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# Fiscal Caution, Watch and Emergency

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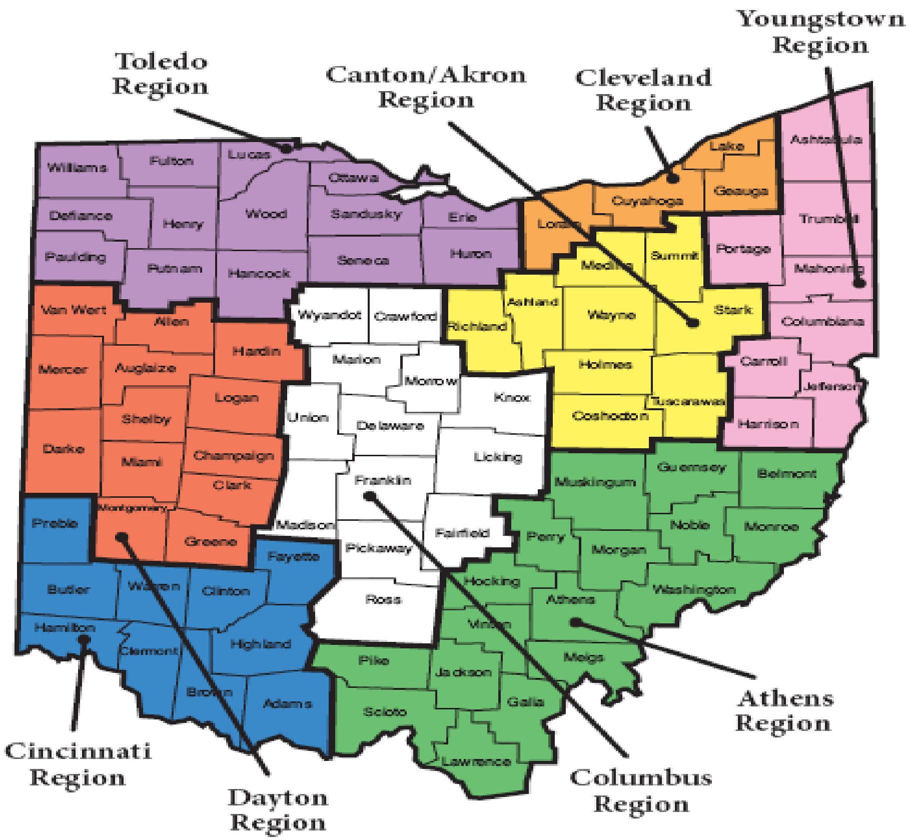
Last year's biennial budget bill made significant changes to fiscal distress legislation impacting Ohio villages and townships, including the creation of a new early warning designation called fiscal caution. This session summarizes those changes and provides details on the levels of fiscal distress, the triggers for each level and the impact on local government operations.

# AUDITOR OF STATE'S OFFICE

## Audit Regions Map



# Fiscal Caution

Potential Triggers for Fiscal Caution

– Unauditable Financial Records
– Significant deficiencies, material weaknesses, direct and material noncompliance as disclosed in the financial audit
– Deficit Fund Balances
– Carryover fund balance of less than one month's average expenditures for two or more consecutive years
– Failure to reconcile accounting journals and ledgers with the treasury

# Grounds for Fiscal Watch

Anyone of four conditions constitutes grounds for a fiscal watch:

- Accounts Payable
- Deficit Fund Balances
- Deficit in the Treasury
- Forecasted General Fund Deficit

# Grounds for Fiscal Emergency?

Any one of six conditions constitutes a fiscal emergency:

– A default on debt obligation
– A failure to make payroll to employees
– An increase in minimum levy – inside millage
– Accounts Payable
– Deficit Fund Balances
– Deficit in the Treasury

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# 2012 Combined IPA Conference

# GASB Update

Presented by:

Joe Heffernan, Plante Moran

August 10, 2012

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# Significant GASB Changes

- GASB statements Not Yet in Effect:
  - GASB 60 - Service Concession Agreements
  - GASB 61 - Reporting Entity (GASB 14)
  - GASB 62 - FASB Codification (pre-11/30/89)
  - GASB 63 –Deferred inflows & Net position
  - GASB 64 – Derivative corrections
  - GASB 65 – Items previously reported as assets and liabilities (implementation of GASB 63)

# Significant GASB Changes

- GASB statements Not Yet in Effect:
  - GASB 66 – Technical corrections
  - GASB 67 – Pension Plans
  - GASB 68 – Pension Expense (employer)
- Future Pronouncements:
  - Elements of f/s: measurement approaches
  - Financial Projections
  - Government Combinations

# GASB 60 - Service Concession Arrangements

- Effective for YBA 12/15/2011
- Applicability: Arrangements in which government uses a 3rd party to provide public services through the use and operation of a capital asset.
  - Government maintains control over assets, services provided, prices and rate structure.
  - Government receives significant consideration
  - 3rd party collects and KEEPS the user fees
  - Government is entitled to significant residual interest in the facility at the end

# GASB 60 - Service Concession Arrangements

- Example: The City owns a golf course, and has a contractual agreement with a third party to:
  - operate the course on its behalf;
  - The operator might make significant improvements to the course (or else it compensates the government with significant consideration);
  - where the operator collects and receives the greens fees as its compensation;
  - The government sets the greens fees;
  - The operator may only use the land as a golf course;
  - At the end of the lease, the government gets the golf course back including any improvements



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# GASB 60 - Service Concession arrangements

- A transferor (the government) would report the facility subject to an SCA as its capital asset
  - Existing facility: Government keeps on books
  - New or improved facility built by 3rd party: Report at fair value by the transferor (government) when the facility is placed into operation along with a corresponding deferred inflow of resources that would be reduced in a systematic and rational manner over the term of the arrangement.
- Government also must record a liability for the PV of significant contractual obligations to sacrifice resources
  - Related to facility (maintenance, capital improvements)
  - Minimum service level commitments (P&F services)



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# GASB 60 - Service Concession Arrangements

- If a Government is the operator of the facility:
  - The governmental operator would report an intangible asset at cost for its right to access the facility and collect third-party fees;
    - Amortize the intangible asset over the term of the arrangement in a systematic and rational manner.

- For revenue sharing arrangements, governmental operators would report all revenues and expenses. A transferor would report its portion of the shared revenues

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# GASB 61 - Reporting Entity (GASB 14/34) OMNIBUS

- Effective for YBA 6/15/2012
- Impacts:
  - Which entities to include/ exclude
  - How to include (blend, discretely present, footnote)
  - Additional changes



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# Component Unit Definition

| Old Definition | New Definition: |
|---|---|
| Either:<br>1) Appoint a voting majority AND either:<br>a) Financial benefit/ burden OR<br>b) Imposition of will;<br>OR | Either:<br>1) Appoint a voting majority AND either:<br>a) Financial benefit/ burden OR<br>b) Imposition of will;<br>OR |
| 2) Fiscal Dependency | 2) Fiscal Dependency **AND Financial Benefit/ burden** |



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# Method of Including a CU

| Old Method | New Method |
|---|---|
| NFPs that provide their resources almost exclusively to the PG should always be discretely presented. All other CU's should also be discretely presented unless they meet one of the following criteria: | |
| 1. The CU governing body is substantively the same as the PG | 1. The CU governing body is substantively the same as the PG **AND either there is a financial benefit / burden, Or management of the PG has operational responsibility for CU** |
| 2. The CU provides its services almost entirely to the PG | 2. The CU provides its services almost entirely to the PG |
| | **3. The CU's debt is expected to be paid by the PG** |



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# GASB 61 - Other changes

- Slight Change to “misleading to exclude”
- PGs now required to report equity interest in a for-profit discretely presented CU as an asset (subject to modified accrual)
- Redefines “MAJOR” component unit – significance in relation to the PG (no longer significance in relation to other CU’s)
- Government engaged only in BTA that use single column presentation – may consolidate blended CU but show condensed combining information in the notes



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# GASB 62 - Codification pre-11/30/89 FASBs

- Effective for YBA 12/15/2011
- Intent is to include all pre-11/30/89 private sector guidance into a GASB statement
- Supersedes GASB Statement 20
  - This means we no longer have the ability to specifically continue to follow FASBs written after 11/30/1989
- Generally, does NOT apply to governmental funds
  - Some exceptions:
    - Lease accounting
    - Contingencies



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# GASB 62 - Codification pre-11/30/89 FASBs

- <u>Some</u> of the more impactful sections include:
  - Classification of assets (restricted assets – Noncurrent)
  - Related parties
  - Accounting Changes, errors, prior period adjustments
  - Contingencies
  - Inventory
  - Leases
  - Regulated activities



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# GASB 62 - Codification pre-11/30/89 FASBs

Classification of assets

- ARB 43 tells us that restricted assets, even though they may be liquid, are not to be reported as current assets.
  - Example – we issue a bond, and the bond ordinance dictates that the proceeds must be kept physically separate and spent only on the described project.
- (this is a fairly common item that is not always being reported correctly currently)



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# GASB 62 - Codification pre-11/30/89 FASBs

Related parties

- Related parties includes related organizations, elected and appointed officials, or members of their immediate family
- F/S should disclose related party transactions other than
  - Compensation arrangements
  - Expense allowances
  - And other similar items in the normal course of business



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# GASB 62 - Codification pre-11/30/89 FASBs

Accounting Changes, errors, prior period adjustments

- Prior period adjustments/correction of errors
  - Restate opening net assets
  - Retroactively restate for all prior period presented
- Change in accounting principle
  - Restate opening net assets
  - DO NOT change comparative balances presented
  - Requires disclosure of pro forma effects of retroactive application
- Changes in estimates – prospective only
- Changes in reporting entity –restate f/s of all prior periods presented

# GASB 62 - Codification pre-11/30/89 FASBs

Contingencies

- Adopts FASB 5. This is in fairly wide use today, so really only codifies current practice.
  - Contingent liabilities must be reported if probable and estimable
  - Gain contingencies only recordable if realized



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# GASB 62 - Codification pre-11/30/89 FASBs

Inventory

- Reinforces the "lower of cost or market" concept for proprietary funds and business-type activities
- This section of GASB 62 does not apply to governmental activities or governmental funds
- Refer to existing GASB guidance on accounting for inventory in governmental funds and governmental activities

# GASB 62 - Codification pre-11/30/89 FASBs

Leases

- Codifies FASB 13 – no changes.
- A capital lease would be recorded in an arrangement that includes ownership transfer, bargain purchase, 75% of the useful life, or 90% of the value is paid.  - Regardless of legal title.



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# GASB 62 - Codification pre-11/30/89 FASBs

## Regulated Activities

- Codifies FAS 71, which allows for the use of regulatory accounting methods when those methods have been used in rate-making by a regulatory authority. This authority might include the governing body.

# GASB 63 – Net Position and Deferred inflows/outflows

- Effective for YBA 12/15/2011
- Concepts Statement No 4 defined “deferred inflows” and “deferred outflows”
- This pronouncement creates a new reporting format:
  - Statement of Net Assets becomes Statement of Net Position
  - Changes to modified-accrual balance sheets
- This pronouncement does NOT tell us which f/s line items to report as deferred inflows or outflows (see GASB 65)



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# GASB 63 – net position and deferred inflows/outflows

- Statement of Net Position
  - Two format choices:
    - Assets+Deferred outflows – Liabilities - deferred inflows=Net Position (Encouraged)
    - Assets + Deferred outflows = Liabilities + Deferred inflows + Net Position (Balance sheet format)
  - For governmental funds must use the balance sheet format above except you retain the terminology “fund balance” vs “net position”



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# GASB 63 – net position and deferred inflows/outflows

Statement of Net Position

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 11,712,829 | $ 10,516,820 | $ 22,229,649 | $ 303,935 |
| Investments | 29,250,291 | 64,575 | 29,314,866 | 7,428,952 |
| Derivative instrument—rate swap | 1,040,482 | | 1,040,482 | |
| Receivables (net) | 11,792,650 | 3,609,615 | 15,402,265 | 4,042,290 |
| Internal balances | 313,768 | (313,768) | | — |
| Inventories | 322,149 | 126,674 | 448,823 | 83,697 |
| Equity interest in joint venture | 2,303,256 | — | 2,303,256 | — |
| Capital assets: | | | | |
| Land, improvements, and construction in progress | 28,435,025 | 6,408,150 | 34,843,175 | 751,239 |
| Other capital assets, net of depreciation | 141,587,735 | 146,513,065 | 288,100,800 | 36,993,547 |
| Total capital assets | 170,022,760 | 152,921,215 | 322,943,975 | 37,744,786 |
| Total assets | 226,758,185 | 166,925,131 | 393,683,316 | 49,603,660 |
| **DEFERRED OUTFLOWS** | | | | |
| Accumulated decrease in fair value of hedging derivatives | — | 127,520 | 127,520 | — |
| **LIABILITIES** | | | | |
| Accounts payable and accrued expenses | 7,538,543 | 659,592 | 8,198,135 | 1,803,332 |
| Advances from grantors | 1,435,599 | | 1,435,599 | 38,911 |
| Forward contract | | 127,520 | 127,520 | |
| Long-term liabilities: | | | | |
| Due within one year | 9,236,000 | 4,426,286 | 13,662,286 | 1,426,639 |
| Due in more than one year | 83,302,378 | 74,482,273 | 157,784,651 | 27,106,151 |
| Total liabilities | 101,512,520 | 79,695,671 | 181,208,191 | 30,375,033 |
| **DEFERRED INFLOWS** | | | | |
| Accumulated increase in fair value of hedging derivatives | 1,040,482 | — | 1,040,482 | — |
| **NET POSITION** | | | | |
| Net investment in capital assets | 103,711,386 | 79,088,574 | 182,799,960 | 15,906,392 |
| Restricted for: | | | | |
| Transportation and public works | 10,655,737 | — | 10,655,737 | — |
| Debt service | 3,076,829 | 1,451,996 | 4,528,825 | — |
| Housing and community redevelopment | 6,845,629 | — | 6,845,629 | — |
| Other purposes | 1,483,387 | — | 1,483,387 | 492,445 |
| Unrestricted (deficit) | (1,567,785) | 6,816,410 | 5,248,625 | 2,829,790 |
| Total net position | $ 124,205,183 | $ 87,356,980 | $ 211,562,163 | $ 19,228,627 |

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# GASB 63-net position and deferred inflows/outflows

- Disclosures:
  - Footnote disclosure of the components of deferred inflows/outflows if aggregated in the statement of net position or a governmental fund balance sheet
  - Significant impacts on a component of net position (invested in capital assets, restricted or unrestricted) resulting from large differences between deferred inflow/outflow and the related asset or liability.

# GASB 64 – Derivatives corrections

- Not very significant – this pronouncement only changes the treatment of hedge termination in instances where the swap counterparty (or credit support provider) have been replaced, as long as
  - Collectability is probable;
  - Transaction is an assignment or in-substance
  - The transaction is in response to the counterparty's (or credit support provider's) default or termination event



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# GASB 65 – Items Previously Recognized as Assets and Liabilities

- Effective for years beginning after Dec. 15, 2012
  - Might be adopted early, to coincide with GASB 63 (effective TBA 12/15/2011)
- GASB 53 already directed us to use deferred inflows and outflows for hedges that are effective
- GASB 60 also directed us to use deferred inflows when in a service concession arrangement.
- This pronouncement sets the requirements for which other account balances may (must) be reported as deferred inflows and deferred outflows

# GASB 65 - items previously recognized as assets and liabilities (YBA 12/15/12)

| Account Balance | Treatment |
|---|---|
| Debt refunding – diff b/w reacquisition price and carrying value of debt (or lease) | Deferred inflow |
| Imposed nonexchange revenue – resources received (or receivable) before the period resources may be used (incl. prop taxes before the period levied) | Deferred inflow |
| Government- mandated nonexchange revenue or Voluntary nonexchange resources received before eligibility requirements are met (excluding time requirements) | Liability<br><br>(Assets by payers) |
| - Awaiting just Time requirements | Deferred inflow/ outflow |
| Sale of future revenue (unless GASB 48 allows revenue in period of sale) | Deferred inflow |

# Reporting items previously recognized as assets and liabilities

| Account Balance | Treatment |
|---|---|
| Debt issuance costs | Expense |
| - prepaid insurance costs | Asset (then amortized) |
| Operating leases – initial direct costs | Expense |
| Sale-Leaseback gain or loss | Deferred O/I |
| Insurance – acquisition costs | Expense |
| Lending – Loan origination fees rec'd (other than points) | Revenue |
| Lending - Points rec'd | Deferred inflow |
| Lending – Loan origination costs | Expense |
| Lending – commitment fees | Liability, until exercised or expired (then Rev) |
| Purchased loan fees | Revenue/ Expense |

# Reporting items previously recognized as assets and liabilities

| Account Balance | Treatment |
|---|---|
| Mortgage banking (other than mortgages held for resale) | Same as lending, above |
| Mortgages – held for resale | Defer until the time of resale (incl. points) – then Rev or Exp |
| Regulated operations – Revenue intended to cover future costs | Deferred inflow |
| Regulated Operations – Gain or other reduction of net allowable costs to be given to customers in future periods | Deferred inflow |
| | |
| GOVERNMENTAL FUNDS – Revenue that is not available | Deferred inflow |

# Reporting items previously recognized as assets and liabilities

- Other provisions:
  - The use of the term deferred should be limited to deferred outflows of resources or deferred inflows of resources
  - Major fund determination: Assets should be combined with deferred outflows of resources and liabilities should be combined with deferred inflows of resources for purposes of determining which elements meet the criteria for major fund determination

# GASB 66 – Technical Corrections - 2012

Not very significant:

- Removes the requirement from GASB 10 to use either an internal service fund or General Fund to report risk financing activities;
- Clarifies GASB 62 to allow rent holidays to be recognized using the fair value method
- Amended GASB 62 to allow a purchase of loans to be reported at acquisition cost (without regard to nominal principal
- Removed GASB 62 to req'mt to adjust the sales price on mortgage loans when the stated service fee rate differences from a normal rate

# GASB 67 & 68 – Pensions!

- GASB 67, Financial Reporting for Pension Plans, is effective for years beginning after June 15, 2013
- GASB 68, Accounting & Financial Reporting for Pensions (from the employer's standpoint) is effective for years beginning after June 15, 2014

- Two words – This is a **Big Deal**!
- These rules will significantly impact the full-accrual statements, but not the modified-accrual statements



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# Pensions – General Principles

- Pension costs are part of the employment exchange, and should be recognized as the obligation is incurred (not as it's funded)
- The pension plan is the primary obligor for the funded portion – but the employer is the primary obligor for the unfunded portion; this meets the definition of a liability and should be recorded as a liability (in the full accrual statements)
  - The NET PENSION LIABILITY (similar to the UAAL today) will be put on the balance sheet!!
  - But the full change will not necessarily go on the income statement (read on!)



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# Pensions – Amount & Timing

Net pension liability=

- Total pension liability (similar to the AAL today)
- MINUS the plan net position (restricted for pensions) – measured at FMV

These amounts will be measured as of the "measurement date:"

  - Preference is as of the local unit's balance sheet date;
  - Allowed up to one year earlier (note, however, that local units with single employer plans will still be required to present those plans as of the balance sheet date)



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# Pensions – Actuarial requirements

- You will not need a “comprehensive measurement” of the liability as of that date (it can be up to 30 months old, and then rolled forward to within one year of the balance sheet for estimated changes in service cost, accrual of interest, and payment of benefits)
- However, if there are new benefit changes or other significant changes, a new actuarial valuation may be required
- Everyone must use the entry age actuarial cost method and level % of payroll basis
- In severely unfunded plans, the discount rate would be reduced



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# Deferral of Pension Expense Recognition

| Change in net pension liability due to: | Expense | Defd I/O |
|---|---|---|
| 1. Employees work and earn more benefits | X | |
| 2. Interest on the total pension liability | X | |
| 3. Changes in total pension liability due to:<br>a) Actual economic & demographic changes differing from assumed | | Amort. Over Service Period |
| b) Changing assumptions about economic & demographic factors | | Amort. Over Service Per. |
| c) Changes in the terms of pension benefits | X | |
| 4. Changes in the amount of pension plan net assets due to:<br>a) Projected investment earnings | X | |
| b) Actual investment earnings experience different than assumed | | Amort. Over 5 years. |
| c)All other (receiving contributions, paying benefits, etc.) | X | |

# Pensions – Cost Sharing Employers

- This is all new to cost-sharing employers
- The net pension liability will have to be allocated to all participating employers.
  - The GASB encourages the estimation of expected future contributions as the basis to allocate;
  - but it allows any method that is determined on a basis that is consistent with the manner in which required contributions are determined



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# Pensions – Notes and RSI

- Very significant footnote disclosure changes (the illustrative model takes 5 pages!):
  - Benefit terms;
  - # of participants;
  - Contribution requirements;
  - Assumptions;
  - support for the discount rate;
  - Details of the changes in the net pension liability

# Pensions – Notes and RSI

- Expanded Required Supplementary Information:
  - 10 years of changes in net pension liability
  - 10 year comparison of funding status
  - 10 years of ARC v. actual contributions



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# Pension – final words

- The statement restricts itself to Pension (not OPEB).
  - However, the GASB is now working on OPEB, and we are fairly certain that ultimately the two rules will be consistent.
- These rules apply to the government wide statements, and proprietary fund statements – not to the modified accrual fund based statements.



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# Preview of Upcoming Pronouncements

Your friendly GASB has been working on some new pronouncements that are not finalized yet, but are expected to have a significant impact when they are.



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# Elements of f/s: measurement approaches

- Preliminary views document issued June 2011 with comments due back September 30, 2011
- This is only a CONCEPT STATEMENT – it will only provide the FOUNDATION for future accounting and reporting standards, rather than implementation guidance
- GASB is looking at three things:
  - Replacing current financial resources model with a “near-term financial resources” model
  - Concepts related to deferred inflows/outflows
  - Redefining when each measurement approach (initial amount versus re-measured amount) should be used

# Elements of f/s: measurement approaches

- Near term financial resources model
  - "Near-term" = period after b/s date during which financial resources at period-end can be converted to cash to satisfy obligations for spending for the reporting period
    - Assets: Resources normally receivable at period end and due to convert to cash within near term (or available to be converted to cash within the near term)
    - Liabilities: Normally payable at period end and due within the near term



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# Elements of f/s: measurement approaches

- Near term financial resources model
  - Impact – the following may no longer appear on modified accrual financial statements:
    - Long term receivables (like special assessments)
    - Inventory
    - Prepaids
  - Need clarity on:
    - Retainages
    - Long term interfunds



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# Elements of f/s: measurement approaches

- Deferred inflows/Deferred outflows
  - Economic resources measurement focus
    - Outflows of resources that do not meet the definition of an asset and are inherently related to services that the government will provide in future periods
    - Inflows of resources that do not meet the definition of a liability and can only be used in the future
    - Inflows of resources related to items that were not previously recognized as assets in the financial statements (future resources)
    - Outflows and inflows related to changes in FV of assets/liabilities when the item is related to an outflow/inflow that will occur in the future



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# Elements of f/s: measurement approaches

- Deferred inflows/Deferred outflows (continued)
  - Near-Term Financial Resources Measurement Focus
    - Outflows that do not meet the definition of an assets and are inherently related to future spending
    - Inflows that do not meet the definition of a liability and can only be used for spending in the future



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# Elements of f/s: measurement approaches

- Measurement approach
  - Proposes concepts on WHEN each of the two measurement methods should be used.
    - Initial Amount
      - Assets that are used directly in providing services
    - Re-measured Amount
      - Assets that will be converted to cash (e.g. financial assets)
      - Variable-payment liabilities (compensated absences)



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# Economic Condition Reporting– Financial Projections

- A Preliminary Views document was released in December, with comments due March 16, 2012
- The proposal is to report five year financial projections as required supplemental information in all basic financial statements
- The projections would include five components:

# Proposed Financial Projections

- 1- Total cash inflows and major individual cash inflows (in dollars and as % of total) & explanations
- 2- Total cash outflows and major individual cash outflows (in dollars and as % of total) & explanations
- 3- Total financial obligations and major individual obligations (bonds, pensions. OPEB, long-term contracts)
- 4- Annual debt service payments
- 5- Narrative discussion of major intergovernmental interdependencies

# Government Combinations

- The proposal would differentiate between the following types of combinations: Merger, Acquisition, or Transfer of Operations

| | | Is there significant consideration? | |
|---|---|---|---|
| | | Yes | No |
| Does the combination involve the entire legal entity? | Entire entity | Acquisition | Merger |
| | A portion of its operations | | Transfer of Operations |

# Mergers and Transfers of Operations

- In general, assets and liabilities (and deferred inflows and deferred outflows) would come forward at their originally reported values
  - Subject to any corrections for misapplication of GAAP, or to bring differing accounting principles into alignment
- In a transfer of operations, the government would report a special item for the amount of assets and liabilities (and deferred inflows/ outflows) received



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# Acquisitions

- In general, the acquiring government should recognize all assets and liabilities, regardless of whether the acquired government had recognized them, at acquisition value (FMV); Exceptions are:
- Prior goodwill recorded by the acquired entity (or deferred outflows resulting from previous acquisitions) should not be recognized;
- Employment benefit liabilities can come forward; so can landfill closure; pollution remediation; investments, derivatives and deferred inflows & outflows
- If Consideration paid is <u>greater than</u> recordable amounts the difference (goodwill) is a deferred outflow; If <u>less than</u>, the difference should be used to reduce carrying value of noncurrent assets acquired.



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# Disposal of Government Operations

- Transferor Governments (whether in an acquisition or in a transfer of operations) should recognize a gain or loss on disposal of operations as a special item

# Questions?

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# SAS UPDATE & REVIEW SAS 118 - 121

Presented By:

Bethany Staats, CPA

Audit Manager

Julian & Grube, Inc.

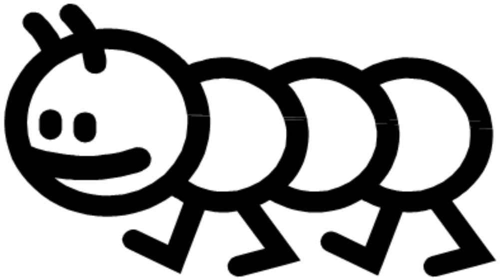
# TOPICS TO BE DISCUSSED…

- SAS 118-120
  - Auditor’s responsibility for other information, supplementary information, and required supplementary information
  - Management’s responsibility for other information, supplementary information, and required supplementary information
  - New procedures and reporting requirements
- SAS 121
  - Revisions made to SAS 100
  - Review of interim financial information

# SAS 118 - 120

- Effective Dates
  - Periods beginning on or after Dec. 15, 2010
    - Counties/Cities/Townships/Villages/etc. – 12/31/11
    - Schools/ESCs/State Departments – 6/30/12

- Reporting on Additional Information
  - Other Information (SAS 118)
  - Supplementary Information (SAS 119)
  - Required Supplementary Information (SAS 120)



# ADDITIONAL INFORMATION

- Management's Discussion and Analysis
- Required Budgetary Comparison Information and notes
- Introductory section, financial section's combining statements, individual fund statements and schedules, and the statistical section (CAFR – Comp. Annual Financial Report)
- Schedule of (Receipts and) Expenditures of Federal Awards
- Ten Year Loss Development Schedules
- Supplementary pension information
- OPEB data

# PRIOR TO SAS 118-120

- Prior to SAS 118-120, the key to determining our reporting responsibility on the additional information presented was based upon whether the information was included in a client-prepared document or an auditor-submitted document.

- SAS 118-120 eliminates the distinction and breaks the information down into 3 categories

# CATEGORIES OF ADDITIONAL INFORMATION

- Other Information – OI (SAS 118)
- Supplementary Information – SI (SAS 119)
- Required Supplementary Information – RSI (SAS 120)

# SAS NO. 118

- Other Information (OI) in Documents Containing Audited Financial Statements
  - Addresses the auditor's responsibility in relation to *OI* in documents containing audited financial statements and the auditor's report thereon.
  - **Objective:** To respond appropriately when the auditor becomes aware that documents containing audited financial statements and the auditor's report thereon include *OI* that could undermine the credibility of those financial statements and the auditor's report

# WHAT IS "OTHER INFORMATION?"

- Financial and nonfinancial information (other than the financial statements and the auditor's report thereon) that is included in a document containing audited financial statements and the auditor's report thereon, excluding *required supplementary information* (See SAS 120)

# WHAT IS "OTHER INFORMATION?"

- Commonly included in the Introductory and Statistical sections of a CAFR
  - Report by management or those charged with governance on operations
  - Financial summaries or highlights
  - Employment data
  - Planned capital expenditures
  - Financial ratios
- Also applies to required supplementary information that is voluntarily presented by an entity, which is not otherwise required to provide it. (ie, OCBOA reporting)

# WHAT IS "OTHER INFORMATION?"

- For Purposes of GAAS, other information does not encompass, for example, the following:
  - Press release or similar memorandum or cover letter accompanying the document containing audited financial statements and the auditor's report thereon
  - Information contained in analyst briefings
  - Information contained on the entity's website

# SAS 118

- Prior to SAS 118 –
  - In the absence of any separate understanding for the engagement, the auditor's opinion on the financial statements did not cover *OI*, and the auditor had no responsibility for determining whether such information was properly stated.
- New Requirements due to SAS 118 –
  - Requires the auditor to read the *OI* as the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and the *OI*.

# AUDITOR RESPONSIBILITIES

- Read *OI* of which the auditor is aware in order to identify material inconsistencies, if any, with the audited financial statements.
- Make appropriate arrangements with management or those charged with governance to obtain the *OI* prior to the report release date or as soon as practical
- Communicate with those charged with governance the auditor's responsibility with respect to the *OI*, any procedures performed relating to the *OI*, and the results

# MATERIAL INCONSISTENCY

- If, on reading the *OI*, the auditor identifies a material inconsistency, the auditor should determine whether the audited financial statements or the *OI* needs to be revised.
- What is a "Material Inconsistency"?
  - An inconsistency that may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.

# MATERIAL INCONSISTENCY DISCOVERED *PRIOR TO* REPORT RELEASE DATE

- Resolve the differences to present the financial statements and *OI* free of material inconsistencies
- If requires revision of the audited financial statements and management refuses to make the revision, the auditor should modify the auditor's opinion.

# MATERIAL INCONSISTENCY DISCOVERED *PRIOR TO* REPORT RELEASE DATE

- If requires revision of the *OI* and management refuses to make the revision, the auditor should:
  - Communicate the matter to those charged with governance and either:
    - Include in the auditor's report an explanatory paragraph describing the material inconsistency
    - Withhold the auditor's report**; or
    - When withdrawal is possible under applicable law or regulation, withdraw from the engagement**

**withdrawal from engagement or withholding auditor's report may not be options for governmental entities. In such cases, the auditor may issue a report to those charged with governance and the appropriate statutory body, if applicable, giving details of the inconsistency.

# MATERIAL INCONSISTENCY DISCOVERED *SUBSEQUENT TO* REPORT RELEASE DATE

- When revision of the audited financial statements is necessary as a result of a material inconsistency with *OI* and the auditor's report on the financial statements has already been released, the auditor should apply the relevant requirements in AU section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (AICPA, *Professional Standards*, vol. 1).

# MATERIAL INCONSISTENCY DISCOVERED *SUBSEQUENT TO* REPORT RELEASE DATE (CONT.)

- When revision of the *OI* is necessary after the report release date and management **agrees** to make the revision, the auditor should carry out the procedures necessary under the circumstances
  - Procedures may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued financial statements, the auditor's report thereon, and the *OI* are informed of the need for revision.

# MATERIAL INCONSISTENCY DISCOVERED *SUBSEQUENT TO* REPORT RELEASE DATE (CONT.)

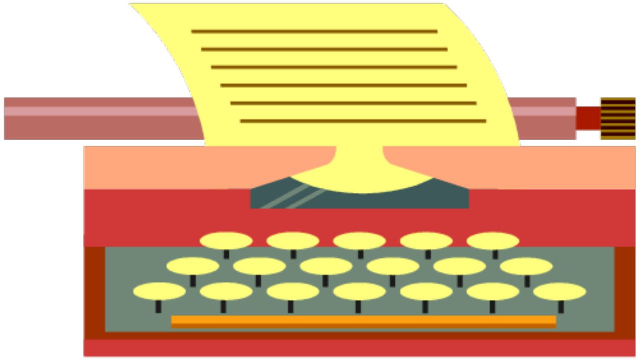
- When revision of the *OI* is necessary after the report release date but management **refuses** to make the revision, the auditor should notify those charged with governance of the auditor's concerns regarding the *OI* and take any further appropriate action
  - Further appropriate action may consist include obtaining advice from the auditor's legal counsel

# MATERIAL MISSTATEMENT OF FACT WITHIN THE *OTHER INFORMATION*

- Discuss the matter with management
- Request management to consult with a qualified third party, such as the entity’s legal counsel, and the auditor should consider the advice received by the entity in determining whether such matter is a material misstatement of fact
- If management refuses to correct, the auditor should notify those charged with governance of their concerns and take further action as necessary

# REPORTING REQUIREMENTS

- Under the SAS, auditors have no obligation to report on the *OI*; however, they may disclaim an opinion on the *OI* via an explanatory paragraph.
- This may be done when the auditor has concerns a level of assurance not intended may be inferred by the user.



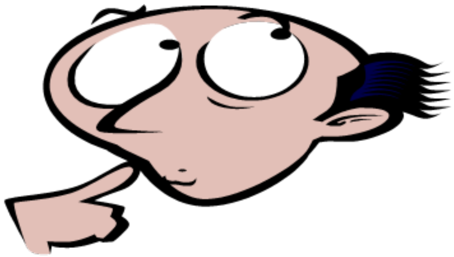
# EXAMPLE OF AN EXPLANATORY PARAGRAPH TO DISCLAIM OPINION

- “Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The [*identify the other information*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and according, we do not express an opinion or provide any assurance on it.”

# SAS NO. 119

- Supplementary Information in Relation to the Financial Statements as a Whole
  - Addresses the auditor's responsibility when engaged to report on whether *supplementary information* is fairly stated, in all material respects, in relation to the financial statements as a whole.
  - **Objective:**
    - Evaluate the presentation of the *supplementary information* in relation to the financial statements as a whole and
    - Report on whether the *supplementary information* is fairly stated, in all material respects, in relation to the financial statements as a whole

# WHAT IS "SUPPLEMENTARY INFORMATION"?



- *Supplementary information* is defined as information presented outside the basic financial statements, excluding *required supplementary information* (SAS 120), that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework.
- Such information may be presented in a document containing the audited financial statements or separate from the financial statements.

# WHAT IS "SUPPLEMENTARY INFORMATION"?

- Examples:
  - Schedule of (Receipts and) Expenditures of Federal Awards
  - Combining Statements, individual fund statements and schedules (CAFR)
  - Management's Discussion and Analysis (OCBOA statements only – discussed later)

# CRITERIA IN ORDER TO OPINE ON WHETHER SI IS FAIRLY STATED IN RELATION TO THE FINANCIAL STATEMENTS

- All of the following conditions must be met:
  - *SI* was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements
  - *SI* relates to the same period as the financial statements
  - Financial statements were audited, and the auditor served as the principal auditor in that engagement
  - Neither an adverse opinion nor a disclaimer of opinion was issued on the financial statements
  - *SI* will accompany the entity's audited financial statements, or such audited financial statements will be made readily available by the entity

# AGREEMENT WITH MANAGEMENT

- Management should acknowledge and understand its responsibility
  - For the preparation of the *SI* in accordance with the applicable criteria
  - To provide the auditor with written representations
  - To include the auditor's report on *SI* in any document that contains the *SI* and that indicates that the auditor has reported on such *SI*.
  - To present the *SI* with the audited financial statements or to make the audited financial statements readily available to the intended users of the *SI* no later than the date of issuance by the entity of the *SI* **and the auditor's report thereon.**

# REQUIRED PROCEDURES

- Using the same materiality level used in the audit of the financial statements
  - Inquire of management about the purpose of the *SI*
  - Determine whether the form and content of the *SI* complies with the applicable criteria
  - Obtain an understanding about the methods of preparing the *SI* and determine whether the methods of preparing the *SI* have changed from those used in the prior period and, if the methods have changed, the reasons for such changes

# REQUIRED PROCEDURES (CONT.)

- Compare and reconcile the *SI* to the underlying accounting and other records.
- Inquire of management about any significant assumptions or interpretations underlying the measurement or presentation of the *SI*
- Evaluate the appropriateness and completeness of *SI*
- Obtain Representations from Management (next slide)

# MANAGEMENT REPRESENTATIONS

- The following written representations should be included in the "Management Representation Letter"
  - That is acknowledges its responsibility for the presentation of the *SI* in accordance with the applicable criteria;
  - That is believes the *SI*, including its form and content, is fairly presented in accordance with the applicable criteria;
  - That the methods of measurement or presentation have not changed from those used in the prior period or, if the methods of measurement or presentation have changed, the reasons for such changes;

# MANAGEMENT REPRESENTATIONS (CONT.)

- About any significant assumptions or interpretations underlying the measurement or presentation of the *SI*; and
- That when the *SI* is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended uses of the *SI* no later than the date of issuance by the entity of the *SI* and the auditor’s report thereon

# REPORTING

- When the entity presents the *SI* with the financial statements, the auditor should report on the *SI* in either
  - An explanatory paragraph following the opinion paragraph in the auditor's report on the financial statements, or
  - In a separate report on the *SI*

# REPORT ELEMENTS

- Statement the audit was conducted for the purpose of forming an opinion on the financial statements as a whole
- Statement that the *SI* is presented for purposes of additional analysis and is not a required part of the financial statements
- Statement that the *SI* is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements

# REPORT ELEMENTS (CONT.)

- Statement that *SI* has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America.

# REPORT ELEMENTS (CONT.)

- Opinions
  - Unqualified opinion on the financial statements and the auditor has concluded that the *SI* is fairly stated, in all material respects, in relation to the financial statements as a whole
    - Statement that, in auditor's opinion, the *SI* is fairly stated, in all material respects, in relation to the financial statements as a whole
  - Qualified opinion on the financial statements and the qualification has an effect on the *SI*
    - Statement that, in the auditor's opinion, except for the effects on the *SI* of (refer to the paragraph in the auditor's report explaining the qualification), such information is fairly stated, in all material respects, in relation to the financial statements as a whole

# PRESENTED IN A SEPARATE REPORT

- When the audited financial statements are not presented with *SI*, the auditor should report on the *SI* in a separate report.
- When reporting separately on the *SI*, the report should include a reference to the report on the financial statements, the date of that report, the nature of the opinion expressed on the financial statements, and any report modifications

# ADDITIONAL REPORTING MATTERS

- Adverse or Disclaimer of Opinion
  - Auditor is precluded from expressing an opinion on the *SI*
  - Auditor may withdraw from the engagement when permitted by law or regulation
  - If the Auditor does not withdraw, the auditor's report on the *SI* should state that because of the significance of the matter disclosed in the auditor's report, it is inappropriate to, and the auditor does not, express an opinion on the *SI*
- Date of the auditor's report on the *SI* in relation to the financial statements as a whole should not be earlier than the date on which the auditor completed the required procedures

# SUPPLEMENTARY INFORMATION IS MATERIALLY MISSTATED

- Discuss the matter with management and propose appropriate revision of the *SI*
- Management does not revise the *SI*, the auditor should
  - Modify the auditor's opinion on the *SI* and describe the misstatement in the auditor's report or
  - If a separate report is being issued on the *SI*, withhold the auditor's report on the *SI*

# SAS NO. 120

- Addresses the auditor's responsibility with respect to information that a designated accounting standard setter requires to accompany an entity's basic financial statements (referred to as *required supplementary information [RSI]*)

# SAS No. 120 (cont.)

- Objective:
  - Perform specified procedures in order to
    - Describe, in the auditor's report, whether *RSI* is presented and
    - Communicate therein when some or all of the *RSI* has not been presented in accordance with guidelines established by a designated accounting standard setter or when the auditor has identified material modifications that should be made to the *RSI* for it to be in accordance with guidelines established by the designated accounting standard setter.

# WHAT IS "RSI"?

- Information that a designated accounting standard setter requires to accompany an entity's basic financial statements. (FASB, GASB, etc.)
- *RSI* is not part of the basic financial statements
- Accounting standard setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
- Authoritative guidelines for the methods of measurement and presentation of the information have been established

# WHAT IS “RSI”? (CONT.)

- Common examples of Governmental Entities:
  - Management’s Discussion and Analysis
  - Required Budgetary Comparison Information (if not presented as part of the basic financial statements)
  - Ten-year loss development information (Insurance entities)
  - Certain Pension and OPEB disclosures

# PROCEDURES

- Inquire of management about the methods of preparing the information, including:
  - Whether it has been measured and presented in accordance with prescribed guidelines,
  - Whether methods of measurement or presentation have been changed from those used in the prior period and the reasons for any such changes, and
  - Whether there were any significant assumptions or interpretations underlying the measurement or presentation of the information

# PROCEDURES (CONT.)

- Compare the information for consistency with
  - Management’s responses to the foregoing inquiries
  - The basic financial statements, and
  - Other knowledge obtained during the audit of the basic financial statements

# PROCEDURES (CONT.)

- Obtain written representations from management
  - That it acknowledges its responsibility for the *RSI*
  - About whether the *RSI* is measured and presented in accordance with prescribed guidelines;
  - About whether the methods of measurement or presentation have changed from those used in the prior period and, if so, the reasons for such changes; and
  - About any significant assumptions or interpretations underlying the measurement or presentation of the *RSI*

# UNABLE TO COMPLETE PROCEDURES

- Consider whether management contributed to the auditor's inability to complete the procedures
  - If due to significant difficulties encountered in dealing with management, the auditor should inform those charged with governance

# REPORTING

- Explanatory paragraph after the opinion including language to explain the following circumstances, as applicable:
  - *RSI* is included, and the auditor has applied the required procedures
  - *RSI* information is omitted
  - Some *RSI* is missing and some is presented in accordance with the prescribed guidelines
  - Auditor has identified material departures from the prescribed guidelines
  - Auditor is unable to complete the required procedures
  - Auditor has unresolved doubts about whether the *RSI* information is presented in accordance with prescribed guidelines

# REPORTING (CONT.)

- All or some of the *RSI* is presented, explanatory paragraph should also include the following elements:
  - Statement that [identify applicable financial reporting framework] require that the [identify *RSI*] be presented to supplement the basic financial statements
  - Statement that such information, although not a part of the basic financial statements, is required by [identify standard setter], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context

# REPORTING (CONT.)

- All or some of the *RSI* is presented, explanatory paragraph should also include the following elements(Cont.):
  - Auditor able to complete procedures:
    - Statement that auditor has applied certain limited procedures (See example)
    - Statement that the auditor does not express an opinion or provide any assurance on the information because the limited procedures do not provide the auditor with sufficient evidence to express an opinion or provide any assurance

# REPORTING (CONT.)

- All or some of the *RSI* is presented, explanatory paragraph should also include the following elements(Cont.):
  - Auditor unable to complete procedures:
    - Statement that the auditor was unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States because [*state the reasons*]
    - Statement that the auditor does not express an opinion or provide any assurance on the information

# REPORTING (CONT.)

- All or some of the *RSI* is presented, explanatory paragraph should also include the following elements(Cont.):
  - Some of the *RSI* is omitted
    - Statement that management has omitted [description of the missing RSI] that [identify the applicable financial reporting framework] require to be presented to supplement the basic financial statements
    - Statement that such missing information, although not a part of the basic financial statements, is required by [identify the standard setter], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.
    - Statement that the auditor's opinion on the basic financial statements is not affected by the missing information

# REPORTING (CONT.)

- All or some of the *RSI* is presented, explanatory paragraph should also include the following elements(Cont.):
  - Measurement or presentation of the *RSI* departs materially from the prescribed guidelines
    - Statement that although the auditor's opinion on the basic financial statements is not affected, material departures from prescribed guidelines exist [describe]
  - Auditor has unresolved doubts about whether *RSI* is measured or presented in accordance with prescribed guideline
    - Statement that although the auditor's opinion on the basic financial statements is not affected, the results of the limited procedures have raised doubts about whether material modifications should be made to the *RSI* for it to be presented in accordance with guidelines established by [identify standard setter].

# REPORTING (CONT.)

- *RSI* is omitted, explanatory paragraph should include the following:
  - Statement that management has omitted [description of the missing *RSI*] that [identify the applicable financial reporting framework] require to be presented to supplement the basic financial statements
  - Statement that such missing information, although not a part of the basic financial statements, is required by [identify standard setter], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context
  - Statement that the auditor's opinion on the basic financial statements is not affected by the missing information

# ADDITIONAL INFORMATION

- Because the *RSI* accompanies the basic financial statements, the auditor's report on the financial statements includes a discussion of the responsibility taken by he auditor on that information.
- However, because the *RSI* is not part of the basic financial statements, the auditor's opinion on the fairness of presentation of such financial statements in accordance with the applicable financial reporting framework is not affected by the presentation by the entity of the *RSI* or the failure to present some or all of such *RSI*
- If the *RSI* is omitted by the entity, the auditor does not have a responsibility to present that information

# HOW SAS 118-120 APPLIES TO INDEPENDENT AUDITOR'S REPORTS

- Attachment A
  - Elements for RSI
    - Statement the GAAP require the RSI to supplement the financial statements (1)
    - Statement that such information, although not a part of the basic financial statements, is required by GASB (2)
    - Statement auditor has applied certain limited procedures (3)
    - Statement that auditor does not express an opinion (4)

# HOW SAS 118-120 APPLIES TO INDEPENDENT AUDITOR'S REPORTS

- Attachment A (Cont.)
  - Elements for Supplemental Information
    - Statement that audit was conducted for the purpose of forming an opinion on the financial statements as a whole (1)
    - Statement that *SI* is presented for purposes of additional analysis and is not a required part of the financial statements (2)
    - Statement that the *SI* is the responsibility of management (3)
    - Statement *SI* has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures (4)
    - Auditor's in relation opinion (5)
  - Elements for Other Information (Disclaimer)

# HOW SAS 118-120 APPLIES TO INDEPENDENT AUDITOR'S REPORTS

- OCBOA Reports
  - Attachment B (page 5)
    - Management's Discussion & Analysis no longer considered RSI for cash basis entities
    - Tables within are treated as supplementary information and are reported on using an "in relation to" opinion
    - Information other than the tables are considered "other information" and an opinion is disclaimed on it
- Samples of Opinions and Report Letters may be found on the AOS website at
  - http://www.auditor.state.oh.us/resources/ipa/FinancialStatementOpinions/default.htm

# QUESTIONS?

# SAS NO. 121

- Revised Applicability of Statement on Auditing Standards No. 100, *Interim Financial Information*
  - Effective for Interim Periods beginning after December 15, 2011
  - Purpose – to revise paragraph .05 of SAS 100, as amended, such that the SAS would be applicable when the accountant audited the entity's latest annual financial statements, and the appointment of another accountant to audit the current year financial statements is not effective prior to the beginning of the period covered by the review.

# WHAT IS "INTERIM FINANCIAL INFORMATION"?

- For the purposes of the SAS, the term interim financial information means financial information or statements covering a period less than a full year or for a 12-month period ending on a date other than the entity's fiscal year end.
  - May be condensed or in the form of a complete set of financial statements

# REVISION OF PARAGRAPH .05

- An accounting may conduct, in accordance with this section, a review of interim financial information if
  - The entity's latest annual financial statements have been audited by the accountant or a predecessor;
  - The accountant *either*
    - Has been engaged to audit the entity's current year financial statements, or
    - Audited the entity's latest annual financial statements and, *when it is expected that the current year financial statements will be audited, the appointment of another accountant* to audit the current year financial statements *is not effective prior to the beginning of the period covered by the review;*

# REVISION OF PARAGRAPH .05

- An accounting may conduct, in accordance with this section, a review of interim financial information if (cont.)
  - *When* the interim financial information is condensed information, all of the following conditions are met:
    - Purports to conform with an appropriate financial reporting framework, which includes appropriate form and content of interim financial statements
    - Includes a note that the financial information does not represent complete financial statements and should be read in conjunction with the entity's latest annual audited financial statements
    - Accompanies the entity's latest audited annual financial statements, or such audited annual financial statements are made readily available by the entity

# HELPFUL SOURCES

- AU Sections 550, 551, 558, 722
- Report Letter Samples: http://www.auditor.state.oh.us/resources/ipa/FinancialStatementOpinions/default.htm
- SAS 118-121

# CONTACT INFORMATION

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# 2011 GAGAS

**Presented by: Joey Jones**
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# Effective Dates

- For financial audits and attestation reports:
  - **Periods** *ending* on or after December 15, 2012
- For performance audits:
  - **Audits** *beginning* on or after December 15, 2011
  - Maybe because performance audits often do not cover a period
- Early implementation is prohibited

# Audit

- Provide accountability and transparency
  - Objective analysis and information
- 2011 revision provides framework
  - General Standards
    - Independence, Professional Judgment, Competence, Quality Control and Assurance

# Chapter Reorganization

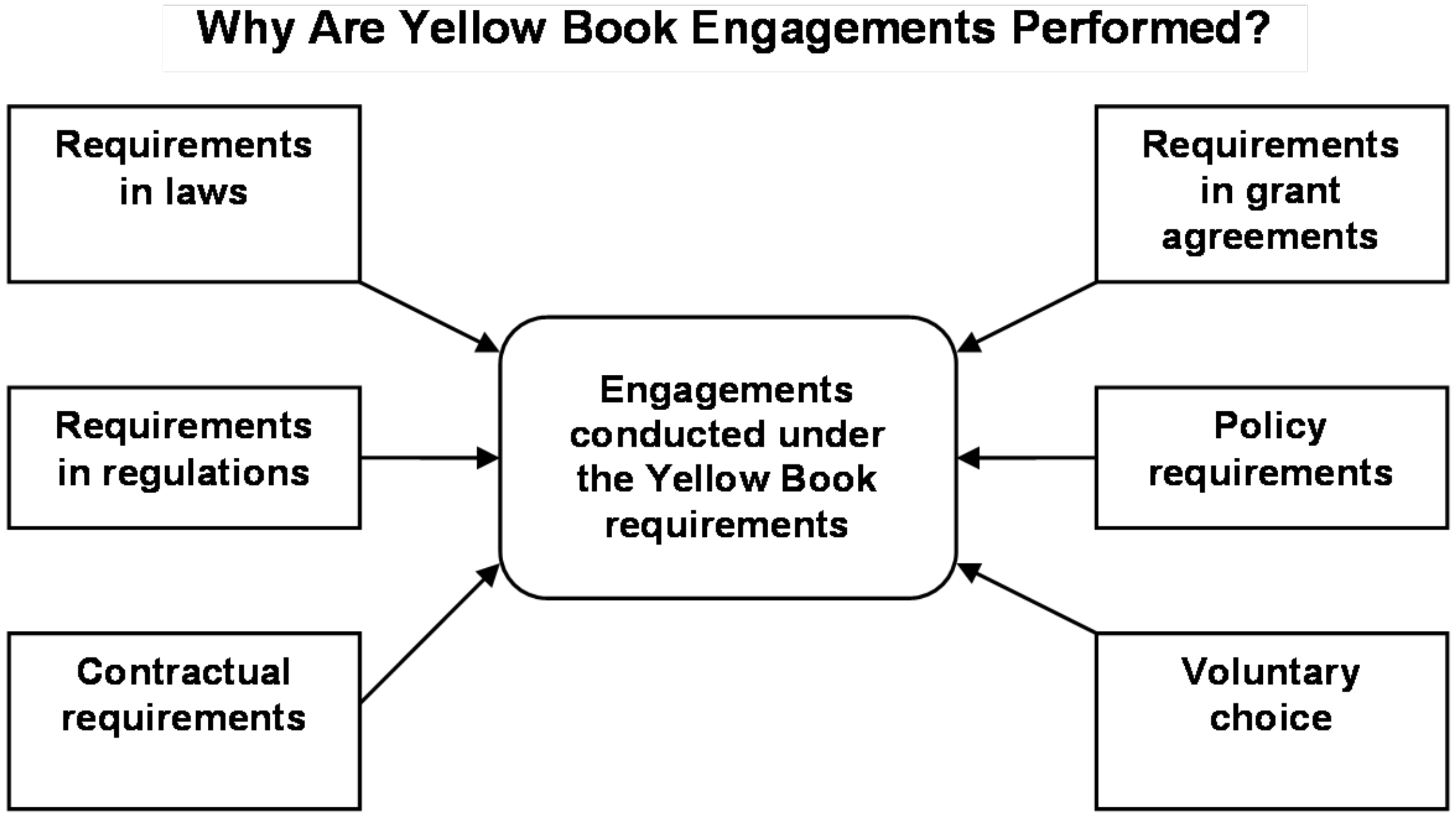
**2007 YB Chapters**

- 1-Use & Application
- 2-Ethical Principles
- 3-General Standards
  - For all audit services
- 4-Fieldwork Standards
  - Financial audits
- 5-Reporting Standards
  - Financial audits
- 6-Attestation Engagements
- 7&8-Performance Audits

**2011 YB Chapters**

- 1-Foundation & Ethical Principles
- 2-Standards for Use and Application
- 3-General Standards
  - For all audit services
  - Independence rules
- 4-Standards for Financial Audits
- 5-Attestation Engagements
- 6&7-Performance Audits

# FYI: When do GAGAS apply?



# FYI: “GAGAS Compliance Statement”

2.23 – 2.24

- This term has been in the YB the past two editions, but what is it?
  - It is the *scope statement* in the GAGAS compliance / controls report:

“We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits included in the Comptroller General of the United States’ *Government Auditing Standards*.”

  - “Modified” = scope restrictions, disclaimers

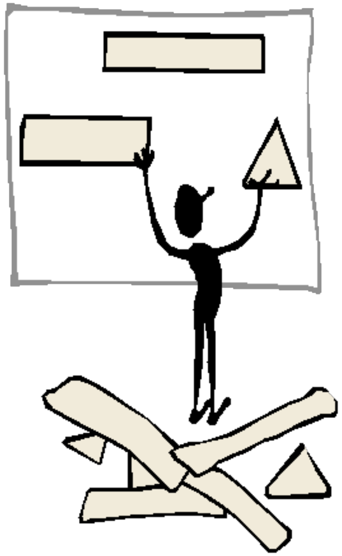
# Prior Independence Rules

- In 2003 and 2007 YB, rules derived from two ***overarching principles*** :
  – Thou shalt not audit thine own work
  – Thou shalt not manage thy auditee
- Also, 2007 classified nonaudit services into one of these categories:
  – Allowable
  – Allowable with safeguards
  – Unallowable

# Revised Independence Rules

3.02 --- 3.59

- Conceptual framework 3.07 – 3.26
- Organizational independence 3.27 – 3.32
  - Probably only affects AOS, not IPAs
- Nonaudit service rules 3.33 – 3.58
- Documentation requirements 3.59



# Conceptual Framework

3.07 – 3.26

- Is now similar to AICPA ET 100.01
  - Identify and respond to *threats*
- Generally replaces "rules based" approach with "professional judgment" (framework) approach
  - GAO's generally rules-based 2002 *Independence Q&A* is kaput
  - For example, the Q&A's 40 hour exemption is dead

# Conceptual Framework

- We now analyze ***threats*** to independence. Generally:
  - Use *framework* to analyze threats
  - Less prescriptive than 2003 & 2007 GAGAS & Q&A
- Seven threats, described after next slide

# Conceptual Framework Flowchart

Adobe Acrobat
Document

# Independence Threats

3.14

- *Self interest threat*
  - Financial or other benefit influences auditor's judgment / behavior

    - ***Revolving door*** would be self interest threat (also an Ohio ethics violation). Example:
      - Brad audits City X 2010 statements in 2011
      - Brad resigns from audit firm in 2011
      - City X hires Brad in 2011
- *Self review threat*
  - Similar to the 2003 & 2007 overarching principle:
    - Auditing your own ***nonaudit service***

# Independence Threats

- *Bias threat*
  - – political, ideological, social, or other convictions affect an auditor's judgment
- *Familiarity threat*
  - – Long or close relationship with auditee affects auditor's judgment
    - Ideally reassign staff periodically
  - – Includes audits of close family members
    - If their position significantly influences the *subject matter of the audit*

# Independence Threats

- *Undue Influence Threat*
  - *Example*: auditee unduly restricts time available to complete audit
  - Auditee threatens to hire a new auditor
- *Management participation threat*
  - Substantially the same as the 2003 & 2007 overarching principle– cannot manage the entity and then audit it

# Independence Threats

- *Structural threat*
  - Relates to the AOS' organizational independence
    - i.e. how AOS fits into "structure" of State Government
    - AOS is independent to audit the State because AOS is separately elected (3.29(a))
  - Probably N/A to IPA firms

# *Examples* of Independence Safeguards

- Assigning staff not involved with audit to review audit work 3.17(c)
  - Maybe includes concurring partner reviews?
    - Chief auditor at AOS
  - Because partner did not perform fieldwork
    - Not mandatory
    - Might help address *familiarity threat*?
- Assigning another audit organization to perform the impaired part of audit 3.17(b)
  - For example: AOS re: UAN

# Engagement Period Independence

3.05


## We must be independent:

- For any period an audit covers
  - One or two fiscal year audit period, for example
- The *professional engagement* period
  - For recurring audits, could cover <u>many</u> years
  - Ends via notification of auditor or auditee
    - or by the issuance of final report, whichever is later
  - So, engagement period does not end with the issuance of a report then <u>*recommence*</u> with the following year's audit

# Engagement Period Independence

3.05

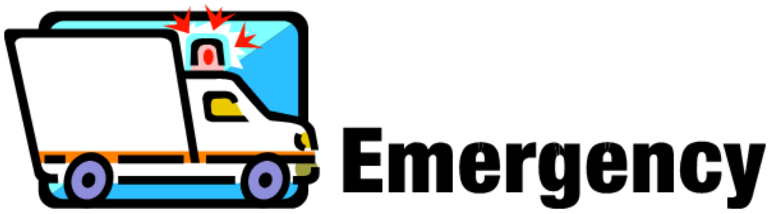
- For example:
  - If auditor designs accounting system, perhaps can't audit statements as long as system is used
  - Can reestablish independence if another firm audits the statements prepared from the system (3.43)
    - One independent audit would suffice
    - Assuming other auditor does not report multiple control deficiencies / scope impairment due to inadequacy of accounting

# Independence Changes Affecting AOS

- AOS can no longer avoid a legislatively-mandated impairment by merely describing it in opinion scope ¶
  - UAN
  - Fiscal emergencies for
    - Cities
    - Counties
    - Villages

# Fiscal Emergencies

- If LGS is performing management functions subject to the scope of our audit—
  - We will contract audit to IPA
  - Rarely applies to schools, because LGS' role usually doesn't include management functions



# Nonaudit Services

3.33 – 3.58

- Retaining independence still requires evaluating the 2003 / 2007 “safeguards”
  - GAGAS borrowed from AICPA Ethics Interp. 101-3
- Per101-3 and 3.34 -- .37, management must
  - Make all management decisions
  - Designate individual to oversee
  - Evaluate adequacy of results
  - Accept responsibility for the service

# Nonaudit Services

3.34

Regarding the "evaluator":

- "The individual is not required to possess the expertise to perform or reperform the services."
- But, auditor should evaluate / document whether the evaluator's "SKE" are sufficient to meaningfully assume responsibility for the nonaudit service
  - Skills
  - Knowledge
  - Experience

# Auditing Your Own Firm's Compilations

- Cash to accrual conversions are a nonaudit service (3.40)
  - Use conceptual framework
  - But: can still "audit your own work" if mgt. retains responsibility & reviews, etc. (3.34 & 3.37)
  - So the 2011 YB doesn't meaningfully change analysis for "compilation threats"

# Unpaid Audit Fees

- CPA firms must follow AICPA ET rules
  - Plus GAGAS independence rules
- For example: ET 191.52 forbids “public accountants” from auditing if fees are more than one year in arrears
  - Unpaid fees pose a ***self interest threat***
    - 191.52 absolutely prohibits CPA firms from auditing in this circumstance
      - Safeguards can’t cure the threat
    - But AOS can consider safeguards for this because we do not practice “public accounting”
    - ET do not apply to AOS’ practice

# Examples of Prohibited Nonaudit Services

3.45 – 3.58

- Posting to accounting records
  - Unless management subsequently approves the postings
- Compiling financial statements
  - But OK if management retains responsibility

# Prohibited Nonaudit Services

3.45 – 3.58

- Designing controls, monitoring internal control performance
  - This differs from recommending improvements as a byproduct of a financial audit
  - 3.40 suggests issuing a formal report on design of controls is evidence auditor “crossed the threshold” and exceeded mere routine advice
    - That is --- auditor assumed a management function by issuing a formal report
    - GAGAS report or management letter describing control deficiencies is different than recommending <u>design</u> of controls in a formal report
- Designing, operating, supervising IT systems
  - If output is *part of subject matter of audit*
  - Always would be, for financial audit of financial IT system

# Prohibited Nonaudit Services

3.45 – 3.58

- Valuation services
  - If values are part of subject matter of audit
  - Consistent with ET 101-3

- Some other prohibited services:
  - Benefit plan administration
  - Investment custody or advisory services
  - Making / approving business risk decisions

# Documenting Independence Issues

3.59

- Document threats, safeguards and judgments supporting your independence to audit
  - If significant
  - If applicable, document management's ability to oversee nonaudit services
  - Document understanding with auditee regarding nonaudit services
    - A proper engagement letter should suffice

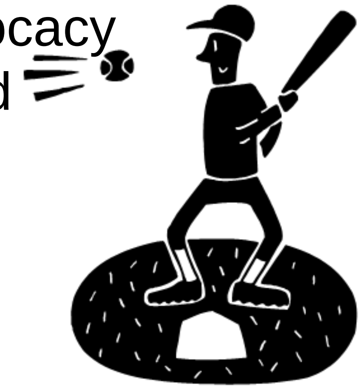
# Specialists

- 2010 YB ED, 3.26, required assessing specialists' independence
- Excepting CPE, 2011 YB is generally silent regarding specialists' independence
  - Because AICPA *clarity standards* will apply, and differentiate:
    - Specialist the auditor hires (AU-C 620) vs.
    - Specialist the auditee's management employs or contracts
  - <u>Auditor's</u> specialist is subject to auditor's independence requirements (AU-C 620 A.13)

# Specialists

- *Management's specialist*, per clarity standard:
  - Test specialist's work via audit *evidence* standard, not *Auditor's* *Specialist* standard
    - AU-C 500 applies to evidence from auditee's specialists
  - AU-C 500 A.38 -- .44 require auditor to assess independence threats to which the specialist is subject, and whether safeguards mitigate threats
  - **Per .A42:** "A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats.

    Safeguards may reduce such threats . . . "



# Specialists --- CPE

3.79 -- 3.81

- Specialists an auditor hires (external specialists) not subject to CPE
  - However, should assess their competence / qualifications
  - Suggestion: Check professional certifications, experience, etc.
- <u>Internal</u> auditor's specialists (i.e. our employee specialists) we <u>only</u> consult with are not subject to CPE.
- Per clarity standard, Internal specialist =
    - Partner
    - Staff
    - Network firm, etc.

# Specialists --- CPE

3.79 -- 3.81

- These tasks ***do*** subject an internal specialist to CPE requirements:
  - Directing
  - Performing
  - Reporting
- Their “24 hour requirement” can relate to their specialty

# UAN

- Designing or implementing IT system <u>*absolutely*</u> impairs independence 3.56
  - – However, we discussed UAN with GAO
  - – They agree UAN is not a customized IT installation the prohibition contemplated since mass-produced
- Nevertheless, AOS contracted UAN AUP to an IPA
  - UAN also established an “audit” committee
    - – What type of independence ***threat*** does a UAN audit committee address?

# Continuing Professional Education 3.76

Every 2 years an auditor *should* obtain 80* hours of CPE that enhances the auditor's professional proficiency to perform audits or attestation engagements. At least 20 hours of the 80 *should* be completed in any 1 year of the 2-year period.

At least 24 of the 80 hours of CPE *should* be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.

The other 56 of the 80 hours of CPE *should* enhance the auditor's professional proficiency to perform audits or attestation engagements in general.

*Exception

Auditors who are *only* involved in performing field work *and* who charge less than 20 percent of their time annually to Yellow Book assignments *should* comply with the 24-hour CPE requirement in each 2 year period. They are exempt from the 56-hour requirement.

# Continuing Professional Education

- Per footnote 40, GAO's 2005 CPE Guidance still applies

# Other *interim* changes

Chapter 4 Fieldwork

- Omitted the following due to redundancy with other standards:
  - Restatement disclosure requirements
  - Communicating significant matters
  - Considering fraud and illegal acts
  - Requirements when audit is terminated before completion (very rarely occurs)

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# Spring 2012 Single Audit Roundtable (SART) Update:

*Part I, OMB Reform, DATA Act, and Other Updates*

Presented by:
Marnie Carlisle,
Center for Audit Excellence

# What is the SART?

- Semi-annual meeting of single audit stakeholders to discuss updates from the following representatives (in attendance):
  - U.S. Office of Management and Budget
  - U.S. Government Accountability Office
  - Federal inspectors general community
  - Federal Audit Clearinghouse
  - American Institute of Certified Public Accountants

# Agenda

- Part I:
  - Advanced Notice of Grants Reform
  - DATA Act
  - Federal Audit Clearinghouse Update
  - GAO Update
  - AICPA Update
- Part II:
  - 2012 OMB Compliance Supplement

*OMB "Advanced Notice"*

# SINGLE AUDIT ACT & GRANTS ADMINISTRATION REFORM

# OMB - Grants Reform

- Council on Financial Assistance Reform Update (COFAR)
  - Independent commission with minimal Federal oversight
  - Created in October 2011 by executive Presidential orders to oversee Grants Reform process
    - Not much “auditor” representation

# OMB - Grants Reform

- Not a Federal "Proposal"
- The "Advance" Notice is a precursor to future proposed regulatory changes
  - Discusses ideas being *considered* by OMB for revising OMB Circular A-133 as well as the OMB Cost Principles and related administrative requirements
  - OMB received 350+ comments

# OMB - Grants Reform

- OMB Proposal expected to be issued later (in 2012)
  - Any amendments to A-133, etc. must be included in the Proposal in order to include in the scope of the Final Notice
- Final OMB Notice expected sometime next year, with changes effective for periods beginning after publication

# OMB - Grants Reform

- Proposes changes to Single Audit threshold
  - *We compiled & included Single Audit Statistics for Ohio to show potential effect*
- Reduces the number of required compliance requirements to audit
- Adopts a more risk-based approach
- Consolidates & enhances existing cost & administrative circulars

# OMB - Grants Reform
## Single Audit Threshold

- Single Audit not required if Federal expenditures (or loans issued) in a fiscal year are less than:
  - Current Threshold: $500,000
  - **Suggested New Exempt Threshold:**
    - $1 million in total Federal expenditures
      - Less than 1% reduction of expenditure coverage
      - ***But almost 25% fewer Single Audits!***

# **OMB - Grants Reform**
# Single Audit Threshold

- **Suggested Limited-Scope Single Audit Threshold:**
  - Entities expending between $1 million and $3 million in Federal awards undergo a “mini-” Single Audit as described on the next slide

# **OMB - Grants Reform**
# Single Audit Threshold

- **Suggested Limited-Scope Single Audits:**
  - Auditors would test only **<u>two</u>** compliance requirements (currently we test up to 14, if they apply -- listed later)
    - *Allowable and Unallowable Costs* would ***<u>always</u>*** be tested
    - Federal grantor agencies would choose the second compliance requirement to be tested

# OMB - Grants Reform
## Single Audit Threshold

- **Suggested Full Single Audit Threshold:**
  - $3 million in total Federal expenditures
  - Entities will receive a full-blown Single Audit
    - However, there will likely be fewer than 14 compliance requirements

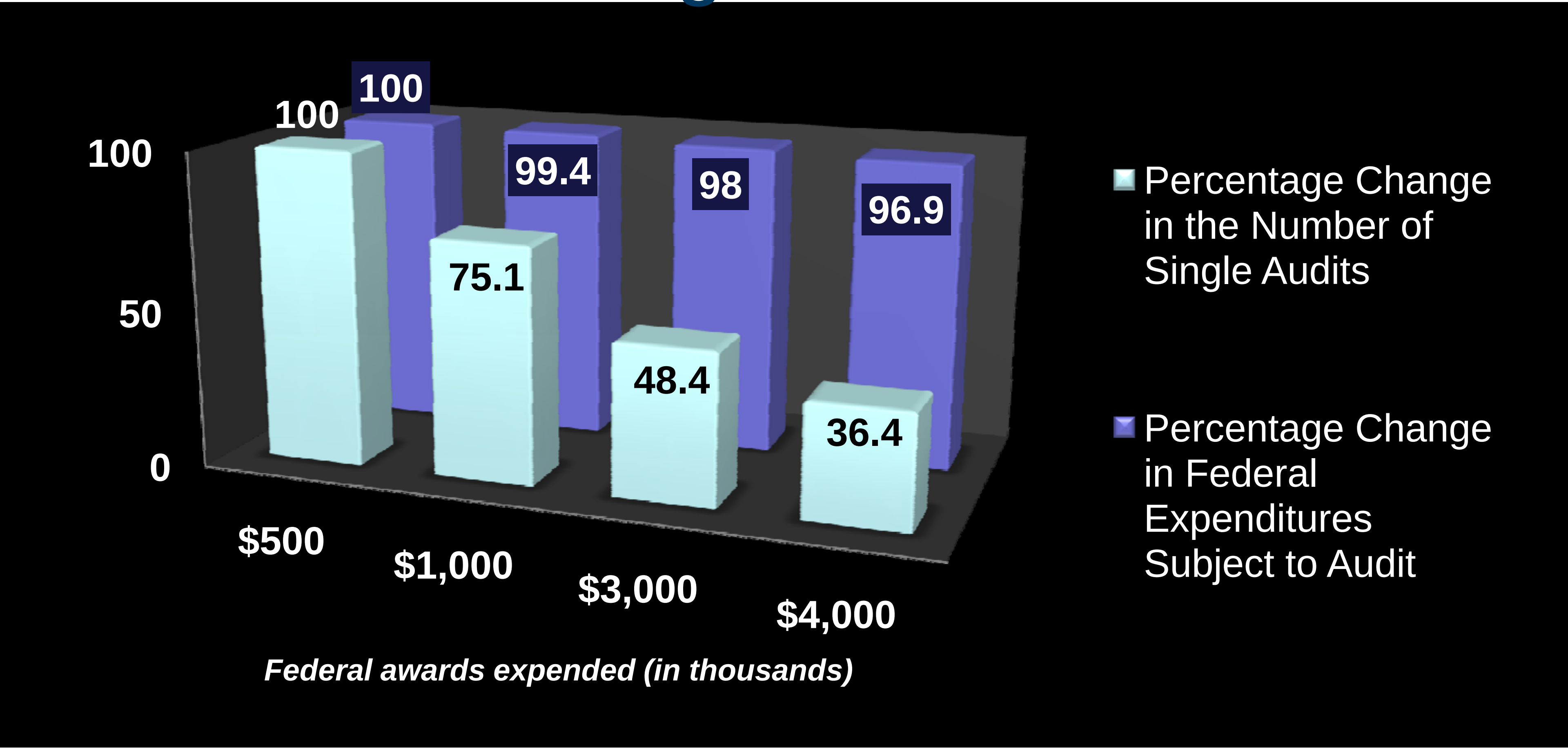
# OMB - Grants Reform
# Single Audit Threshold

- **Advantages:**
  – Reduces administrative burden for audited entities, auditing agencies, and pass through and grantor agencies
    - For example, grantors and “pass-through’s” wouldn’t need to pursue small-dollar questioned costs
    - They have enough difficulty following up  timely on ***large dollar*** noncompliance ☹
  – Audit will focus on high-risk areas
    - Such as ***allowable and unallowable costs***

# **OMB - Grants Reform**
# Single Audit Threshold

- **Disadvantages:**
  - Less single audit coverage
    - ***However, insignificantly less***
  - Federal and Pass-through agencies may need to increase their own *subrecipient monitoring* activities to compensate
    - Sub monitoring is one of the current 14 compliance requirements

# OMB - Grants Reform
## *National* Single Audit Statistics




Source: Federal Audit Clearinghouse Database and OMB

# OMB – Grants Reform
# *Ohio* Single Audit Statistics

- We extracted data from the Federal Audit Clearinghouse (FAC) Database
  - 1,224 FY 2010 single audits were submitted to the FAC for Ohio governments under AOS audit authority
    - 571 of those were performed by AOS
      - Roughly 47%

# OMB – Grants Reform
## *Ohio* Single Audit Statistics

- If OMB and Congress enact the new thresholds as Suggested, we project the following effect on the number of OH single audits using FY10 data:
  - >$1 million = **300 *fewer* single audits**
  - <$3 million and >$1 million = **484 Limited-scope**
  - >$3 million = **440 full single audits**

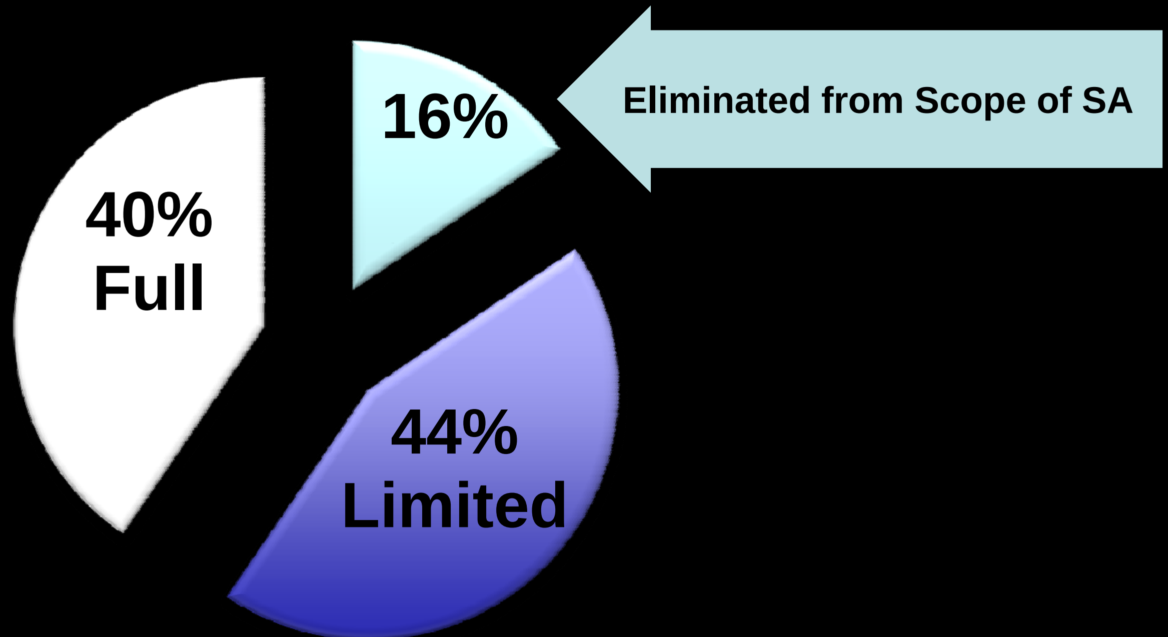
Source: Federal Audit Clearinghouse Database and OMB

# FY 2010 Percentage of *Ohio* Questioned Costs Within Each Suggested Threshold Category

**Proposed New Thresholds**

<$1 million   >$1 million and <$3 million   >$3 million

The FAC reports **<u>84</u>** OH FY 2010 Single Audits included Questioned Costs




Source: Federal Audit Clearinghouse Database and Regional Chiefs

# FY 2010 *Ohio* Questioned Costs in Relation to Total Federal Expenditures

**$1,035,151,942,672**

Total Fed. Exp. Nationwide

**$40,030,276,543**

Total Ohio Fed. Exp.

**$114,523,860**

Ohio QC's

**0.29%**

**0.01%**

***Includes $105 million QC for State of Ohio***

Source: Federal Audit Clearinghouse Database and Regional Chiefs

# Some Perspective

- State of Ohio and its local governments spent $3 of every $1,000 "questionably"

- Local government rate = $2 of every $10,000

# *Important!*

- *Questioned costs usually are not comparable to* ***findings for recovery***
  - *Usually no "allegation" cost lacked a "proper public purpose"*
- A QC "merely" means auditor "questions" if government spent Fed $ in compliance with tested requirements
  - *Not an actual determination of misspending or misappropriation*

# *Important!*

- For example:

Spending after *period of availability* would be a QC

- Even if cost was otherwise "perfectly" allowable

# OMB – Grants Reform

## Reduction in Compliance Requirements

- Streamline the 14 compliance requirements in the OMB Compliance Supplement to focus on proper stewardship of Federal funds
  - Target key areas related to improper payments, waste, fraud, abuse, and program performance

# OMB – Grants Reform
## Reduction in Compliance Requirements

- **Advantages:**
  - Reduce the audit burden on recipients
  - Provide agencies with more risk-based audits
  - Findings are more likely to be related to accountability while still relieving burden of audit work in “secondary” areas

# OMB – Grants Reform
## Cost & Administrative Circulars

- Currently, cost and administrative requirements vary by type-of-recipient
  - Governments follow 2 CFR 225 (formerly A-87) and A-102 Common Rule
  - Colleges and universities follow 2 CFR 220 (formerly A-21) and A-110 Common Rule
  - Non-profits follow 2 CFR 230 (formerly A-122) and A-110 Common Rule
    - *Common rules are codified separately by each Federal Agency*

# OMB – Grants Reform

## Cost & Administrative Circulars

- Suggested changes include:
  - Consolidating uniform administrative and cost principles guidance into single documents with limited variations by type of entity
    - *No intent to change requirements, only streamlining*
      - *However, some cost items need updating (e.g., advertising on websites, computing devices, depreciation, etc.)*

# OMB – Grants Reform
## Cost & Administrative Circulars

- Using flat (instead of negotiated) rates for indirect costs
- Exploring alternatives to time-and-effort requirements for documenting salaries and wages
  - Based more on performance and outcome
  - USDOL is now piloting in select programs, including the Workforce Innovation Fund
  - USDE is also actively pursuing ideas

# OMB – Grants Reform
## General Comments

- The AICPA, NASACT, AOS and others submitted comments to OMB proposing additional changes such as:
  - Modifying the major program determination criteria and threshold(s)
  - Modifying the questioned cost threshold
- Certain Federal and Pass-Through agencies have also requested reduction in the nine month single audit filing deadline (to six mos.)
  - This would require a change to the law

# OTHER OMB UPDATES

# OMB – DATA Act Update

- The Act was introduced in Spring 2011
- Requires "Recovery Act-type" reporting on all Federal awards (grants , contract, loans, awards, cooperative agreements, etc.)
  - Including the reporting of expenditure data (at least quarterly)
- The requirement includes all sub-grants and contracts (all tiers)

# OMB – DATA Act Update

- Created the Federal Accountability and Spending Transparency (FAST) Commission
  - A five member commission to be appointed by the President with the advice and consent of the Senate
  - The commission will carry on the work of the current Recovery Accountability and Transparency Board, including development of data standards for recipient and Federal agency reporting

# OMB – DATA Act Update

- Absorbs FFATA reporting requirements, but replaces them with an "ARRA recipient-based reporting model"
- Requires everyone use an XBLR- compliant reporting system
  - All grantees must have an identical chart of accounts to work
  - Could take ten years to fully implement
- Already passed the House; Senate will likely pass later this year *(the Act has momentum)*

# FEDERAL AUDIT CLEARINGHOUSE (FAC) UPDATE

# FAC Update

- The FAC maintains the SF-SAC / Data Collection Form used to submit the Single Audit Report Package
  - No changes to the FYE 2012 Form
- FY 2013 SF-SAC Form Changes will include:
  - Auditors must submit their own EIN numbers
  - Must report whether Federal loan / guarantee
  - New pages added (i.e., pages 3 and 4) for three-way link between SF-SAC, A-133 letter, and SOF

# FAC Update

- The changes to the 2013 SF-SAC are to support the HHS Metrics project, designed to gather single audit data on a particular finding (which is currently impossible) and promote consistency of data used for audit follow-up by Federal and State Pass-through Agencies

# FAC Update

- FY 2013 single audit report packages for recipients with Cognizance (direct awards) must be unlocked, unencrypted, and be 100% text searchable (i.e., no scanning permitted)
- By 2014, all single audits must be must be unlocked, unencrypted, and be 100% text searchable (i.e., no scanning permitted)
- ***FAC website will allow auditors to start testing uploads later in 2012 to make sure they are text searchable and meet these requirements***

# GOVERNMENT ACCOUNTABILITY OFFICE (GAO) UPDATE

# GAO Update

- December 2011 Revision to Yellow Book effective for:
  - Performance audits now (i.e., beginning on or after December 15, 2011)
  - Effective for financial audits and attestation engagements for periods ending on or after December 15, 2012
  - Early implementation is not permitted

# GAO Update

- Created a conceptual framework for independence
  - More principles-based approach to analyzing independence provides the framework for auditors to assess the unique facts and circumstances that arise during their work
  - *Substantial differences between AICPA Code of Ethics and YB*

# GAO Update

- Auditors must identify significant threats to independence for non-audit services and apply safeguard(s) to each
- Financial statement preparation, bank reconciliations, etc. all constitute non-audit services
  - *Previously, GAO Q&A on Independence indicated reconciliations could be an audit service in some cases*

# GAO Update

- GAO *Q&A on Independence* is rescinded
  - No longer an accurate source of information; the guidance from this document could lead to the wrong conclusions under the 2011 YB guidance

# GAO Update

- New documentation requirements were added for Organizational Independence:
  - Safeguard(s) must be documented for each significant threat
  - Management Skills, Knowledge, and Experience (SKE) must be documented for each threat
    - *SKE no longer a safeguard itself*

# GAO Update

- AICPA Government Audit Quality Center (GAQC) has developed an optional-use practice aid for Independence available for free on its website at: http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/AuditPracticeToolsAids/Pages/YellowBookAuditToolsandAids.aspx

# AICPA UPDATE

# AICPA Update

- Update from AICPA Ethics Team:
  - AICPA receives a number of referrals regarding single audits of poor quality from Federal IG's
  - Audit ethical / audit quality problems among governmental audits have increased exponentially in the past two years
  - Auditors with significant audit quality problems will be closely monitored and possibly subject to disciplinary action or suspension

# AICPA Update

- GAQC Update:
  - Updates to Schedule of Expenditures of Federal Awards (SEFA) Practice Aids made for SAS 119 are available on website at: http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/AuditPracticeToolsAids/Pages/Single%20Audit%20Practice%20Aids.aspx

# AICPA Update

- Auditing Standards Board Update:
  - SAS No. 119
    - Requires in-relation-to opinion on supplemental information, includes new audit procedures, and revised report language
    - Also amends auditor report dating requirements
      - In-relation-to opinion should be dated when the procedures have been performed, which may be later than the financial statement date

# AICPA Update

- Auditing Standards Board Update:
  - SAS 125
    - A-133 reports ISSUED after 12/15/12 should not include the restricted use paragraph
      - SAS 125 replaces it with a “purpose” paragraph, which is better suited to the government environment
    - YB reports implement for periods ending on or after December 15, 2012

# AICPA Update

- Publications Update:
  - Updated A-133 Audit Guide now available
  - New Audit Risk Alert for GAS A-133 Audits now available
  - Updated SLG Audit Guide expected later this summer
    - *Will not include the Clarity standards since they are not done yet*

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# Spring 2012 Single Audit Roundtable (SART) Update:

*Part II, Significant 2012 OMB Compliance Supplement Changes*

Presented by:

Marnie Carlisle,

Center for Audit Excellence

www.ohioauditor.gov

# Agenda

- Part I:
    - Advanced Notice of Grants Reform
    - DATA Act
    - Federal Audit Clearinghouse Update
    - GAO Update
    - AICPA Update
- Part II:
    - 2012 OMB Compliance Supplement

# **OMB** - 2012 OMB Compliance Supplement

- OMB issued the “June 2012” Supplement on July 24, 2012:
  - http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2012
- This slide show is not all-inclusive!
- We will highlight only the most significant changes

# **OMB** - 2012 OMB Compliance Supplement

- Overall, no major changes; however, auditors should be alert for the following:
  - **<u>Two</u>**-year look-back (as opposed to only one) for ARRA low-risk Type A program determinations (excluding R&D & SFA Clusters)
  - Type B ARRA programs are still higher risk

# **OMB** - 2012 OMB Compliance Supplement

- Procurement - The Federal Simplified Acquisition threshold increased from $100,000 to $150,000 in 2010
  - However, if required under the grant program, Federal agencies must still approve procurements of $100,000 or more under the A-102 Common Rule
  - Therefore, Supplement still requires auditors to test procurements >$100,000

# **OMB** - 2012 OMB Compliance Supplement

- OMB added Federal Funding Accountability and Transparency Act (FFATA) FAQ's to Supplement
  - FAQ's are available at: [www.fsrs.gov](www.fsrs.gov)
  - OMB clarified how to identify a Federal Award Identification Number (FAIN); however, ambiguity still exists because the Federal government does not prescribe requirements for Federal award numbering

# **OMB** - 2012 OMB Compliance Supplement

- FFATA Reporting - "Good Faith Effort"
  - When evaluating compliance, auditors should consider whether recipients demonstrated a "good faith effort" to comply
  - As evidenced by proper documentation (e.g., emails, phone logs between recipient and awarding agency or GSA; screen shots illustrating attempts to upload to FSRS, etc.)

# **OMB** - 2012 OMB Compliance Supplement

- FFATA Reporting - “Good Faith Effort”
  - Auditors are required to report audit findings for noncompliance with FFATA reporting requirements that are not supported by a recipient’s demonstrated “good faith effort”
  - No need to amend or reissue completed audits

# **OMB** - 2012 OMB Compliance Supplement

- FFATA Reporting - “Good Faith Effort”
  - A-133 Type A Major Program Determination – Auditors are not required to consider FFATA reporting audit findings or modifications of audit opinions based solely on FFATA reporting noncompliance when performing the A-133 risk-based approach if the auditor can determine the recipient previously demonstrated a good faith effort to comply

# **OMB** - 2012 OMB Compliance Supplement

- FFATA Reporting - “Good Faith Effort”
  - For example, a material non-compliance, material weakness in internal control over compliance, or a modified opinion based solely on FFATA Reporting in a previously issued audit report would not preclude a program from being low risk or an entity from qualifying as a low risk auditee in the two subsequent year audits if the auditor determines the recipient demonstrated a “good faith” effort

# **OMB** - 2012 OMB Compliance Supplement

- OMB clarified subrecipient monitoring requirements:
  - Can use the single audit process as part of risk assessment for monitoring procedures

# **OMB** - 2012 OMB Compliance Supplement

- That is, govts. already receiving a single audit pose less monitoring risk and may not require as much oversight
- However, pass-through agencies should still do something to oversee these entities
  - Follow up of findings, etc. is still required

# **OMB** - 2012 OMB Compliance Supplement

- Recovery Act funds dwindling but will still will affect many auditees
- Student Financial Assistance (SFA) Cluster:
  - Changed references to requirements associated with Federal Family Education Loans
  - Numerous updates and deletions to various compliance requirements and procedures specific to SFA

# **OMB** - 2012 OMB Compliance Supplement

- New Clusters:
  - *USDA Water and Waste Program Cluster* – Clustered ARRA counterpart, CFDA no. 10.781, with CFDA no. 10.760
  - *USDA Community Facilities Loans and Grants Cluster* – Clustered ARRA counterpart, CFDA no. 10.780, with CFDA no. 10.766

# **OMB** - 2012 OMB Compliance Supplement

- New Clusters:
  - *HHS Health Centers Cluster* – Clustered CFDA no. 93.224, Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers), with CFDA no. 93.527, Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Centers Program

# **OMB** - 2012 OMB Compliance Supplement

- Clusters Removed or Changed:
  - Removed certain expired ARRA programs
  - Deleted the Homeland Security Cluster
  - Refer to the Supplement for less significant changes

# **OMB** - 2012 OMB Compliance Supplement

- Note: On September 23, 2011, ED offered States the opportunity to request flexibility on behalf of itself, its LEAs, and its schools regarding specific ESEA requirements, including certain Title I, Part A requirements
  - ED approved ODE's waiver request, effective for the 2012-2013 school year
  - ODE is still determining the impact on programs

# AOS SINGLE AUDIT UPDATES

# AOS Updates

- WIA Cluster *(Old Guidance)*:
  - Melvin Reid, USDOL National Single Audit Coordinator, sent out guidance to the auditing community on 7/7/11 regarding confusion related to the changes in the CFDA numbers for WIA programs included in the Cluster

# AOS Updates

- WIA Cluster *(Old Guidance)*:
  - 7/7/11 e-mail from Melvin Reid states: *Unfortunately, the Compliance Supplement could have clearer on the treatment of these CFDA numbers. Since they replaced 17.260, they should be included as part of the Workforce Investment Act (WIA) cluster. <u>Next year's compliance supplement will be made clearer to show the WIA cluster is comprised of CFDA numbers 17.258, 17.259, **17.277**, and 17.278</u>*

# AOS Updates

- WIA Cluster (New Guidance):
  - However, the 2012 OMB Compliance Supplement indicates awards made on or after July 1, **2010**** under CFDA number 17.277 are **not** part of the WIA Cluster
  - CFDA no. 17.277 should be audited under Part 7 of the Supplement

** *DOL issued a memo on 7/25/2012 to correct Supplement - year should be 2010 rather than 2011*

# AOS Updates

- USDE Subprograms within same CFDA:
  - For example:  84.215A-Y or 84.184A–V
  - Per Kevin Winicker, USDE Director of Non-Federal Audits:
    - All subprograms are considered one program for single audit purposes

# AOS Updates

- USDE Subprograms within same CFDA:
  - List each subprogram (A-Y) separately on the SEFA, then total them to show the total program
    - *Do not label as a cluster!*
  - On the Data Collection Form, only show one line for the program – just the total
    - *Do not list each subprogram!*

# AOS Updates

- Title I (CFDA #84.010), Cohort High School Graduation Rate:
  - New audit procedure for FY 2012 Ohio LEA's in Part L, Reporting
  - ODE and LEA's must report graduation rate data for all public high schools at the school, LEA and State levels
  - Both in the aggregate and disaggregated by each subgroup in 34 CFR 200.13(b)(7)(ii) using a 4-year adjusted cohort graduation rate

# AOS Updates

- Title I (CFDA #84.010), Cohort High School Graduation Rate:
  - To remove a student from the cohort, the LEA must confirm in writing that the student transferred out, emigrated to another country, or is deceased
  - To confirm that a student transferred out, the LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma

# AOS Updates

- Title I (CFDA #84.010), Cohort High School Graduation Rate:
  - A student who is retained in grade, enrolls in a General Educational Development (GED) program, or leaves school for any other reason may not be counted as having transferred out for the purpose of calculating graduation rate and must remain in the adjusted cohort
    - Title I, Sections 1111(b)(2) and (h) of the ESEA (20 USC 6311(b)(2) and (h)); 34 CFR section 200.19(b)

# AOS Updates

- ODE Guidance on Title I (CFDA #84.010), Cohort High School Graduation Rate:
  - ODE sets the cohort as soon as student enters 9th Grade (schools cannot reset)
  - Students must be in an educating district to determine grade placement
  - Foster Care students must be reported by educating and resident districts

# AOS Updates

- ODE Guidance on Title I (CFDA #84.010), Cohort High School Graduation Rate:
  – As an example, FY 2011 graduating class is reported on the FY 2012 report card
  – Cohorts are used to determine the FY 2012 Adequate Yearly Progress (AYP)
  – Report cards must be obtained from schools
    - ODE sent at end of July

# AOS Updates

- ODE Guidance on Title I (CFDA #84.010), Cohort High School Graduation Rate:
  - School districts must establish policies governing 9th grade cohort assignments
  - Sample policies are available from OSBA and NEOLA
  - Withdrawal policies are fundamental to compliance

# AOS Updates

- New ODE EMIS-R System:
  - ODE implemented the new EMIS-R system effective for FYE 6/30/12 LEA audits
  - Changes to EMIS will impact future Federal Maintenance of Effort testing as well as Ohio Compliance Supplement testing of Average Daily Membership (ADM)
  - AOS is working together with ODE to explain the nature of the changes and determine how to adjust our audit procedures

# AOS Updates

- Maintenance of Effort (MOE):
  - The OMB Compliance Supplement clarifies that even where the State performs the MOE computation, LEA's are required to maintained detailed accounting records to support the amounts used in the calculation
  - Computations are based on annual ADM (not October count week) and annual State and local expenditures related to the direct education of a student

# AOS Updates

- Maintenance of Effort (MOE):
  - That is, when testing MOE, we are **<u>not</u>** testing *Federal* expenditures!
  - We are testing the ***state and local $$ spending*** to ensure they are not using Federal funds to reduce state and local spending – if so, future Federal funding will be reduced proportionally

# AOS Updates

- IDEA Part B Cluster (Special Education):
  - ODE implemented a new Excess Costs reporting system similar to the old model
  - FY 2012 Excess Cost Reports will be available on ODE's website by the end of September 2012 per Jo Hanna Ward, ODE Office of Exceptional Children Assistant Director

# AOS Updates

- Child Nutrition Cluster:
  - School districts participating in the Child Nutrition Cluster claim meals, not costs, for Federal reimbursement in the Child Nutrition Cluster
  - However, regular-price, reduced-price, and adult sales and vending machine revenues are program income to the Child Nutrition Cluster
    - 7 CFR 3016.25(g)(1) explains that program income shall be used for current costs unless the Federal agency authorizes otherwise

# AOS Updates

- Child Nutrition Cluster:
  - School districts are required to account for all revenues and expenditures of its school food service in accordance with State requirements
    - Ohio Rev. Code Section 3313.81 provides guidance on the management and control of the Food Service Fund
  - All revenue generated by the school food service must be used to operate and improve its food services (7 CFR sections 210.14(a), 210.14(c), 210.19(a)(2), 215.7(d)(1), 220.2, and 220.7(e)(1)(i))

# AOS Updates

- Child Nutrition Cluster:
  - The Child Nutrition Cluster permits allowable costs associated with school nutrition programs to be allocated to the Food Service Fund
  - To be allowable, the USDA requires school food service costs conform to criteria in OMB Circular A-87
  - A-87 instructs recipients to allocate allowable cost items to Federal programs *directly* whenever possible

# AOS Updates

- Child Nutrition Cluster:
  - Examples of ***direct costs*** might include compensation and benefits of Food Service employees (e.g., employees who only work in the cafeteria – a single cost objective) or supplies for use in the cafeteria
  - ***Indirect costs*** are the costs of providing meals and/or snacks under the National School Lunch, School Breakfast, After School Snack, Special Milk and Seamless Summer Option Programs that are not easily identifiable with a particular objective or function

# AOS Updates

- Child Nutrition Cluster:
- Example of indirect cost: *Cost of electricity*
  - The Child Nutrition program uses electricity for cooking, meal preparation and refrigeration
    - However, electricity is also used within the school building for lighting, cooling, hot water, operating the school's copiers, the school's payroll system, and janitorial functions, all of which benefit both the school and the Child Nutrition program
    - In addition, electricity is used for computer assisted instruction and audio-visual equipment which do not benefit the Child Nutrition program

# AOS Updates

- Child Nutrition Cluster:
  - Pursuant to OMB Circular A-87, indirect costs must be allocated to Federal programs via an indirect cost rate applied to an indirect cost pool
    - An indirect cost rate is a shorthand methodology for allocating allowable indirect costs to cost objectives
  - U.S. Department of Education regulations 34 Code of Federal Regulations, Part 76.561(b), require ODE to review and approve all school district indirect cost proposals

# AOS Updates

- Child Nutrition Cluster:
  - Once ODE has approved the indirect cost proposal, the rates may be applied to and charged to federal programs operating within the school district
    - The assessment of indirect cost must be accorded consistent treatment among all federal programs in the LEA, per the OMB A-87 Circular
  - USDA guidance for Indirect Cost Recovery available on ODE's website at: http://education.ohio.gov/GD/Templates/Pages/ODE/ODEDetail.aspx?page=3&TopicRelationID=828&ContentID=103326&Content=124964

# AOS Updates

- HHS HRSA-340B Drug Pricing Program
  - This program should be excluded from the SEFA and is not subject to A-133 since it is a discount program (i.e., no expenditures)
  - However, auditors are required indirectly to test this program at the State level as part of the ST&P procedures for certain other programs such as Medicaid, HIV, etc.

# AOS Updates

- HHS Electronic Health Record (EHR) Incentive Payments
  - See CMS website and do a search for “EHR” for May 1, 2012 HHS guidance
  - EHR is not subject to single audit for hospitals or eligible professionals
  - However, EHR is subject to single audit for States administering this program
    - State-level requirement

# AOS Updates

- National Science Foundation (NSF)
  - New Cash Management System implemented for FY 2013 NSF programs
  - No more Federal Financial Reports (FFRs), so less testing required for FY 2013 over Reporting
    - However, will require greater testing of Cash Management

# AOS Updates

- Department of Defense (DoD)
  - ROTC Tuition Assistance Program – In or Out of Single Audit?
    - DoD has not decided whether to report ROTC on SEFA
    - Universities are not subject to monitoring requirements, professional are paid by the military, etc. – So, likely ROTC will not be subject to single audit

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# Key IT Controls

## Every Executive Should have in Place

Eric Wright

# What are IT controls?

- They are specific activities performed by a person or system that have been designed to prevent or detect the occurrence of a risk that could threaten your information technology infrastructure and supported business applications.
- IT controls are generally grouped into two broad categories:
  - **General controls** commonly include controls over data center operations, system software acquisition and maintenance, logical security, and application system development and maintenance.
  - **Application controls** such as computer matching and edit checks are programmed steps within application software; they are designed to help ensure the completeness and accuracy of transaction processing, authorization, and validity.
- Examples:

| | |
|---|---|
| • Strong password policy | ITGC |
| • Encryption of mobile devices | ITGC |
| • Three way match | Application |

# Why IT controls

- Senior management and the board of directors have an increased responsibility for identifying, assessing, prioritizing, managing, and controlling risks.
- Developing a clearer understanding of the business risks that an organization faces on a daily basis is becoming increasingly more important in achieving an organization’s mission and business objectives, increasing customer confidence, and increasing shareholder value.
- IT, which is becoming ever more complex and sophisticated, is revolutionizing businesses. The majority of organizations, large and small, rely on IT to initiate, record, process and report financial data.
- The ability to rely on general IT controls enable an organization the luxury of relying on the application controls that are built into many of the ERP systems sold today.

## Change

- Reliance on IT Automation
- Electronic Transactions

## Increased Risk

- Public Networks
- Reliance on Third Parties
- Data flowing beyond the walls
- Successful Breaches
- Global Presence
- Mobile Devices

## Increased Threats

- Professional Attackers
- Attacks originate around the world
- Knowledgeable Attackers

## Increased Control Requirements

- Automated controls
- Regulatory Environment
- Data integrity
- Reliance on electronic data
- Unacceptable level of data losses

# Top IT Controls - Criteria

- How Did We Identify the Top Ten Control Areas?
  - Industry trends and surveys
  - Regulatory requirements
  - Impact to your business
  - Risk factors
  - Guidance from audit methodology governing bodies (e.g. COSO, ISACA, AICPA)
  - Discussions with clients
  - Personal experience

# Industry Survey - ISACA

- ISACA – Top Business/Technology Issues Survey
  - Regulatory Compliance
    - SoD Monitoring
    - Continuous Monitoring
    - Data Privacy and Retention
  - IT Governance
  - IT Security Management
  - Disaster Recovery/Business Continuity
  - Financial Reporting Compliance
    - User Access Controls
    - Change Management

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# Industry Survey - AICPA

- AICPA – Top Technology Initiatives Survey
  - Information Security Management
  - IT Governance
  - Disaster Recovery and Business Continuity
  - Privacy Management
  - Identity and Access Management
  - Conforming to Assurance and Compliance Standards
  - Mobile and Remote Computing

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Top Technology

INITIATIVES • 2008

# Reasonable Approach

- Controls presented are organized into control areas or families.
- Not every control family may be appropriate for every organization.
- Not every control within an area may be appropriate for every situation.
- Controls designed and implemented according the process and levels of identified risks.

# IT Governance

- Key Risks
  - IT goals and objectives are misaligned with business goals and strategy
  - Value provided by IT does not contribute to corporate objectives
  - IT processes ineffective and inconsistent
- Potential Impact
  - IT increases the risk to organization
  - Increased cost with minimal value
- Recommended Control Activities
  - Development of a strategic planning process
  - Metrics must be established and regularly monitored to evaluate the performance of the overall IT objectives
  - CIO reporting to or attending executive board meetings at which IT’s contribution to enterprise goals is discussed
  - IT Policy development and maintenance process
  - Compliance and risk management
  - Management of Change

# Continuous Monitoring

- Key Risk
  - Unauthorized business activities are not detected in a timely fashion
- Potential Impact
  - Data theft
  - Fraud
  - Financial misstatement
- Recommended Control Activities
  - Implement segregation of duties based on job descriptions
  - Identify key business application risks that can be monitored electronically (e.g. suspicious transactions based on thresholds)
  - Identify key system settings that should not be changed without authorization
  - Implement continuous monitoring software and/or reporting to alert management when suspicious or unauthorized activity takes place

# Information Security

- Key Risks
  - Undetected compromise or attacks (Security Metrics)
  - Failure to meet regulatory requirements (PCI, HIPAA, Privacy)
  - Loss or disclosure of sensitive or critical information assets
- Potential Impact
  - Loss of customers/clients (consumer confidence)
  - Decrease in value of organization (stock)
  - Lawsuits/fines (PCI-DSS)
  - Damaged reputation
- Recommended Control Activities
  - Approach security as a process
  - Periodic vulnerability and penetration testing – including wireless and application
  - Implement Intrusion Detection/Prevention monitoring (Managed Security Services)
  - Monitoring of security patches and alerts

# Recommended Control Activities (continued)

- Encrypt laptop hard drives, external hard drives, PDAs, and external hard drives where sensitive information might be stored
- Encrypt fields in applications and databases where sensitive information is presented and stored
- Restrict access to application modules and databases where sensitive information is accessible

# Why the need for increase in security monitoring

- Failure of organizations to police themselves and to uphold a reasonable standard for integrity and data security has led to federal and state compliance mandates.
- Large number of data breaches and the massive size of the larger events (TJX, Heartland, Sony)
- Changing of the guard in Washington brought renewed intensity for network security and data protection along with State and location government regulations.
- **Cyber Czar** – New White House Office of cyber security reports to the National Security Council and National Economic Council. ( Howard Schmidt)

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# Why the need for increase in security monitoring

- Expansion to a global marketplace and global data sharing. Origin of threats has expanded to a world wide audience – International laws lagging, International enforcement not defined, Foreign Business ethics questionable
- Illegal For-Profit enterprises are being developed to market and sell information obtained from the theft of data and credentials – credit card purchases, medical coverage, investment accounts – all focused on stealing ones identity
- Changes in type of services offered and the way they are delivered

# Why the need for increase in security monitoring

**National Security Council – Cyberspace Strategy Policy Review Report**

- The government, working with State and local partners, should identify procurement strategies that will **incentivize the market to make more secure products and services available to the public.**

- In addition to cooperation with industry partnerships, the review also calls for the government to examine laws addressing cyber-security, with the White House partnering with Congress to ensure that there are adequate laws.

# Why the need for increase in security monitoring

**National Security Council – Cyberspace Strategy Policy Review Report**

- Additional incentive mechanisms that the government is exploring includes adjustments to liability considerations (reduced liability in exchange for improved security or increased liability for the consequences of poor security), indemnification, tax incentives, and **new regulatory requirements and compliance mechanisms**

***Systemic loss of economic value*** **-** Industry estimates of losses from intellectual property to data theft averages a trillion dollars a year

# Example – Lack of Monitoring

- TJX Companies
  - Eight major U.S. retailers were allegedly hacked by members of an international gang that admitted in a Securities and Exchange Commission filing in March 2007 that 45.7 million payment-card records had been stolen by unknown intruders.
  - Once inside the companies' networks, the alleged hackers installed "sniffer" programs that would capture card numbers, as well as password and account information, as the numbers were processed. According to a report in *The Wall Street Journal* in March 2007, the hackers left encrypted messages in the TJX systems to tell each other which files had been copied. Activity continued for 17 months.
  - The cost of this breach has been estimated at $256 million.

- **Heartland Payment Systems**
  - Leading payment processing company was compromised by intruders that hacked into its computers that process 100 million payment card transactions per month for 175,000 merchants.
  - Intruders had access to Heartland's system for "longer than weeks" in late 2008 (USA Today Interview). Heartland was alerted to the breach by reports of suspicious transactions from Visa and MasterCard.
  - There were two elements to the breach, one of which was a keylogger that got through our firewall, Then subsequently they were able to propagate a sniffer onto some of the machines in the network. The sniffer was actually grabbing the transactions as they floated across the network.

# Data Privacy

- Key Risk
  - Sensitive information is lost or stolen
- Potential Impact
  - Lawsuits/fines
  - Loss of funding
  - Data theft
  - Negative impact on reputation
- Recommended Control Activities
  - Identify sensitive information gathered/stored by your organization (e.g. SSNs, credit card numbers)
  - Eliminate the collection of sensitive information not needed
  - Document policies for collecting, storing, e-mailing, and reporting of sensitive information

# Data Privacy

- Recommended Control Activities (continued)
  - Develop a data classification schema based on the risk exposure for certain data types
  - Train employees on proper handling of sensitive information
  - Create procedures for securely disposing of sensitive data

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# What information are you required by law to secure

Personally Identifiable Information (PII):

- Individuals name, consisting of the individual's first name or first initial and last name, in combination with…
- Social Security Number
- Drivers License Number or State Identification Number
- Credit Card, Debit Card, Financial Account Numbers

Protected Health Information (PHI)

- Any information that relates to the past, present, or future physical or mental health or condition of an individual; Electronic, Paper or Oral

# Data Privacy - Breaches

- Source: Privacy Rights Clearinghouse
  - http://www.privacyrights.org/ar/ChronDataBreaches.htm
- A listing of all reported data breaches involving private information in the US since 2005
- Total number of reported breaches in 2011: 557
- Total number of RECORDS stolen in 2011: 30,678,619
- Total number of breaches so far in 2012: 54
- Total number of RECORDS stolen so far in 2012: 9,659,657
- In 2011, 83 of the 557 breaches (15%) came from government entities

# Data Privacy - Breaches

- Examples include public companies, private companies, government agencies, schools/universities, and not-for-profits…
- 70% of data breaches are off network devices
- 19 people a minute become victims of identity theft due to data breaches
- A typical Fortune 1000 company can not locate 2% of their PCs on any given day.
- A typical Fortune 1000 financial institution loses one lap top a day.

# Understanding the Risk of The Market Value of Your Sensitive Data

**Trojan to steal account information** **$980-$4,900**

**Birth certificate** **$147**

**Medical billing data** **$78-$294**


**PayPal account logon and password** **$6**


**Credit Card Number with PIN** — **$490**

**Without a PIN** — **$6 -$24**


**Drivers License** — **$147**


**Social Security Card** — **$98**

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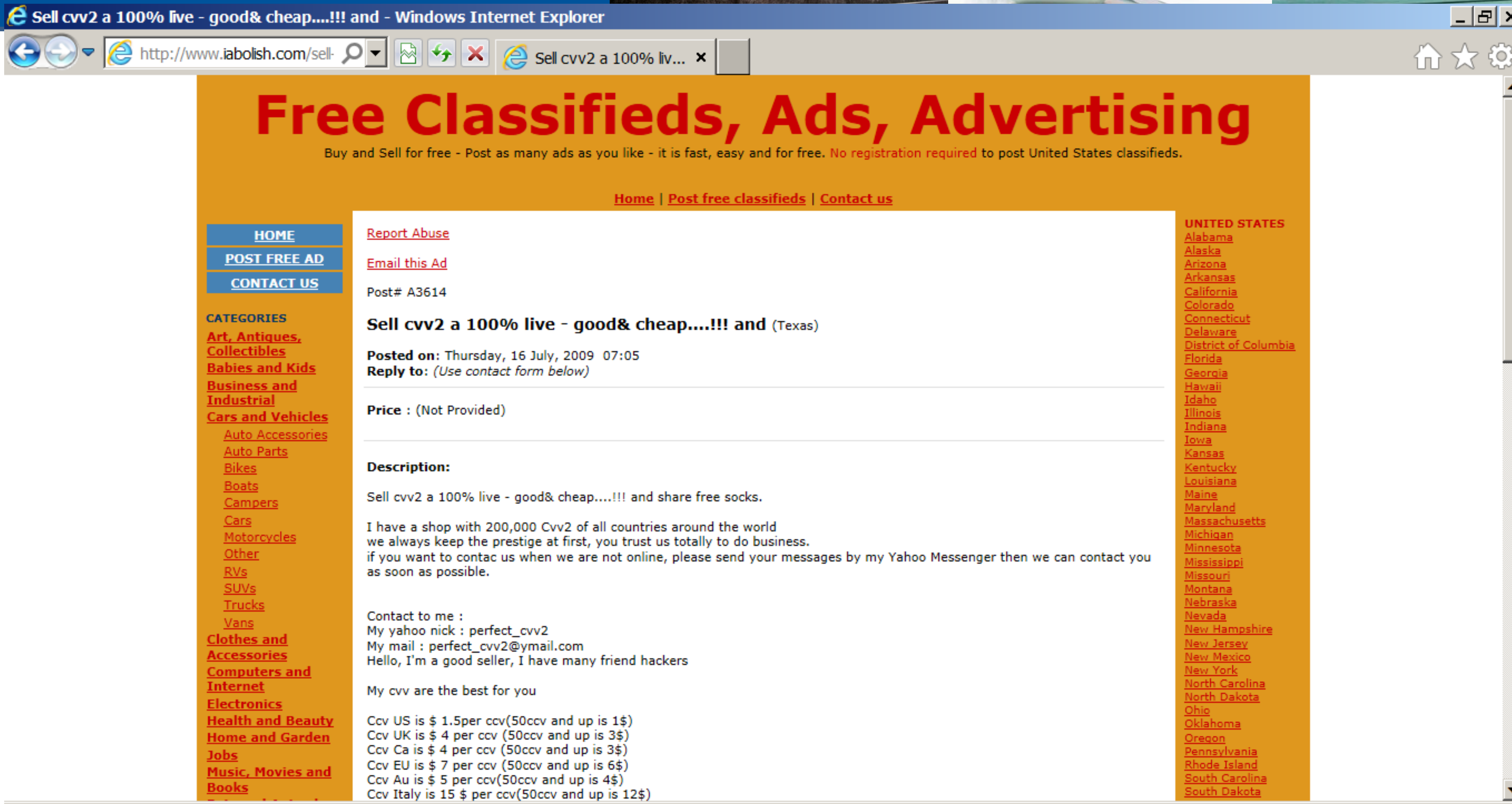

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# What is a privacy incident going to cost me?

**Ponemon Institute 2010 (cont.)**

- Data Breaches from malicious attacks are up 7% from 2009 having doubled the year before. The cost per compromised record for these types of breaches has skyrocketed to $214 per record.  This increase reinforces the extreme danger hostile breaches pose.

- Class Action suits from breach victims have yet to gain traction as it is difficult to prove damages.  (It’s just a matter of time)

- Average cost of a data breach in 2009 was $6,751,451

**Summary of Ponemon Institute, LLC's 2010 Annual Study: Cost of a Data Breach:**

– Continued trend of increased average cost and per record cost, $7.2 million (+7%) and $214 (+5%), respectively.

– Direct costs increased 22% to $73 per record. (legal counsel, notification letters, credit monitoring, etc.) The increase is driven by the rising legal defense costs.

| Cost by industry class | Per record |
|---|---|
| Average | $214 |
| Education | $112 |
| Retail | $185 |
| Healthcare | $301 |
| Financial Institutions | $353 |

# Unplanned Cash Flow

- State and/or Federally Mandated Notification Costs
- Forensic Investigation, Data Restoration Expenses, Assets Damage
- Brand Preservation:

  Voluntary Notification, Credit Monitoring, Public Relations Expense
- Defense and Indemnity Expense from 3rd party allegations
- Regulatory Defense Costs
- Regulatory Fines and Penalties
- Business Income Loss

# Identity and Access Management

- Key Risk
  - Unauthorized or excessive access
  - Segregation of duties issues exist
- Potential Impact
  - Fraud
  - Lack of reliance on system controls and need for manual controls
  - Compliance issues
- Recommended Control Activities
  - Performance of segregation of duty analysis before granting additional access to an account
  - Implement process for periodic review of access rights
  - Implementation of role based security
  - Multiple factor authentication – tokens, key fobs, digital certificates, biometrics
  - Centralized provisioning

- 48% of all breaches in 2010 were caused by internal sources:
  - 50% of the breaches caused by insiders revolved around misuse of system privileges.
  - In 2009, 90% of all internal data breaches were deliberate.

| | |
|---|---|
| Regular employee/end-user | 51% |
| Finance/Accounting | 12% |
| Network Administrator | 12% |
| Executive/upper management | 7% |
| Helpdesk staff | 4% |
| Software Developer | 3% |
| Auditor | 1% |
| Other (Third parties) | 9% |

# Physical Security

- Key Risk
  - Servers that house core business applications are not protected from unauthorized access and environmental hazards
- Potential Impact
  - Data loss
  - Data theft
  - Business interruption
  - Damage to critical equipment
- Recommended Control Activities
  - Maintain an accurate server and application inventory listing
  - Control access to server room
  - Uninterruptable power supply
  - Environmental controls (temperature/humidity controls, fire alarms/suppression, raised floors)

- In 2011, over 10 million records were breached due to 114 incidents where backup media was lost or stolen.
- If backup tapes or other media is encrypted and stolen or lost, then the data on the device is not considered breached.

# Business Continuity

- Key Risks
  - Failure to provide products or services
  - Failure to meet contractual service level requirements
  - Survival of organization
- Potential Impact
  - Loss of customers/clients
  - Decrease in value of organization (stock)
  - Cash flow problems
- Recommended Control Activities
  - Awareness of senior management and BOD responsibilities for risk management
  - Business impact assessment process (Maximum Tolerable Outage)
  - Development of a Business Continuity Plan – Utilize internal resources as much as possible
  - Periodic testing of plan

- Less than a 10% survival rate for organizations without a plan.
- For Companies that are directly affected by disasters and do not have a plan in place:
  - Only 8% survive long term
  - 40% fail within 18 months
  - 12% fail within five years
  - 40% never re-open
- Out of 330 companies surveyed, 43% have no contingency plan.
- Of the 187 companies with a plan, only 18% have tested their plan.

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# Backup and Recovery

- Key Risk
  - Critical business information is lost and cannot be recovered
- Potential Impact
  - Data loss
  - Financial misstatement
  - Business interruption
- Recommended Control Activities
  - Create a data retention and backup schedule
  - Daily backups of key business applications and data
  - Monitoring of backups
  - Backup restoration testing to ensure recoverability
  - Off-site storage of backup media

# Third Party Vendors

- Key Risks
  - Loss of data confidentiality and integrity
  - Unauthorized use and tampering with customer data
  - Failure to meet service level requirements
- Potential Impact
  - Benefits and efficiencies not recognized
  - Theft of critical information
  - Compromised internal control environment
  - Business processes become less effective
- Recommended Control Activities
  - Require a SSAE 16, SOC 2 or “right to audit” clause in all contracts
  - Definition and monitoring of specific service-level targets, which must be achieved as part of the outsourced service’s delivery
  - Evaluation of controls, risks and financial solvency of vendor

# Miscellaneous Items:

- **Anti-virus and Malware software –** definition files need to be up to date.
  - **According to Symantec, 1,100 new viruses are created every month**
- **Email Spam Filters –** Emails are one of the largest sources of viruses. Consider using a tiered approach to filtering email.
- **Web applications –** Be sure to expand your vulnerability and penetration testing to include your web applications.  Your web applications should be compliant with Open Web Application Security Project (OWASP).

# Smart Phones

# Questions

# An Introduction to Single Audits

Tammy Gearhart, CPA

Audit Manager

Julian & Grube

# Items to be addressed:

A) What is a single audit?

B) How is the federal schedule prepared?

C) What is the DCF?

D) How do I determine major programs?

E) What are the A-133 Compliance Requirements & AOS FACCR?

# A) What is a single audit?

- Established by
  - Single Audit Act of 1984 w/ subsequent changes in …
  - 1985 (OMB A-128),
  - 1990 (OMB A-133),
  - 1996 (Single Audit Act Amendments of 1996),
  - 1997 (revisions to A-133 to implement 1996 amendments and rescind A-128),
  - 2003 (amended A-133 to increase audit threshold),
  - 2007 (amended A-133 to update internal control terminology and auditee reporting package requirements)

# A) What is a single audit?

- Expend > $500,000 in federal awards
- Test internal controls pertaining to the single audit
- Required to test major programs' compliance with material requirements
- Separate letter is issued for results

# B) How is the federal schedule prepared?

- Client should provide a schedule
- Schools report expenditures and receipts
- Cash basis
- Exclude advances out
- Confirm CFDA numbers and names
  - CFDA Website: https://www.cfda.gov/
- Check for accuracy (agree to supporting documentation such as FSSR, CCIP, ledgers, foot, etc)

# B) How is the federal schedule prepared?

- Sources of information:
  - CFO, i.e. school treasurer
  - Department Heads, i.e. special education director or food service director
  - Minutes, look for grant related items
  - Revenue testing, look for grant related items
  - Prior year schedules
  - FSSR from ODE: https://paymentdetail.ode.state.oh.us/AnnualSubsidyVoucherPaymentReportForm.aspx
  - CCIP through ODE: https://ccip.ode.state.oh.us/Search/DistrictSearch.aspx?ccipSessionKey=634793384452609634

# C) What is the Data Collection Form (DCF)?

- Federal Audit Clearing House
- Available at https://harvester.census.gov/fac/collect/ddeindex.html
- Requires auditor and client information
- Reports audit results and federal expenditures.
- Complete during wrap up phase of audit

# D) How do I determine major programs?

- Major programs are those you are testing
- Your firm will probably have forms that walk you through the process.

# D) How do I determine major programs?

**Is the entity a low-risk auditee?**

- *Must meet ALL of below criteria for each of the previous 2 years:*
  a. Single audits performed in accordance with A-133

  b. Opinion on financial stmts and SEFA were unqualified (or  oversight agency gave waiver)

# D) How do I determine major programs?

c. Yellow Book report on i/c did not identify any deficiencies in i/c that were material weaknesses (or oversight agency gave waiver)

# D) How do I determine major programs?

d. None of the federal programs had audit findings from any of the following in either of the preceding 2 years in which classified as a Type A program

- Material weakness in i/c over compliance
- Noncompliance with requirements
- Known or likely questioned costs >5%

e. Reporting package & DCF for each of the 2 previous years were submitted by the due date

# D) How do I determine major programs?

- Type A programs:
  - Based on total federal expenditures
  - Large loan and loan guarantee programs should be considered in calculation as necessary.
  - Total Federal Expenditures:
    - If ≤ \$10 million, then Type A = exceed \$300,000
    - If > \$10 million but \$100 million or less, then Type A = 3% of total
    - If >\$100 million, then Type A = see OMB A-133

# D) How do I determine major programs?

- If no Type A’s, and federal agency has not requested a particular program be audited as major, then determine % coverage.
  - If not low-risk auditee, must test at least 50% of expenditures
  - If low-risk auditee, must test at least 25% of expenditures.

# D) How do I determine major programs?

- If Type A’s exist:
  - If auditor has option to waive use of risk criteria and so chooses ( 1st year single audit or 1st year after a change in auditors), all Type As are deemed major programs requiring testing.
  - If no option to waive use of risk criteria permitted or if permitted, not exercised, must perform further analysis as follows

# D) How do I determine major programs?

- If federal agency notified auditee/auditor that Type A is not low-risk – then must be audited as major
- If ARRA programs require auditing (do not meet 4 exceptions), then must audit as major
- Remaining Type A's must be risk analyzed to determine if low-risk programs

# D) How do I determine major programs?

- Risk analysis includes items such as, whether audited in previous 2 years, any issues in previous audits, complexity of program, etc.
- If deemed a low-risk Type A, then not required to audit.
- If not deemed a low-risk Type A, then must audit as major.

# D) How do I determine major programs?

- If no low-risk Type A's –
  - no need to risk assess Type B programs
  - Test all A's and any B's the federal agency may require testing
  - Then determine % coverage (25% vs 50%.)

# D) How do I determine major programs?

- If low-risk Type A’s:
  - Audit all A’s not deemed low-risk
  - Risk assess Type B’s to determine if required to test.
  - The auditor is required to perform risk assessments for all or selected Type B programs that exceed an amount stipulated (small program floor) in OMB Circular A-133.

# D) How do I determine major programs?

- Based on Sec. 520(d)(2), the Type B programs that are subject to being selected for testing are those that exceed the cut-off amount computed as follows.
  a. If total expenditures are $33,333,333 or less, all Type B programs with awards expended that exceed $100,000.
  b. If total expenditures are more than $33,333,333 but are $100 million or less, all Type B programs with awards expended greater than .3% (.003)

# D) How do I determine major programs?

c. If total expenditures are more than $100 million but are $1 billion or less, all Type B programs with awards expended that exceed $300,000.

d. If total expenditures are more than $1 billion, all Type B programs with awards expended greater than .03% (.0003)

- For Type B's that exceed the above floors, you must risk assess to determine if high-risk.

# D) How do I determine major programs?

- There are two options for risk assessing B's.
  - Option 1: ½ of Type B programs identified as high-risk must be audited as major except the number selected to be audited as major need not exceed the number of low-risk Type A's.
    - Thus, risk assess all Type B's above threshold and test high risk B's accordingly
  - Option 2: one high risk Type B for each low risk Type A.
    - Thus, risk assess Type B's above threshold until the number of programs to be tested as major is determined.

# D) How do I determine major programs?

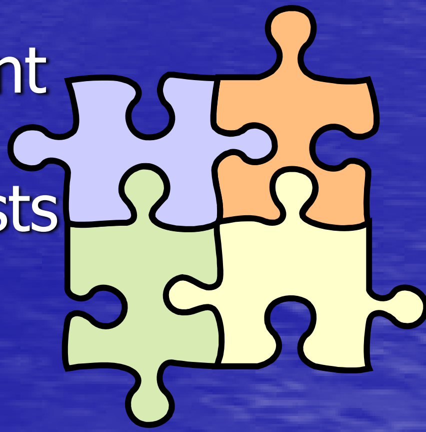
- If no high risk Type B's:
  - Not required to audit any Type B's
  - Determine % coverage as documented above.
- Once Type A's and Type B's have been risk assessed accordingly, determine % coverage as documented above to ensure sufficient major programs have been identified.
- If sufficient coverage not obtained, then must select additional programs for testing based on auditor judgment.

# E) What are the A-133 Compliance Requirements & AOS FACCR?

- OMB Compliance Supplement summarizes requirements.
- OMB issues a compliance supplement annually.
- 2012 version now available at http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2012
- AOS FACCRs provide a summary of the program, detailed compliance requirements, and suggested testing procedures to assist in auditing major programs.
- AOS updates FACCRs annually & posts to their website at http://www.auditor.state.oh.us/services/lgs/publications/AuditorsForms/AuditForms/faccrs.htm

# E) What are the A-133 Compliance Requirements & AOS FACCR?

- A – Activities Allowed/Unallowed
- B – Allowable Costs/Cost Principles
- C – Cash Management
- D – Davis Bacon Act
- E – Eligibility
- F – Equipment & Real Property Mgt
- G – Matching, LOE, & Earmarking
- H – Period of Availability
- I – Procurement, Suspension, Debarment
- J – Program Income
- K – Real Property Acq./ Relocation Assistance
- L – Reporting
- M – Subrecipient Monitoring
- N – Special Tests



# Any Questions??

Tammy Gearhart
Audit Manager,
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# Interest Rate Swaps

Shawn T. Edwards

Kimberly L. James

# Why are you here?

- Why do you want to learn about interest rate swaps?

- What do you want to learn about interest rate swaps?

# What is an interest rate swap?

- An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.

- Explained in layman’s terms

# Definitions

- Counterparty
- Notional amounts
- LIBOR

# Pros and Cons of Interest Rate Swaps

- **Pros**
  - Commercial motivation
  - Comparative advantage

- **Cons**
  - Interest rate risk
  - Counterparty risk

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# Generalities of Interest Rate Swaps

- Fixed rate payer – buyer
- Variable rate payer – seller
- At inception both parties are equal
- If rates go down – seller (variable) wins
- If rates go up – buyer (fixed) wins
- Principal is not swapped (separate contract) notional amounts
- Swaps are traded over the counter so there’s always default risk

# Negotiated terms

- Start date
- End date
- Settlement frequency
- Notional amount
- Published reference rate
  - Variable – LIBOR
  - Fixed – Utilize the US Treasury Bond for a similar maturity

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# Example of a Vanilla Swap

- Company A takes out a loan for $10 million at a variable rate of LIBOR (3%) +2% with ABC Bank
  - Company A does not want to take the risk of a rate increase so they enter into an interest rate swap paying a fixed rate of 5% to ABC Financial Products.
  - In exchange ABC Financial Products will pay Company A, LIBOR +2% on a notional amount of $10 million

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# Example of Vanilla Swap - Year 1 - LIBOR 3%

1. Company A pays interest on debt (LIBOR 3% + 2%) = $500,000
- $10,000,000 x 5% (LIBOR + 2) = $500,000
- $500,000 / 12 = $41,667 per month

2. Company A interest payment to ABC Financial Products on interest rate swap
- $10,000,000 x 5% (fixed rate) = $500,000
- $500,000 / 12 = $41,667 per month

3. ABC Financial Products interest payment to Company A on interest rate swap
- $10,000,000 x 5% (LIBOR +2) = ($500,000)
- $500,000 / 12 = ($41,667) per month

**EFFECTIVE INTEREST RATE = 5% ($500,000+500,000-$500,000 = $500,000 / $10,000,000)**

# Example of Vanilla Swap – Year 2 – LIBOR 4%

1. Company A pays interest on debt (LIBOR 4% + 2%) = $600,000
- $10,000,000 x 6% (LIBOR + 2) = $600,000
- $600,000 / 12 = $50,000 per month

2. Company A interest payment to ABC Financial Products on interest rate swap
- $10,000,000 x 5% (fixed rate) = $500,000
- $500,000 / 12 = $41,667 per month

3. ABC Financial Products interest payment to Company A on interest rate swap
- $10,000,000 x 6% (LIBOR +2) = ($600,000)
- $600,000 / 12 = ($50,000) per month

**EFFECTIVE INTEREST RATE = 5% ($600,000+$500,000-$600,000 = $500,000 / $10,000,000)**

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# Example of Vanilla Swap – Year 3 – LIBOR 2%

1. Company A pays interest on debt (LIBOR 2% + 2%) = $400,000
- $10,000,000 x 4% (LIBOR + 2) = $400,000
- $400,000 / 12 = $33,333 per month

2. Company A interest payment to ABC Financial Products on interest rate swap
- $10,000,000 x 5% (fixed rate) = $500,000
- $500,000 / 12 = $41,667 per month

3. ABC Financial Products interest payment to Company A on interest rate swap
- $10,000,000 x 4% (LIBOR +2) = ($400,000)
- $400,000 / 12 = ($33,333) per month

**EFFECTIVE INTEREST RATE = 5% ($400,000+$500,000-$400,000 = $500,000 / $10,000,000)**



# Hedging Interest Rate Risk Through 50/50 Model

- Company A takes out a loan for $10 million at a variable rate of LIBOR (3%) +2% with ABC Bank
  - Company A is uncertain which direction rates might go so they enter into an interest rate swap with ABC Financial Products with a notional amount of $5 million paying a fixed rate of 5%
  - In exchange ABC Financial Products will pay Company A, LIBOR +2% on a notional amount of $5 million

# Example of 50/50 Swap - Year 1 - LIBOR 3%

1. Company A pays interest on debt (LIBOR 3% + 2%) = $500,000
- $10,000,000 x 5% (LIBOR + 2) = $500,000
- $500,000 / 12 = $41,667 per month

2. Company A interest payment to ABC Financial Products on interest rate swap
- $5,000,000 x 5% (fixed rate) = $250,000
- $250,000 / 12 = $20,833 per month

3. ABC Financial Products interest payment to Company A on interest rate swap
- $5,000,000 x 5% (LIBOR +2) = ($250,000)
- $250,000 / 12 = ($20,833) per month

**EFFECTIVE INTEREST RATE = 5% ($500,000+$250,000-$250,000 = $500,000 / $10,000,000)**

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# Example of 50/50 Swap – Year 2 – LIBOR 4%

1. Company A pays interest on debt (LIBOR 4% + 2%) = $600,000
- $10,000,000 x 6% (LIBOR + 2) = $600,000
- $600,000 / 12 = $50,000 per month

2. Company A interest payment to ABC Financial Products on interest rate swap
- $5,000,000 x 5% (fixed rate) = $250,000
- $250,000 / 12 = $20,833 per month

3. ABC Financial Products interest payment to Company A on interest rate swap
- $5,000,000 x 6% (LIBOR +2) = ($300,000)
- $300,000 / 12 = ($25,000) per month

**EFFECTIVE INTEREST RATE = 5.5% ($600,000+$250,000-$300,000 = $550,000 / $10,000,000)**

# Example of 50/50 Swap – Year 3 – LIBOR 2%

1. Company A pays interest on debt (LIBOR 2% + 2%) = $400,000
- $10,000,000 x 4% (LIBOR + 2) = $400,000
- $400,000 / 12 = $33,333 per month

2. Company A interest payment to ABC Financial Products on interest rate swap
- $5,000,000 x 5% (fixed rate) = $250,000
- $250,000 / 12 = $20,833 per month

3. ABC Financial Products interest payment to Company A on interest rate swap
- $5,000,000 x 4% (LIBOR +2) = ($200,000)
- $200,000 / 12 = ($16,667) per month

**EFFECTIVE INTEREST RATE = 4.5% ($400,000+$250,000-$200,000 = $450,000 / $10,000,000)**

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# Accounting for an Interest Rate Swap

1. Accounting for payment of interest on debt:
   - ✓ DEBIT – INTEREST EXPENSE $41,667
   - ✓ CREDIT – CASH $41,667

2. Accounting for interest rate swap:
   - ✓ Day one – there is no FMV assigned to the interest rate swap because no money has changed hands
   - ✓ End of year 1 – Company A must report the fair market value of the financial instrument (interest rate swap) as determined by ABC Financial Products

# Accounting for an Interest Rate Swap – Year 1

- ✓ End of year 1 – Company A must report the fair market value of the financial instrument (interest rate swap) as determined by ABC Financial Products (continued):

Assumptions at the end of year 1:

- Debt paid down to $9,000,000 and the swap amortizes at same rate as debt
- LIBOR has increased to 4%

Pay - $9,000,000 x 5% (fixed rate) = $450,000 x 9 (years remaining) = $4,050,000

Collect - $9,000,000 x 6% (LIBOR + 2%) = $540,000 x 9 = $4,860,000

Difference  = $810,000 asset

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# Accounting for an Interest Rate Swap – Year 1

Pay - $9,000,000 x 5% (fixed rate) = $450,000 x 9 (years remaining) = $4,050,000

Collect - $9,000,000 x 6% (LIBOR + 2%) = $540,000 = $4,860,000

Difference  = $810,000 asset

| | | |
|---|---|---|
| ✓ DEBIT – FMV OF INTEREST RATE SWAP | $810,000 | |
| ✓ CREDIT – DEFERRED INFLOW OF FUNDS | | $810,000 |

# Accounting for an Interest Rate Swap – Year 2

Assumptions at the end of year 2:

- Debt paid down to $8,000,000 and the swap amortizes at same rate as debt
- LIBOR has decreased to 2%

Pay - $8,000,000 x 5% (fixed rate) = $400,000 x 8 (years remaining) = $3,200,000

Collect - $8,000,000 x 4% (LIBOR + 2%) = $320,000 x 8 = $2,560,000

Difference = $640,000 liability

# Accounting for an Interest Rate Swap – Year 2 (continued)

Pay - $8,000,000 x 5% (fixed rate) = $400,000 x 8 (years remaining) = $3,200,000

Collect - $8,000,000 x 4% (LIBOR + 2%) = $320,000 x 8 = $2,560,000

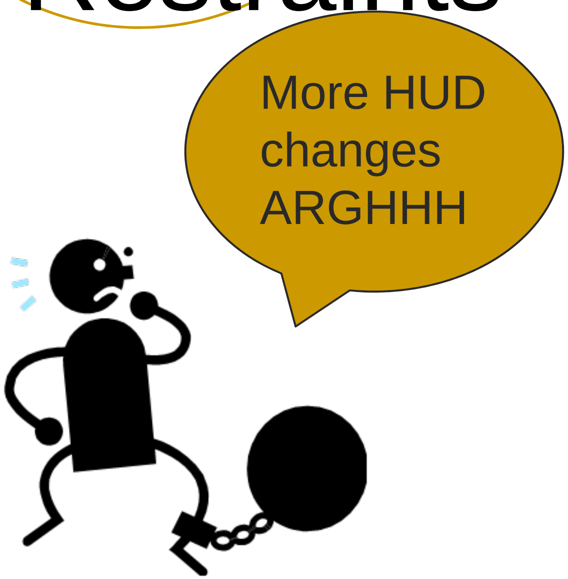
Difference = $640,000 liability

| | | |
|---|---|---|
| ✓ DEBIT –DEFERRED OUTFLOW OF FUNDS | $1,450,000 | |
| ✓ CREDIT – FMV OF INTEREST RATE SWAP | | $1,450,000 |

(Initially reported an asset of $810,000, now reporting a liability for $640,000, total adjustment is $1,450,000 to arrive at the liability balance of $640,000)

# QUESTIONS

# Some Days It's Just Not Worth Chewing Through the "HUD Latest Development" Restraints




Discussion Presented by:
Jeanette Addington, MBA, CPA, CGFM

Jones, Cochenour & Co.
Certified Public Accountants
*much more than an accounting firm*

# Housing and Urban Development (HUD) History

- 1937 U.S. Housing Act of 1937
- 1965 Department of Housing and Urban Development Act of 1965 creates HUD as Cabinet-level agency
- 2006 Creation of REAC for electronic reporting and accountability

# Secretary Shaun Donovan, excerpt from his recent letter

- As big a difference as these programs make in the lives of ordinary Americans, this Administration is committed to making government more efficient, more effective and more accountable.  Particularly in today's tight fiscal environment, the need for responsible budgeting has never been higher.  That's why I am committed to collecting the data we need to understand what works, what doesn't, and what we need to do better.

# About REAC (Real Estate Assessment Center)

- The Real Estate Assessment Center's mission is to provide and promote the effective use of accurate, timely and reliable information assessing the condition of HUD's portfolio; to provide information to help ensure safe, decent and affordable housing; and to restore the public trust by identifying fraud, abuse  and waste of HUD resources.

# REAC, continued

- REAC’s “product” is information; accurate, credible and reliable information assessing the condition of HUD’s housing portfolio.

- To access REAC go to:

  http://hud.gov

# “Light bulb” moment understanding of authorities:

- The only way to get that moment is to study and become fluent with HUD acronyms.

# Widely used HUD acronyms and more added each day

- ABA Annual Budget Authority for Housing Choice Vouchers (HCV) program
- ACC Annual Contributions Contract with Public Housing (PH)
- AMP Asset Management Project
- BLI Budget Line Item in LOCCS (Line of Credit Control System)
- CHAS Comprehensive Housing Affordability Strategy
- CPU Cost per Unit
- DCR Debt Coverage Ratio
- DOFA Date of Full Availability
- FASS Financial Assessment Subsystem
- FDS Financial Data Schedule
- FMC Financial Management Center (Section 8; under PIH) Public and Indian Housing
- GPR Gross Potential Rent

# HUD acronyms, continued

- HAP Housing Assistance Payments
- HUDCAPs HUD Central Accounting Processing System
- NRA Net Restricted Assets
- PHMAP Public Housing Management Assessment Program
- PILOT Payment in Lieu of Taxes
- REAC Real Estate Assessment Center
- SEMAP Section 8 Management Assessment Program
- TARC Troubled Agency Recovery Center
- VMS Voucher Management System

IMPORTANT:

If you are auditing a Housing Authority it is important you learn the acronyms.

# The Financial Data Schedule (FDS) Electronic submission

- The FDS was created to standardize the financial reporting by Public Housing Authorities to HUD/REAC.
- The FDS must be reported on the GAAP basis.
- HUD has created a line by line definition of the accounts reported on the FDS.

# HUD REAC timeliness is most important!!!

- The most important reporting mechanism for the housing authorities to HUD is through the annual filing of the FDS to HUD REAC.

Due date for the “unaudited” is 60 days subsequent to the year end of the authority.

Dues date for the “audited” is no later than 9 months after the year end.

If either of these dates are missed the authority obtains zero for its financial reporting or late presumptive failure (LPF) and this could impact future funding for the authority.  Very important that auditors do not miss the second deadline for the authority.

# PLEASE NOTE:

- There will most likely be rejected FDS’s to the authority both for the unaudited and the audited, so when these are received there are additional deadlines of the resubmission being done within 15 days.

# Example of rejection items:

Review of Un-audited FDS for XXXXXX 12/31/2011 Reasons for rejection: 1) A) The Project Total column, FDS line 144 ($148,685) is 18.6 percent of Total Current Assets ($796,502). B) FDS line 347 ($24,480) is 18.7 percent of Total Current Liabilities ($130,793). Why are these percentages so high? 2. The PHA recorded activity on FDS line 322, but nothing on FDS line 354. Is this correct? Please confirm. 3. The $209,598 reported on FDS line 70610 for CFDA#14.885 should be transferred to the Capital fund program, not Low Rent. Also, there should be a description on via FDS line 11040-070. Please correct. 4) The authority did not report the amount of post 2003 and pre-2004 administrative fee reserves required by PIH Notice 2010-07. Please provide this information. The total fee reserves should tie to the total of 512.1 and 508.1 under the HCV program and the authority must describe the reconciliation as to how the administrative fee reserves were computed. 5) There are Mortgages, Notes and Loans Receivable-current in the amount of $16,955 under Business Activities and no amount recorded for the non-current FDS line 171. Please explain. Please resubmit a corrected unaudited submission by 6/13/2012 (15 days from the date of rejection).

THE AUTHORITY MAY RECEIVE MANY OF THESE BEFORE HUD APPROVES!!!

# Example of Lines on an FDS

| |
|---|
| 70300 Net Tenant Rental Revenue |
| 70400 Tenant Revenue - Other |
| 70500 Total Tenant Revenue |
| |
| 70600 HUD PHA Operating Grants |
| 70610 Capital Grants |
| 70710 Management Fee |
| 70730 Book Keeping Fee |
| 70700 Total Fee Revenue |
| 71100 Investment Income - Unrestricted |
| 71400 Fraud Recovery |

| |
|---|
| 161 Land |
| 162 Buildings |
| 163 Furniture, Equipment & Machinery - Dwellings |
| 164 Furniture, Equipment & Machinery - Administration |
| 165 Leasehold Improvements |
| 166 Accumulated Depreciation |
| 160 Total Capital Assets, Net of Accumulated Depreciation |

# Example Programs on the FDS

| | | | | | | |
|---|---|---|---|---|---|---|
| Project Total CF and PH | ARRA capital fund | Housing Choice Vouchers 14.871 | Business Activity | N/C S/R 14.182 | HPRP-OBA state and local | SHELTE R PLUS CARE 14.238 |

Housing Choice Voucher (HCV) Federal
Capital Funds (CF) Federal
Public Housing Projects (PH) Federal
Residential Opportunity Self Sufficiency (ROSS) Federal
Other Business Activity (OBA) Non-Federal
Central Office Center (COCC) Non-Federal
Central Maintenance (CM) Non-Federal
Shelter Plus Care (SPC) Federal
Family Self Sufficiency (FSS) Federal
Shelter Plus Care (SPC) Federal
State and Local (SL) Non-Federal

# What are Housing Choice Vouchers (HCV)?

- Federal program for assisting low-income families, the elderly and disabled to afford decent, safe and sanitary housing in the private market.

# HCV, continued

- The regulations that cover this program can be found in 24 CFR Part 282
- CFR Code of Federal Regulations

# Accounting for HCV

- Administrative fees will be earned based on lease up amount on the first day of the month.
- HAP and UAP are the funds received for the NRA (net restricted asset)
- The program is now required to present monthly reporting for the NRA.
- The reporting is through VMS very detailed.

# What is Public Housing?

- HUD financed the building of projects for low income housing.
- In 2006, HUD determined that the authorities should function the properties under the concept of “Project Based” accounting whereas budgeting and accounting was associated with each property instead of combined together.

# Public Housing, continued

- This new concept created Asset Management for the authorities that adopted this concept, not all authorities opted to be Project based. The advantages to the housing authorities to adopt this created additional fees that could be earned by the authority and ultimately de-federalized money created.

# Fees for Service concept created by Project Based

- Property Management fees
- Bookkeeping $7.50 per unit per month
- Asset Management (ACC) reasonable $10 per HUD (unit must be occupied)
- Housing Choice Voucher Fees Greater of $12 PUM or 20% of admin fees
- CFP Mgt. fees (10% of total grant)

# Accounting for Capital funds (CFP)

- Funds are distributed by formula to all PHA’s regardless of size.
- PHA’s are permitted to use CFP for financing activities
- The authorities are required to create a 5-year plan and an annual plan to serve as an operations, planning and management tool for PHAs.
- Transfers to Operations Line 1406- less than 250 units 100%, greater than 250 units 20%.  Transfers prohibited to the COCC.
- Line 1410- administrative costs 10% to the COCC allowed.

# PHAS changes for PH

- **PHAS indicators**
- **Physical (40), Financial (25), Management operations (25) and Capital Fund (10)**
- **The utilization of ratio’s are now being implemented and housing authorities must be aware of what balance sheet accounts and income statement accounts affect these ratios.**

# More HUD changes and considerations

- The operating fund calculation beginning January 1, 2011- is now a rolling three year average.
- HUD is discussing a recapture of operating reserves for CY 2012 to help offset subsidy.
- HUD is in deeper discussions about the recapture of reserves in excess of 4 or 6 months or $100,000 for PH.
- HUD looking at Adm. Fund for HCV, there is already a tracking of the Pre-2003 and Post-2004 administrative fees.
- HUD is now proposing new limits on salaries based on unit sizes of the authority.

# Operating Reserves per HUD Line numbers

- Line 111- Cash Unrestricted
- Line 114- Tenant Security Deposits
- Line 120- Total Receivables
- Line 131- Investments- Unrestricted
- Line 142- Prepaid Expenses and other assets
- Line 144- Inter-Program due from
- Line 145- Assets Held for Sale
- Minus
- Line 310- Total Liabilities less line 343
- Equals Operating Reserves
- / FDS line 96900/12= # months in reserve
- Eligible uses of the Operating reserves for less than 250 units are capital improvements
- Minimum acceptable levels are 4-6 months of expenses or $100,000

# Eligible costs from Operating Reserve (naming a few only)

- Procedures and system to maintain and ensure efficient management and operation of public housing units.
- Activities to ensure a program of routine preventative maintenance.
- Anti-crime and anti-drug activity.
- Energy costs

# Auditing concerns for auditors' of Housing Authorities

- Directors will be trying to preserve the reserves in PH and auditors need to make sure the expenditures are allowable.
- The Administrative fee for HCV must be calculated correctly for Pre and Post and if this is incorrect the Authority could have future issues with HUD.
- Compliance auditing is very important for authorities and very unique if you have not audited for these type agencies in the past.  Any overlooked compliance issues definitely could impact funding.
- Substantive auditing is the same as any other organization.

# Concerns continued:

- Late auditor approval to HUD REAC for the audited FDS could jeopardize future funding for the authority.
- Salaries need to be added to the compliance testing for the new limits imposed.
- The VMS must equal the line items on the final audited FDS.
- Authorities are being forced to do more with much less so there is a higher risk of taking short cuts to get the work done which could lead to more non-compliance issues (none intentional).

# One final important update:

- There are revisions to the Financial Data Schedule (FDS) line Definition Guide- Updated May 2012 to reflect the GASB #54 and to provide additional information, examples and clarifications for specific FDS line definitions. This supersedes November 2008.

# QUESTIONS?

Thank you!!!!!

Jones, Cochenour & Co.

Certified Public Accountants

*much more than an accounting firm*

Dave Yost
Auditor of State

Ohio Auditor of State
Dave Yost

# Audit Workbench Update

Presented by: Matt Dean
Uniform Accounting Network

www.ohioauditor.gov

# Overview

- Background on rewrite
- Minimum requirements
- New AWB software demo
- Training resources
- Questions

# Background on Rewrite

- Why?
  - Visual FoxPro – No longer supported by Microsoft
  - Add multi-user functionality
- When?
  - Accounting Only clients – January 1, 2011
  - Accounting and Payroll clients – January 1, 2013

# Background on Rewrite (cont.)

- Effect on auditors
  - FY 2011 audits for Accounting Only clients use new AWB
  - FY 2013 audits for all UAN clients
  - Any audit prior to years above will use old AWB (versions 16.x or 17.x)
  - Any audits for years on or after above will use new AWB (versions 20XX.X)
  - http://uanlink.auditor.state.oh.us/resources/EntityListings/

# Minimum Requirements

- Windows XP SP 3 or greater
- Pentium 4 (1.6 GHz) or AMD Athlon 3000 (1.6 GHz) or greater (32 bit or 64 bit)
- 1GB RAM (2 GB desired)
- 1.8 GB disk spce
- Microsoft Office 2007 SP 2 or later

# New AWB Software Demo

- AWB Data Utility
  - Load Data
  - Reset Password
- Account Maintenance
- Audit Adjustment Utility
- Annual Financial Reports
- Audit Adjustment Report
- Compliance Report
- Backdating Report

# New AWB Software Demo (cont.)

- Payment and Receipt Export
- Excel Add-in

# Training Resources

- AWB Screencast
  - http://www.auditor.state.oh.us/resources/ipa/default.htm
  - AWB Update Version 2012.1 link
- UAN Screencasts
  - http://uanlink.auditor.state.oh.us/training/training_online_recordings.htm

# Questions

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# Auditor of State Mandatory IPA Registration and Updates to Contracting Process

Presented by: Deborah Liddil and Leanna Abele

August 10, 2012


# Overview


- Summary of Changes that were Effective 2/1/12
- Issues Encountered
- IPA Closed Bid List (June, 2012)
- Correspondence from AOS
- Mandatory IPA Registration (Re-Registration) (July-Aug, 2012)
- Modifications to Client Tiering (Sept, 2012)
- Implementation of IPA Firm Tiering (Sept, 2012)
- Frequently Asked Questions (FAQ)
- Other Current and Intended Future Modifications

# Summary of Changes February 1, 2012


Webinar/Slides of February training are available on AOS website [www.ohioauditor.gov](www.ohioauditor.gov)

- Web-Based Bid List (Updated on $1^{st}$ and $15^{th}$ of month)
- Express interest to AOS instead of client
- Introduction of Tiering of Clients – Tier 1, 2 or 3 (To be modified in Sept. 2012)
- Modified RFP – Customized for Tier and Client

  *Tier 1 & 2 – limited number of firms receive RFP

  *Mandatory Elements

  *Revised scoring; added Capacity/Backlog score


# Issues Encountered

- "Lessons Learned" from pilot provided in the February Webinar (see slides on the AOS website).
- June 21, 2012 Email to all IPAs – "Mandatory Element Errors in Proposals Resulting in Disqualification" examples.


- AOS allowed grace period – unless egregious, firms were notified but not disqualified.
- Grace period has ended – any proposals submitted for contracts in which the period to express interest in bidding ends on or after 7/1/12 will be disqualified if mandatory elements are incomplete/wrong format.

# IPA Closed Bid List


The June 21, 2012 email introduced the "IPA Closed Bid List" posted on the AOS website to allow firms to independently determine when RFPs have been mailed for individual engagements.

- When the "Request Deadline" on the IPA Open Bid List has passed for an individual engagement, it moves to the IPA Closed Bid List with a "RFP Mailed Date" field added.
- AOS regional offices will add the date when the RFPs have been distributed for each engagement.
- Individual listings will remain on the IPA Closed Bid List for 30 days after the RFP Mailed Date.

# Correspondence from AOS

- AOS Website now includes all correspondence to IPAs!


- At the moment, first item in upper right corner under “Updates & Announcements” on IPA Resources page. (Website will be changing)

- Correspondence will remain on the website for 1 year.

# Mandatory IPA Registration

- Online Registration Launched July 19, 2012. Emailed to all IPA contacts. 

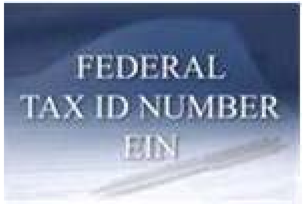
- Every firm **MUST** complete the on-line registration (re-registration) to express interest to bid beginning in September.
- To ensure your firm's registration will be reviewed and approved by September, submit no later than Friday, August 17, 2012.

# Mandatory IPA Registration
## Continued


- **IMPORTANT** – only one “account” per firm. Portal available on AOS website.
- Each firm must determine a primary office and primary contact person (partner level) – responsible for updates.
- Primary contact will enter all info for the firm, including info for additional offices.

# Mandatory IPA Registration
## Continued

- All information must be entered in one session. The site will not maintain draft or partially completed information.
- If your firm maintains more than one federal employer identification number (FEIN), your firm must select only one FEIN to be used for contracting with AOS.



# Mandatory IPA Registration
## Continued


- **Note**:  During registration, once the “Save Office Info” button is clicked to save primary (or other) office info, the info cannot be modified during the initial registration process.  If immediate changes are required, must start over.  Once registration is approved, your firm will be able to submit updates.

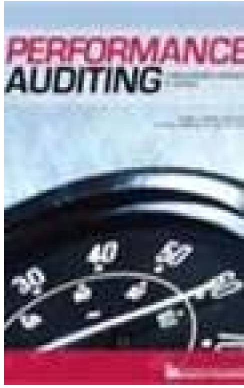
# Mandatory IPA Registration
## Continued

- In addition to firm information, firms will be required to upload PDF copies of:
  - Your firm's equal employment policy
  - Your firm's policy on auditor independence (*Government Auditing Standards* (GAGAS))
  - Your firm's most recent quality control review (**Note**: the review **MUST** state it is in accordance with GAGAS and be dated within 3 years)
  - If an MBE or EDGE firm, your firm's Ohio DAS Certification.

# Mandatory IPA Registration

## Continued

- If your firm is interested in contracting with the AOS to conduct performance audits –
  - **Must upload in PDF separate brief descriptions of three (3) performance audits conducted by your firm, with references.**
  - Each of the three must be 500 hours or more and conducted in accordance with GAGAS.



# Mandatory IPA Registration

## Continued

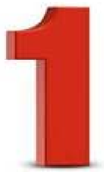
- Once your firm's registration has been reviewed by the AOS, your firm's primary contact will be notified via email (end of August).
- If approved, your firm's primary contact and the designated contact in **each** of your firm's offices will receive instructions for establishing their own separate user name and password.


- Beginning in September, user names and passwords will be required to post interest to bid on the AOS IPA Open Bid List.

# Modifications to Client Tiers

- In February, we introduced tiering of our clients as Tier 1, 2 or 3 (refer to February webinar/slides for details)


- In September, we will modify the criteria for Tier 1 and Tier 2 clients as follows:




  – The definition of Tier 1 clients will be large, complex and/or high profile entities as determined by the AOS.
  – The definition of Tier 2 & 3 will not change.

# Modifications to Client Tiers

**Continued**

REQUIRED

Preferred

- The current "pre-requisites" for Tier 1 clients will be replaced with criteria designated as "required" or "preferred".
- "Required" or "preferred" criteria may also be utilized for Tier 2 clients, if applicable.
- Firms' responses to these criteria may be used in determining the firms to receive the RFPs for the specific engagements.

# Implementation of Firm Tiering

- All firms registered with the AOS through the new online process with be designated by the AOS as either a Tier 1 or Tier 2 firm.

- Only firms included on the list of Top 100 Firms as published by *Accounting Today* and/or *Inside Public Accounting* will be designated as Tier 1 firms.

# Implementation of Firm Tiering
## Continued

- **Tier 1 firms** will have the ability to express interest to bid on Tier 1, 2 and 3 clients.


- **Tier 2 firms** will have the ability to express interest to bid on Tier 2 and 3 clients.

# Frequently Asked Questions (FAQ)

The AOS has posted the FAQ on our website as of July 19th with [UPDATED] and [NEW] questions in the following categories:


- ❑ Firm Registration
- ❑ IPA Contracting Process
- ❑ Tiering – Clients and Firms
- ❑ Report Due Dates, Extensions and Billings
- ❑ Scoring
- ❑ Communications and Questions

# Intended Future Modifications

- IPA Resources Page of AOS Website will be restructured to be more user friendly!


  - Better organized – self explanatory (end of August)
  - Restricted access to firm's certified reports, including scores, through login (future)


  - Restricted access to firm's list of reports to be submitted to AOS with due dates through login (future)
  - Other ideas?

# How to Contact AOS


## NEW AOS Domain Name

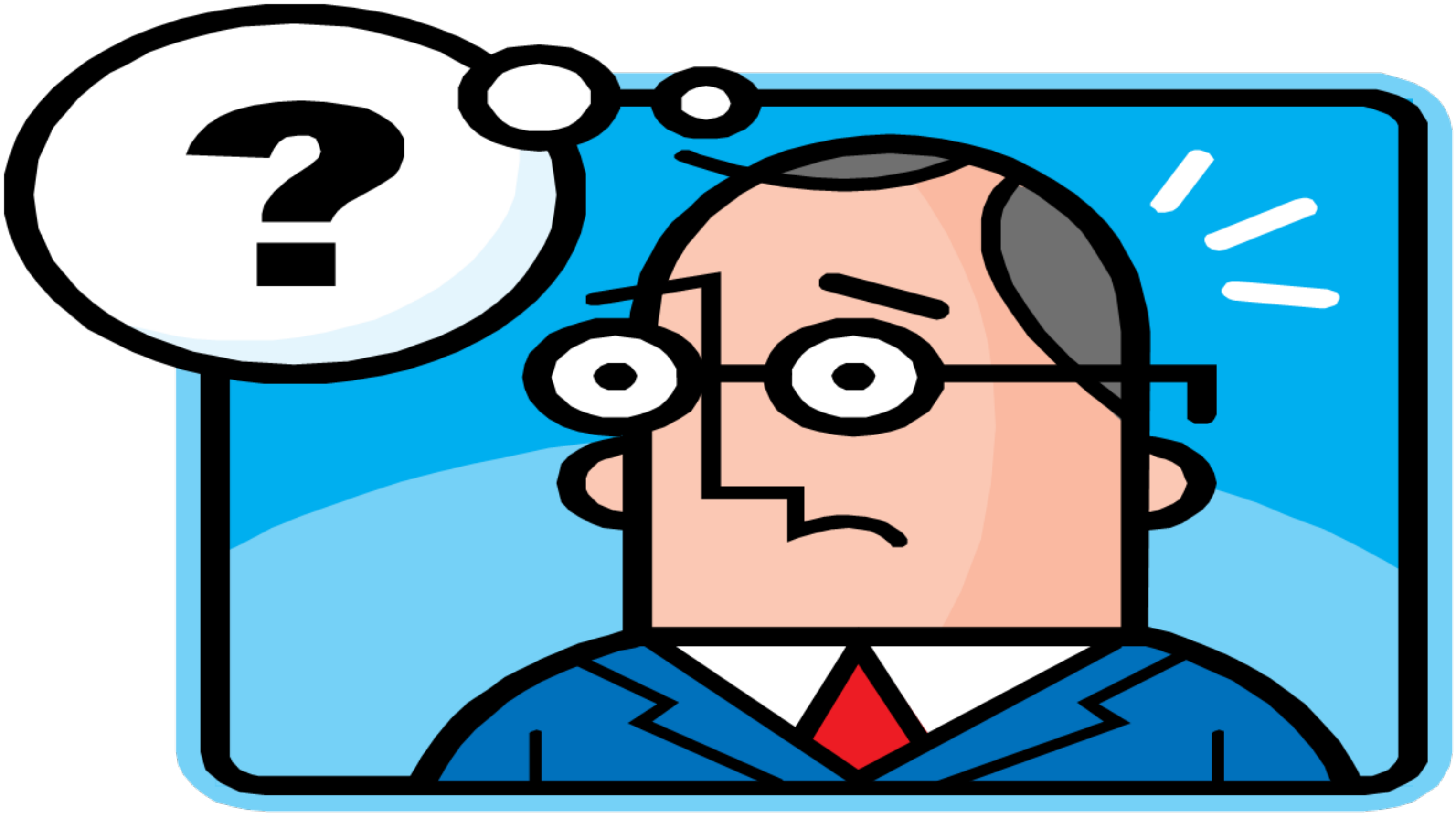
## ohioauditor.gov

(former addresses are linked and will forward for a limited time)

IPACorrespondence@ohioauditor.gov:

- Contract modifications
- Nonaudit Services GAO Independence Notification/Evaluation Form
- Information/documentation related to the firms registration with AOS
- Requests for public records
- Other general correspondence not related to a specific contract

# Questions Now???



# Questions Later???


Submit any additional questions to:
IPACorrespondence@ohioauditor.gov

Responses will be provided directly via email or through a Q&A document which may be issued, if determined appropriate.

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