
Audit Compliance



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Disclaimer

- This information is being presented to the Association of Alabama School Business Officials' Annual Conference on May 5, 2023.
- This presentation represented the audit position of the Department of Examiners of Public Accounts as of that date.



Objectives

- GASB Update
- Information Technology
- Internal Controls
- Recent Audit Issues



GASB Update

- FY2023
 - GASB 91 – Conduit Debt
 - Debt instrument with three parties (issuer, third-party obligor and debt holder/trustee)
 - GASB 94 – Public-Private and Public-Public Partnerships
 - Government contracts with operator to provide public services by conveying control of the right to operate or use a nonfinancial asset (infrastructure or other capital asset for a period of time in an exchange or exchange-like transaction)
 - GASB 96 – Subscription-Based Information Technology Arrangements (SBITA)



GASB 96

- **SBITA** – contract that conveys control of the right to use another party's (vendor's) information technology (IT) software, alone or in combination with tangible capital assets (underlying IT assets) as specified in contract for period of time in an exchange or exchange-like transaction. Examples - includes cloud computing; software (SaaS), platform (PaaS) and infrastructure (IaaS) as a service; Microsoft 365, ERP software, Adobe, etc.
- Governments will generally recognize a right-to-use subscriptions asset (intangible asset) and corresponding subscription liability.



GASB 96

- Step 1 – Review software subscription contracts (involve IT dept & look at GL expenses) and determine which contracts meet definition of SBITA.
- Exception – short-term SBITAs (maximum term of 12 months or less, including options to extend)
- Excluded/Not in Scope:
 - Contract for IT software and tangible capital asset in which software component is insignificant when compared to tangible capital asset (lease per GASB 87)
 - Government as software vendor
 - Contracts that meet definition of PPA (GASB 94)
 - Perpetual licensing arrangement to use vendor's computer software



GASB 96

- Step 2 – Initial Measurement
 - At commencement of subscription term, government should recognize a subscription liability and an intangible right-to-use asset
- Subscription Liability –
 - Includes fixed payments; variable payments that are fixed in substance or depend on an index or rate; payments for penalties for terminating the SBITA; any subscription contract incentives; any other payments to SBITA vendor associated with SBITA contract that are reasonably certain be being required. **Present value of payments expected to be made during term.**
- Subscription Asset –
 - Total of the amount of initial measurement of subscription liability; payments associated with SBITA contract made to SBITA vendor at commencement; capitalize initial implementation costs*



GASB 96

- Capitalize Implementation Costs
 - Preliminary Project State – **Expense**
 - Determination of existence of needed tech, Evaluation of alternatives, selection of alternatives for SBITA
 - Initial Implementation Stage – **Capitalize**
 - Configuration, coding, testing and installation, ancillary charges necessary to place subscription asset into service. Completed when subscription asset is placed into service.
 - Operation and Additional Implementation Stage – **Expense**
 - Maintenance, troubleshooting, activities associated with government's ongoing access to the underlying IT assets.



GASB 96

- Changes adopted to conform to provisions of GASB 96 should be applied retroactively by restating the financial statements.
- Subscription asset should be amortized over the shorter of the subscription term or the useful life of the underlying IT asset.
- Amortization expense maybe reported with depreciation expense for capital assets.
- Changes in terms may necessitate remeasurement of subscription liability.



GASB 96

- Note Disclosures –

- General description of SBITA, including terms and conditions
- Total amount of subscription assets and related accumulated amortization should be disclosed separately from other capital assets
- Amount of outflows of resources recognized in the report period for variable payments and other payments, such as termination penalties, not previously included in the measurement of the subscription liability
- Principal and interest requirements to maturity, presented separately, for the subscription liability for each of the five subsequent fiscal years and in five-year increments thereafter
- Commitments under SBITAs before the commencement of the subscription term
- Components of any loss associated with an impairment.
- For disclosure purposes, SBITAS are not considered debt that is subject to the disclosure requirements in GASB 88, *Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements*.



Information Technology

- Staff aware of policies and procedures and their roles?
- User access restrictions to systems?
- Controls in place over input of transactions?
- Detection and prevention of errors?
- Data backup and continuity plan in case of attack/disaster?



Internal Controls

- Policies, procedures, processes to ensure objectives are achieved, financial reporting is accurate, and entity complies with applicable laws and regulations
- Segregation of duties
- Review controls in policy vs. in practice
 - Ensure employees are complying with policies
 - Ensure policies are practical and up-to-date



Recent Audit Issues

- Federal Single Audits
 - Schedule of Expenditures of Federal Awards (SEFA)
 - New programs –
 - 84.425 Education Stabilization Fund
 - 32.009 Emergency Connectivity Fund
 - Time and effort reports when employees paid by multiple programs
 - Federal procurement – different thresholds and requirements than state bid law – must follow most restrictive



Recent Audit Issues

- AL Competitive Bid Law and Public Works
 - State bid law changed 10/1/2022 – does not apply to BOEs (Act 2021-296)
 - Additional requirements for public works projects (advertising, bonds, etc.) – ask if not sure purchase qualifies as public works project
 - Purchasing Co-op's – typically cannot use for public works
 - Act 2022-80 – added exemption for instructional materials or electronic version thereof (must be on ALSDE approved list) to COA 16-13B-2(2)(7)
 - Act 2021-485 - added lease or lease purchase to COA 16-13B-2(a)(13)



Recent Audit Issues

- Central Office –
 - Close out and prepare financial statements as soon as possible after FYE. Financial statements, Notes and Schedule of Expenditures of Federal Awards (SEFA) must be prepared by BOE.
 - GASB 87 – Leases – Effective FY2022
 - Material adjustments required
 - Bank accounts not reconciled accurately/timely
 - Superintendent pay questions – see AGO 2023-021
 - Retroaction pay issues – AL Constitution, Section 68



Recent Audit Issues

- Local Schools
 - Financial Procedures for Local Schools (ALSDE Manual)
 - Documentation for purchases
 - Public vs. non-public monies
 - Teacher and bookkeeper receipt accountability
 - Timely deposits
 - Fundraisers
 - Gate Receipts and Change Cash



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Questions?

