes into account developments in the accounting and auditing professions as well as convergence with other standard-setting organizations (AICPA, CIGIE, IAASB, and INTOSA)
 - Intended to **reinforce principles of transparency** and provide a framework for high quality government audits
- **Standards are encapsulated in a text box and have two types of requirements:**
 - Unconditional requirements
 - Presumptively mandatory requirements



Auditee Requirements

Identify all federal awards received and expended, and the federal programs under which they were received

Prepare appropriate financial statements and the schedule of expenditures of federal awards, ensure that audits are properly performed and submitted when due, and follow up and take appropriate corrective action on audit findings.

Maintain appropriate internal controls and systems to ensure compliance with all laws, regulations, and contract or grant provisions

Management Responsibilities

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- ❑ **Auditors are responsible for conducting audits.** However, this does not mean the entity's management has no responsibility regarding audits. **Management has a number of responsibilities:**
 - ❑ Prepare financial statements (financial audit);
 - ❑ Maintain and monitor effective internal control, compliance and performance;
 - ❑ Cooperate with auditors; and
 - ❑ Follow up on audit conclusions and findings to ensure that any weakness, deficiency, and noncompliance is corrected in a timely manner.

YB 2018 Expanded Independence Standard

- **Preparing accounting records and financial statements – impairment of independence**
- Keep in mind that auditors are to demonstrate:
 - ▣ *Independence in Mind*
 - ▣ *Independence in Appearance*

Impair
Independence

Significant
Threats

Threats

Requirements: Preparing Accounting Records and Financial Statements

3.87 Auditors should conclude that the following services involving preparation of accounting records impair independence with respect to an audited entity:

- determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval;
- authorizing or approving the entity's transactions; and
- preparing or making changes to source documents without management approval.

3.88 Auditors should conclude that preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records creates significant threats to auditors' independence, and should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level in accordance with paragraph 3.33 or decline to provide the services.²²

3.89 Auditors should identify as threats to independence any services related to preparing accounting records and financial statements, other than those defined as impairments to independence in paragraph 3.87 and significant threats in paragraph 3.88. These services include

- recording transactions for which management has determined or approved the appropriate account classification, or posting coded transactions to an audited entity's general ledger;
- preparing certain line items or sections of the financial statements based on information in the trial balance;
- posting entries that an audited entity's management has approved to the entity's trial balance; and

YB 2018 - INDEPENDENCE

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- **YB 3.27 Conceptual Framework Approach to Independence**
 - Identify threats to independence
 - Evaluate the significance of the threats identified
 - Apply safeguards as necessary to eliminate or significantly reduce threats
- Threats to independence (YB 3.30 – 7 categories)
 - Self-review: auditor has provided nonaudit services will not appropriately evaluate the results of previous judgments made of services provided as part of nonaudit services
 - Familiarity threat: aspects of a relationship with management or personnel of audited entity will lead audit to take position that is not objective
 - Management participation threat: results from auditor taking on the role of management or otherwise performing management functions, which will also lead auditor to take position that is not objective

YB 2018 - INDEPENDENCE

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- **YB 3.73** Before doing nonaudit services, auditor should determine that audited entity has designated individual who possesses suitable skill, knowledge, or experience to sufficiently oversee auditors
 - If audited entity is unable or unwilling to oversee nonaudit services, auditors should conclude providing these services would impair independence
- **YB 3.79** – Critical component of determining whether threat to independence exists is consideration of managements ability to oversee nonaudit services
 - Indicators of managements' ability to oversee nonaudit services include ability to reasonableness of results of nonaudit services and recognize a material error, omission, or misstatement in the results of nonaudit services provided

YB 2018 - INDEPENDENCE

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- **YB 3.87** Auditors should conclude the following services impair independence:
 - Determining or changing journal entries, account codes, classifications for transactions, or other accounting records w/o mngt's approval
 - Authorizing or approving the entity's transactions
 - Preparing or making changes to source documents w/o mngt approval
- **YB 3.88** Auditors should conclude that preparing financial statements in their entirety from client-provided trial balance creates significant threats to auditors' independence
 - Document threats and safeguards to eliminate or reduce threats to acceptable level OR decline to provide the services

YB 2018 - INDEPENDENCE

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- **YB 3.89** Auditors should identify as threats to independence
 - Recording transactions for which management has determined or approved the appropriate account classification
 - Preparing certain line items or sections of the financial statements based on trial balance
 - Posting entries that management has approved
 - Preparing account reconciliations
- **Considerations for Management**
 - What nonaudit services is your auditor providing?
 - Are services prohibited, create significant threat or threat to independence?
 - Do you or someone at school board possess SKE?

YB 2018 - FRAUD

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- **YB 8.71** Auditors should assess the risk of fraud occurring that is significant within the context of the audit objectives. **Audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could increase the risk of fraud.** Auditors should gather and assess information to identify the risk of fraud that is significant within the scope of the audit objectives or that could affect the findings and conclusions.
- **8.72 Assessing the risk of fraud is an ongoing process throughout the audit.** When information comes to the auditors' attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings.
- **8.73 Fraud involves obtaining something of value through willful misrepresentation. Whether an act is, in fact, fraud is determined through the judicial or other adjudicative system and is beyond auditors' professional responsibility.**

Performance Audits – Waste and Abuse

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- **8.120** Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Importantly, waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.
- **8.121** The following are examples of waste, depending on the facts and circumstances:
 - Making travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive.
 - Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive.
- **8.122** Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.
- **8.123** The following are examples of abuse, depending on the facts and circumstances:
 - Creating unneeded overtime.
 - Requesting staff to perform personal errands or work tasks for a supervisor or manager.
 - Misusing the official's position for personal gain (including actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an official's personal financial interests or those of an immediate or close family member; a general partner; an organization for which the official serves as an officer, director, trustee, or employee; or an organization with which the official is negotiating concerning future employment).

STANDARDS FOR FINANCIAL AUDITS

ELEMENTS OF A FINDING –

GAO Yellow Book 6.25 – 6.28

- **6.25 Criteria:** For inclusion in findings, criteria may include the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations in the report. In a financial audit, the applicable financial reporting framework, such as generally accepted accounting principles, represents one set of criteria.
- **6.26 Condition:** Condition is a situation that exists. The condition is determined and documented during the audit.

STANDARDS FOR FINANCIAL AUDITS

ELEMENTS OF A FINDING –

GAO Yellow Book 6.25 – 6.28

- **6.27 Cause:** The cause is the factor or factors responsible for the difference between the condition and the criteria and may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor contributing to the difference between the condition and the criteria.
- **6.28 Effect or potential effect:** The effect or potential effect is the outcome or consequence resulting from the difference between the condition and the criteria. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, effect is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.

Finding

The *Financial Procedures for Local Schools*, prescribed by the State of Alabama Department of Education, has established guidelines for local schools to ensure adequate procedures are followed for the receipt and deposit of money collected for teacher receipts. These procedures include master receipts should be issued in numerical order at the time money is received; money should be deposited daily; teacher receipt books should be secured and a log maintained to track receipt books; money must not be left in the classroom overnight; receipt books should be returned at the end of the school year; and all money received should be accurately recorded in the accounting records. When testing receipts at [REDACTED], it was noted that teacher receipts were not turned in daily, master receipts were issued after money was deposited, and money was not deposited daily. The school did not follow the established policies and procedures related to receipts and deposits. As a result, all money collected may not have been accounted for properly in the accounting records or deposited into the school's bank accounts exposing the money to loss or theft. The finding was originally reported as Finding 2002-014, Finding 2018-004, Finding 2019-006, Finding 2020-002 and Finding 2021-002.

Identify:
Criteria
Condition
Cause
Effect or Potential Effect

Exit Conference

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- At the conclusion of the fieldwork, the auditors will assemble the audit findings into a draft audit report. They will usually schedule a meeting, called the exit conference, to advise the auditee of the results of the audit. The auditors may or may not have a draft report prepared at the time of the exit conference.
- **The exit conference is not the place for surprises. The auditors should have talked with management about issues as they arose during the audit.** The exit conference provides an opportunity to exchange views and for the auditors to receive feedback on their conclusions and recommendations. It also provides the auditors an opportunity to explain to the auditee why the findings are valid, and for management to raise any questions with respect to the facts and evidence. The auditors should inform the auditee about the finalization process. That process almost always includes providing the auditee with a draft report and requesting a written or oral response. The auditors usually request that the response state and provide, in writing, whether the auditee:
 - ▣ concurs with the facts as presented;
 - ▣ concurs with the auditor's conclusions;
 - ▣ concurs with the audit recommendations; and
 - ▣ will act on the recommendations.

Performance Audits – Findings and IC – Auditors are to Reference the **GAO Green Book**

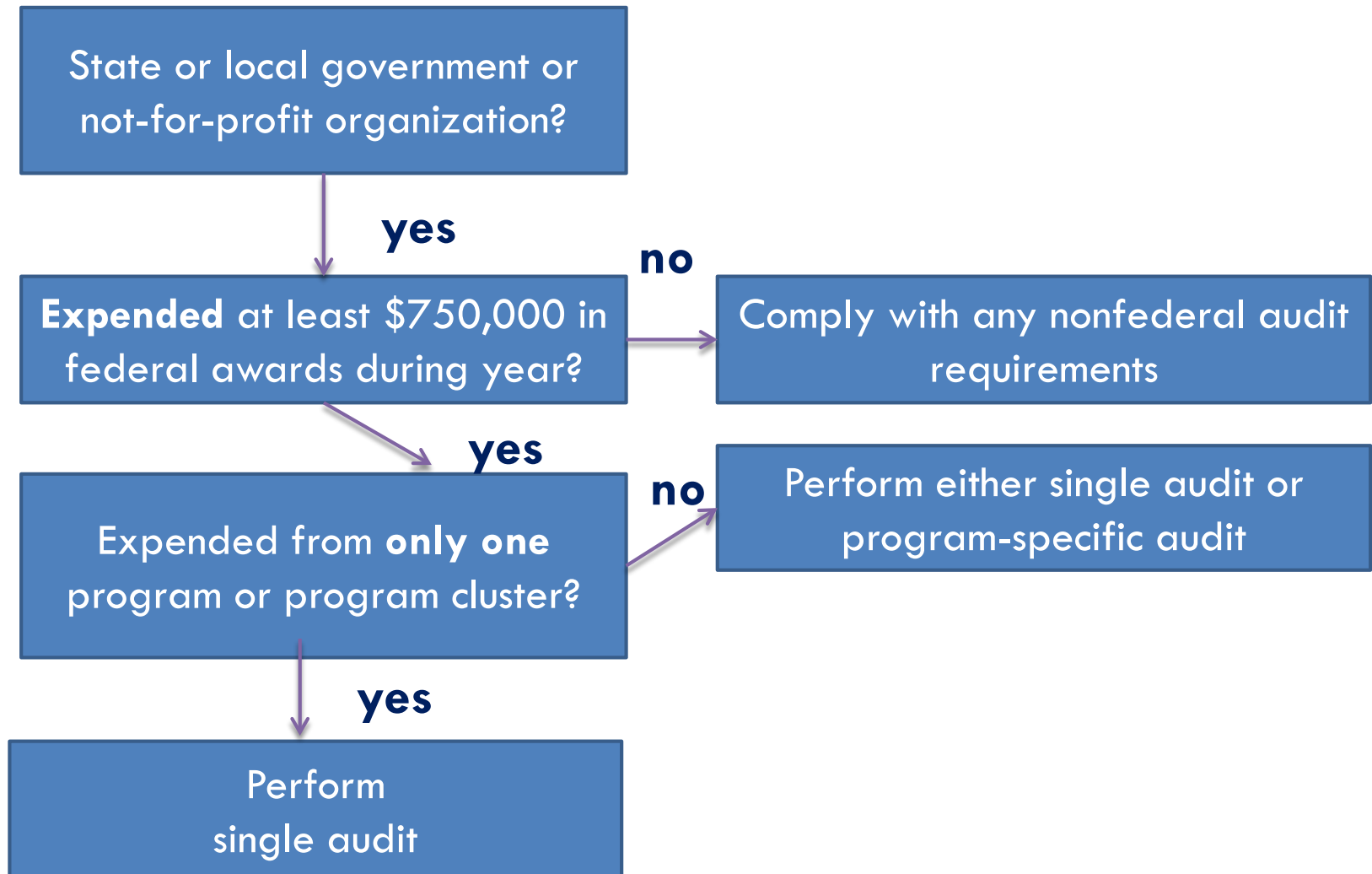
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- **8.130 Considering internal control in the context of a comprehensive internal control framework, such as *Standards for Internal Control in the Federal Government or Internal Control—Integrated Framework*, can help auditors to determine whether underlying internal control deficiencies exist as the root cause of findings.** When the audit objectives include explaining why a particular type of positive or negative program performance, output, or outcome identified in the audit occurred, the underlying deficiencies are referred to as cause. Identifying the cause of problems may assist auditors in making constructive recommendations for correction. Auditors may identify deficiencies in program design or structure as the cause of deficient performance. Auditors may also identify deficiencies in internal control that are significant to the subject matter of the performance audit as the cause of deficient performance. In developing these types of findings, the deficiencies in program design or internal control would be described as the cause. Often the causes of deficient program performance are complex and involve multiple factors, including fundamental, systemic root causes.

Single Audit Act

- ❑ **The Single Audit Act of 1984 (Public Law 98-502)** established requirements for certain governments that **administer Federal financial assistance** programs.
 - ❑ *Single Audit Act Amendments of 1996 (31 USC 75)*
 - ❑ *OMB Circular A-128 (Audits of States, Local Governments)*, issued in 1985 to help auditors and recipients implement the new Single Audit Act.
 - ❑ *OMB Circular A-133 (Audits of Institutions of Higher Education & Other Non-Profit Organizations)*, issued in 1990, where **OMB extended the single audit process to non-profits.**
 - ❑ A-133 requirements amended in 2003 & 2007 & 2013
 - ❑ **Each year OMB issues Compliance Supplement A-133**, Subpart B, Section .200(a) states: – Non-Federal entities that expend \$750,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part.
 - ❑ This threshold was raised from \$500,000 to \$750,000 as of January 1, 2015.
 - ❑ **Threshold relates to expenses – NOT revenues.**
- ❑ **OMB Super Circular 2 CFR Part 200 Uniform Guidance (Federal Regulation) – issued December 2013** – streamlines Cost Principles
 - ❑ **Subpart F – relates to Single Audit Act**

Who Must Have a Single Audit?



Single Audit is Three Audits in One

1. **A financial statement audit.** The auditor expresses an opinion on whether the financial statements are presented in accordance with GAAP. (As part of the financial statements, the auditor must verify the contents of the Supplemental Schedule of Expenditures of Federal Awards (SEFA). The auditor expresses an “in relation to” opinion on this schedule. This means that the auditor says that the SEFA is fairly presented “in relation to” the financial statements.)
2. An **audit of internal controls** over compliance for major programs.
3. An **audit of compliance** for major programs. The auditor expresses an opinion on compliance.

Single Audit Requirements

1. An annual audit must be performed encompassing the nonfederal entity's financial statements and schedule of expenditures of federal awards.
2. In accordance with generally accepted government auditing standards (GAGAS) and cover the operations of the entire nonfederal entity.
3. Must be completed by an independent auditor – an external federal, state, or local auditor who meets the GAGAS independence standards or an independent public accountant.
4. The auditor must determine whether the financial statements are presented fairly in all material respects with GAAP and whether the schedule of expenditures of federal awards is presented fairly in relation to the financial statements taken as a whole.
5. For each major program, the auditor must obtain an understanding of the internal controls pertaining to the compliance requirements for the program, assess control risk, and perform tests of controls, unless the controls are deemed to be ineffective.

Schedule of Expenditures of Financial Awards (SEFA)

- ❑ In addition to financial statements, the single audit reporting package includes the **non-Federal entity's Schedule of Expenditures of Federal Awards (SEFA)**. **All expenditures of Federal funds must be accounted for** in the annual SEFA whether funds are **received directly** from a Federal agency **or indirectly from a pass-through entity**.
- ❑ **At a minimum, the SEFA should include:**
 - List Federal programs by Federal agency
 - For Federal awards received as a subrecipient, the name of pass-through entity
 - The applicable CFDA (Catalog of Federal Domestic Assistance) number for each award;
 - The contract or grant numbers assigned by Federal or state agencies, in addition to the CFDA number;
 - Current year expenditures; and,
 - Footnote disclosures.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Number	Pass-Through Grantor's Number	Amount of Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed through State Department of Education:</i>			
Special Education Cluster (IDEA):			
Special Education Grants to States	84.027	110	\$ 1,647,507
Special Education Preschool Grants	84.173	110	<u>36,870</u>
Subtotal Special Education Cluster (IDEA)			1,684,377
Title I Grants to Local Educational Agencies	84.010	110	872,981
Career and Technical Education - Basic Grants to States	84.048	110	78,262
English Language Acquisition State Grants	84.365	110	169,270
Supporting Effective Instruction State Grants	84.367	110	166,939
Student Support and Academic Enrichment Program	84.424A	110	62,198
COVID-19 - Education Stabilization Fund under the CARES Act - Elementary and Secondary School Emergency Relief Fund	84.425D	110	1,429,207
COVID-19 - Education Stabilization Fund under the CARES Act - American Rescue Plan Elementary & Secondary School Emergency Relief	84.425U	110	524,675
COVID-19 - Education Stabilization Fund under the CARES Act - American Rescue Plan Elementary & Secondary School Emergency Relief - Homeless Children and Youth	84.425W	110	<u>675</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>4,988,584</u>
<u>SOCIAL SECURITY ADMINISTRATION</u>			
<i>Passed through State Department of Education:</i>			
Disability Insurance/SSI Cluster			
Social Security Disability Insurance	96.001	110	<u>1,720</u>
Subtotal Disability Insurance/SSI Cluster			<u>1,720</u>
TOTAL SOCIAL SECURITY ADMINISTRATION			<u>1,720</u>

2 CFR 200

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- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
- Subpart E – Cost Principles
- Subpart F – Audit Requirements
- Appendix XI to Part 200 – Compliance Supplement

2 CFR Part 200, Subpart E

Cost Principles

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- § 200.403 Factors affecting allowability of costs.
 - Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
 - Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
 - Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also [§ 200.306\(b\)](#).

Selected Cost Item	Uniform Guidance General Reference	Items of Cost Requiring Prior Approval	States, Local Governments, Indian Tribes	Institutions of Higher Education	Nonprofit Organizations	Items of Cost not Treated the Same Across Non-Federal Entities
Advertising and public relations costs	§200.421		Allowable with restrictions	Allowable with restrictions	Allowable with restrictions	
Advisory councils	§200.422		Allowable with restrictions	Allowable with restrictions	Allowable with restrictions	
Alcoholic beverages	§200.423		Unallowable	Unallowable	Unallowable	
Alumni/ae activities	§200.424		Not specifically addressed	Unallowable	Not specifically addressed	X
Audit services	§200.425		Allowable with restrictions	Allowable with restrictions	Allowable with restrictions	
Bad debts	§200.426		Unallowable	Unallowable	Unallowable	
Bonding costs	§200.427		Allowable with restrictions	Allowable with restrictions	Allowable with restrictions	
Collection of improper payments	§200.428		Allowable	Allowable	Allowable	
Commencement and convocation costs	§200.429		Not specifically addressed	Unallowable with exceptions	Not specifically addressed	X
Compensation for personal services	§200.430	X (related to the salaries of administrative and clerical staff)	Allowable with restrictions; Special conditions apply (e.g., §200.430(i)(5))	Allowable with restrictions; Special conditions apply (e.g., §200.430(h))	Allowable with restrictions; Special conditions apply (e.g., §200.430(g))	X

2 CFR Part 200, Subpart F

Audit Requirements

□ **§200.511 Audit findings follow-up.**

- (a) **General.** The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings. The auditee must also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan must include the reference numbers the auditor assigns to audit findings under [§ 200.516\(c\)](#). Since the summary schedule may include audit findings from multiple years, it must include the fiscal year in which the finding initially occurred. The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS.

2 CFR Part 200, Subpart F

Audit Requirements

□ **§200.511 Audit findings follow-up.**

- ▣ (c) **Corrective action plan.** At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in [§ 200.516](#), a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.

Finding 2019-002: Return of title IV funds calculation error

Federal Agency: Department of Education

Program: Student Financial Aid Cluster

CFDA #: Various

Award #: Various

Award Year: 2018-2019

Criteria:

34 CFR 668.22," An institution must determine the amount of title IV grant or loan assistance that the student earned as of the student's withdrawal date."

Questioned Costs:

None.

Condition:

During the 2018-2019 award year, one out of thirteen students tested in our sample specific to the Auburn University at Montgomery (AUM) campus withdrew from the University and although the returned dollar amount was correct, the return of title IV funds calculation omitted an institutional charge and was not performed as prescribed by 34 CFR 668.22.

Cause:

In fiscal 2018, a similar finding (Finding 2018-001) was identified at the AUM campus, and prior to the implementation of management's corrective action plan in response to that finding the University's internal control over title IV return calculations failed to identify a \$47 institutional charge that should have been input into a calculation during the Fall 2018 term. The University recalculated the title IV calculation noting no difference in amounts required to be returned to the Department of Education.

Effect:

None.

Recommendation:

We recommend the University reiterate to control owners the importance of detailed reviews of inputs into return calculations and to perform independent, internal reviews to ensure returns are accurately calculated and processed within the required timeframe.

Views of Responsible Officials/Management Response:

See Management's view and corrective action plan included at the end of this report.

Finding 2019-002: Return of title IV funds calculation error

To ensure Auburn University at Montgomery complies with the Department of Education regulations and to improve the controls surrounding the Return to Title IV process, the University implemented the following corrective action plan:

The Associate Director of the Financial Aid Office reviews all Return to Title IV calculations for accuracy monthly. Any errors identified during the review are reported to the Senior Director of Financial Aid immediately and corrected within the 45-day timeframe established by the Department of Education.

The University recalculated the title IV calculation noting no difference in amounts required to be returned to the Department of Education.

Contact: Christopher White, Controller, Auburn University at Montgomery
Implementation date: June 2019

2 CFR Part 200, Subpart F

Audit Requirements

- **§ 200.512 Report submission.**
- (a) **General.**
- (1) The audit must be completed and the data collection form described in [paragraph \(b\)](#) of this section and reporting package described in [paragraph \(c\)](#) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.
- (d) **Submission to FAC.** The auditee must electronically submit to the FAC the data collection form described in [paragraph \(b\)](#) of this section and the reporting package described in [paragraph \(c\)](#) of this section.
- Search FAC database:
 - <https://facdissem.census.gov/SearchA133.aspx>

2 CFR Part 200, Subpart F

Audit Requirements

□ §200.514 Scope of audit.

- a. **General.** The audit must be conducted in accordance with GAGAS. The audit must cover the entire operations of the auditee, or, at the option of the auditee, such audit must include a series of audits that cover departments, agencies, and other organizational units that expended or otherwise administered Federal awards during such audit period, provided that each such audit must encompass the financial statements and schedule of expenditures of Federal awards for each such department, agency, and other organizational unit, which must be considered to be a non-Federal entity. The financial statements and schedule of expenditures of Federal awards must be for the same audit period.
- b. **Financial statements.** The auditor must determine whether the financial statements of the auditee are presented fairly in all material respects in accordance with generally accepted accounting principles. The auditor must also determine whether the schedule of expenditures of Federal awards is stated fairly in all material respects in relation to the auditee's financial statements as a whole.

2 CFR Part 200, Subpart F

Audit Requirements

□ §200.514 Scope of audit.

c. *Internal control.*

- (1) The compliance supplement provides guidance on internal controls over Federal programs based upon the guidance in Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States and the Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).**
- (2) In addition to the requirements of GAGAS, the auditor must perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs.**
- (3) Except as provided in paragraph (c)(4) of this section, the auditor must:**
 - (i) Plan the testing of internal control over compliance for major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and**
 - (ii) Perform testing of internal control as planned in paragraph (c)(3)(i) of this section.**
- (4) When internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in paragraph (c)(3) of this section are not required for those compliance requirements. However, the auditor must report a significant deficiency or material weakness in accordance with § 200.516 Audit findings, assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective internal control.**

2 CFR Part 200, Subpart F

Audit Requirements

□ §200.514 *Scope of audit.*

d. Compliance.

- (1) In addition to the requirements of GAGAS, the auditor must determine whether the auditee has complied with Federal statutes, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on each of its major programs.
- (2) The principal compliance requirements applicable to most Federal programs and the compliance requirements of the largest Federal programs are included in the compliance supplement.
- (3) For the compliance requirements related to Federal programs contained in the compliance supplement, an audit of these compliance requirements will meet the requirements of this part. Where there have been changes to the compliance requirements and the changes are not reflected in the compliance supplement, the auditor must determine the current compliance requirements and modify the audit procedures accordingly. For those Federal programs not covered in the compliance supplement, the auditor must follow the compliance supplement's guidance for programs not included in the supplement.
- (4) The compliance testing must include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient appropriate audit evidence to support an opinion on compliance.

2 CFR Part 200, Subpart F

Audit Requirements

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□ § 200.518 Major program determination.

Total Federal awards expended	Type A/B threshold
Equal to or exceed \$750,000 but less than or equal to \$25 million	\$750,000.
Exceed \$25 million but less than or equal to \$100 million	Total Federal awards expended times .03.
Exceed \$100 million but less than or equal to \$1 billion	\$3 million.
Exceed \$1 billion but less than or equal to \$10 billion	Total Federal awards expended times .003.
Exceed \$10 billion but less than or equal to \$20 billion	\$30 million.
Exceed \$20 billion	Total Federal awards expended times .0015.

2 CFR Part 200, Subpart F

Audit Requirements

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- § 200.518 Major program determination.
 - ▣ Identify Type A programs which are low-risk
 - ▣ Identify Type B programs which are high-risk
 - ▣ At a minimum audit all of the following as major programs:
 - All Type A that not identified as low risk
 - All Type B that are high risk
 - Additional programs necessary to comply with percentage of coverage
 - ▣ Percentage of coverage
 - Low risk auditee – at least 20% of total Federal awards expended
 - Not low risk auditee – at least 40%

2 CFR Part 200, Appendix XI

Compliance Supplement

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- ❑ Issued May 2023
- ❑ Effective for audits of fiscal years beginning after June 30, 2022 (FY 2023 for LEAs)
- ❑ Continues practice of limiting number of compliance requirements subject to the audit to six

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement and Suspension and Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions

Compliance Supplement and LEAs

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□ 84.027 Special Education (IDEA, Part B or IDEA Preschool)

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement and Suspension and Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	Y	Y	Y	Y	N	N	Y	N

Compliance Supplement and LEAs

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- ❑ 84.027 Special Education (IDEA, Part B or IDEA Preschool)
- ❑ Matching, Level of Effort, Earmarking
 - ▣ LEAs – Local Maintenance of Effort
 - IDEA, Part B funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of state and local funds, below the level of those expenditures for the preceding fiscal year.

Compliance Supplement and LEAs

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- 84.010 Title I Grants to LEAs (Title I, Part A)
 - ▣ Eligibility for Group of Individuals or Area of Service Delivery
 - Schoolwide or targeted assistance programs
 - Allocating funds to eligible school attendance areas and schools
 - Serving homeless and neglected children

Compliance Supplement and LEAs

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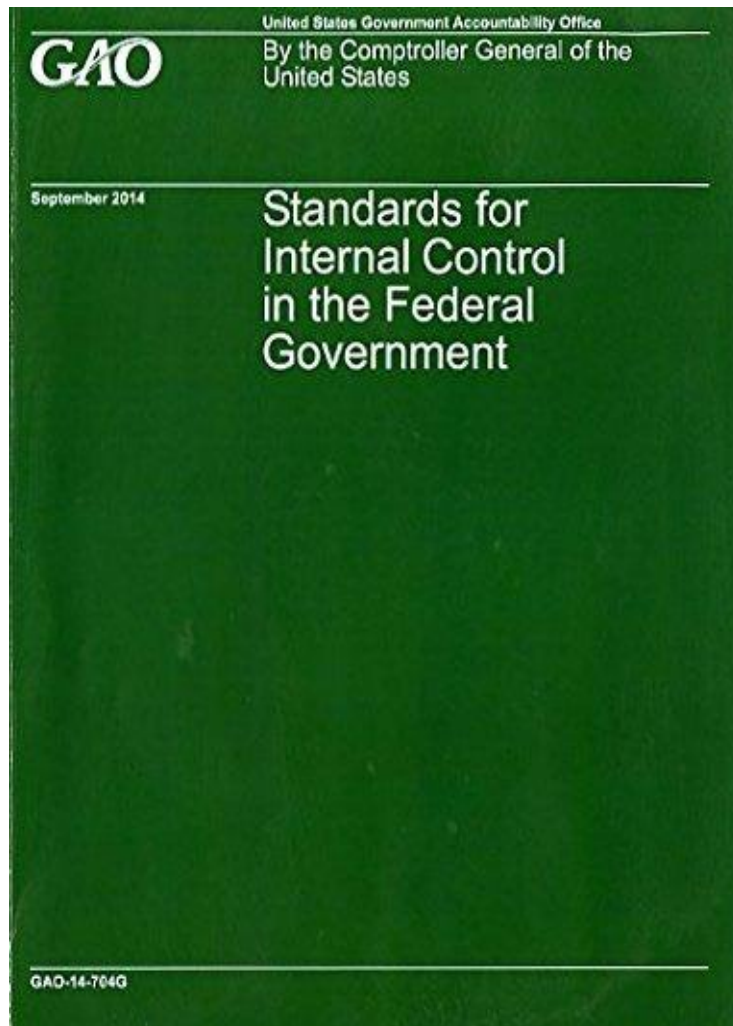
- 84.010 Title I Grants to LEAs (Title I, Part A)
 - ▣ 2.2 Level of Effort – Supplement Not Supplant
 - Audit Objectives - LEAs
 - a. (1) Determine whether an LEA has a methodology for allocating state and local funds to each Title I school that ensures the school receives all of the state and local funds it would otherwise receive if it were not receiving Part A funds; (2) determine whether the LEA implemented its methodology; (3) if the LEA reserves state and local funds for district-level activities, determine whether the LEA conducts activities with those funds in a manner that does not take into account a school's Title I status.

GAO INTERNAL CONTROLS UPDATE

Materials in this presentation came from multiple sources including Government Accountability Office; State of Alabama; and Office of Management and Budget. The views expressed in this presentation are those of the presenter. Official positions of the GASB on accounting matters are reached only after extensive due process and deliberation.

Standards for Internal Control in Federal Government (adopted/followed by SLG)

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- Also known as the **Green Book**
- The **Green Book** presents a comprehensive model that professionals can use to both create and audit controls.
- Published by the **Government Accountability Office (GAO)** – legislative auditor for the federal government. **The Federal Managers Financial Integrity Act of 1982** requires the Government Accountability Office (GAO) to establish standards for internal controls.
- **First published in 1983. The latest Green Book was published in 2014.** The 2014 version replicates the 2013 version of the COSO model but changes some terminology to customize the model for the government environment.
- **Who uses?**
 - **Managers of programs for federal, SLG**
 - **Auditors of financial or performance audits**
 - **Managers responsible for making sure that personnel follow policies and procedures related to job responsibilities**

OMB Requirements

- **OMB Circular A-123—Management's Responsibility for Enterprise Risk Management and Internal Control.** The Circular states: Federal leaders and managers are responsible for establishing and achieving goals and objectives, seizing opportunities to improve effectiveness and efficiency of operations, providing reliable reporting, and maintaining compliance with relevant laws and regulations. They are also responsible for implementing management practices that effectively identify, assess, respond, and report on risks. Risks arise from a variety of external and internal environments. Examples include economic, operational, and organizational change factors, all of which would negatively impact an Agency's ability to meet goals and objectives if not resolved.
- **In July 2016 OMB Circular A-123 was revised and further states: [A-123] requires agencies to integrate risk management and internal control functions.** The Circular also establishes an assessment process based on the Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government (known as the Green Book) that **management must implement in order to properly assess and improve internal controls.**

Federal Guidance on Internal Controls

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REFLECTS FEDERAL
INTERNAL CONTROL
STANDARDS REQUIRED
PER FEDERAL
MANAGERS'
FINANCIAL INTEGRITY
ACT (FMFIA)



SERVES AS A BASE FOR
OFFICE OF
MANAGEMENT AND
BUDGET (OMB)
CIRCULAR NO. A-123



GREEN BOOK WAS
WRITTEN FOR
GOVERNMENT –
LEVERAGES THE COSO
FRAMEWORK AND
USES GOVERNMENT
TERMINOLOGY



THE GREEN BOOK MAY
ALSO BE ADOPTED BY
STATE, LOCAL, AND
QUASIGOVERNMENTAL
ENTITIES, AS WELL AS
NOT-FOR-PROFIT
ORGANIZATIONS, AS A
FRAMEWORK FOR AN
INTERNAL CONTROL
SYSTEM UNDER OMB
UNIFORM GUIDANCE
FOR FEDERAL AWARDS



THE GREEN BOOK
CLEARLY INDICATES
THE COMPONENT AND
PRINCIPLE
REQUIREMENTS
THROUGH THE USE OF
“MUST” AND
“SHOULD.”

COSO Model

- In 1977, Congress enacted the Foreign Corrupt Practices Act (FCPA) as a result of 400 US corporations admitting that they had made questionable or illegal payments to foreign officials as part of conducting business in other countries. In response, the **Treadway Commission, a private-sector initiative, was formed in 1985 to inspect, analyze, and make recommendations on fraudulent corporate financial reporting.** From the commission's initial report, Committee on Sponsoring Organizations (COSO) was formed.
- The COSO model was revised in 2013, more than 20 years after its initial creation. **The 2013 revision didn't alter the cube very much; the side of the cube now uses the term "division" instead of "unit," and a few titles were changed on the face of the cube: "financial reporting" on the top of the original cube was changed to the more broad "reporting," and "monitoring" was changed to "monitoring activities."**
- The 2013 revision breaks each of the five elements on the face of the cube into 17 principles, and then these principles are further broken into 81 points of focus.

The Cube in Detail

- The **management objectives at the top of the cube** help us categorize **why** we do things.
- **Has three management objectives: operations, reporting, and compliance.**
- If management is concerned with **operations**, they are concerned that they deliver their goods and services while efficiently using their entity's resources. If management is concerned about **reporting**, they are focused on making sure that reports generated for stakeholders are reliable. For instance, the entity needs to ensure that the financial statements it publishes and sends into regulators are accurate. And if the entity is concerned about **compliance**, they are making sure that they stay in line with laws and regulations.
- The side of the cube organizes the **subject** of our controls.
- Four subject matter of controls are: entity, division, operating unit, and function.
- **To summarize: the top of the cube tells us why we develop controls and the right-hand side helps us decide exactly what we are going to control.**

2013 COSO CUBE - FIVE COMPONENTS OF INTERNAL CONTROL



17 Principles of Internal Control

COSO's 17 principles of internal control – summarized

Control environment	Risk assessment	Control activities	Information and communication	Monitoring activities
<ul style="list-style-type: none">1 Demonstrates commitment to integrity and ethical values2 Exercises oversight responsibilities3 Establishes structure, authority, and responsibility4 Demonstrates commitment to competence5 Enforces accountability	<ul style="list-style-type: none">6 Specifies suitable objectives7 Identifies and analyzes risk8 Assesses fraud risk9 Identifies and analyzes significant change	<ul style="list-style-type: none">10 Selects and develops control activities11 Selects and develops general controls over technology12 Deploys through policies and procedures	<ul style="list-style-type: none">13 Uses relevant information14 Communicates internally15 Communicates externally	<ul style="list-style-type: none">16 Conducts ongoing and/or separate evaluations17 Evaluates and communicates deficiencies

Source: Audit Committee Brief, March 2014. Deloitte Development Corporation. All rights reserved.

Control Environment

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- It is the foundation for effective internal control, providing discipline and structure.
- The control environment sets the tone of an organization influencing the control consciousness of its people.
- The oversight body and management demonstrate a commitment to integrity and ethical values.
 1. Tone at the Top
 2. Standards of Conduct
 3. Adherence to Standards of Conduct

Key issue - Management's Philosophy and Operating Style

Control Environment

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Green Flags	Red Flags
✓ Management has developed an organizational structure with clearly defined roles.	✗ It is difficult to determine the entities or individuals who have responsibility for programs or parts of programs
✓ Programs are in place to train personnel and reinforce standards of conduct.	✗ Personnel do not understand what behavior is acceptable or unacceptable
✓ Management displays concern for internal control and is responsive to deviations or recommendations to improve internal controls.	✗ Top management is unaware of actions taken at the lower level of the entity and does not promote an atmosphere of integrity within the organization

Risk Assessment

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- ❑ Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.
- ❑ Management should define objectives clearly to enable the identification of risks and define risk tolerances.
 - ▣ Definitions of Objectives
 - ▣ Definitions of Risk Tolerances
- ❑ For quantitative objectives, performance measures may be a targeted percentage or numerical value.
- ❑ For qualitative objectives, management may need to design performance measures that indicate a level or degree of performance, such as milestones.

Risk Assessment

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Green Flags	Red Flags
✓ Management acknowledges risk exists and assesses and analyzes risk throughout the organization.	✗ The organization does not have a process in place to detect risk and reacts only to issues once they have become pervasive within the organization.
✓ The organization has programs in place to combat fraud, waste, and abuse.	✗ The organization is unaware of obstacles to its mission.
✓ The organization has plans for and quickly adjusts to internal and external changes.	✗ The organization is not able to overcome obstacles to its mission, either efficiently or at all.

Control Activities

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Management should design control activities to achieve objectives and respond to risks.

- ❑ Response to Objectives and Risks
- ❑ Design of Appropriate Types of Control Activities
- ❑ Design of Control Activities at Various Levels
- ❑ Segregation of Duties

Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

- ❑ Design of the Entity's Information System
- ❑ Design of Appropriate Types of Control Activities
- ❑ Design of Information Technology Infrastructure
- ❑ Design of Security Management
- ❑ Design of Information Technology Acquisition, Development, and Maintenance

Control Activities

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Green Flags	Red Flags
✓ There are documented policies and procedures which are routinely reviewed and updated.	✗ Operating policies and procedures have not been developed, are outdated, or are not followed. (and, are not written)...just saying! 😊
✓ Control activities described in policies and procedures are applied appropriately	✗ Key steps to a process are not being performed.
✓ Designated control activities are clearly linked to the organization's objectives and related risks.	✗ Personnel and management are uncertain why process are being performed or how processes are related to goals or objectives.

Information and Communication

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Management should use quality information to achieve the entity's objectives.

- ❑ Identification of Information Requirements
- ❑ Relevant Data from Reliable Sources
- ❑ Data Processed into Quality Information

Management should internally communicate the necessary quality information to achieve the entity's objectives.

- ❑ Communication throughout the Entity
- ❑ Appropriate Methods of Communication

Management should externally communicate the necessary quality information to achieve the entity's objectives.

- ❑ Communication with External Parties
- ❑ Appropriate Methods of Communication

Information and Communication

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Green Flags	Red Flags
✓ Staff are aware of and implement changes made by management.	✗ Management is using poor quality or outdated information for making decisions.
✓ Management continually evaluates sources of data to ensure information is reliable and accurate.	✗ Management does not have reasonable assurance the information it is using is accurate.
✓ Information is accessible and reliable for use internally and externally.	✗ Staff are frustrated by the requests for information because it is time-consuming and difficult to provide the information.

Monitoring

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Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

- ❑ Establishment of a Baseline
- ❑ Internal Control System Monitoring
- ❑ Evaluation of Results

Management should remediate identified internal control deficiencies on a timely basis.

- ❑ Reporting of Issues
- ❑ Evaluation of Issues
- ❑ Corrective Actions

Monitoring

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Green Flags	Red Flags
✓ Management implements changes to the control structure to enhance efficiency and effectiveness of procedures.	✗ Management does not evaluate programs or processes on an ongoing basis.
✓ Supervisor timely conducts and documents reviews to detect and correct problems.	✗ Significant problems exist in controls and management is unaware of problems until a bigger problem occurs.
✓ Management documents and implements corrective action plans to ensure control deficiencies are addressed.	✗ There are unresolved problems with the other components: control environment, risk assessment, control activities, and information and communications.

Finally.....you have completed Budgeting and Financial Reporting II

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- Questions? Thoughts?
- **My contact information:**
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