

OSCPA's **GOVERNMENTAL ACCOUNTING & AUDITING CONFERENCE**

May 2-3, 2024

Speakers: Melisa Galasso, Christopher
Pembroke, Cynthia Bryd, David Cotton, Frank
Crawford, Kurt Schlicker, Lisa Parker, Mick
Dodson





GOVERNMENTAL ACCOUNTING AND AUDITING CONFERENCE VIRTUAL

MAY 2, 2024 – DAY 1

8:00 – 9:40 AM	GENERAL SESSION (100 MINUTES) AICPA & Yellow Book Ethics: Update & Comparison By: Melisa Galasso, CPA
<i>9:40 – 10:00 AM</i>	<i>Networking Break</i>
10:00 – 11:15 AM	GENERAL SESSION (75 MINUTES) Governmental Auditing Update By: Melisa Galasso, CPA
<i>11:15 AM – 12:00 PM</i>	<i>Networking Lunch (45 minutes)</i>
12:00 – 1:15 PM	GENERAL SESSION (75 MINUTES) Fraud, Waste, and Abuse in Government and Governmental Programs By: Dave Cotton, CPA
<i>1:15 – 1:30 PM</i>	<i>Networking Break</i>
1:30 – 2:45 PM	CONCURRENT SESSIONS (75 MINUTES) A) Single Audit and Uniform Guidance Update - VIRTUAL SPEAKER By: Kurt Schlicker, CPA
<i>2:45 – 3:00 PM</i>	<i>Networking Break</i>
3:00 – 4:15 PM	CONCURRENT SESSIONS (75 MINUTES) A) Update on Legislation Related to OKC/ Town Agreed Upon Procedure Engagements By: Frank Crawford, CPA
<i>4:15 PM</i>	<i>Day One Adjourns</i>



GOVERNMENTAL ACCOUNTING AND AUDITING CONFERENCE

MAY 3, 2024 – DAY 2

8:00 – 9:40 AM	GENERAL SESSION (100 MINUTES) GASB Update By: Lisa Parker, CPA, CGMA
<i>9:40 – 10:00 AM</i>	<i>Networking Break</i>
10:00 – 11:15 AM	GENERAL SESSION (75 MINUTES) Deeper Dive into GASB Concept Statements By: Lisa Parker, CPA, CGMA
<i>11:15 – 12:00 PM</i>	<i>Networking Lunch (45 minutes)</i>
12:00 – 1:15 PM	GENERAL SESSION (75 MINUTES) State Auditor and Inspector Update By: Cindy Byrd, CPA
<i>1:15 – 1:30 PM</i>	<i>Networking Break</i>
1:30 – 2:45 PM	CONCURRENT SESSIONS (75 MINUTES) A) GASB 87, 94, and 96 Common Errors and Misconceptions (Leases, P3s, SBITAs) By: Chris Pembroke, CPA
<i>2:45 – 3:00 PM</i>	<i>Networking Break</i>
3:00 – 4:15 PM	CONCURRENT SESSIONS (75 MINUTES) Panel Q and A By: Mick Dodson, Chris Pembroke, CPA, Frank Crawford, CPA
<i>4:15 PM</i>	<i>Day Two Adjourns</i>



Welcome to the **OSCPA's 8**

Conference - Virtual!

Here are a few important details:

- **Connect.**
Be sure you have high-speed internet access to ensure your connection remains strong throughout the event.
- **Credit.**
Be sure to check in to receive your CPE credits.
- **Engage.**
Use the chat feature to interact with other attendees and discussion leaders.
- **Evaluate.**
You'll receive a link to evaluate the conference. Please share your thoughts so we can improve your experience.
- **Enjoy.**
We're so happy to have you! Please reach out to cpe@oscpa.com or 800-522-8261 if you have questions.



AICPA & YELLOW BOOK ETHICS: UPDATE & COMPARISON

May 2, 2024

Presented by Melisa Galasso, CPA

AICPA & Yellow Book Ethics: Update & Comparison

May 2, 2024

Galasso Learning Solutions ©2024

1

General Disclaimer

Galasso Learning Solutions provides non-authoritative guidance on accounting, auditing, attestation, compilation, review, and tax standards. The information in this presentation should not be viewed as an official position of the AICPA, FASB, GASB, IRS or any other standard setters.

Official positions of standard setters are determined through certain specific committee procedures, due process, and extensive deliberation.

Application of accounting and auditing principles is the responsibility of an organization's management and their independent public accountant.

2

Learning Objectives

1. Describe differences between the AICPA independence rules and the GAGAS independence rules
2. Recall the changes in recently issued ethics interpretations



3

Agenda

AICPA Update

AICPA/Yellow Book Comparison



4

4

AICPA Update



5

Temporary Enforcement - USERRA



6

Background

Temporary Policy Statement Related to the Uniformed Services Employment and Reemployment Rights Act and Parallel State Statutes

- Adopted: November 2021
- Background:
 - Expressly prohibit employers from taking adverse employment actions against an employee because the employee is or was a member of the armed services

Temporary Policy

- Will consider a member or member's firm to be in compliance with the Code if the member or member's firm employs individuals who serve in federal or state armed services and provides attest services to the armed services, as long as:
 - The individual is not in a key position with the armed services attest client
 - Is not in a position to influence the attest engagement
 - Is not on the attest engagement team

Effective Date

- The temporary policy statement was adopted on November 16, 2021 and will be effective until PEEC rescinds it
- Notice of the temporary policy statement appeared in the Journal of Accountancy in December 2021

Assisting With Implementation



Background

Assisting Attest Clients With Implementing Accounting Standards (ET sec. 1.295.113)

- Issued: March 2022
- Background:
 - Increased complexity of accounting standards
 - Questions about how independence could be affected when a CPA assists an attest client with implementing new or existing accounting standards



11

11

Threats

- When a member assists an attest client with planning and executing the implementation of an accounting standard, self-review or management participation threats may exist



12

12

Does Not Impair

- Develops/provides training to attest client personnel on the effects of the accounting standard
- Researches, provides advice, makes recommendations, and assists management in identifying financial statement account balances, contracts, and transactions to be assessed under the accounting standard
- Provides advice and recommendations related to the application of the standard, including
 - Analyzing and advising management on the potential impact of the standard on the entity's accounting policies, procedures, and internal controls
 - Recommending possible revisions to existing policies, procedures, and internal controls
 - Assisting the attest client with summarizing the attest client's analysis and policies related to the accounting positions under the standard
 - Preparing transition-related calculations to illustrate the impact of the application of the standard for management's consideration and selection
- Provides observations and recommendations on management's existing overall project plan timeline or assists management in developing an overall project plan timeline to adopt the accounting standard

13

Does Not Impair Cont'd

- Assists management in drafting implementation strategies or methods used to implement the accounting standard
- Assists the attest client in developing implementation templates or provides the attest client with firm-developed templates or tools, including those related to specific calculations, provided the attest client's management understands the nature of any underlying calculations and the impact the results will have on the financial statements
- Proposes standard journal entries or adjustments to existing journal entries necessary for adoption of the accounting standard, subject to attest client approval
- Provides recommendations related to existing or new information systems as a result of the accounting standard

14

Impair Independence

- If a member does any of the following:
 - Leads or supervises any attest client implementation team
 - Makes decisions on which recommendations to prioritize or how to implement the accounting standard
 - Sets any policy or procedures related to the accounting standard
 - Accepts responsibility for designing new or redesigning existing internal controls over financial reporting
 - Designs or develops new or redesigns existing financial information systems

Effective

- Effective December 31, 2022

NOCLAR



17

Background

Responding to Noncompliance with Laws and Regulations

- Issued: June 2022
- Effective: June 30, 2023
- Background:
 - IESBA Convergence
 - 2 Proposals
 - SAS 147

18

Members in Public Practice



19

Threat

- When a member encounters or is made aware of noncompliance or suspected noncompliance with laws and regulations in the course of providing a professional service to a client, threats to compliance with the “Integrity and Objectivity Rule” may exist

20

Definition

Noncompliance

- Noncompliance with laws and regulations (noncompliance) comprises acts of omission or commission, intentional or unintentional, that are contrary to the prevailing laws or regulations and are committed by a client or by those charged with governance, by management, or by other individuals working for or under the direction of a client

Client Confidentiality

- When responding to noncompliance or suspected noncompliance in the course of providing a professional service to a client, the member should consider the member's obligations under the "Confidential Client Information Rule"

Responding to Noncompliance

- The objectives of a member are
 - To comply with the “Integrity and Objectivity Rule”
 - To alert management or, when appropriate, those charged with governance of the client, to enable them to
 - Rectify, remediate, or mitigate the consequences of the identified or suspected noncompliance or
 - Deter the commission of the noncompliance when it has not yet occurred
 - To determine whether withdrawal from the engagement and professional relationship is necessary, when permitted by law and regulation
 - To take such further action as appropriate in the public interest
 - To comply with applicable laws, regulations, and the “Compliance With Standards Rule”

23

Scope

- This interpretation does not apply to the following:
 - Personal misconduct unrelated to the business activities of the client
 - Noncompliance by parties other than
 - The client,
 - Those charged with governance,
 - Management, or
 - Other individuals working for or under the direction of the client
 - A litigation or investigation engagement as defined in AICPA Statement on Standards for Forensic Services No. 1
 - An engagement where the primary purpose is to identify, reach a conclusion regarding, or otherwise respond to a known or potential noncompliance with laws and regulations (NOCLAR)
 - An engagement pursuant to which the protections set forth in IRC 7525 or any comparable state or local statutes apply
 - An engagement where compliance with this interpretation would cause a violation of law or regulation

24

Scope Cont'd

- Sets out the approach to be taken by a member who encounters or is made aware of noncompliance or suspected noncompliance with:
 - Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements
 - Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties

25

Noncompliance

- Noncompliance may result in:

Fines

Litigation

Or other consequences for the client that may have a material effect on its financial statements

May have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees, or the general public

26

Materiality

- A member who encounters or is made aware of matters that are clearly inconsequential is not required to comply

Responsibilities

- The client's management is responsible, with the oversight of those charged with governance, to ensure that the client's business activities are conducted in accordance with laws and regulations
- It is also the responsibility of management and those charged with governance to identify and address any noncompliance by the client, by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the client

Responsibilities Cont'd

- When a member becomes aware of a matter, the member should take timely steps to comply with this interpretation, taking into account the member's understanding of the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees, or the general public

Members Providing Financial Statement Audit or Review Services

Key Responsibilities

Obtaining an
Understanding
of the Matter

Addressing the
Matter

31

Obtaining an Understanding of the Matter

- A member is expected to apply knowledge, professional judgment, and expertise but is **not expected** to have a level of knowledge of laws and regulations greater than that required to undertake the engagement
 - Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body

32

Obtaining an Understanding Cont'd

- If the member identifies or suspects that noncompliance has occurred or is likely to occur, the member should discuss the matter with the appropriate level of management and, when appropriate, those charged with governance
 - Such discussion may serve to clarify the member's understanding of the facts and circumstances relevant to the matter and its potential consequences
 - The appropriate level of management with whom to discuss the matter is a question of professional judgment

Addressing the Matter

- The member should advise them to take appropriate and timely actions, if they have not already done so

This may include:

- Rectifying, remediating, or mitigating consequences of the noncompliance
- Deterring the commission of the noncompliance if it has not yet occurred
- Disclosing the matter to an appropriate authority where required by law or regulation or when otherwise considered necessary

Addressing the Matter Cont'd

- The member should consider whether the client's management and, if applicable, those charged with governance understand their legal or regulatory responsibilities with respect to the noncompliance or suspected noncompliance
 - If not, the member may want to suggest appropriate sources of information or recommend that they obtain legal advice

Documentation

- The member should, in addition to complying with the documentation requirements under applicable professional standards, document:
 - The matter
 - The results of discussion with management and, where applicable, those charged with governance and other parties
 - How management and, where applicable, those charged with governance, responded to the matter
 - Judgments made and the courses of action the member took

Services Other Than a Financial Statement Audit or Review Service

37

Key Responsibilities

Obtain an Understanding of the Matter and Addressing the Matter

Communicating the Matter to the Client's Financial Statement Audit or Review Services Provider

38

Obtain an Understanding of the Matter

- A member is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of knowledge of laws and regulations greater than that required to undertake the engagement
 - Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body

Obtain an Understanding Cont'd

- If the member identifies or suspects that noncompliance has occurred or is likely to occur the member should discuss the matter with the appropriate level of management and, if the member has access to them and when appropriate, those charged with governance

Obtain an Understanding Cont'd

- Such discussion may serve to clarify the member's understanding of the facts and circumstances relevant to the matter and its potential consequences

41

Communicating the Matter

- Other Services
 - The member should communicate the noncompliance or suspected noncompliance **within** the firm
 - The communication should be made in accordance with the firm's protocols or procedures or, in the absence of such protocols and procedures, directly to the financial statement audit or review engagement partner

42

Communicating the Matter Cont'd

- Service for Network Firm
 - The member should consider whether to communicate the noncompliance or suspected noncompliance to the **network firm**
 - If the communication is made, it should be made in accordance with the network's protocols or procedures or, in the absence of such protocols and procedures, directly to the financial statement audit or review engagement partner

Communicating the Matter Cont'd

- In all cases, the communication is to enable the financial statement audit or review engagement partner to be informed about the noncompliance or suspected noncompliance and to determine whether it should be addressed in accordance with the provisions of this interpretation and, if so, how

Confidentiality

- If the member is performing services for a client that is **not** a financial statement audit or review client of the firm, except as required by law or regulation, the member is **not permitted** to communicate the noncompliance or suspected noncompliance to the firm that is the client's external auditor, if one exists
 - See the "Confidential Client Information Rule"

Documentation

- In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the member is **encouraged to document** the following, in addition to complying with the documentation requirements under applicable professional standards:
 - The matter
 - The results of discussion with management and, where applicable, those charged with governance and other parties
 - How management and, where applicable, those charged with governance have responded to the matter
 - The judgments made and the courses of action the member took

Members in Business



47

Threat

- When a member in business encounters or is made aware of noncompliance or suspected noncompliance with laws and regulations in the course of carrying out professional services, threats to compliance with the “Integrity and Objectivity Rule” may exist

48

Definition

Noncompliance

- Noncompliance with laws and regulations (noncompliance) comprises acts of omission or commission, intentional or unintentional, that are contrary to the prevailing laws or regulations and are committed by the member's employing organization or by those charged with governance, by management, or by other individuals working for or under the direction of the **employing organization**

Other Considerations

- When responding to noncompliance or suspected noncompliance in the course of carrying out professional services, the member should consider the member's obligations under the "Confidential Information Obtained From Employment or Volunteer Activities" interpretation of the "Acts Discreditable Rule"

Objective

- When responding to noncompliance or suspected noncompliance, the objectives of a member are as follows:
 - a) To comply with “Integrity and Objectivity Rule”
 - b) To alert management or, when appropriate, those charged with governance of the employing organization, to enable them to
 - Rectify, remediate, or mitigate the consequences of the identified or suspected noncompliance or
 - Deter the commission of the noncompliance when it has not yet occurred
 - c) To take such further action as appropriate in the public interest
 - d) To comply with applicable laws, regulations, and the “Compliance With Standards Rule”

51

Responsibilities

- Many employing organizations have established protocols and procedures (for example, an ethics policy or internal whistleblowing mechanism) regarding how noncompliance or suspected noncompliance by the employing organization should be raised internally
 - Such protocols and procedures may allow for matters to be reported anonymously through designated channels
 - If these protocols and procedures exist within the member’s employing organization, the member should consider them in determining how to respond to such noncompliance

52

Management and Those Charged With Governance

- It is the responsibility of the employing organization's management, with the oversight of those charged with governance, to
 - Ensure that the employing organization's business activities are conducted in accordance with laws and regulations
 - Identify and address any noncompliance by the employing organization or by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the employing organization

53

Senior Professionals

54

Senior Professional Accountants in Business

- Obtain an understanding
 - The nature of the act and the circumstances in which it has occurred or is likely to occur
 - The application of the relevant laws and regulations to the circumstances
 - The potential consequences to the employing organization, investors, creditors, employees, or the wider public
- Depending on the nature and significance of the matter, the member may cause, or take appropriate steps to cause, the matter to be investigated internally

Senior Professional Accountants in Business Cont'd

- Address the matter
 - Discuss the matter with the member's immediate superior, if any, to determine how the matter should be addressed
 - If the member's immediate superior appears to be involved in the matter, the member should discuss the matter with the next higher level of authority within the employing organization
 - Take the appropriate steps to
 - Have the matter communicated to those charged with governance to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfill their responsibilities
 - Comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of noncompliance or suspected noncompliance to an appropriate authority
 - Have the consequences of the noncompliance or suspected noncompliance rectified, remediated, or mitigated
 - Reduce the risk of reoccurrence
 - Seek to deter the commission of the noncompliance if it has not yet occurred
 - Disclose the matter to the employing organization's external auditor, if any

Determining Further Action

- Relevant factors to consider in evaluating the appropriateness of the response of the member's superiors, where applicable, and those charged with governance may include whether
 - The response is timely
 - They have taken or authorized appropriate action to seek to rectify, remediate, or mitigate the consequences of the noncompliance, or to avert the noncompliance if it has not yet occurred
 - The matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate

Disclosing to Appropriate Authority

- The determination of whether to disclose the matter to an appropriate authority may also depend on external factors such as:
 - Whether there is an appropriate authority able to receive the information and cause the matter to be investigated and action to be taken
 - Identifying an appropriate authority will depend on the nature of the matter
 - For example, an appropriate authority could be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations
 - Whether there exists robust and credible protection from civil, criminal, or professional liability or retaliation afforded by legislation or regulation, such as under whistleblowing legislation or regulation
 - Whether there are actual or potential threats to the physical safety of the senior professional accountant or other individuals

Documentation

- **Encouraged** to document:

- The matter
- The results of discussions with the member's superiors, where applicable, those charged with governance, and other parties
- How the member's superiors, where applicable, and those charged with governance have responded to the matter
- Judgments made and the courses of action the member took
- How the member is satisfied that the member has fulfilled the responsibility

Other Than Those Who Are Senior
Professional Accountants

Other Than Those Who Are Sr. Professional Accountants

- Seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur
 - Expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of understanding of laws and regulations beyond that required for the member's role within the employing organization
 - Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body

Response

- If the member identifies or suspects that noncompliance has occurred or may occur, the member should, inform an immediate superior to enable the superior to take appropriate action
 - If the member's immediate superior appears to be involved in the matter, the member should inform the next higher level of authority within the employing organization
- Member should disclose the matter to the employing organization's external auditor, if any, if the member determines such disclosure is necessary pursuant to the member's obligation to provide all information necessary to enable the auditor to perform the audit
- Further action by the member may include reporting the noncompliance or suspected noncompliance to an appropriate authority unless prohibited by laws or regulations

Documentation

- **Encouraged** to document:
 - The matter
 - The results of discussions with
 - The member's superior
 - Management and, where applicable, those charged with governance
 - Other parties
 - How the member's superior has responded to the matter
 - Judgments made and courses of action the member took

63

Effective



64

Effective Date

- This interpretation is effective June 30, 2023
 - Early implementation is allowed

65

Compliance Audit



66

Background

Compliance Audits (0.400)

- Issued: January 2023
- Background:
 - Increase in compliance audits due to COVID funding
 - Goal: Provide clarity and align the requirements with applicable threats

New Definition

Compliance Audit

- An attest engagement that is performed in accordance with AU-C 935
 - When a compliance audit performed in accordance with AU-C 935 also includes separate reporting under AU-C 725 or 805, this definition also extends to the audit of the schedule or statement that will accompany the AU-C 935 report
- A compliance audit may include multiple compliance audit clients
 - For example, multiple compliance audit clients may have amounts included in a SEFA in a compliance audit performed in accordance with the Uniform Guidance

New Definition Cont'd

Compliance Audit Client

- Entity with respect to which a compliance audit is performed
 - Members should apply the “Independence Rule” and related interpretations applicable to an attest client to the compliance audit client
- To the extent the compliance audit includes amounts from multiple entities in a schedule or statement, an entity would **not be considered** a compliance audit client, and, therefore, the “Independence Rule” and related interpretations would not apply with respect to an entity, if that entity
 - Is not subject to compliance audit procedures and
 - Includes amounts in the schedule or statement that are trivial and clearly inconsequential to the schedule or statement as a whole

New Definition Cont'd

- When an entity meets the definition of a compliance audit client, the “Client Affiliates” interpretation and the “State and Local Government Client Affiliates” interpretation do not apply

Revised Definition

Financial Statement Attest Client

- An entity whose financial statements are audited, reviewed, or compiled when the member's compilation report does not disclose a lack of independence
- This definition does not include a compliance audit client. Therefore, the "Client Affiliates" interpretation and the "State and Local Government Client Affiliates" interpretation would not apply with respect to the compliance audit client

71

Effective

- The new definitions and revised definition are effective for compliance audits commencing after June 15, 2023, with early implementation allowed

72

Professional Qualifications or Competencies



73

Galasso Learning Solutions ©2024

Background

Professional Qualifications or Competencies

- Issued: September 2023
- Effective Upon Issuance
- Background:
 - CPE cheating scandal

74

Update

- A member shall be considered in violation of the “Acts Discreditable Rule” if a member engages in false, misleading, or deceptive acts related to professional qualifications or competencies
- Examples of such false, misleading, or deceptive acts:
 - Soliciting or knowingly disclosing questions or answers of any professional education course examination unless collaboration is expressly permitted
 - Falsifying or misrepresenting attendance at a professional education course
 - Tampering with the administration of or examination grading for any professional education course or credential

75

Fees



76

Background

Fees (1.230.030, 1.230.040, 1.210.010, & 1.224.010)

- Issued: September 2023
- Background:
 - IESBA Convergence
 - Does not fully converge

Determining Fees

- **1.230.030 Determining Fees for an Attest Engagement**
 - Determining the fees to be charged to an attest client, whether for attest or other services, is a business decision taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards

Update

- The provision of other services to an attest client is not an appropriate consideration in determining the attest engagement fee
- If a covered member responsible for determining the attest engagement fee allows the attest engagement fee to be influenced by the firm's provision of other services to an attest client, the self-interest and undue influence threats to the covered member's compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards
 - Accordingly, independence would be impaired

Exception

- When determining the attest engagement fee, the covered member responsible for determining the attest engagement fee may take into consideration the cost savings achieved as a result of experience derived from the provision of other services to an attest client

Fee Dependency

1.230.040 Fee Dependency

- When the total fees generated in any year from an attest client by the firm represent a large proportion of the total fees of that firm, the dependence on and concern about the potential loss of fees from attest and other services from that client affect the level of the self-interest threat and create an undue influence threat to a covered member's independence
 - In calculating the total fees of the firm, the covered member should include fees from attest and nonattest services and might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate
 - For purposes of this calculation, the covered member is not required to include fees from attest and nonattest services of other network firms within the firm's network

81

Affiliates

- When the attest client is a financial statement attest client, the covered member should include fees from An entity (for example, subsidiary, partnership, or limited liability company) that a financial statement attest client can control

82

Fee Dependency

- When, for each of **five consecutive years**, total fees from an attest client represent or are likely to represent a large proportion of the total fees received by the firm, threats to the covered member's compliance with the "Independence Rule" would not be at an acceptable level and independence would be impaired unless one of the following safeguards is applied:
 - Prior to the attest report being issued for the fifth year, an appropriate reviewer who is not a member of the firm issuing the report reviews the fifth year's attest work
 - After the attest report on the fifth year has been issued, and before the attest report is issued on the sixth year's attest engagement, an appropriate reviewer who is not a member of the firm issuing the report reviews the fifth year's attest work

83

Fee Dependency Cont'd

- If total fees continue to represent a large proportion, the covered member shall, each year, apply one of the safeguards identified
- When two or more firms are engaged to conduct an attest engagement, the involvement of the other firm in the attest engagement may be regarded each year as an action equivalent to that in paragraph .04a if
 - The circumstances addressed by paragraph .04 apply to only one of the firms performing the attest engagement and
 - Each firm performs sufficient work to take full individual responsibility for the report

84

Definitions

• 1.210.010 Conceptual Framework for Independence

.16 *Self-interest threat*. The *threat* that a *member* could benefit, financially or otherwise, from an interest in or relationship with an *attest client* or persons associated with the *attest client*. Examples of self-interest *threats* include the following:

- a. A *member* has a *direct financial interest* or *material indirect financial interest* in the *attest client*. [1.240.010]
- b. A *member* has a *loan* from the *attest client*, an officer or a director of the *attest client* with the ability to affect decision-making or any individual with a *beneficial ownership interest* (known through reasonable inquiry) that gives the individual *significant influence* over the *attest client*. [1.260.010]
- c. A *member* or his or her *firm* relies excessively on ~~revenue~~ **fees from attest and nonattest services** from a single *attest client*. **[1.230.040]**
- d. A *member* or *member's firm* has a material joint venture or other material joint business arrangement with the *attest client*. [1.265]

85

Definitions

.18 *Undue influence threat*. The *threat* that a *member* will subordinate his or her judgment to that of an individual associated with an *attest client* or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the *member*. Examples of undue influence *threats* include the following:

- a. Management threatens to replace the *member* or *member's firm* over a disagreement on the application of an accounting principle.
- b. Management pressures the *member* to reduce necessary audit procedures in order to reduce audit fees.
- c. The *member* receives a gift from the *attest client*, its management, or its significant shareholders. [1.285.010]
- d. **A large proportion of fees charged by the firm to an attest client is generated by providing nonattest services.**

86

Affiliates

- 1.224.010 Client Affiliates

- For purposes of applying the “Fee Dependency” interpretation, fees from entities described under items (b)–(l) of the definition of affiliate are not required to be included when calculating the total fees generated from a financial statement attest client
- When the covered member knows, or has reason to believe, that a relationship or circumstance involving any of the entities described under items (b)–(l) of the definition of affiliate is relevant to the evaluation of a fee dependency, the covered member shall include that affiliate when identifying, evaluating, and addressing threats related to fee dependency

Effective

- Effective January 1, 2025

AICPA/Yellow Book Comparison



89

Galasso Learning Solutions ©2024

Independence

- Both AICPA & GAGAS require independence
 - However, the rules are NOT the same between them

90

Independence - Same

- Independence comprises the following:

Independence of Mind

Independence in Appearance

91

Benchmark - Same

- Reasonable and informed third party

92

Conceptual Framework

Principles-
based
approach

Uses Threats
and Safeguards

Conceptual Framework Cont'd

- Identify threats to independence
- Evaluate the significance of the threats identified, both individually and in the aggregate
- Apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level

Threats & Safeguards



95

Threats



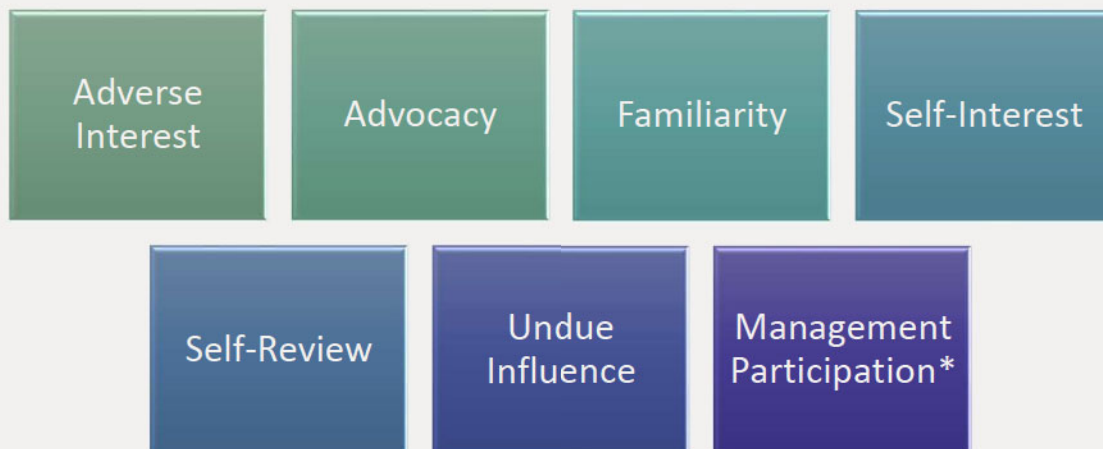
96

Threats – Yellow Book



97

Threats – AICPA



98

Safeguards – Yellow Book



99

Safeguards

- When auditors determine that threats to independence are not at an acceptable level, the auditors should determine whether appropriate safeguards can be applied to eliminate the threats or reduce them to an acceptable level



100

Safeguards – Yellow Book

- Safeguards are actions or other measures, individually or in combination, that auditors and audit organizations take that effectively eliminate threats to independence or reduce them to an acceptable level
 - Safeguards vary depending on the facts and circumstances

Examples

- Consulting an independent third party, such as a professional organization, a professional regulatory body, or another auditor to discuss engagement issues or assess issues that are highly technical or that require significant judgment
- Involving another audit organization to perform or re-perform part of the engagement
- Having an auditor who was not a member of the engagement team review the work performed
- Removing an auditor from an engagement team when that auditor's financial or other interests or relationships pose a threat to independence

Multiple Safeguards

- Multiple safeguards may be necessary to address a threat



Documentation

- Auditors should document the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level

Safeguards - AICPA



105

Defined

- In connection with independence, threats are relationships or circumstances that could **impair independence**.
 - In connection with any rule but the “Independence Rule,” threats are relationships or circumstances that could compromise a **member’s** compliance with the rules

106

Safeguards

Safeguards created by the profession, legislation, or regulation

Safeguards implemented by the client

It is not possible to rely solely on *safeguards* implemented by the *client* to eliminate or reduce significant *threats* to an *acceptable level*

Safeguards implemented by the firm, including policies and procedures to implement professional and regulatory requirements

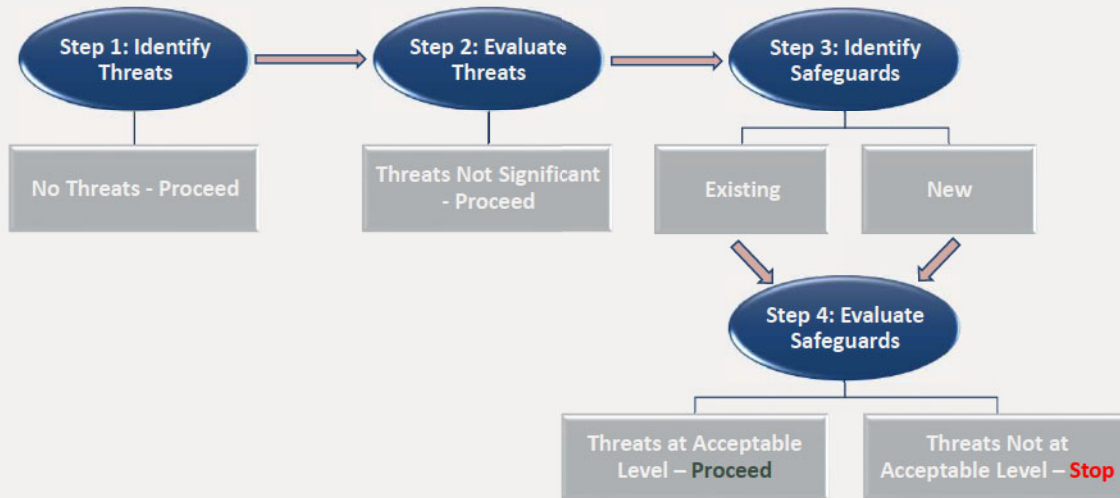
107

Visual

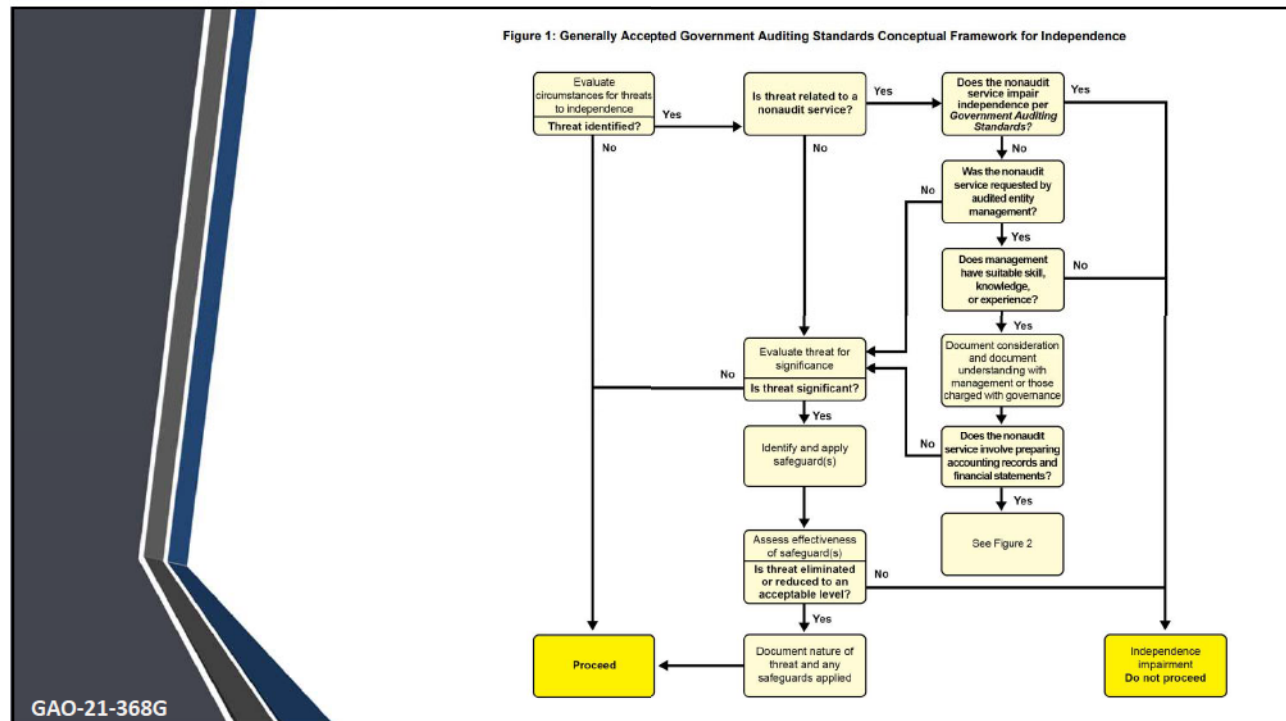


108

Process: Steps of the Conceptual Framework



109



GAO-21-368G

110

Non-audit Services



111

Yellow Book



112

SKE – Yellow Book

- Before auditors agree to provide non-audit services to an audited entity that the audited entity's management requested and that could create a threat to independence, either by themselves or in aggregate with other non-audit services provided, with respect to any GAGAS engagement they conduct, auditors should determine that the audited entity has designated an individual who possesses suitable **skill, knowledge, or experience** and that the individual understands the services to be provided sufficiently to **oversee** them



113

113

Oversee – Yellow Book

- Required to have sufficient expertise to oversee the non-audit services, management is not required to possess the expertise to perform or re-perform the services
- Indicators of management's ability to effectively oversee the non-audit service include management's ability:
 1. To determine the reasonableness of the results of the non-audit services provided; and
 2. To recognize a material error, omission, or misstatement in the results of the non-audit services provided



114

114

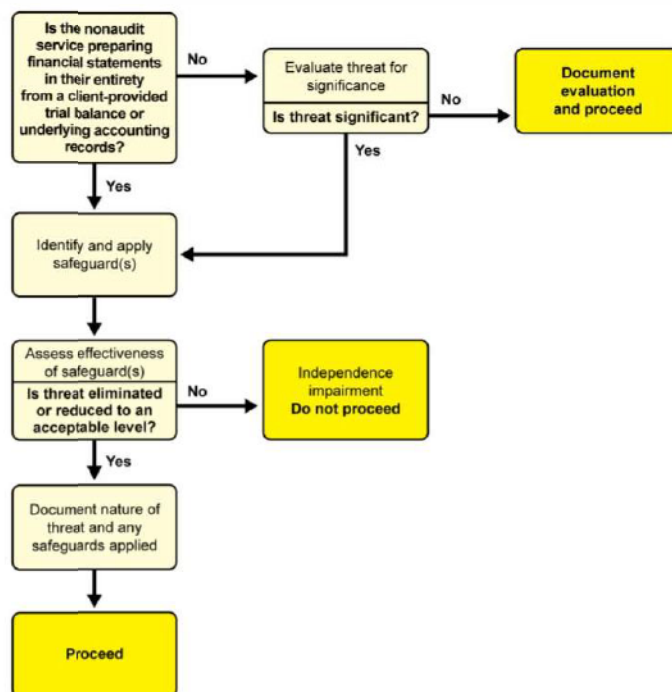
Impact of Lack of SKE

- In cases where the audited entity is unable or unwilling to assume these responsibilities, auditors should conclude that the provision of these services is an impairment to independence

Preparation – Yellow Book

- Preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records creates significant threats to auditors' independence

Independence Considerations for Preparing Accounting Records & Financial Statements



GAO-18-568G

117

AICPA



118

Consideration

- Whether the attest client and its management possessed the suitable skill, knowledge and/or experience to oversee such services

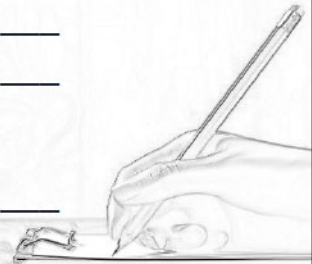
119

3, 2, 1 Method of Applying New Knowledge

3 things I learned

2 actions to apply what I learned

1 way I will share my learning



120

Let's Keep in Touch



gls.advancecpe.com (*webinar*)



gls.lcvista.com (*on-demand*)



moneymattersfornonprofits.com



galassolearningsolutions.com/subscribe



linkedin.com/company/galassolearning

121



GALASSO
LEARNING SOLUTIONS

What Questions Do You Have?



Melisa F. Galasso
Chief Executive

Melisa@galassolearningsolutions.com
<https://galassolearningsolutions.com>

Content last reviewed: 4/17/24
Galasso Learning Solutions ©2024

122



GOVERNMENTAL AUDITING UPDATE

May 2, 2024

Presented by Melisa Galasso, CPA

Governmental Auditing Update

May 2, 2024

Galasso Learning Solutions ©2024

1

General Disclaimer

Galasso Learning Solutions provides non-authoritative guidance on accounting, auditing, attestation, compilation, review, and tax standards. The information in this presentation should not be viewed as an official position of the AICPA, FASB, GASB, IRS or any other standard setters.

Official positions of standard setters are determined through certain specific committee procedures, due process, and extensive deliberation.

Application of accounting and auditing principles is the responsibility of an organization's management and their independent public accountant.

2

Learning Objectives

1. Describe differences between the AICPA independence rules and the GAGAS independence rules
2. Recall the changes in recently issued ethics interpretations



3

Agenda

AICPA
Update

2024 Yellow
Book

Uniform
Guidance



4

4

AICPA Update



5

Reminders

SAS 143,
Estimates

SAS 145,
Risk
Assessment

SAS 147,
NOCLAR

SAS 148,
Compliance
Audits

6

Quality Management Standards



7

Suite of Standards

SQMS1

SQMS2

SSARS 26

SAS 146

8

The Why

- The environment in which firms operate has evolved
- The power and use of technological resources have increased exponentially, both by businesses and by firms
- The expectations of regulators, given high-profile business failures, are higher
- This model provides a more scalable approach to quality for firms of all sizes

9

SQMS No. 1



10

Background

Statement on Quality Management Standards (SQMS) 1, A Firm's System of Quality Management

- Issued: June 2022
- Effective Date:
 - Designed and Implemented: December 15, 2025
 - Evaluation: One year following December 15, 2025
- Background:
 - Alignment with IAASB

New Approach

- Shifts from a policies-based approach to a risk-based approach
- Emphasizes leadership responsibility in proactively managing quality that requires a firm to design, implement, and operate a system of quality management customized to the circumstances of the firm's A&A practice

Evaluation

- At least annually, the individuals assigned ultimate responsibility and accountability for the system of QM, on behalf of the firm, evaluate the system of QM and conclude whether the system of QM provides the firm with reasonable assurance that the objectives of the system are being achieved

13

Components of QM

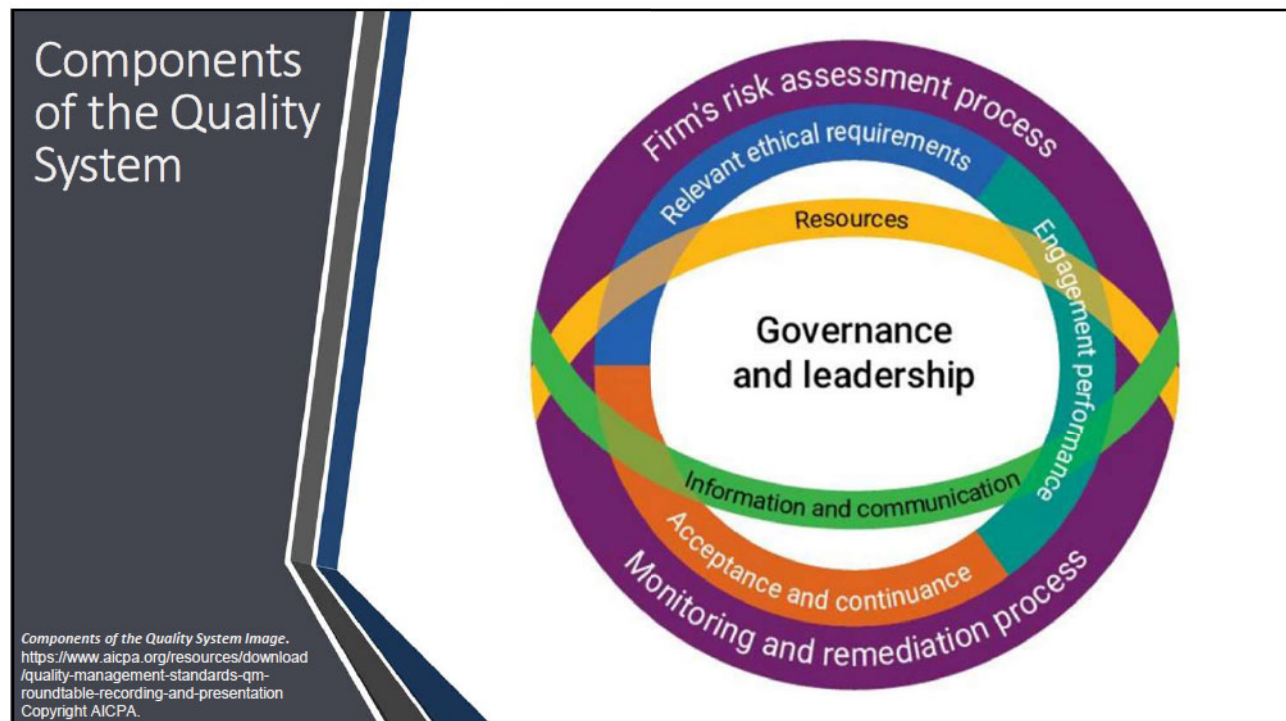


14

Components of the System of QM

- The firm's risk assessment process (new)
- Governance and leadership (renamed/updated)
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Engagement performance
- Resources (renamed/expanded)
- Information and communication (new)
- Monitoring and remediation process (renamed/updated)

15



16

Objective of the Firm

- The objective of the firm in the context of the standard is to design, implement, and operate a system of quality management that provides the firm with reasonable assurance that the objectives of the system of quality management are achieved

Objective of System of QM

- The system of quality management is designed to achieve the following objectives:
 1. The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements
 2. Engagement reports issued by the firm are appropriate in the circumstances

Risk Assessment

19

Risk Assessment Process

- The firm's risk assessment process is a new component that comprises the process the firm is required to follow in implementing the risk-based approach to quality management

20

Risk Assessment Process Cont'd

The risk assessment process (NEW!)

Risk Assessment Image.
Copyright AICPA.

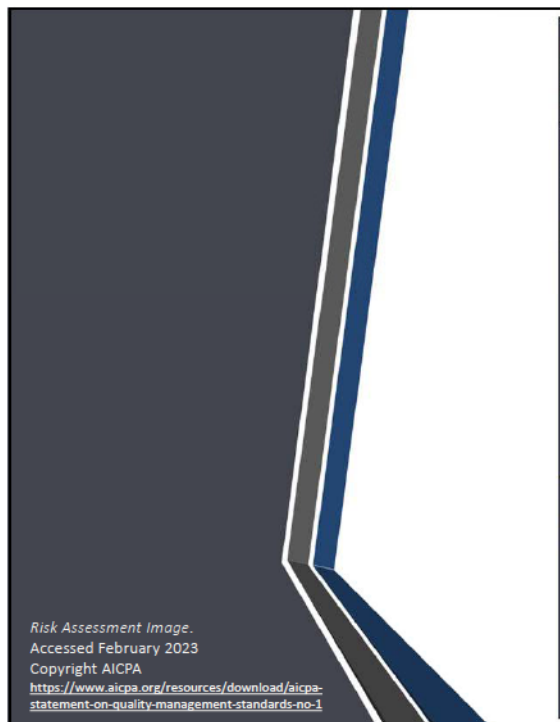


21

Quality Risks

- The firm should identify and assess quality risks to provide a basis for the design and implementation of responses

22


 <p><i>Risk Assessment Image.</i> Accessed February 2023 Copyright AICPA https://www.aicpa.org/resources/download/aicpa-statement-on-quality-management-standards-no-1</p>	Examples of the firm's understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives	Examples of quality risks that may arise
	<p>The strategic and operational decisions and actions, business processes, and business model of the firm: The firm's overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of this SQMS.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as the following:</p> <ul style="list-style-type: none"> • Resources are allocated or assigned in a manner that prioritizes the services not within the scope of this SQMS and may negatively affect the quality of engagements within the scope of this SQMS. • Decisions about financial and operational priorities do not fully or adequately consider the importance of quality in performing engagements within the scope of this SQMS.
	<p>The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as the following:</p> <ul style="list-style-type: none"> • Leadership's responsibilities and accountability for quality are not clearly defined and assigned. • The actions and behaviors of leadership that do not promote quality are not questioned.

23

Galasso Learning Solutions ©2024

Response

- The firm should design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks



24

24

Policies & Procedures

- The firm should establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due to changes in the nature and circumstances of the firm or its engagements

25

Governance & Leadership

26

Governance & Leadership

- Addresses the importance of quality in the firm's strategic decisions and actions, including financial and operational priorities, as well as firm leadership's ability to influence decisions about the firm's resources
- Other matters such as the firm's culture, how it demonstrates a commitment to quality, and how responsibilities with respect to the system of QM are assigned may also be addressed

27

Engagement Performance

28

Engagement Performance



29

Resources

30

Resources

Human
Resources

Technological
Resources

Intellectual
Resources

31

Information & Communication

32

Information and Communication

- The information system identifies, captures, processes, and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources
- The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another

33

Monitoring & Remediation

34

Monitoring and Remediation

- The firm should establish a monitoring and remediation process to:
 - Provide relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management
 - Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis

35

Addressing Deficiencies

- The firm should evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process
- The firm should evaluate the severity and pervasiveness of identified deficiencies by
 - Investigating the root causes of the identified deficiencies
 - Evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management

36

Addressing Deficiencies Cont'd

- The firm should design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis

37

Addressing Deficiencies Cont'd

- The firm should respond to circumstances in which findings indicate that there is an engagement for which required procedures were omitted during the performance of the engagement, or that the report issued may be inappropriate
- The firm's response should include the following:
 - Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements
 - When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice

38

Evaluating the System



39

Evaluating the System

- Based on the evaluation, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management should conclude, on behalf of the firm, one of the following:
 - The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved
 - Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved
 - The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved

40

Effective Date



41

Effective Date

- Systems of quality management in compliance with the SQMS No. 1 are required to be designed and implemented by December 15, 2025
- The evaluation of the system of quality management required by the SQMS No. 1 is required to be performed within one year following December 15, 2025

42

SQMS No. 2



43

Background

Statement on Quality Management Standards (SQMS), Engagement Quality Reviews

- Issued: June 2022
- Background:
 - Alignment with IAASB

44

Purpose

- SQMS No. 2 addresses the appointment and eligibility of the engagement quality reviewer and performance of engagement quality reviews
- Applies to all engagements for which an engagement quality review is required to be performed in accordance with SQMS No. 1
 - When the firm decides that an engagement quality review is an appropriate response to a quality risk

45

Why a Separate QMS?

- SQMS No. 1 requires a firm to determine when an engagement quality review is an appropriate response to quality risks
- SQMS No. 2 addresses the appointment and eligibility of the EQ reviewer and the performance of EQ reviews

46

Public Interest

- The public interest is served by the consistent performance of quality engagements
- Objective - An engagement quality review is an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon
 - Not an evaluation of whether the entire engagement complies with standards / regulatory requirements

Appointment and Eligibility

- The firm should establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual or individuals with the competence, capabilities, and appropriate authority within the firm to fulfill the responsibility

Appointment and Eligibility Cont'd

- The firm should establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer
- Those policies or procedures should require that such individuals
 - Not be members of the engagement team;
 - Have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and
 - Comply with relevant ethical requirements, including addressing threats to their objectivity and independence and, if applicable, the provisions of law and regulation

Appointment and Eligibility Cont'd

- The firm's policies or procedures should also address threats to objectivity created by an individual being appointed as the engagement quality reviewer after previously serving as the engagement partner

Appointment and Eligibility Cont'd

- The firm should establish policies or procedures that
 - Require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review; and
 - Address the engagement quality reviewer's responsibility for determining the nature, timing, and extent of the direction and supervision of individuals assisting in the engagement quality review and the review of their work

Impairment

- The firm should establish policies or procedures that address circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review is impaired and the appropriate actions to be taken by the firm, including the process for identifying and appointing a replacement in such circumstances

Completion of EQR

- The engagement quality reviewer should determine whether the requirements in SQMS 2 with respect to the performance of the engagement quality review have been fulfilled and whether the engagement quality review is complete
 - If so, the engagement quality reviewer should notify the engagement partner that the engagement quality review is complete

Documentation

- The firm should establish policies or procedures that require the engagement quality reviewer to take responsibility for documentation of the engagement quality review
- The firm should establish policies or procedures that require documentation of the engagement quality review and require that such documentation be included with the engagement documentation

Effective Date

- For audits or reviews of financial statements for periods beginning on or after December 15, 2025
- For other engagements in the firm's accounting and auditing practice beginning on or after December 15, 2025

55

Engagement Level



56

Engagement Level Guidance

SAS 146

SSARS 26

Pending
SSAE

57

2024 Yellow Book



58

Background

Government Auditing Standards 2024 Revision

- Issued: February 1, 2024
- Background:
 - Contains major changes from, and supersedes, Government Auditing Standards 2018 Revision Technical Update April 2021
 - Chapter 5, "Quality Management, Engagement Quality Reviews, and Peer Review" in the 2024 revision replaces Chapter 5, "Quality Control and Peer Review," in the 2018 Revision
 - Application guidance is added to Chapter 6, "Standards for Financial Audits"

59

Major Changes

- Some of the changes in the 2024 Revision of Government Auditing Standards reflect:
 - An emphasis on the responsibility of an audit organization's leadership for proactively managing quality on its engagements
 - An approach that promotes scalability of the system of quality management for use by audit organizations differing in size and complexity
 - A risk-based process for achieving the objectives of quality management
 - A change in approach from quality control to quality management
 - Flexibility for audit organizations subject to other quality management standards to avoid the burden of designing, implementing, and operating separate systems of quality management
 - Promotion of proactive and effective monitoring activities and increased emphasis on tailoring monitoring activities
 - Provisions for optional engagement quality reviews of GAGAS engagements
 - Application guidance on key audit matters for when they may apply to financial audits of government entities and entities that receive government financial assistance

60

Convergence

- Aligns significantly with AICPA & IAASB QM standards
 - Same effective date as AICPA

61

Quality Management Overview



62

Objective

- The objective of a system of QM is to provide the audit organization with reasonable assurance that the audit organization and its personnel
 - Fulfill their responsibilities in accordance with professional standards and applicable laws and regulations and
 - Perform and report on engagements in accordance with such standards and requirements

Components of QM

- Governance and leadership
- Independence, legal, and ethical requirements
- Acceptance, initiation, and continuance of engagements
- Engagement performance
- Resources
- Information and communication

Processes

- The risk assessment process includes assessing and responding to risks to achieving the quality objectives
- The monitoring and remediation process includes
 - Providing relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management
 - Taking appropriate actions to respond to and remediate identified deficiencies in the system of quality management
 - Enabling the audit organization to assess compliance with professional standards and with policies and procedures it has established to address quality risks

Risk Based Approach

- Establishing the desired outcomes relative to the components of the system of quality management
 - Referred to as quality objectives
- Identifying and assessing risks to achieving the quality objectives
 - Referred to as quality risks
- Designing and implementing responses to address quality risks

Requirements

- An audit organization must design, implement, and operate a system of quality management that provides it with **reasonable assurance** that the audit organization and its personnel
 - Fulfill their responsibilities in accordance with professional standards and applicable laws and regulations and
 - Perform and report on engagements in accordance with such standards and requirements

Nongovernment Audit Orgs

- A nongovernment audit organization subject to the quality management standards of recognized organizations should comply with the respective organization's QM requirements and the requirements of paragraphs 5.55c, 5.55d, & 5.74c
- Recognized Orgs
 - American Institute of Certified Public Accountants
 - International Auditing and Assurance Standards Board
 - Public Company Accounting Oversight Board

Additional Requirements

- 5.55c
 - If an engagement is terminated before it is completed and an audit report is not issued, document the results of the work to the date of termination and why the engagement was terminated
- 5.55d
 - If auditors change the engagement objectives during the engagement, document the revised engagement objectives and the reasons for the changes

Additional Requirements Cont'd

- 5.74c
 - Auditors who are performing work in accordance with GAGAS meet the continuing professional education (CPE) requirements

Government Audit Organizations

- Government audit organizations should comply with the GAGAS quality management requirements in paragraphs 5.05 through 5.138 and, if applicable, engagement quality review requirements in paragraphs 5.139 through 5.154

Non-Govs Not Subject to Recognized Orgs

- Nongovernment audit organizations not subject to the quality management standards of one of the recognized organizations in paragraph 5.07 should comply with the GAGAS quality management requirements in paragraphs 5.05 through 5.138 and, if applicable, engagement quality review requirements in paragraphs 5.139 through 5.154

Effective Date

- Effective for financial audits, attestation engagements, and reviews of financial statements for periods beginning on or after December 15, 2025, and for performance audits beginning on or after December 15, 2025



Effective Date Cont'd

- A system of quality management that complies with Government Auditing Standards is required to be designed and implemented by December 15, 2025
- An audit organization should complete its evaluation of the system of quality management by December 15, 2026

Effective Date Cont'd

- Early implementation is permitted

75

Uniform Guidance



76

Updates

2024 Uniform
Guidance

2024
Compliance
Supplement

Data
Collection
Form

77

Let's Keep in Touch



gls.advancecpe.com (*webinar*)



gls.lcvista.com (*on-demand*)



moneymattersfornonprofits.com



galassolearningsolutions.com/subscribe



linkedin.com/company/galassolearning

78

3, 2, 1 Method of Applying New Knowledge

3 things I learned

2 actions to apply what I learned

1 way I will share my learning



79



What Questions Do You Have?



Melisa F. Galasso
Chief Executive

Melisa@galassolearningsolutions.com
<https://galassolearningsolutions.com>

Content last reviewed: 4/17/24

Galasso Learning Solutions ©2024

80



FRAUD, WASTE, AND ABUSE IN GOVERNMENT AND GOVERNMENTAL PROGRAMS

May 2, 2024

Presented by David Cotton



Governmental Accounting & Auditing Conference

Fraud, Waste, and Abuse in Government and Governmental Programs

Dave Cotton, CPA, CFE, CGFM

dave@cottoncfe.com

DAVID L. COTTON, CPA, CFE, CGFM
CHAIRMAN EMERITUS, COTTON & COMPANY

Dave Cotton is founder and Chairman Emeritus of Cotton & Company, Certified Public Accountants, headquartered in Alexandria, Virginia. Cotton & Company was founded in 1981 and has a practice concentration in assisting Federal and State agencies, inspectors general, and government grantees and contractors with a variety of government program-related assurance and advisory services. Cotton & Company has performed grant and contract, indirect cost rate, financial statement, financial related, and performance audits for more than three dozen Federal inspectors general as well as numerous other Federal and State organizations, programs, activities, and functions. In April 2022, Cotton & Company became a wholly owned subsidiary of Sikich LLP.

Cotton & Company's Federal agency audit clients have included the U.S. Government Accountability Office, Public Company Accounting Oversight Board, U.S. Navy, U.S. Marine Corps, U.S. Transportation Command, U.S. Defense Security Cooperation Agency, U.S. House of Representatives, U.S. Capitol Police, U.S. Small Business Administration, U.S. Bureau of Prisons, Millennium Challenge Corporation, U.S. Marshals Service, and Bureau of Alcohol, Tobacco, Firearms and Explosives. Cotton & Company also assists numerous Federal agencies in preparing financial statements and improving financial management, accounting, and internal control systems.

Dave received a BS in mechanical engineering and an MBA in management science and labor relations from Lehigh University in Bethlehem, PA. He also pursued graduate studies in accounting and auditing at the University of Chicago Graduate School of Business. He is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM).

Dave served on the Advisory Council on Government Auditing Standards (the Council advises the United States Comptroller General on promulgation of **Government Auditing Standards**—GAO's yellow book). He served on the Institute of Internal Auditors (IIA) Anti-Fraud Programs and Controls Task Force and co-authored **Managing the Business Risk of Fraud: A Practical Guide**. He served on the American Institute of CPAs Anti-Fraud Task Force and co-authored **Management Override: The Achilles Heel of Fraud Prevention**. Dave is the past chair of the **AICPA Federal Accounting and Auditing Subcommittee** and has served on the **AICPA Governmental Accounting and Auditing Committee** and the **Government Technical Standards Subcommittee of the AICPA Professional Ethics Executive Committee**. Dave chaired the Fraud Risk Management Task Force, sponsored by COSO and ACFE and is a principal author of the **COSO-ACFE Fraud Risk Management Guide**. Dave co-chaired a task force to update the **COSO-ACFE Fraud Risk Management Guide**. In May 2022, Governor Glenn Youngkin appointed Dave to the Virginia Board of Accountancy.

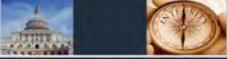
Dave served on the board of the Virginia Society of Certified Public Accountants (VSCPA) and on the **VSCPA Litigation Services, Professional Ethics, Quality Review, and Governmental Accounting and Auditing Committees**. He is a member of the Association of Government Accountants (AGA) and past-advisory board chairman and past-president of the AGA Northern Virginia Chapter and past Vice Chair of the **AGA Professional Ethics Board**. He is also a member of the IIA and the Association of Certified Fraud Examiners. Dave is presently serving on the National Association of State Boards of Accountancy (NASBA) Regulatory Response Committee.

Dave has testified as an expert in governmental accounting, auditing, and fraud issues before the United States Court of Federal Claims, the Armed Services Board of Contract Appeals, and other administrative and judicial bodies.

Dave has spoken and written frequently on cost accounting, professional ethics, and auditor fraud detection responsibilities. He has been an instructor for the George Washington University Master of Accountancy program (**Fraud Examination and Forensic Accounting**) and has instructed for the George Mason University Small Business Development Center (**Fundamentals of Accounting for Government Contracts**).

Dave was the recipient of the **ACFE 2018 Certified Fraud Examiner of the Year Award** ("presented to a CFE who has demonstrated outstanding achievement in the field of fraud examination ... based on their contributions to the ACFE, to the profession, and to the community"); **AGA's 2012 Educator Award** ("to recognize individuals who have made significant contributions to the education and training of government financial managers"); and **AGA's 2006 Barr Award** ("to recognize the cumulative achievements of private sector individuals who throughout their careers have served as a role model for others and who have consistently exhibited the highest personal and professional standards").

Disclaimer



The views expressed in this presentation are my views and do not necessarily align with the views of the Virginia Board of Accountancy.

1

Session Outline

- Government Fraud vs. Nongovernment Fraud
- Definitions: Fraud, Waste, Abuse
- Yellow Book Requirements
- Uniform Guidance Requirements
- GAO's Framework for Managing Fraud Risks in Federal Programs
- Good-Bad-Ugly Stories (Mostly Bad and Ugly)

2

Government Fraud vs. Nongovernment Fraud

3

Government/Nongovernment Fraud

- Governments have enterprise operations akin to private sector enterprises
- All of the frauds that can happen in private enterprises can happen in governments
- But, governments have additional fraud risks due to the nature governments and governmental programs
- My assessment is that fraud risk (and fraud) in government is significantly greater than private sector fraud

4

Governmental Accounting & Auditing Conference

The Government Fraud Risk Environment

- ☐ Fraudsters go where there is money and opportunity
- ☐ Broad, diverse, and complex programs and operations
- ☐ Interdependencies and stovepipes
- ☐ Complex benefit eligibility, with voluminous implementing regulations
- ☐ Fraud risk secondary to public policy/program delivery considerations
- ☐ Underground economy impact on tax revenues
- ☐ Blurred lines between fraud, waste, abuse, and mismanagement
- ☐ Impact of technology and cyber risks
- ☐ Capacity to perform given fiscal and human capital challenges
- ☐ Detection versus prevention
- ☐ IG / Justice Department role versus management role
- ☐ Culture and accountability
- ☐ Low public confidence in performance



© 2016 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

5

With permission from and thanks to Jeff Steinhoff, Director, KPMG Government Institute

5

The Biggest Fraud-Related Problem in Government

P.S.O.P.M.

6

The Biggest Fraud-Related Problem in Government

P.S.V.L.A.O.P.M.

7

Definitions:
Fraud, Waste, Abuse

8

Fraud

*Fraud involves **obtaining something of value through willful misrepresentation**. Whether an act is, in fact, fraud is determined through the judicial or other adjudicative system and is beyond auditors' professional responsibility. [GAGAS 8.73]*

9

Waste

*Waste is the act of **using or expending resources carelessly, extravagantly, or to no purpose**. Importantly, waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight. [GAGAS 6.21]*

10

Waste Examples

- a. Making travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive.*
- b. Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive.*

[GAGAS 6.22]

11

Abuse

*Abuse is behavior that is **deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary** business practice given the facts and circumstances, but **excludes fraud and noncompliance** with provisions of laws, regulations, contracts, and grant agreements. Abuse also includes **misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.*** [GAGAS 6.23]

12

Abuse Examples

- a. *Creating unneeded overtime.*
- b. *Requesting staff to perform personal errands or work tasks for a supervisor or manager.*
- c. *Misusing the official's position for personal gain (including actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an official's personal financial interests or those of an immediate or close family member; a general partner; an organization for which the official serves as an officer, director, trustee, or employee; or an organization with which the official is negotiating concerning future employment).*

[GAGAS 6.24]

13

Do We Need to Search for Fraud, Waste, or Abuse?

*Because the determination of waste and abuse is subjective, auditors are **not required to perform specific procedures to detect waste or abuse in financial audits**. However, auditors may consider whether and how to communicate such matters if they become aware of them. Auditors may also discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements.*

[GAGAS 6.20]

14

Governmental Accounting & Auditing Conference

But ...

An auditor conducting an audit in accordance with GAAS is responsible for obtaining reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

[AU-C Section 24.05]

15

But ...

The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

[(PCAOB) AS 1001.02]

16

GAAS and PCAOB Standards Require a Lot of Work Related to Fraud

- Fraud risk assessment
- Responding to fraud risks
- Brainstorming
- Expanded fraud inquiries
- High degree of professional skepticism
- Addressing the risk of management override of controls
- Documenting the consideration of fraud

17

Do We Need to *Decide* If It's Fraud, Waste, or Abuse?

- Report what you found; no need to label it.
 - Condition
 - Cause
 - Criterion
 - Effect

18

Governmental Accounting & Auditing Conference



[shutterstock.com]

19

Fraud, Waste, and Abuse Often Overlap

20

Governmental Accounting & Auditing Conference

Case Study

Who Is This Man?



Source: foxbusiness.com

21

Case Study

Who Is This Man?



Source: foxnews.com

22

Governmental Accounting & Auditing Conference

Case Study

Waste, Abuse, or Fraud?

- Jeff Neely was GSA regional commissioner and oversaw a lavish \$822,000 training conference in Las Vegas in 2010
- The waste and abuse included:
 - \$136,000 on pre-conference scouting trips to the Las Vegas hotel
 - \$146,000 for catered food
 - \$6,300 on commemorative Recovery Act coins housed in velvet boxes
 - \$75,000 on a bicycle-building training exercise.

Source:  FEDERAL NEWS RADIO
PROGRAM

23

Case Study

Waste, Abuse, or Fraud?

- Neely was indicted in September 2014 on five counts of falsely claiming reimbursement for pleasure trips or airplane tickets that he did not use
- Neely pleaded guilty to one count of fraud against the government in April 2015
- Neely was sentenced in June 2015 to 3 months in prison, 3 months under home confinement, and 3 years of probation
- Neely was ordered to pay \$8,000 in restitution, a \$2,000 fine, and a \$100 special assessment penalty

Source:  FEDERAL NEWS RADIO
PROGRAM

24

Governmental Accounting & Auditing Conference

The Washington Post
Democracy Dies in Darkness

FEDERAL INSIDER

Government exec who famously partied in a hot tub on taxpayers' dime is sentenced to prison



By [Lisa Rein](#)

July 1, 2015 at 2:35 a.m. EDT

<https://www.washingtonpost.com/news/federal-eye/wp/2015/07/01/government-exec-who-famously-partied-in-a-hot-tub-on-taxpayers-dime-is-sentenced-to-prison/>

25

Yellow Book Requirements

26

Governmental Accounting & Auditing Conference

Keep in Mind ...

For financial audits ..., GAGAS incorporates by reference AICPA Statements on Auditing Standards

[GAGAS 2.13]

So, study AU-C Section 240, *Consideration of Fraud in a Financial Statement Audit*, very carefully.


27

Supplemental GAGAS Requirements

Reporting

Include in either the report on internal control or compliance information about fraud when you identify or suspect fraud that is material—*either quantitatively or qualitatively*—to the financial statements.

[GAGAS 6.42]



\$822,000 was not quantitatively material to GSA's financial statements, but consider the damage that that waste/abuse/fraud caused

28

Supplemental GAGAS Requirements

Communicate in writing to audited entity officials

When you have obtained evidence of identified or suspected fraud that is less than material but warrant the attention of those charged with governance.

[GAGAS 6.45]

29

Supplemental GAGAS Requirements

Direct reporting

If *management* fails to report instances of fraud/suspected fraud to required external parties; the auditor should communicate that failure to those charged with governance.

If the entity still fails to report to the required external parties, the auditor should report directly to the specified external parties.

[GAGAS 6.54]

Auditors should comply with the requirements in paragraph 6.54 even if they have resigned or been dismissed from the audit prior to its completion. [GAGAS 6.55]

30

Uniform Guidance Requirements

31

§ 200.113 Mandatory Disclosures

*The non-Federal entity or applicant for a Federal award **must disclose**, in a timely manner, in writing to the Federal awarding agency or pass-through entity **all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award**. ... Failure to make required disclosures can result in any of the remedies described in **§ 200.339***

32

§ 200.415 Required Certifications

Fiscal reports and vouchers requesting payments must include:

*By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the Federal award. I am aware that **any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise.***

33

§ 200.515 Audit Reporting

Findings and questioned costs for Federal awards which must include audit findings as defined in [§ 200.516\(a\)](#).

*(i) Audit findings (e.g., internal control findings, compliance findings, questioned costs, or **fraud**) that relate to the same issue must be presented as a single audit finding. Where practical, audit findings should be organized by Federal agency or pass-through entity.*

34

§ 200.516 Audit Findings

a) The auditor **must report** the following as audit findings in a schedule of findings and questioned costs:

... (6) **Known or likely fraud** affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards. This paragraph does not require the auditor to report publicly information which could compromise investigative or legal proceedings or to make an additional reporting when the auditor confirms that the fraud was reported outside the auditor's reports under the direct reporting requirements of GAGAS.

35

§ 200.1 Definitions

Cooperative audit resolution means the use of audit follow-up techniques which promote prompt corrective action by improving communication, fostering collaboration, promoting trust, and developing an understanding between the Federal agency and the non-Federal entity. This approach is based upon:

...

(5) **Federal agency leadership sending a clear message that continued failure to correct conditions identified by audits which are likely to cause improper payments, fraud, waste, or abuse is unacceptable and will result in sanctions.**

36

Coming Soon (?) ... [9/21/2023 Proposed Update]

*OMB is considering requiring additional preaward certifications for fixed amount awards to address the **potential increased risk of fraud** under fixed amount awards.*

37

Coming Soon (?) ... [9/21/2023 Proposed Update]

*A Federal agency may **impute the fraudulent, criminal, or other improper conduct of any officer, director, shareholder, partner, employee, or other individual associated with an organization to that organization** when the improper conduct occurred in connection with the individual's performance of duties for or on behalf of that organization, or with the organization's knowledge, approval or acquiescence.*

38

Coming Soon (?) ... [9/21/2023 Proposed Update]

*A Federal agency may **impute the fraudulent, criminal, or other improper conduct of any organization to an individual**, or from one individual to another individual, if the individual to whom the improper conduct is imputed either participated in, had knowledge of, or reason to know of the improper conduct.*

39

Coming Soon (?) ... [9/21/2023 Proposed Update]

*A Federal agency may **impute the fraudulent, criminal, or other improper conduct of one organization to another organization** when the improper conduct occurred in connection with a partnership, joint venture, joint application, association, corporation, company, or similar arrangement or with the organization's knowledge, approval, or acquiescence, or when the organization to whom the improper conduct is imputed has the power to direct, manage, control or influence the activities of the organization responsible for the improper conduct.*

40

Governmental Accounting & Auditing Conference

Coming Soon (?) ... [9/21/2023 Proposed Update]

*Subrecipients under the Federal award **must certify to the pass-through** entity whenever applying for funds, requesting payment, and submitting reports:*

*"I certify to the best of my knowledge and belief that the information provided herein is true, complete, and accurate. I am aware that the **provision of false, fictitious, or fraudulent information**, or the omission of any material fact, may subject me to criminal, civil, or administrative consequences including, but not limited to violations of U.S. Code Title 18, Sections 2, 1001, 1343 and Title 31, Sections 3729-3730 and 3801-3812." ...*

*This paragraph **applies to all tiers of subrecipients.***

41

Coming Soon (?) ... [9/21/2023 Proposed Update]

Subpart G—Suspension § 180.700

New Subparts

Subpart H—Debarment § 180.800 What are the causes for debarment?

A Federal agency may debar a person for:

*(a) **Conviction of or civil judgment for:***

*(1) **Commission of fraud or a criminal offense** in connection with obtaining, attempting to obtain, or performing a public or private agreement or transaction;*

...

42

What About the Compliance Supplement?

- The Compliance Supplement incorporates or mirrors many of the fraud-related requirements in the Uniform Guidance
- But, the Compliance Supplement also includes numerous program-specific requirements related to fraud
- “Fraud” appears 92 times in the 2,061-page 2023 Compliance Supplement

43

What About the Compliance Supplement?

- E.g., Under LIHEAP: *“Grant recipients must establish appropriate systems and procedures to prevent, detect and correct waste, fraud, and abuse, by clients, vendors, and administering agencies.”*
- E.g., Under CCDF: *“Lead Agencies shall recover child care payments that are the result of fraud. These payments shall be recovered from the party responsible for committing the fraud.”*

44

Governmental Accounting & Auditing Conference

Grantee Fraud Examples

- Charging personal expenses as business expenses against the grant
- Charging for costs which have not been incurred or are not attributable to the grant
- Charging for inflated labor costs or hours, or categories of labor which have not been incurred (for example, fictitious employees, contractors or consultants)
- Falsifying information in grant applications or contract proposals
- Billing more than one grant or contract for the same work
- Falsifying test results or other data
- Substituting approved materials with unauthorized products
- Misrepresenting a project's status to continue receiving government funds
- Charging higher rates than those stated or negotiated for in the bid or contract
- Influencing government employees to award a grant or contract to a particular company, family member, or friend

Source: [Grants.gov](https://www.grants.gov)

45

Case Study

The Case of the Profitable Internal Service Center

46

Governmental Accounting & Auditing Conference

True Story

ICF-Kaiser International, Inc

- ✓ In the late 1980s and early 1990s ICF was a major Federal government contractor/grantee
- ✓ ICF used an internal service center to provide computer services to its divisions and their employees
- ✓ The computer center charged “customers” at “commercial equivalent” rates
- ✓ Each year, the center reconciled its actual costs with its billings to “customers”

47

True Story

ICF-Kaiser International, Inc

- ✓ The difference (always an excess of revenues over costs) should have been either (a) credited back to “customers” or (b) credited to an indirect cost pool
- ✓ Instead of booking these credits, ICF recorded the difference as a “contingency”
- ✓ Cotton & Company was the EPA-OIG-assigned cognizant audit firm during the early 1990s
- ✓ During an audit of ICF’s indirect cost rates, C&C asked for and obtained access to ICF’s financial statement auditor’s workpapers

48

Governmental Accounting & Auditing Conference

True Story

ICF-Kaiser International, Inc

- ✓ In reviewing these workpapers, C&C noted the computer service center adjustment included in a workpaper supporting the corporation's contingent liabilities note disclosure
- ✓ The outside auditors had noted, on this workpaper, that once the government auditors had completed the audit of each year's indirect cost rates, if they had failed to find the adjustment, that year's adjustment would be reversed to retained earnings
- ✓ Cotton & Company referred this matter to the EPA IG's investigators

49

True Story

ICF-Kaiser International, Inc

- ✓ The EPA IG investigation was completed in 2000

50

Governmental Accounting & Auditing Conference

True Story

From the EPA-IG's March 2003 Semiannual Report

*During this reporting period, a final estimate of the value of the September 2000 settlement agreement between ICF Kaiser International, Inc., and the United States Attorney's Office, Eastern District of Virginia, was computed. Based upon the documentation provided by ICF and their representations during the settlement negotiations, the total value of the settlement was placed at **\$391,061,944**.*

Under the terms of the settlement agreement, ICF agreed to waive these cost claims, which in turn allowed the government to deobligate retained funds and avoid contract closing costs.

51

True Story

From the EPA-IG's March 2003 Semiannual Report

The settlement agreement was the culmination of a lengthy investigation that disclosed that ICF may have billed government contracts for computer center costs in excess of the costs actually incurred. The EPA and 17 other federal departments/agencies were affected by this settlement.

52

Governmental Accounting & Auditing Conference

Case Study

The Case of the Profitable Internal Service Center

OPPORTUNITY

FRAUD

**MOTIVE
PRESSURE**

**ATTITUDE
RATIONALIZATION**

53

Case Study

The Case of the Profitable Internal Service Center

FRAUD RISK FACTORS/INDICATORS

- Complex accounting (opportunity)
- Service center (opportunity)
- Struggling contractor (motivation)
- It's just government money (attitude/rationalization)

54

GAO's Framework for Managing Fraud Risks in Federal Programs

55

GAO's Fraud Risk Management Framework: Not Just for Federal Agencies



56

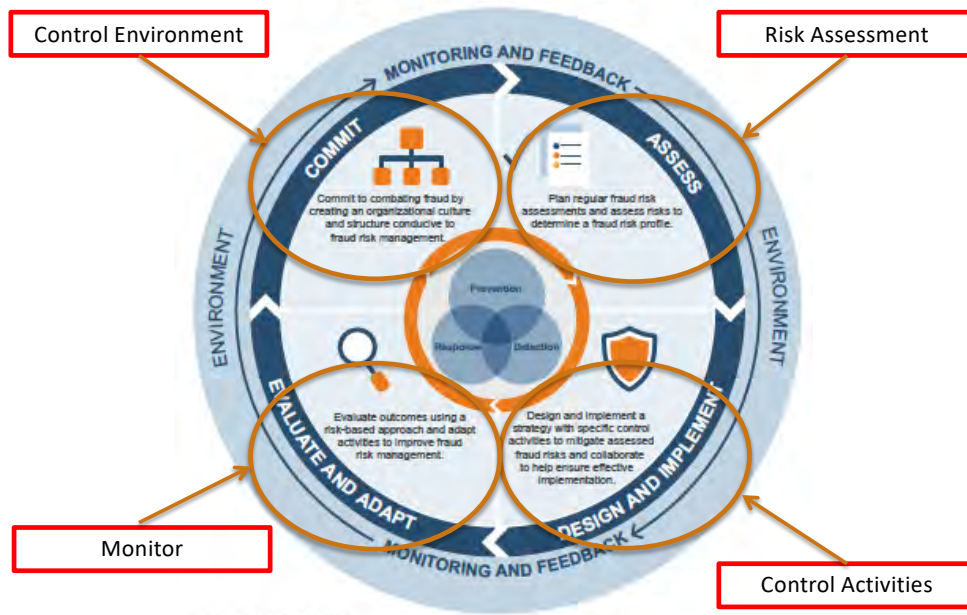
GAO's Fraud Risk Management Framework

"While the primary target audience of this study is managers in the U.S. federal government, the practices and concepts described in the Framework may also be applicable to state, local, and foreign government agencies, as well as nonprofit entities that are responsible for fraud risk management."

57

Nutshell View—Alignment with COSO

Figure 2: The Fraud Risk Management Framework



58

Governmental Accounting & Auditing Conference

Commit (Governance)

1 Commit to Combating Fraud by Creating an Organizational Culture and Structure Conducive to Fraud Risk Management

Table 1: Leading Practices for Creating a Culture and Structure to Manage Fraud Risks

1.1 Create an Organizational Culture to Combat Fraud at All Levels of the Agency

Demonstrate a senior-level commitment to integrity and combating fraud.

Involve all levels of the agency in setting an antifraud tone that permeates the organizational culture.

1.2 Create a Structure with a Dedicated Entity to Lead Fraud Risk Management Activities

Designate an entity to design and oversee fraud risk management activities that

- understands the program and its operations, as well as the fraud risks and controls throughout the program;*
- has defined responsibilities and the necessary authority across the program;
- has a direct reporting line to senior-level managers within the agency; and
- is located within the agency and not the Office of Inspector General (OIG), so the latter can retain its independence to serve its oversight role.

In carrying out its role, the antifraud entity, among other things

- serves as the repository of knowledge on fraud risks and controls;
- manages the fraud risk-assessment process;
- leads or assists with trainings and other fraud-awareness activities; and
- coordinates antifraud initiatives across the program.

Source: GAO. | GAO-15-593SP

*For the sake of consistency, we generally refer to programs throughout this study; however, the practices we discuss can apply to agencies as well. Managers decide whether to carry out each aspect of fraud risk management at the program level or agency level.

Cotton & Company

59

Commit (Governance)

1 Commit to Combating Fraud by Creating an Organizational Culture and Structure Conducive to Fraud Risk Management

Table 1: Leading Practices for Creating a Culture and Structure to Manage Fraud Risks

1.1 Create an Organizational Culture to Combat Fraud at All Levels of the Agency

Demonstrate a senior-level commitment to integrity and combating fraud.

Involve all levels of the agency in setting an antifraud tone that permeates the organizational culture.

1.2 Create a Structure with a Dedicated Entity to Lead Fraud Risk Management Activities

Designate an entity to design and oversee fraud risk management activities that

- understands the program and its operations, as well as the fraud risks and controls throughout the program;*
- has defined responsibilities and the necessary authority across the program;
- has a direct reporting line to senior-level managers within the agency; and

For the sake of consistency, we generally refer to programs throughout this study; however, the practices we discuss can apply to agencies as well. Managers decide whether to carry out each aspect of fraud risk management at the program level or agency level.

- manages the fraud risk-assessment process;
- leads or assists with trainings and other fraud-awareness activities; and
- coordinates antifraud initiatives across the program.

Source: GAO. | GAO-15-593SP

*For the sake of consistency, we generally refer to programs throughout this study; however, the practices we discuss can apply to agencies as well. Managers decide whether to carry out each aspect of fraud risk management at the program level or agency level.

Cotton & Company

60

Governmental Accounting & Auditing Conference

Assess (Fraud Risk Assessment)

2 Plan Regular Fraud Risk Assessments and Assess Risks to Determine a Fraud Risk Profile

Table 2: Leading Practices for Planning and Conducting Fraud Risk Assessments

2.1 Plan Regular Fraud Risk Assessments That Are Tailored to the Program
Tailor the fraud risk assessment to the program.
Plan to conduct fraud risk assessments at regular intervals and when there are changes to the program or operating environment, as assessing fraud risks is an iterative process.
Identify specific tools, methods, and sources for gathering information about fraud risks, including data on fraud schemes and trends from monitoring and detection activities.
Involve relevant stakeholders in the assessment process, including individuals responsible for the design and implementation of fraud controls.
2.2 Identify and Assess Risks to Determine the Program's Fraud Risk Profile
Identify inherent fraud risks affecting the program.
Assess the likelihood and impact of inherent fraud risks. <ul style="list-style-type: none"> Involve qualified specialists, such as statisticians and subject-matter experts, to contribute expertise and guidance when employing techniques like analyzing statistically valid samples to estimate fraud losses and frequency. Consider the nonfinancial impact of fraud risks, including impact on reputation and compliance with laws, regulations, and standards.
Determine fraud risk tolerance.
Examine the suitability of existing fraud controls and prioritize residual fraud risks.
Document the program's fraud risk profile.

Cotton & Company

Source: GAO. | GAO-15-593GP

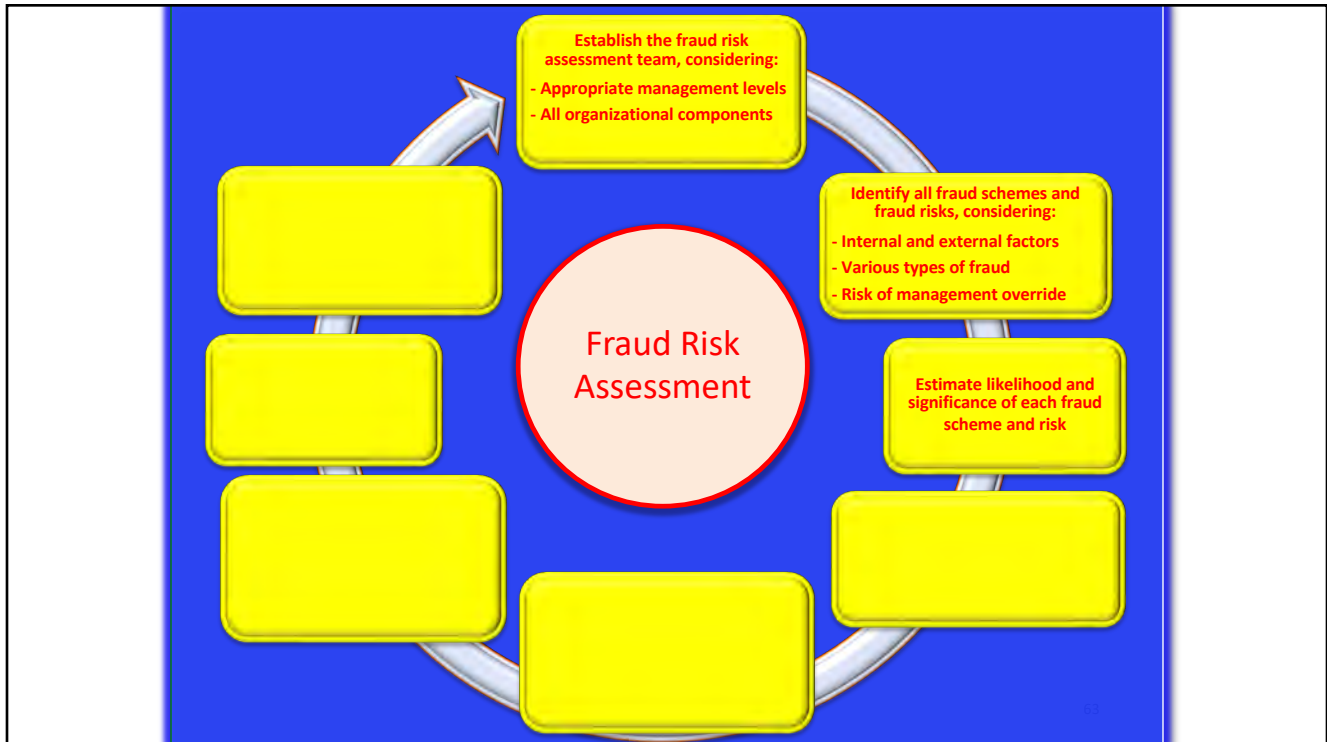
61

The Fraud Risk Assessment Process

Fraud Risk
Assessment

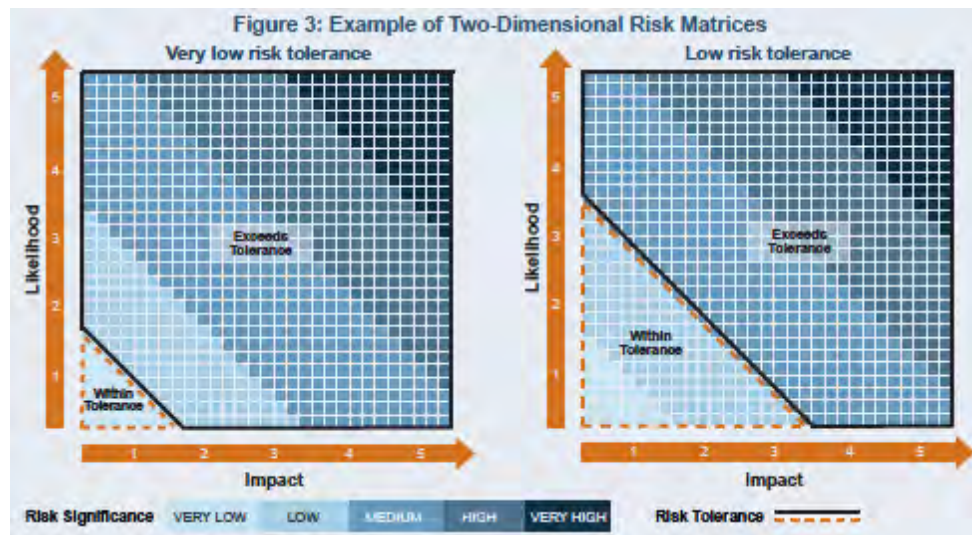
62

Governmental Accounting & Auditing Conference



63

Risk Matrices (Heat Map)



64

Governmental Accounting & Auditing Conference



65

Documenting the Fraud Risk Assessment

Figure 11. Fraud Risk Management Assessment Matrix Example

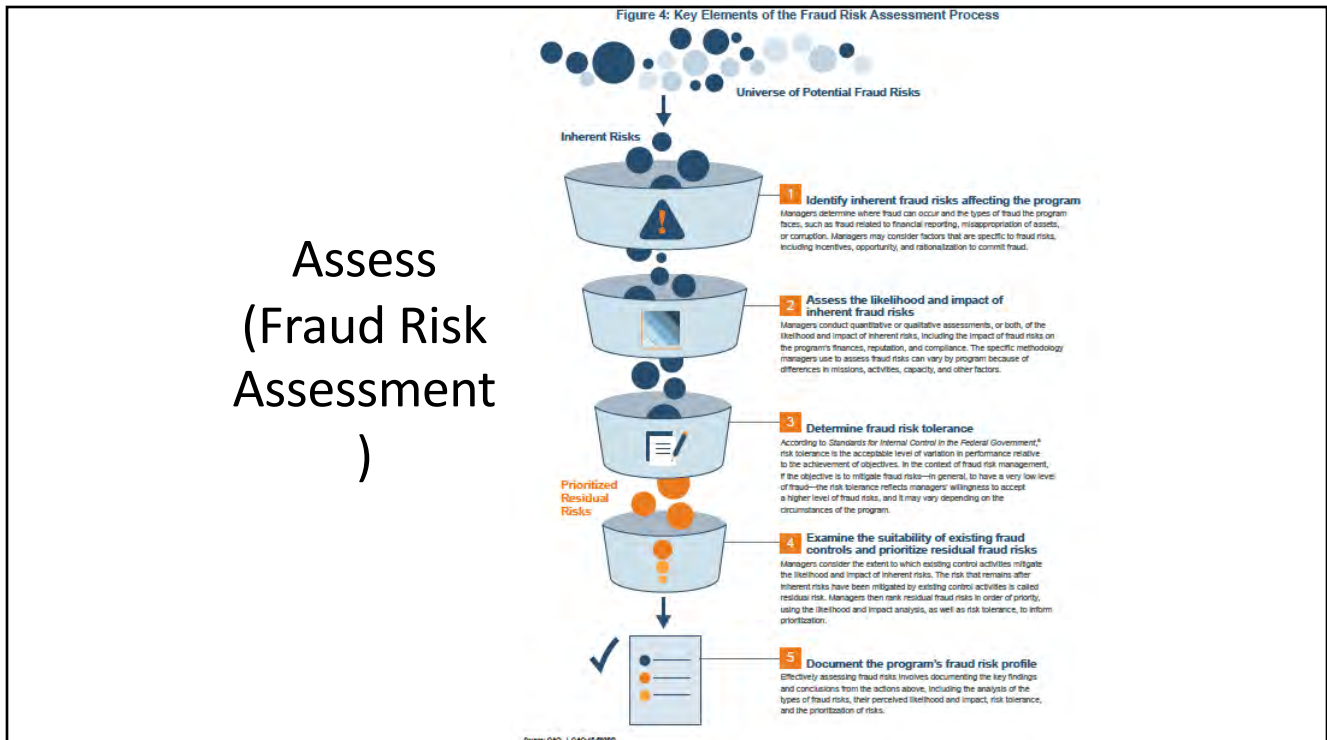
1. Identified Fraud Risks and Schemes	2. Likelihood	3. Significance	4. Personnel/ Departments Involved	5. Existing Fraud Control Activities	6. Effectiveness of Existing Control Activities	7. Residual Fraud Risks	8. Fraud Risk Responses
Financial Reporting • •							
Non-Financial Reporting • •							
Asset Misappropriation • •							
Illegal Acts and Corruption • •							

66

Governmental Accounting & Auditing Conference



67



68

Governmental Accounting & Auditing Conference

Design & Implement (Control Activities)

- 3 Design and Implement a Strategy with Specific Control Activities to Mitigate Assessed Fraud Risks and Collaborate to Help Ensure Effective Implementation

Table 3: Leading Practices for Designing and Implementing an Antifraud Strategy with Control Activities

3.1 Determine Risk Responses and Document an Antifraud Strategy Based on the Fraud Risk Profile
Use the fraud risk profile to help decide how to allocate resources to respond to residual fraud risks.
Develop, document, and communicate an antifraud strategy to employees and stakeholders that describes the program's activities for preventing, detecting, and responding to fraud, as well as monitoring and evaluation.
Establish roles and responsibilities of those involved in fraud risk management activities, such as the antifraud entity and external parties responsible for fraud controls, and communicate the role of the Office of Inspector General (OIG) to investigate potential fraud.
Create timelines for implementing fraud risk management activities, as appropriate, including monitoring and evaluations.
Demonstrate links to the highest internal and external residual fraud risks outlined in the fraud risk profile.
Link antifraud efforts to other risk management activities, if any.
3.2 Design and Implement Specific Control Activities to Prevent and Detect Fraud
Focus on fraud prevention over detection and response to avoid a "pay-and-chase" model, to the extent possible.
Consider the benefits and costs of control activities to address identified residual risks.
Design and implement the following control activities to prevent and detect fraud: ^a
<ul style="list-style-type: none"> • data-analytics activities, • fraud-awareness initiatives, • reporting mechanisms, and • employee-integrity activities.
3.3 Develop a Plan Outlining How the Program Will Respond to Identified Instances of Fraud
Develop a plan outlining how the program will respond to identified instances of fraud and ensure the response is prompt and consistently applied.
Refer instances of potential fraud to the OIG or other appropriate parties, such as law-enforcement entities or the Department of Justice, for further investigation.
3.4 Establish Collaborative Relationships with Stakeholders and Create Incentives to Help Ensure Effective Implementation of the Antifraud Strategy
Establish collaborative relationships with internal and external stakeholders, including other offices within the agency, federal, state, and local agencies; private-sector partners; law-enforcement entities; and entities responsible for control activities to assess other risks.

69

Overt Versus Covert Control Activities

- Overt—visible to everyone in the organization
 - Segregation of duties
 - Approved vendor list
 - Higher level approvals required for large transactions
 - Documentation
 - Physical counts
 - Reconciliations
 - Etc.
- Covert—known to only a few; operate quietly
 - Benford's Law/digital analysis
 - Database comparisons/other data analytics

70

Governmental Accounting & Auditing Conference

Evaluate & Adapt (Monitor)

4 Evaluate Outcomes Using a Risk-Based Approach and Adapt Activities to Improve Fraud Risk Management

Table 6: Leading Practices for Monitoring, Evaluating, and Adapting Fraud Risk Management Activities

4.1 Conduct Risk-Based Monitoring and Evaluate All Components of the Fraud Risk Management Framework
Monitor and evaluate the effectiveness of preventive activities, including fraud risk assessments and the antifraud strategy, as well as controls to detect fraud and response efforts.
Collect and analyze data, including data from reporting mechanisms and instances of detected fraud, for real-time monitoring of fraud trends and identification of potential control deficiencies.
Employ a risk-based approach to monitoring by taking into account internal and external factors that can influence the control environment, such as organizational changes and emerging risks.
Engage stakeholders responsible for specific fraud risk management activities in the monitoring and evaluation process.
4.2 Monitor and Evaluate Fraud Risk Management Activities with a Focus on Measuring Outcomes
Measure outcomes, in addition to outputs, of fraud risk management activities.
In the absence of sufficient data, assess how well managers follow recommended "leading practices" for designing fraud risk management activities.
4.3 Adapt Fraud Risk Management Activities and Communicate the Results of Monitoring and Evaluations
Use the results of monitoring and evaluations to improve the design and implementation of fraud risk management activities.
Use analysis of identified instances of fraud and fraud trends to improve fraud risk management activities, including prioritizing and taking corrective actions, as well as enhancing fraud-awareness trainings.
Use results of investigations and prosecutions to enhance fraud prevention and detection.
Communicate results of monitoring and evaluations, including corrective actions taken, if any, to relevant stakeholders.

Source: GAO. | GAO-15-593SP

71

Should GAO's Fraud Risk Management Cascade Down to the State/Local Levels?

- [My view] If they do it correctly, it will
- If a Federal agency simply does the fraud risk assessment just at the Federal level, it will be a failure
- Fraud risk needs to be assessed at EVERY level of a program: policy-making, grant management, program implementation at every level
- Ideally, Federal program managers will enlist state and local program personnel in the risk assessment process

72

Governmental Accounting & Auditing Conference

Should GAO's Fraud Risk Management Cascade Down to the State/Local Levels?

Table 2: Leading Practices for Planning and Conducting Fraud Risk Assessments

2.1 Plan Regular Fraud Risk Assessments That Are Tailored to the Program	
Tailor the fraud risk assessment to the program.	←
Plan to conduct fraud risk assessments at regular intervals and when there are changes to the program or operating environment, as assessing fraud risks is an iterative process.	
Identify specific tools, methods, and sources for gathering information about fraud risks, including data on fraud schemes and trends from monitoring and detection activities.	
Involve relevant stakeholders in the assessment process, including individuals responsible for the design and implementation of fraud controls.	←

73

GAO is following up to ensure implementation



United States Government Accountability Office
Report to Congressional Requesters

October 2018

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

Disseminating
Information on
Successful Use of
Data Analytics Could
Help States Manage
Fraud Risks

74

Governmental Accounting & Auditing Conference

GAO is following up to ensure implementation



United States Government Accountability Office
Report to Congressional Requesters

December 2018

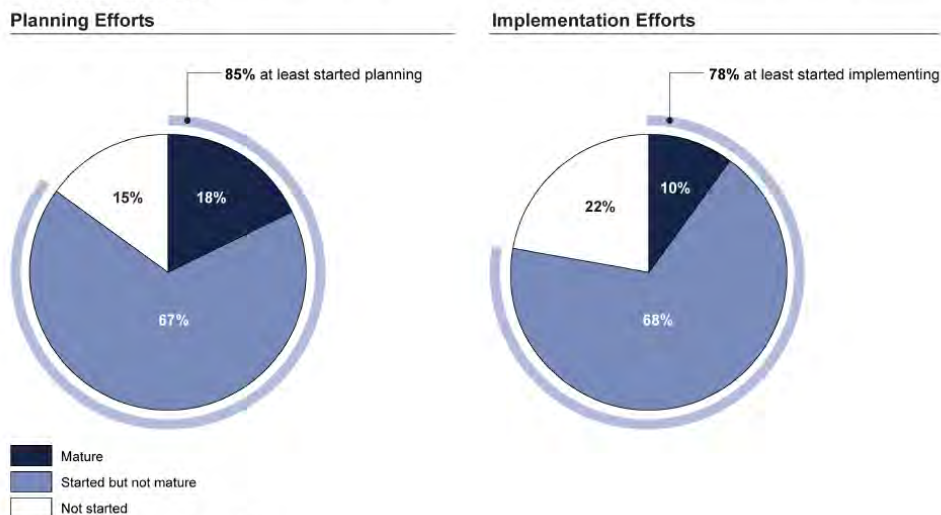
FRAUD RISK MANAGEMENT

OMB Should Improve
Guidelines and
Working-Group Efforts
to Support Agencies'
Implementation of the
Fraud Reduction and
Data Analytics Act

75

GAO is following up to ensure implementation

Figure 3: Agencies' Characterization of the Overall Status of Their Fraud Reduction and Data Analytics Act of 2015 Planning and Implementation Efforts



Source: GAO analysis of 2018 survey data. | GAO-19-34

76

GAO is following up to ensure implementation



77

Here's a Thought ...

- Federal program managers should be performing risk assessments and identifying fraud schemes to which their programs are vulnerable
- Maybe those managers should:
 - Share this knowledge with program personnel at every level: federal, state, local, grantee
 - Incorporate this knowledge into the Compliance Supplement so that auditors know exactly what to look/test for




78

Governmental Accounting & Auditing Conference

End Thoughts

- Fraud in government includes almost all of the same risk as in non-governmental organizations
- But, the nature of government and government programs add many more exposures to fraud risk
- Auditors of governments need to understand and take seriously their responsibilities to identify and report fraud, waste, and abuse
 - GAAS, GAGAS, Uniform Guidance, Compliance Supplement
- GAO's Fraud Risk Management Framework is now required by law and regulation
 - Federal program managers need to do a better job of assessing fraud risk and educating program personnel at all levels about these risks

79

	Governmental Accounting & Auditing Conference		
<i>Fraud, Waste, and Abuse in Government and Governmental Programs</i>			
Dave Cotton, CPA, CFE, CGFM dave@cottoncfe.com			

80



SINGLE AUDIT UPDATE AND UNIFORM GUIDANCE

May 2, 2024

Presented by Kurt Schlicker, CPA



CPAs & BUSINESS ADVISORS

SINGLE AUDIT UPDATE AND UNIFORM GUIDANCE

May 2, 2024

DISCLAIMER

This presentation is presented with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns, as the contents of this presentation are intended for general information purposes only. Viewers are urged not to act upon the information contained in this presentation without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and additional information can be submitted to your Eide Bailly representative, or to the presenter of this session.



PRESENTER



Kurt Schlicker, CPA

Partner

Reno, Nevada

AGENDA

Uniform Guidance Changes

Coronavirus State and Local Fiscal Recovery Fund
Update



UNIFORM GUIDANCE CHANGES

UNIFORM GUIDANCE AMENDMENT – ROUND 2

- Established at 2 CFR 200.109.
- OMB will review UG at least every 5 years after December 26, 2013.
- First amendment was back in 2019.
- Notice of Request for Information was published in February 2023.
- Notification of Proposed Guidance in October 2023.



PURPOSE?

- Incorporate statutory requirements and administration priorities.
- Reduce agency and recipient burden.
- Clarify sections that recipients/agencies have interpreted in different ways.
- Rewrite applicable sections in plain language.
- Intended to improve management, transparency, and oversight.
- Effective date is for awards issued after 10/1/24, unless earlier adopted by federal agency.





SUBPART A – ACRONYMS AND DEFINITIONS – ADDED

- For-profit organization – generally means an organization or entity organized for the purpose of earning a profit. The term includes but is not limited to:
 1. An “S corporation” incorporated under Subchapter S of the Internal Revenue Code;
 2. A corporation incorporated under another authority;
 3. A partnership;
 4. A limited liability company or partnership; and
 5. A sole proprietorship.

SUBPART A – ACRONYMS AND DEFINITIONS – REVISED

Equipment – increased the per unit cost to \$10,000 from \$5,000.

Federal agency – added clarity to the term of “agency”.

Improper payment – shortened the definition for clarity (see questioned costs).

Intangible property – expanded to include data, websites, IP licenses, trade secrets, and references to intellectual property, software, and software subscriptions.

SUBPART A – ACRONYMS AND DEFINITIONS – REVISED

Micro-purchase – shortened and clarified to mean an individual procurement transaction for supplies or services, the aggregate amount of which does not exceed the micro-purchase threshold.

Modified Total Direct Costs – updated the subaward exclusion from \$25,000 to \$50,000.

Questioned Costs – more details to follow.

SUBPART A – ACRONYMS AND DEFINITIONS – REVISED

Real property – revised to include legal interests in land (fee interest, licenses, rights of way, easements).

Subaward – added clarity that it also does not include payments to a participant.

Supply – increased to \$10,000.

Unliquidated financial obligation – clarified the intent for accrual basis.

SUBPART A – ACRONYMS AND DEFINITIONS – REVISED

- Questioned Cost – means an amount, expended or received from a federal award, that in the auditor’s judgment:
 - Is noncompliant or suspected noncompliant with federal statutes, regulations, or terms and conditions of the federal award;
 - At the time of the audit, lacked adequate documentation to support compliance; or
 - Appeared unreasonable and did not reflect the actions a prudent person would take in the circumstances.
- Questioned cost amounts for lack of documentation should be calculated as if the transaction was noncompliant:
 - There are no QC solely because of deficiencies in internal control or noncompliant with reporting (as long as the reporting does not affect amounts expended or received).





SUBPART A – ACRONYMS AND DEFINITIONS – REVISED

- Known questioned costs means a questioned cost specifically identified by the auditor.
- Likely questioned costs means the auditor's best estimate of total questioned costs.
- Questioned costs are not improper payments until confirmed.
- Questioned Cost Definition Impact:
 - **Payroll Considerations**
 - **Procurement Considerations**

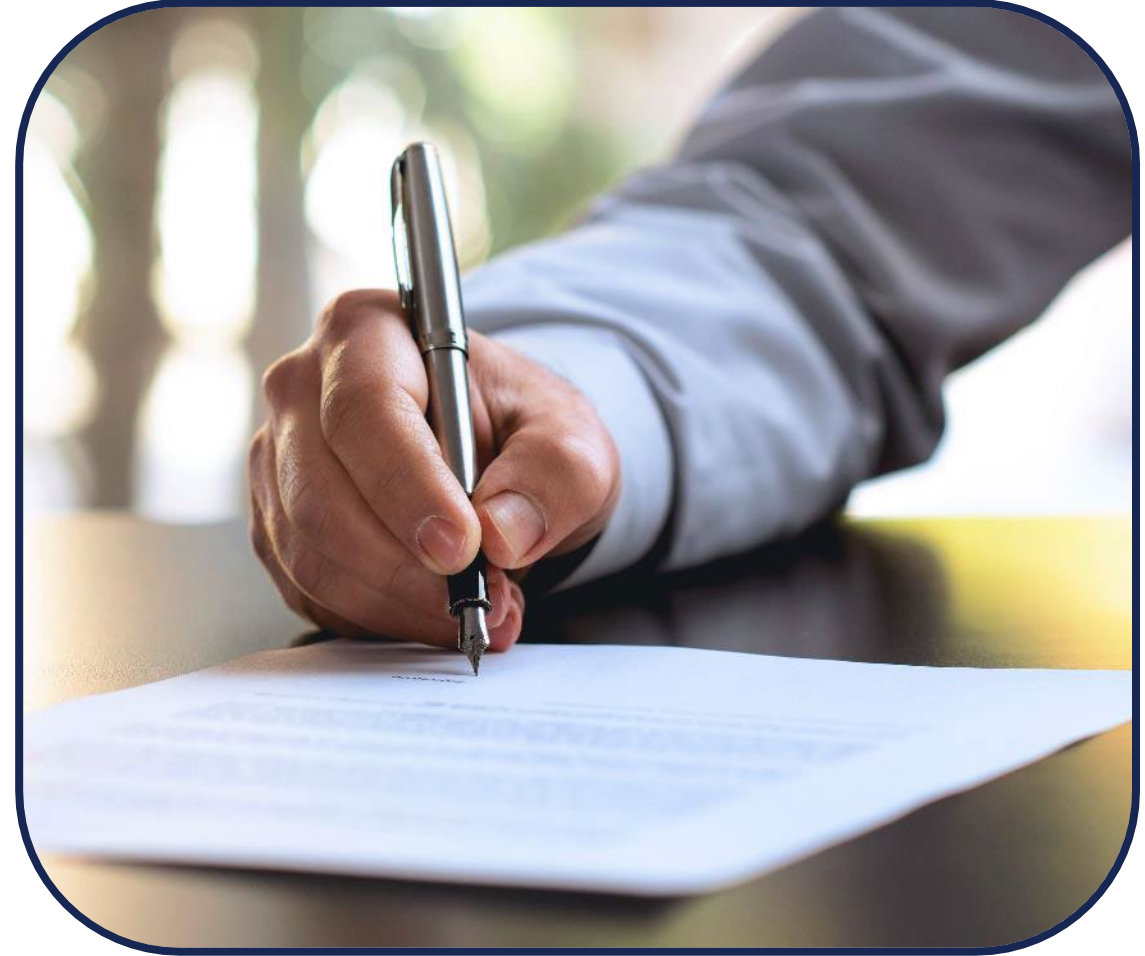
SUBPART B – GENERAL PROVISIONS

- 200.100 Purpose – minor wording changes.
- 200.101 Applicability:
 - Added some clarification that Subpart F (Audit Requirements) only applies to non-federal entities as defined in the Single Audit Act but that federal agencies should apply the requirements to all recipients in a consistent and equitable manner to the extent permitted:
 - Essentially paving the way for allowing federal agencies to require audits of for-profit organizations.
 - Will be left to the federal agency to decide the requirements for for-profit entities, including cost principles (FAR vs Subpart E).
 - Removed the applicability table from Paragraph b and now is in word version and restructuring in an attempt to add clarity.
 - Added clarification on what cost principles apply to fixed amount awards.



SUBPART B – GENERAL PROVISIONS

- 200.113 Mandatory disclosures – aligned this with the requirements under FAR:
 - Now requires timely disclosure based on credible evidence (versus a violation).
 - Added clarity that must be reported to federal agency, the related OIG office, pass-through entity in writing.
 - Now also includes subaward activity:
 - For example, if a State has credible evidence of fraud, conflict of interest, bribery, or gratuity violations at one of its subrecipients, the State must disclose.



SUBPART C – PRE-FEDERAL AWARD REQUIREMENTS AND CONTENTS OF FEDERAL AWARDS

- 200.216 Prohibition on certain telecommunications and video surveillance equipment or services – wording changes to add clarity:
 - Added clarity on recipients with prohibited equipment/services:
 - Funds expended, not a “use” restriction.
 - Added clarity on loan programs.
- 200.217 Whistleblower protections (new section):
 - An employee of a recipient or subrecipient may not be discharged, demoted, or otherwise discriminated against as a reprisal for disclosing to a person or body information that the employee reasonably believes is evidence of gross mismanagement of a federal contract or grant.

SUBPART D – POST FEDERAL AWARD REQUIREMENTS

- 200.303 Internal Controls:
 - Clarified an expectation that internal controls are documented.
 - Added cybersecurity to safeguard information, including protected personally identifiable information.
- 200.303 Federal Payment:
 - Clarified that subrecipients must be paid in advance provided they maintain a willingness to maintain written procedures and minimize the time elapsing between the transfer of funds and disbursement. In addition, financial management systems must meet the standards for fund control and accountability:
 - Big picture – advance payments to subrecipients should be the default for immediate cash needs (administratively feasible).
 - No change to when reimbursement is preferred - if the above cannot be met, when a specific condition per 200.208 is set, when requested by the subrecipient, or when the award is for construction.

SUBPART D – POST FEDERAL AWARD REQUIREMENTS

- 200.315 Intangible property:
 - Added language encouraging federal agencies to work with recipients to maximum public access to research results while protecting confidentiality, privacy, and security.
- 200.317 Procurements by states and Indian tribes:
 - Now includes tribes and allows them to follow their own procurement policies.
- 200.319 Competition:
 - Reinforces that contractors involved in developing or drafting the RFP are precluded from responding to the RFP.
 - Removed the express limitation on geographical preferences:
 - CAUTION – any scoring mechanisms still must be consistent with federal law and/or terms and conditions, thus they have provided flexibility to allow for geographical preference BUT confirm with the federal agency that its allowable.

SUBPART D – POST FEDERAL AWARD REQUIREMENTS

- 200.332 Requirements for pass-through entities:
 - Risk assessment should also include fraud risk (not just risk of noncompliance).
 - Added that pass-through entities must verify a subrecipient is not excluded (this was already a requirement but in section 180.300, added here as well for clarity).
 - Added the requirement to notify the federal agency of specific conditions added to subawards.
 - Clarified that monitoring corrective action is required on all significant developments that negatively affect the subaward:
 - Audit findings, site visits, other adverse conditions or impacts.
 - Clarified that they must follow-up on their awards but not responsible for cross-cutting findings.

SUBPART E – COST PRINCIPLES

- 200.401 Application:
 - Clarified that cost principles do not apply to capitation awards based on case counts/number of beneficiaries.
 - Food commodities provided through grants and cooperative agreements.
- 200.403 Factors affecting allowability of costs:
 - Added administrative closeout costs up until the due date of the final report (i.e., during the liquidation period and prior to submission of final report).
- 200.407 Prior written approval:
 - Removed many items (9) to reduce burden.

SUBPART E – COST PRINCIPLES

- 200.414 Indirect Costs:
 - Many plain language revisions.
 - De minimis increased from 10% to 15%.
 - Clarified must not require a lower rate unless established by law but not required to use it:
 - Clarified that an entity can voluntarily elect to use a lower rate.
 - Includes a condition that entities may contact OMB if there are indirect cost disputes although OMB is not a final arbiter, they may assist.



SUBPART F – AUDIT REQUIREMENTS

- 200.501 Audit requirements:
 - Updated the threshold from \$750K to \$1M.
- 200.510 Financial statements:
 - Proposed language was to add organizational unit (i.e., departments and agencies) to the SEFA:
 - This was removed and ultimately only minor wording changes were made.
- 200.512 Report submission:
 - Added language to allow the cognizant agency for audit or oversight agency may authorize an extension when the nine-month timeframe would place an undue burden on the auditee.
- 200.513 Responsibilities:
 - Added language to encourage federal agencies engage with external stakeholders on the compliance supplement.

SUBPART F – AUDIT REQUIREMENTS

- 200.514 Standards and scope of audit:
 - Clarified that auditees may prepare financial statements on a special purpose framework as required by State law.
 - Clarified to note that compliance testing must include audit procedures to support an opinion on compliance (appropriate audit evidence).
- 200.518 Major program determination:
 - The table changed due to the single audit threshold changing:
 - Type A is now \$1M instead of \$750K and the 3% threshold begins at \$34M rather than \$25M.
- Note Appendixes were generally updated to conform with the changes in Subpart A – F.



CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUND UPDATE

A top-down view of a workspace on a light teal surface. On the left, a silver laptop is partially visible. To its right is a white ceramic coffee cup with a red handle, filled with dark liquid. Below the cup is a white computer mouse. In the bottom left corner, there is a dark brown leather notebook with orange stitching and a white pen. Next to the notebook are a pair of tortoiseshell-rimmed glasses.

OBLIGATION INTERIM FINAL RULE

- Issued November 9, 2023.
- Original definition:
 - An order placed for property and services and entering into contracts, subawards, and similar transactions that require payment.
- Added definition:
 - Incurring an obligation by December 31, 2024, in connection with a requirement under federal law or regulation or a provision of the SLFRF award terms and conditions to which the recipient becomes subject as a result of receiving or expending funds.

OBLIGATION INTERIM FINAL RULE

- What does that mean?
- A recipient may use SLFRF funds to cover the costs of meeting the following:
 - Reporting and compliance requirements.
 - Single audit costs.
 - Record retention and internal control requirements.
 - Property standards.
 - Environmental compliance requirements.
 - Civil rights and nondiscrimination requirements.



OBLIGATION INTERIM FINAL RULE

- Subrecipients and Contractors:
 - Subrecipients are **not** subject to the December 31, 2024 obligation deadline.
 - Contractors do not need to take additional steps to obligate funds.
 - This means that payroll at subrecipients who are running the programs is allowable through December 31, 2026.
- Re-obligation:
 - If an obligation was entered into prior to December 31, 2024, recipients may replace the contract or subaward award if:
 - The recipient terminates the contract or subaward because of default, non-performance, or subrecipient goes out of business.
 - Award is terminated for convenience by both parties.
 - Recipient terminates for convenience if not properly awarded, there is clear evidence that it was improper, documentation. maintained, and original award was in good faith.
 - Note: Can't re-obligate to a new project that does not yet have an order placed for property or services.

UPDATED FAQ'S THAT ARE VERY IMPORTANT

17.5. What types of closeout costs are allowable after December 31, 2026, and how will recipients report these obligations and expenditures to Treasury?

Consistent with the revision to the definition of obligation in the Obligation IFR, recipients are considered to have incurred an obligation by December 31, 2024, with respect to costs to close out their SLFRF award pursuant to 2 CFR 200.344, the provision of the Uniform Guidance addressing closeout. Eligible costs may include the costs of administrative support, data security measures, review and reconciliation of the general ledger and other accounting matters, compliance with reporting requirements, bank reconciliation matters, preparation of and compliance with program policies and procedures, compliance with internal controls, single audit and program-specific audit matters, and closeout processes associated with subrecipient, contractor, and beneficiary relationships, among other costs. Recipients that provide an estimate of certain legal and administrative costs as discussed in FAQs 17.10-17.13 should include their estimate of closeout costs in such estimate.



UPDATED FAQ'S THAT ARE VERY IMPORTANT

17.6. Does an interagency agreement between departments and agencies within a recipient's government constitute an obligation?

See FAQ for full details but in summary:

- Yes, provided it:
 - Imposes conditions on use of funds.
 - Governs the provision of funds from one agency to another or governs the procurement of goods or services from one to another.
 - Sets specific requirements for scope of work.
 - Signed by the parties.
 - Does not disclaim any binding effect or state that it does not create rights/obligations.



UPDATED FAQ'S THAT ARE VERY IMPORTANT

Examples:

- Governors' office enters into MOU with State Education department to carry out a summer program.
- City manager's office enters into an agreement with the public safety department.
- County commissioner enters into an agreement with their housing agency and the County IT department supports the housing agency through an interlocal agreement.



UPDATED FAQ'S THAT ARE VERY IMPORTANT

17.7. May a recipient use SLFRF funds to cover personnel costs between January 1, 2025, and December 31, 2026?

Treasury will consider a recipient to have incurred an obligation with respect to personnel costs for an employee through December 31, 2026, to the extent the employee is serving in a position that was established and filled prior to December 31, 2024.



UPDATED FAQ'S THAT ARE VERY IMPORTANT

In the event of turnover of personnel, recipients may continue to pay different personnel in the same job position to the extent that the position in question was established and filled prior to December 31, 2024. Recipients may also reorganize positions within the scope of an eligible use of SLFRF after December 31, 2024, but may not use funds to cover any new positions after that date. For example, if an eligible project has filled ten job training specialist positions by December 31, 2024, the recipient may use funds to cover payroll for one of those training specialists who is promoted to supervise the other specialists after December 31, 2024, so long as there are no more than ten positions covered through SLFRF funds in total.



UPDATED FAQ'S THAT ARE VERY IMPORTANT

17.9. Are there any other circumstances besides those listed in FAQ 17.7 under which a recipient may cover personnel costs between January 1, 2025, and December 31, 2026?

Recipients may use SLFRF funds to pay personnel costs between January 1, 2025 and December 31, 2026 pursuant to an interagency agreement meeting certain conditions, as discussed in FAQ 17.6.



UPDATED FAQ'S THAT ARE VERY IMPORTANT

17.10. What sort of costs are considered legal and administrative costs for which funds may be used after 2024?

Under this provision, a recipient may use SLFRF funds to cover costs, including personnel costs, related to:

1. Reporting and compliance requirements, including subrecipient monitoring;
2. Single audit costs;
3. Record retention and internal control requirements;
4. Property standards;
5. Environmental requirements, including applicable requirements of the National Environmental Policy Act, section 106 of the National Historic Preservation Act, the Archaeological Resources Protection Act of 1979, and the Native American Graves Protection and Repatriation Act;
6. Civil rights and nondiscrimination requirements.



UPDATED FAQ'S THAT ARE VERY IMPORTANT

This is not an exhaustive list of requirements under federal laws or regulations or the SLFRF award terms and conditions to which recipients may be subject as a result of receiving or expending SLFRF funds.

Eligible costs related to reporting and compliance requirements under this provision, including personnel costs, include monitoring the activities of a subrecipient to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward, and that subaward performance goals are achieved.



QUESTIONS?



THANK YOU!

Kurt Schlicker, CPA
Partner
kschlicker@eidebailly.com
775.689.9234



CPAs & BUSINESS ADVISORS



CPAs & BUSINESS ADVISORS

Find us online:



eidebailly.com



UPDATE ON LEGISLATION RELATED TO OKC/ TOWN AGREED UPON PROCEDURE ENGAGEMENTS

May 2, 2024

Presented by Frank Crawford, CPA

**LIST OF PROCEDURES TO BE PERFORMED
IN AGREED-UPON PROCEDURES ENGAGEMENT**

	CITIES/TOWNS (O.S. Title 11, Section 17-105)	PUBLIC TRUSTS (O.S. Title 60, Section 180.1)
1	Prepare schedule of changes in fund balances for each fund and determine compliance with statutory prohibition of creating fund balance deficits	Prepare a schedule of revenues, expenditures/expenses and changes in fund balances/net assets for each fund and determine compliance with any applicable trust or other prohibitions for creating fund balance deficits.
2	Prepare a budget and actual financial schedule for General Fund and any other significant funds listing separately each federal fund and determine compliance with legal level of appropriations by comparing expenditures and encumbrances to authorized appropriations	N/A
3	Agree material bank account balances to bank statements and trace significant reconciling items to subsequent clearance.	Agree material bank account balances to bank statements and trace significant reconciling items to subsequent clearance.
4	Compare uninsured deposits to fair value of pledged collateral	Compare uninsured deposits to fair value of pledged collateral
5	Compare use of material restricted revenues and resources to their restrictions.	Compare use of material restricted revenues and resources to their restrictions.
6	Determine compliance with requirements for separate funds.	Determine compliance with requirements for separate funds.
7	Determine compliance with reserve account and debt service coverage requirements of bond indentures	Determine compliance with reserve account and debt service coverage requirements of bond indentures

Audits and Proposed Agreed-Upon Procedures Engagements for Oklahoma Municipalities

OSCPA GAA Conference
May 2-3, 2024
Presented by – Frank Crawford, CPA



1

Contact Information

- * Frank Crawford, CPA, President
- * Crawford & Associates, P.C.
- * 10308 Greenbriar Place
- * Oklahoma City, OK 73159
- * Office: 405-691-5550
- * Email: frank@crawfordcpas.com
- * Website: www.crawfordcpas.com



2

2

Audit and AUPs at a Glance

- * Why attestation (Audit and AUPs) at all?
- * Types of Audits and AUPs
- * Statutes Related to Audits and AUPs



3

3

Why any attestation at all?

- * In most cases, it's required
- * Accountability
- * Reliability
- * Assurance
- * Loans and grants



4

4

Types of Audits

- * External (Financial)
- * Internal
- * Forensic (Investigative)
- * Performance
- * Single Audit of Federal Grant Funds



5

5

Current Statutes Related to Audits

- * Cities and Towns (O.S. Title 11, Section 17-105)
- * Public Trusts (O.S. Title 60, Section 180.1)



6

6

Cities and Towns

- * Population greater than 2,500 (as of most recent Federal Decennial Census) and General Fund income greater than \$25,000 (excludes grants from governments)
 - * Audit required
 - * Must be ordered within 30 days of the close of the fiscal year
 - * Must be filed with the State Auditor and Inspector and with the governing body within 6 months after close of fiscal year
 - * Audit in accordance with generally accepted auditing standards and Government Auditing Standards
 - * Performed by an independent licensed PA or CPA



7

7

Cities and Towns

- * Population less than 2,500 (as of most recent Federal Decennial Census) and General Fund income greater than \$25,000 (excludes grants from governments)
 - * Can opt to have same audit as listed on previous slide OR
 - * Can opt to have an Agreed Upon Procedures performed IF audit not required by another law, regulation or contract
 - * Performed by an independent licensed PA or CPA
 - * In accordance with attestation standards of AICPA
 - * Specific procedures performed (Exhibit A)



8

8

Cities and Towns

- * General Fund income less than \$25,000 (excludes grants from governments)
 - * No audit or Agreed-Upon Procedures required
 - * Must complete SA&I Form 2644



9

9

Public Trusts

- * More than \$50,000 of assets or annual revenue
 - * Audit required
 - * Ordered within 30 days of close of fiscal year
 - * Audit in accordance with generally accepted auditing standards and Government Auditing Standards
 - * Performed by an independent licensed PA or CPA
 - * Filed with the State Auditor and Inspector within 6 months after close of fiscal year and with trustees and with governing body of beneficiary(ies)



10

10

Public Trusts

- * More than \$50,000 of assets or annual revenue AND for whom annual audit not required by another law, regulation or contract – has options:
 - * Financial statement audit OR
 - * Agreed-Upon Procedures
 - * Performed by an independent licensed PA or CPA
 - * In accordance with attestation standards of AICPA
 - * Specific procedures performed (Exhibit A)
 - * Must be ordered within 30 days of close of fiscal year



11

11

Public Trusts

- * Less than \$50,000 in annual revenue AND
- * Less than \$50,000 in assets AND
- * For whom annual audit not required by another law, regulation or contract AND
- * Did not have financial activity exceeding \$50,000 since last audit
- * May apply to State Auditor and Inspector for waiver of requirements in previous slides.



12

12

House Bills 1058 and 2362

- * 1058 passed, was signed by Gov earlier last year, but sunset due to inaction by the Legislature on HB 2362 on April 27, 2023; awaiting action this year
- * Would have caused significant changes to nearly all the aspects of the Title 11 current law (and Title 60 by default)
 - * Changing threshold limits of how much and what to include as revenue
 - * Certain size governments would have qualified for biennial audits instead of annual audits or biennial AUPs, each of which would have included the activity from both years of the biennial period
 - * New revised AUP procedures were determined by the State Auditor's office, with input and assistance from other organizations and individuals (HB 2362), but did not pass due to inaction by the legislature on April 27, 2023; although trying again this year.
 - * It would have also set up a fund for the State Auditor's office to utilize for special investigative audits of municipalities, the would have been funded primarily by municipalities forfeited gas excise taxes (depending upon the lateness of the audit or AUP), and other funds provided for such by the Oklahoma Legislature



13

13

HB 1058 and 2362 Cities and Towns: what could occur effective June 30, 2024

- * Population greater than 2,500 (as of most recent Federal Decennial Census) and revenue from all funds and component units of greater than \$50,000 (excludes grants from all other governments and excluding Title 60 non-utility public trusts), but does include revenue from Title 60 Public trusts that are utility based
 - * Annual Audit required
 - * Must be ordered within 30 days of the close of the fiscal year
 - * Must be filed with the State Auditor and Inspector and with the governing body within 6 months after close of fiscal year
 - * Audit in accordance with generally accepted auditing standards and Government Auditing Standards
 - * Performed by an independent licensed PA or CPA



14

14

HB 1058 and 2362 Cities and Towns: what could occur effective June 30, 2024

- * Population less than 2,500 (as of most recent Federal Decennial Census) and revenue from all funds and component units of greater than \$50,000 (excludes grants from all other governments and excludes Title 60 non-utility public trusts), but does include revenue from Title 60 Public trusts that are utility based
 - * Can opt to have a biennial financial statement audit covering both years OR
 - * Can opt to have a biennial Agreed Upon Procedures engagement covering both years IF an annual financial statement audit is not required by another law, regulation or contract
 - * Performed by an independent licensed PA or CPA
 - * In accordance with attestation standards of AICPA
 - * Specific procedures to be determined by State Auditor in collaboration with others
 - * Ordered within 30 days of the close of the of fiscal year that the audit is due (the biennial year)
 - * Filed with governing body and State Auditor no more than 9 months after the close of the 2nd fiscal year of the biennial audit or AUP period
 - * The deadline to order the audit/aup and the deadline to file the audit/aup can be extended by the State Auditor for special circumstances or emergencies



15

15

HB 1058 and 2362 Cities and Towns: what could occur effective June 30, 2024

- * Revenue from all funds and component units of less than \$50,000 (excludes grants from all other governments and excludes Title 60 non-utility public trusts), but does include revenue from Title 60 Public trusts that are utility based
 - * No audit or Agreed-Upon Procedures required
 - * Must complete SA&I Form 2644



16

16

HB 1058 and 2362 Cities and Towns: what could occur effective June 30, 2024

* A few other items of the laws to note

- * If a municipality misses the filing deadlines (6 months or 9 months as mentioned on the previous slides)
 - * Gas excise tax will be temporarily withheld by the OK Tax Commission
 - * If the municipality files the audit/aup within 2 years of the close of the audit/aup period, all the gas tax will be released to the municipality
 - * If the municipality does NOT file the audit/aup within 2 years of the close of the audit/aup period, the gas excise tax of the municipality will be forfeited into a new revolving fund established for the State Auditor to help offset the cost of municipal special investigations



17

17

HB 1058 and 2362 Cities and Towns: what could occur effective June 30, 2024

* A few other items of the laws to note, cont.

- * The effective date was to be for all audits and AUPs for the period ending June 30, 2023. However, now that HB 2362 did not get heard on or before April 27, 2023, HB 1058 sunsets and all audits and AUPs will be performed under the old rules for the period ending June 30, 2023.
- * The procedures, defined in HB 2362, should have been ratified by the Legislature no later than April 27, 2023, but was not. So they sunset, for at least another year
- * I believe the plan is to try again next year, maybe when the political climate at the Capital isn't so dysfunctional
- * Just for fun, let's take a few minutes to look at the proposed new AUP procedures and contrast them to the current AUP procedures



18

18

First, let's look at the current AUP procedures

- * Let's go to Exhibit A for a closer look
- * These are the procedures still in effect now by default for the June 30, 2023 fiscal year

19

19

Now, let's take a look at the new proposed procedures on the following slides

- * Remember, these are not in effect for the June 30, 2023 fiscal year, BUT will be considered again next year in time for the June 30, 2024 fiscal year

20

20

New proposed AUP Procedures

- * 1. Determine the establishment of policies related to adjustments, write-downs, or write-offs for various receivables due to the municipality and/or the utility-related trust and select a sample of adjustments to test for adherence to policies and for appropriate supporting documentation

21

21

New proposed AUP Procedures

- * 2. Obtain two (2) months of bank statements of the General Fund and Utility Fund and confirm that cash deposits were made in the appropriate account(s) and verify utility billing receipts and/or posting reports agree to the daily deposits

22

22

New proposed AUP Procedures

- * 3. For the following four positions: city manager/town administrator, city/town clerk, city/town treasurer, and payroll clerk, the governing body shall agree upon a pay rate to be authorized and documented in the personnel file or in approved meeting minutes. Inquire of the payroll clerk or equivalent if any employees received compensation over and above their authorized salary or hourly rate, and if so, trace to appropriate documentation of authorization for such pay. This shall not include expense reimbursements, but shall include any allowances considered taxable

23

23

New proposed AUP Procedures

- * 4. For entities that use debit or credit cards, determine the establishment of policies of use, select a sample of transactions to test for supporting documentation, proper municipal purpose, and adherence to prescribed policies

24

24

New proposed AUP Procedures

- * 5. Prepare a cash basis schedule of changes in fund balances for each fund and determine compliance with the statutory prohibition of creating fund balance deficits

25

25

New proposed AUP Procedures

- * 6. Agree material fiscal year-end bank account balances to bank statements and trace significant reconciling items to subsequent clearance; shall determine if any bank accounts exist that are not under city council purview

26

26

New proposed AUP Procedures

- * 7. Compare uninsured deposits at fiscal year-end to the fair value of pledged collateral

27

27

New proposed AUP Procedures

- * 8. Inquire if any instances of known fraud, illegal acts, or noncompliance with law and regulations have occurred

28

28

New proposed AUP Procedures

- * 9. Compare the use of material-restricted revenues and resources to their restrictions

29

29

TOP TEN
AUDIT and AUP prep -LISTERS

30

30

AUDIT and AUP prep A-LISTERS

#10

DAILY DUTIES



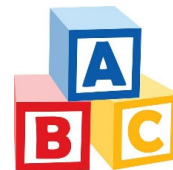
31

31

AUDIT and AUP prep A-LISTERS

#9

START EARLY



32

32

AUDIT and AUP prep A-LISTERS

#8

MAJOR CHANGES



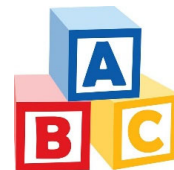
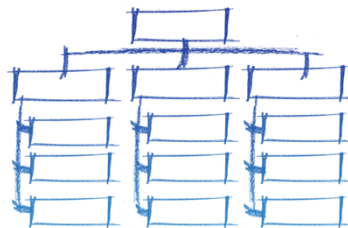
33

33

AUDIT and AUP prep A-LISTERS

#7

COMPONENT UNITS



34

34

AUDIT and AUP prep A-LISTERS

#6

ACCRUALS (except for AUPs)



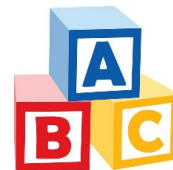
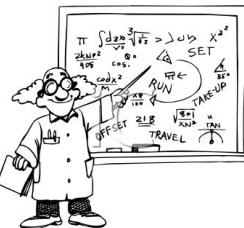
35

35

AUDIT and AUP prep A-LISTERS

#5

ACTUARIAL STUDIES (except for AUPs)



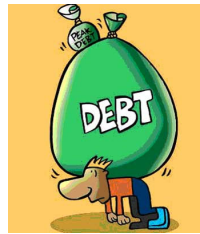
36

36

AUDIT and AUP prep A-LISTERS

#4

NEW DEBT



37



37

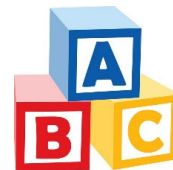
AUDIT and AUP prep A-LISTERS

#3

GRANTS



38



38

AUDIT and AUP prep A-LISTERS

#2

CAPITAL ASSETS



39

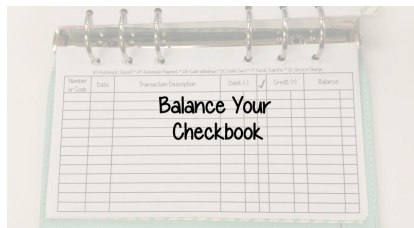


39

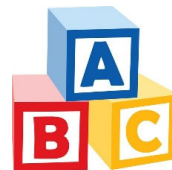
AUDIT and AUP prep A-LISTERS

1

BANK RECONCILIATIONS



40



40

QUESTIONS



41



GASB UPDATE

May 3, 2024

Presented by Lisa Parker, CPA, CGMA

Oklahoma Society of CPAs Governmental Accounting and Auditing Conference



GASB UPDATE

Lisa R. Parker, CPA, CGMA, Senior Project Manager and GASAC Coordinator

May 3, 2024

The views expressed in this presentation are those of Ms. Parker.
Official positions of the GASB are reached only after extensive due process and deliberations.

Effective Dates

December 31: Fiscal Year 2024

- Statement 99 – omnibus 2022 (financial guarantees and classification of derivatives)
- Statement 100 – accounting changes and error corrections
- Statement 101 – compensated absences
- IG 2021-1 – update (5.1)
- IG 2023-1 – update

December 31: Fiscal Year 2025

- Statement 102 – certain risk disclosures

Effective Dates

June 30: Fiscal Year 2024

- Statement 99 – omnibus 2022 (financial guarantees and classification of derivatives)
- Statement 100 – accounting changes and error corrections
- IG 2021-1 – update (5.1)
- IG 2023-1 – update

June 30: Fiscal Year 2025

- Statement 101 – compensated absences
- Statement 102 – certain risk disclosures

Presentation Overview



Pronouncements being implemented



Projects currently being deliberated by the Board



Pre-agenda research and other research activities

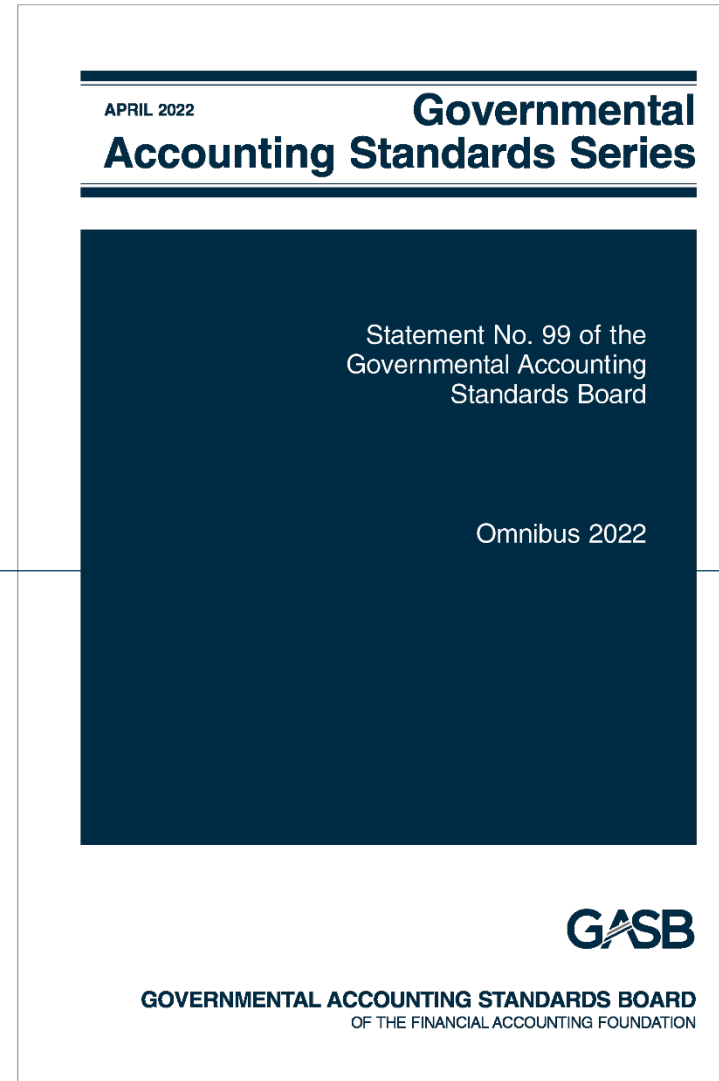


Post-implementation review

Pronouncements Being Implemented

Omnibus 2022

Statement No. 99



Omnibus 2022

What?

Practice issues identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees

Why?

Omnibus Statements are issued to address issues in multiple pronouncements that, individually, would not justify a separate pronouncement

When?

Various effective dates:

- 1) Upon issuance
- 2) Fiscal years beginning after June 15, 2022
- 3) Fiscal years beginning after June 15, 2023

General Omnibus Topics

Financial Guarantees

Other Derivative Instruments

Leases, PPPs, and SBITAs

Extended Use of LIBOR

Technical Updates/Corrections

Financial Guarantees

Definition

- A guarantee of an obligation of a legally separate entity or individual that requires the guarantor to indemnify a third-party obligation holder under specified conditions.

Existing Guidance (Prior to Statement 99)

- Exchange or Exchange-like Financial Guarantees – Statement 62, paragraphs 96 – 110.
- Nonexchange Financial Guarantees – Statement 70

Financial Guarantees

Statement 99 DOES

- Apply the liability recognition, liability measurement, and disclosure requirements in Statement 70 to governments that extend exchange or exchange-like financial guarantees.

Statement 99 DOES NOT

- Prescribe expense classification.
- Prescribe recognition guidance for the consideration received in an exchange or exchange-like financial guarantee transaction.

Financial Guarantees (cont.)

	Exchange (Stmt 62)	Nonexchange (Stmt 70)
Liability Recognition	Probable	More likely than not
Liability Measurement	Estimate of the future outflows expected	Discounted present value of the best estimate of the future outflows expected
Disclosure Requirements	<ul style="list-style-type: none"> • Description of the financial guarantee • Total amount of all outstanding guarantees extended • Amounts expected to be recovered 	<ul style="list-style-type: none"> • Description of the financial guarantee • Total amount of all outstanding guarantees extended • Description of the timing of recognition and measurement of liabilities • Cumulative amount of indemnification payments • Amounts expected to be recovered

Other Derivative Instruments

New Category – Other Derivative Instruments

- Derivative Instruments that do not meet the definition of investment derivative instruments or hedging derivative instruments.
 - Investment derivative instruments – held primarily for the purpose of income or profit and has a present service capacity based solely on its ability to generate cash or be sold to generate cash.
 - Hedging derivative instruments – associated with a hedgeable item and significantly reduces an identified risk by substantially offsetting changes in cash flow or fair values of hedgeable items.

Other Derivative Instruments

Other Derivative Instruments

- Change in fair value should be reported on flow statement separately from investment revenues
- Disclosures should be distinguished from hedging derivative instruments and investment derivative instruments
- Disclose fair value of derivative instruments that were reclassified from hedging derivative instruments

Termination of hedge accounting

- If hedging derivative instruments cease to be effective, the balance of the deferrals should be reported on the flows statement separately from investment revenues.

Leases, PPPs, and SBITAs

Remeasurement of certain assets and liabilities (ALL)

- **Should not be (instead of is not required to be)** remeasured solely for a change in an index or rate used to determine variable payments

Option to Terminate (ALL)

- Unconditional right that exists within the contract - the **right to terminate due to the action or inaction of the other party** is not an option to terminate
- For leases only - the **option to purchase the underlying asset** would be considered an option to terminate for purposes of measuring the lease term

Short-term Leases and SBITAs

- Modified short-term leases or SBITAs should be remeasured from the inception of the lease or SBITA (**classify out if maximum possible term exceeds 12 months**)

Leases, PPPs, and SBITAs (cont.)

Variable Lease Payments

- Variable lease payments, **other than those that depend on an index or rate or those that are fixed in substance**, should not be included in the measurement of the lease liability.

Lease Incentives

- An incentive **includes** the assumption of or *an agreement to pay* a lessee's preexisting lease obligation to a third party

PPP Remeasurement

- The receivable for the underlying PPP asset **should be remeasured if there is a change in the PPP term**
- Deferred outflow of resources should be adjusted by the same amount as any remeasurement change to the liability for the underlying PPP asset

Replacement of Interbank Offered Rates

Extended Use of LIBOR

- **Statement 93, *Replacement of Interbank Offered Rates*, paragraph 11b:**

“LIBOR is not an appropriate benchmark interest rate for a derivative instrument that hedges the interest rate risk of taxable debt.”

Paragraph 15:

“The requirement in paragraph 11b is effective for reporting periods after December 31, 2021.”

- On December 4, 2020, the LIBOR administrator published its intention to extend the publication of certain U.S. LIBOR tenors until June 30, 2023.

Replacement of Interbank Offered Rates

London Interbank Offered Rate (LIBOR)

- Date at which it is not an appropriate benchmark interest rate changes to when it is no longer determined by the ICE Benchmark Administration using the methodology in place as of December 31, 2021.

Technical Updates/Corrections

SNAP/ Food Stamps

- States no longer use paper food stamp coupons. Specialized guidance in Statement 24 is no longer relevant. Should apply Statement 33 instead.

Nonmonetary Transactions

- Should disclose measurement attribute(s), rather than basis of accounting for assets transferred.

Pledges of Future Revenue

- Blending guidance provided

Technical Updates/Corrections (cont.)

Government-Wide Statements

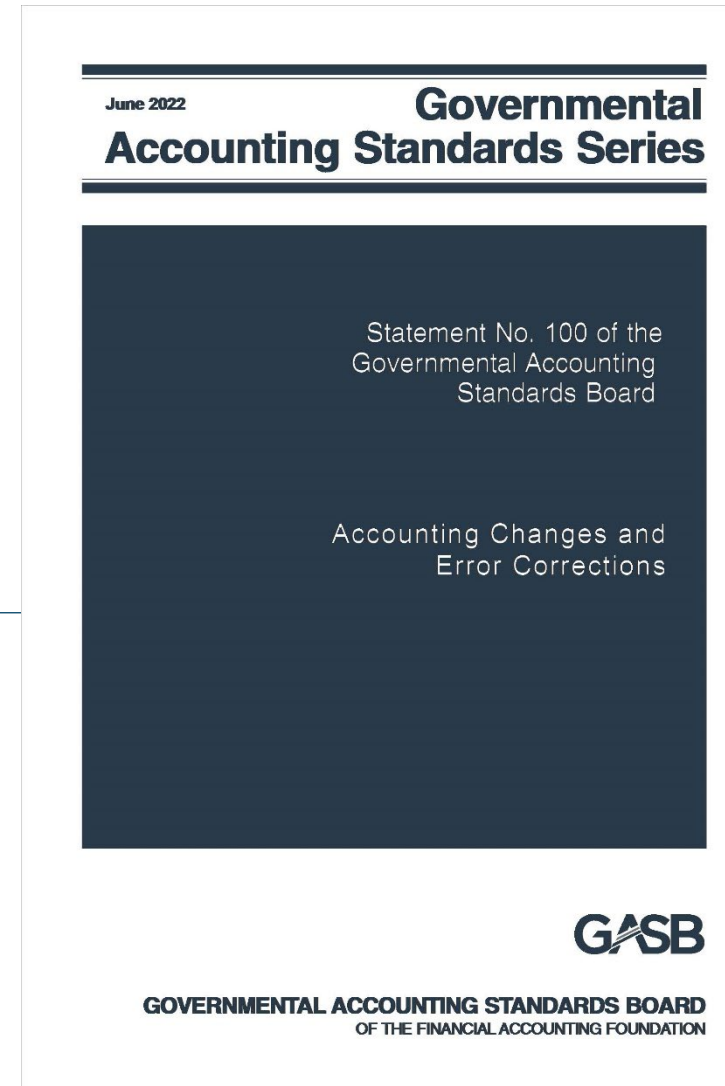
- Clarifies that no total column is required for the financial reporting entity as a whole.

Terminology Updates

- Balance sheet – Statement of net position
- Balance sheet date – Date of financial statements or Statement of net position date
- Equity Funds – Other assets used
- Fund Equity – Equity interest
- Flow of resources statement – Resource flows statement

Accounting Changes and Error Corrections

Statement No. 100



Accounting Changes and Error Corrections

What?

Based on a reexamination of the requirements in Statement 62, the Board has replaced the guidance that previously existed in Statement 62 with new standards for accounting changes and error corrections.

Why?

The previous guidance was based on several sources of accounting standards, some of which had been superseded, and much of which was been in effect without review by the GASB for decades.

When?

Effective for changes made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged.

Classification

Accounting changes

Change in accounting principle

Change in accounting estimate

Change to or within the financial reporting entity

Correction of an error in previously issued financial statements

Change in Accounting Principle

- A change in accounting principle results from either:
 - A **change** from one generally accepted accounting principle to another that is justified on the basis that the newly adopted accounting principle is preferable
 - Preferability based on the qualitative characteristics of financial reporting
 - Implementation of new pronouncements

Accounting Estimates

- Accounting estimates are:
 - Amounts subject to measurement uncertainty that are recognized or disclosed in basic financial statements
 - Outputs determined based on inputs such as data, assumptions, and measurement methodologies

Change in Accounting Estimate

- A *change* in accounting estimate occurs when the inputs change
 - Inputs include data, assumptions, and measurement methodologies
- Changes in inputs result from:
 - Change in circumstance
 - New information
 - More experience
- Change in measurement methodology should be justified on the basis that new methodology is preferable
 - Based on qualitative characteristics of financial reporting

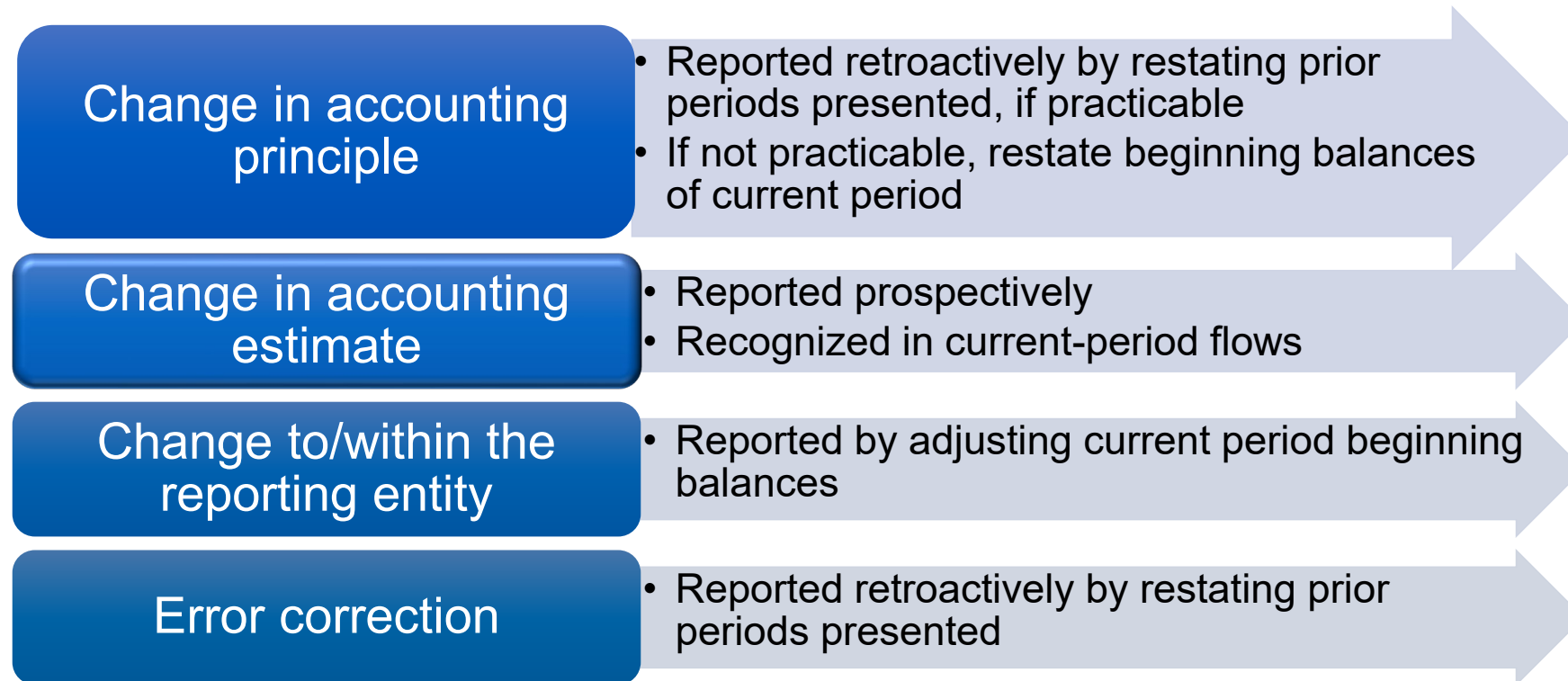
Change to or within the Financial Reporting Entity

- A change to or within the financial reporting entity results from:
 - Addition/removal of a fund that results from movement of continuing operations within the primary government, including its blended component units
 - A change in the fund presentation as major or nonmajor
 - Addition/removal of a component unit (except for acquisitions, mergers, and transfers of operations, and Statement 90 component units)
 - Change in presentation (blended or discrete) of a component unit

Correction of an Error

- An error results from:
 - Mathematical mistakes
 - Misapplication of accounting principles
 - Oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date
 - Facts that could reasonably be expected to have been obtained and taken into account at that time about conditions that existed as of the financial statement date

Accounting for Accounting Changes and Error Corrections



Display

Shown separately

- Aggregate amount of adjustments to and restatements of beginning balances should be displayed for each reporting unit

Note Disclosures

Disclosures vary depending on the type of item, but common disclosures include:

The nature of the change or error and its correction

Reason for the change

The effects on beginning net position, fund balance, or fund net position, as applicable, presented in a tabular format

RSI and SI

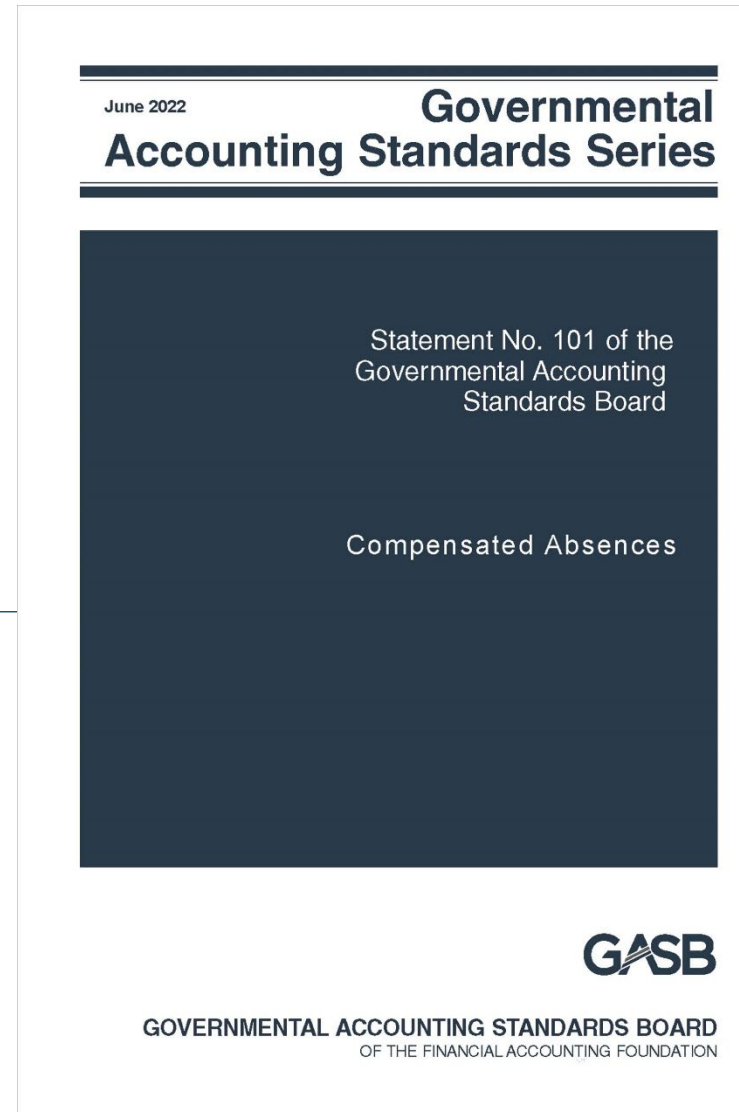
The Statement addresses how to present in RSI and SI information that is affected by an accounting change or error correction

Periods earlier than those presented in basic financial statements should ***not*** be restated for changes in accounting principles

Periods earlier than those presented in basic financial statements should be restated for error corrections, if practicable

Compensated Absences

Statement No. 101



Compensated Absences

What?

The Board has amended existing guidance for compensated absences

Why?

A review of Statement 16 indicated opportunities for improvement and additional guidance for certain types of leave

When?

Effective for fiscal years beginning after December 15, 2023.

Earlier application is encouraged

Scope and Applicability

A compensated absence is

- Leave for which employees may receive one or more:
 - Cash payments when the leave is used for time off
 - Other cash payments, such as payment for unused leave upon termination of employment
 - Noncash settlement, such as conversion to postemployment benefits

Examples:

- Vacation and sick leave
- Paid time off (PTO)
- Holidays
- Parental leave
- Certain types of sabbatical leave

Recognition Criteria – Leave that has not been used

Leave is attributable to services already rendered

- Employee has performed the services required to earn the leave

Leave accumulates

- Can be carried forward from reporting period when earned to a future reporting period when it will be used or otherwise paid or settled

Leave is *more likely than not* to be used for time off or otherwise paid or settled

- Likelihood of more than 50 percent

Exceptions to the General Recognition Approach

Leave more likely than not to be settled through conversion to defined benefit postemployment benefits

- Excluded from liability

Leave that is dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period

- Recognize liability when leave commences
- Parental leave, military leave, jury duty recognized when commences
- Not sick leave or sabbatical leave

Unlimited leave and holiday leave taken on specific date

- Recognize liability when used

Measurement

Pay rate

Generally the employee's pay rate at financial reporting date

Exception: more likely than not to be paid at a different rate

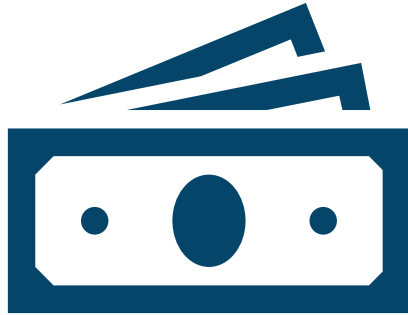
Salary-related payments

Directly and incrementally related

DC pension or OPEB recognized as related leave is earned – not pension or OPEB liability

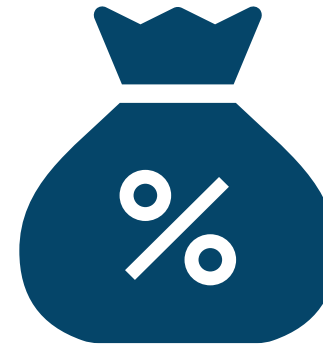
DB pension or OPEB excluded

Leave Used But Not Paid



Liability for amount
of cash payment or
noncash settlement

Include applicable
salary-related
payments



Note Disclosures and Effective Date

- Note disclosures

- No new note disclosures
- Exceptions to existing long-term liability disclosures for compensated absences:
 - Option to present net increase or decrease with indication that it is a net amount
 - Not required to disclose governmental fund used to liquidate

- Effective date

- Fiscal years beginning after December 15, 2023

Certain Risk Disclosures

Statement No. 102

Statement 102: Certain Risk Disclosures

What?

The Board has established requirements to disclose certain risks faced by governments

Why?

Stakeholders asked the GASB to address this issue

When?

Approved in December 2023

Scope: Concentrations and Constraints

Concentrations: lack of diversity in an aspect of a significant inflow or outflow of resources

- For example, the composition of (1) employers, (2) industries, (3) inflows of resources, (4) workforce covered by collective bargaining agreements, (5) providers of financial resources, and (6) suppliers of material, labor, or services

Constraints: limitations imposed by an external party or the government's highest level of decision authority

- For example, (1) limitations on raising revenue, (2) limitations on spending, (3) limitations on the incurrence of debt, and (4) mandated spending

Concentrations and constraints limit a government's ability to acquire resources or control spending.

Application of Disclosure Criteria:

Primary government reporting unit,
including blended component units, AND

Other reporting units that report a liability
for revenue debt

Disclosure Criteria

Disclosures would be required when a government determines that:

- A concentration or constraint is known to the government prior to the issuance of financial statements
- The concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact
- An event or events associated with the concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statement are issued.

General Disclosure Principles

If comparative financial statements are presented, disclosure requirements only apply to the current period

Some requirements may supplement other note disclosures; combine to avoid unnecessary duplication

Information that is the same for more than one reporting unit should be combined to avoid unnecessary duplication

Disclosure for discretely presented component units subject to paragraph 63 of Statement 14, *The Financial Reporting Entity*

Disclosure Requirements:

Provide information in sufficient detail to enable users to understand the nature of the circumstances and the government's vulnerability to the risk of a substantial impact:

Description of the concentration or constraint

If they have occurred, description of each event associated with the concentration or constraint that could cause a substantial impact

Description of actions taken by the government to mitigate the risk (Only actions that have happened - no disclosure if just plan is in place – something has to have been done)

Effective Date and Transition

- Effective for fiscal years beginning after June 15, 2024
 - All reporting periods thereafter
 - Transition is prospective

Example: Concentration— Financial Resource Provider and Major Enterprise Fund with Revenue Debt

Fact Pattern:

- City with an Airport Fund—a major enterprise fund with revenue debt
- Charges for services (landing fees, terminal rentals) are a significant revenue
- Charges for services are identified as the sole source of repayment for the revenue debt
- Model Airways accounts for XX% of the Airport Fund's charges for services revenues
- During the fiscal year ended June 30, 20X0 (the year for which the City is preparing its financial statements, which were issued on October 15, 20X0), Model Airways notified the City that, due to falling demand from the airline's customers, it will terminate its lease and discontinue service to the City's airport by December 31, 20X0.
- The City is developing plans to attract new airline customers

Disclosure Criteria Conclusions:

- *Assessment of disclosure criteria:* In addition to assessing the disclosure criteria for the primary government reporting unit, the City assessed the disclosure criteria for the Airport Fund because it **reports a liability for revenue debt**.
- *Concentration:* **XX%** of the Airport Fund's charges for services are associated with a **single airline customer**. Charges for services are a **significant revenue** of the Airport Fund
- *Vulnerability to the risk of a substantial impact:* Management of the City has determined that the concentration of resources provided by a single airline (Model Airways) **makes the Airport Fund vulnerable to the risk of a substantial impact**.
- *Occurrence of an event or events and their timing:* An **event** associated with the concentration **occurred when Model Airways notified the City that it will not renew its lease**. That event is the beginning of the airline's discontinuation of services to the Airport, which the management of the City has determined **could cause a substantial impact to the Airport fund**.

Illustrative Disclosure:

The Airport Fund accounts for the City's airport operations and reports \$XX of revenue bonds outstanding on June 30, 20X0. The bond indentures state that the revenue generated by airport operations is pledged as the sole source of repayment for the bonds. XX% of the Airport Fund's revenues are associated with a single airline customer who has notified the City that it plans to terminate its lease and discontinue service to the City's airport by December 31, 20X0. A loss of revenue from that airline could adversely affect the Airport Fund.

Current Technical Agenda Projects

Technical Plan Overview – As of January 2024

- **Conceptual Framework:**

- Disclosure Framework
- Recognition

- **Comprehensive Projects:**

- Financial Reporting Model Re-examination*
- Revenue and Expense Recognition

- **Major Projects:**

- Going Concern / Severe Financial Stress
- Infrastructure Assets

* - Governmental Funds removed 06/2023

- **Practice Issues:**

- Accounting Changes and Error Corrections (100)
- Compensated Absences (101)
- Implementation Guide—Update
- Nonfinancial Assets
- Omnibus (99)
- Certain Risks Disclosures (102)
- Subsequent Events

- **Pre-Agenda and Other Research Activities:**

- GAAP Structure
- GAAP Conformity
- Capital Assets
- Subsequent Events

Disclosure and Classification of Certain Capital Assets

Classification of Nonfinancial Assets

What?

The Board will review the existing classification of nonfinancial assets and other related sub-classifications (for example, capital assets or intangible assets)

Why?

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

When?

An Exposure Draft was issued in September 2023.

Exposure Draft: Disclosure and Classification of Certain Capital Assets

Certain capital assets would be required to be disclosed separately in the capital asset note disclosures required by Statement 34:

Asset	Disclose Separately?
Capital assets held for sale	By major class of asset
Intangible owned capital assets	By major class(es) of asset
Intangible lease assets (Stmt 87)	By major class(es) of underlying asset
Intangible subscription assets (Stmt 96)	Separate from other capital assets
Other assets representing right to use intangible assets	No but do not report with owned intangible assets

Exposure Draft – Capital Assets Held for Sale

- Capital assets to be classified as held for sale if:
 - The government has decided to sell the asset
 - It is probable that the sale will be finalized within one year of the financial statement date
- Factors to consider if it is probable that the sale will occur within one year:
 - Asset is available for immediate sale in its present condition
 - Active program to locate buyer has been initiated, may include being put out for bid
 - Market conditions for the type of asset
 - Regulatory approvals needed to sell the asset
- No change to measurement

Project Timeline

Pre-Agenda Research Started	August 2020
Added to Current Technical Agenda	December 2021
Deliberations Began	July 2022
Exposure Draft Issued	September 2023
Comment Deadline	January 5, 2024

Financial Reporting Model Reexamination

Financial Reporting Model Improvements

What?

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

Why?

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

When?

A final Statement is scheduled to be considered for issuance in Q1 2024

Overview of the Proposals

Measurement focus and basis of accounting for the governmental funds

Format of governmental funds financial statements

Clarification of operating and nonoperating in proprietary funds

Presentation of proprietary funds statement of revenues, expenses, and changes in net position

Management's discussion and analysis

Budgetary comparisons

Major component unit presentations

Unusual or infrequent items

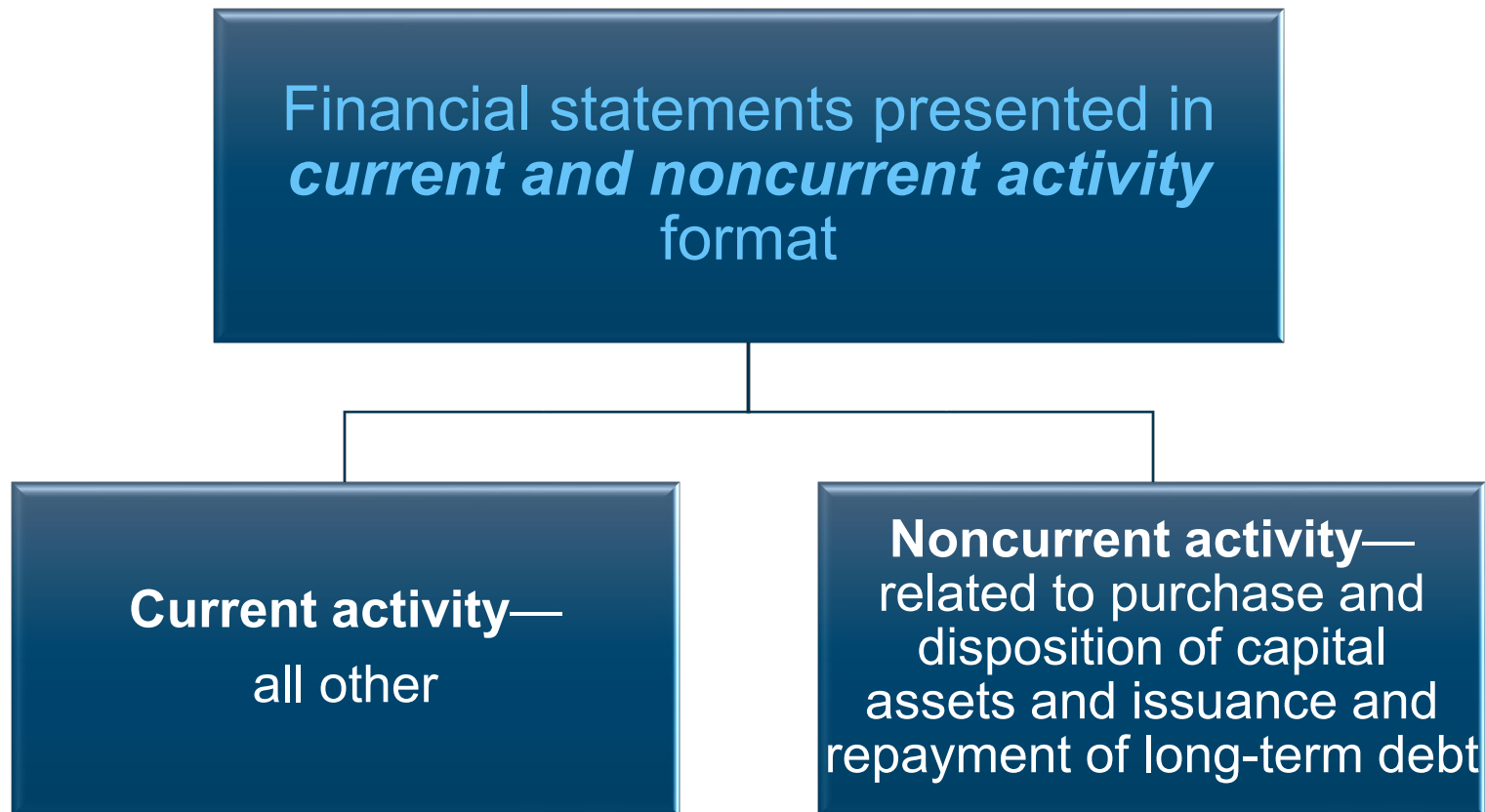
Recognition in Governmental Fund Financial Statements

- June 2023 – Board tentatively decided to remove governmental funds from the scope of the project
 - A conceptually pure model (with no exceptions) would provide less meaningful information
 - Would present fund balance that does not reflect all the accruals that the Board believed should be recognized
 - In order for the new measurement focus and basis of accounting to provide more meaningful information it would need to include exceptions for certain transactions
 - Result would be a lack of a conceptually consistent (pure) foundation, which was a primary objective of the project

Recognition in Governmental Fund Financial Statements (continued)

- Board also questioned the ability of the proposed model to produce comparable results due to the potential difficulty in applying the new concepts
- Board determined that the perceived costs did not justify the expected benefits of the proposed new measurement focus and basis of accounting

Presentation of Governmental Funds (also removed from the scope of the project in August)



Proposals: Proprietary Funds

Separate presentation of operating and nonoperating revenues and expenses

Operating

- Activities other than nonoperating activities

Nonoperating

- Subsidies received and provided
- Revenues and expenses of financing
- Resources from the disposal of capital assets and inventory
- Investment income and expenses
- Contributions to permanent and term endowments

Proposals: Proprietary Funds (cont.)

Subsidies

- Resources received from another party or fund (1) for which the proprietary fund does not provide goods and services to the other party or fund and (2) that directly or indirectly keep current or future fees and charges lower than they would be otherwise
- Resources provided to another party or fund (1) for which the other party or fund does not provide goods and services to the proprietary fund and (2) that are recoverable through the proprietary fund's current or future pricing policies
- All other transfers

Add a new subtotal for operating income (loss) and noncapital subsidies

	2016	2015
Operating revenues:		
Tuition and fees (net of discounts)	\$ 574,168	\$ 525,791
Grants and contracts	292,962	278,481
Sales and services	271,345	272,244
Other operating revenues	7,868	14,861
Total operating revenues	<u>1,146,343</u>	<u>1,091,377</u>
Operating expenses:		
[Natural or functional expenses]		
Total operating expenses	<u>1,681,544</u>	<u>1,596,059</u>
Income (loss) generated by operations	<u>(535,201)</u>	<u>(504,682)</u>
Noncapital subsidies:		
Appropriations	407,702	394,767
Taxes	8,026	7,660
Grants	42,978	37,567
Gifts	99,395	90,063
Total noncapital subsidies	<u>558,101</u>	<u>530,057</u>
Operating income (loss) and noncapital subsidies	<u>22,900</u>	<u>25,375</u>
Financing and investing activities:		
Investment income	235,820	138,649
Interest expense	(12,412)	(12,853)
Loss from the disposition of capital assets	(2,385)	518
Total financing and investing activities	<u>221,023</u>	<u>126,314</u>
Income before other items	<u>243,923</u>	<u>151,689</u>
Other items:		
Capital contributions	<u>23,231</u>	<u>74,830</u>
Increase (decrease) in net position	267,154	226,519
Net position—beginning	3,061,111	2,834,592
Net position—ending	<u>\$ 3,328,265</u>	<u>\$ 3,061,111</u>

Proposals: Management's discussion and analysis

Users of MD&A “have different levels of knowledge and sophistication about governmental accounting and finance,” “may not have a detailed knowledge of accounting principles” (as in Concepts Statement 1, paragraph 63)

Add clarification and structure to the requirement for brief discussion of the basic financial statements, including their relationships and significant differences

Emphasize the level of thoroughness required for the analysis of year-to-year changes and the need to avoid unnecessary duplication

Amend the requirements for currently known facts, decisions, or conditions with examples, such as economic trends; subsequent year's budget; actions government has taken on postemployment benefits, capital improvement plans, and long-term debt; actions other parties have taken that affect the government

Move budgetary analysis and discussion of infrastructure assets (if applicable) to the relevant parts of RSI

Proposals: Management's discussion and analysis (continued)

Board Tentative Decisions

- Reference to the SSAP should not be required
- Presenting an analysis of balances and transactions of nonmajor funds in the aggregate should not be required
- Discussion of significant variations between the original and final budget amounts and between the final budget amounts and actual results for the general fund and major special revenue funds should be presented as notes to budgetary comparison information, which is proposed to be presented as RSI
- Information about infrastructure assets accounted for using the modified approach should be removed

Other Proposals

Budgetary comparisons

- Would be presented as required supplementary information (no option for basic statements)
- Required variances would be final-budget-to-actual and original-budget-to-final-budget

Major component unit presentations

- If it is not feasible to present major component unit financial statements in separate columns in the reporting entity's financial statements, the financial statements of the major component units would be presented in the reporting entity's basic financial statements as combining financial statements

Other Proposals (continued)

Unusual or Infrequent Items

- Separately present inflows and outflows of resources that are unusual in nature and/or infrequent in occurrence (replacing extraordinary and special items)
- Disclose additional information about those inflows and outflows, including the programs, functions, or identifiable activities to which they are related and whether they are within the control of management

Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Issued	September 2018
Exposure Draft Approved	June 2020
Redeliberations Began	May 2021
Final Statement Scheduled to Be Considered for Issuance	April 2024

Going Concern Uncertainties and Severe Financial Stress: Reexamination of Statement 56

Going Concern Uncertainties and Severe Financial Stress

What?

The Board will review existing standards related to going concern and address issues related to disclosures regarding going concern uncertainties and severe financial stress

Why?

As it is currently defined, going concern may not be meaningful for governments, which hardly ever go out of business; users need information about governments' severe financial stress, but that information is not readily available

When?

The Board added the project to its current technical agenda in December 2021

Topics to Be Considered

How should the existing guidance on going concern uncertainties (including the definition of a going concern) be clarified or improved to reduce diversity in practice in applying the guidance?

How should severe financial stress be defined? How should that definition differ from going concern uncertainties?

If a government is determined to be exposed to severe financial stress, what relevant information should a government disclose in notes to financial statements?

Major Tentative Board Decisions

The proposed GCU guidance should be focused on uncertainty about a government's existence, regardless of its financial condition. The proposed SFS guidance should be focused on a government's financial stress, regardless of whether there is uncertainty about its continued existence.

Going concern is the assumption that a governmental entity will continue to exist as the same legally separate entity, regardless of its financial condition.

Cease to be a going concern is the situation in which a governmental entity ceases to exist as the same legally separate entity, whether through a merger, acquisition, or dissolution without replacement.

Major Tentative Board Decisions

Going concern uncertainty is the substantial doubt about whether a governmental entity will continue to exist as the same legally separate entity, regardless of its financial condition. Substantial doubt means the likelihood is probable.

To identify whether there is GCU for disclosure purposes, a government should evaluate all relevant factors that indicate a likelihood of a potential government dissolution and determine whether all relevant factors, considered in the aggregate, indicate that GCU exists.

The term *financial stress* should continue to be used as part of the description of the condition a government is experiencing. The modifier used to describe the degree of the financial stress in this project should be *severe*.

Major Tentative Board Decisions

Severe financial stress is a range of conditions.

A government should make severe financial stress disclosures when it is experiencing financial difficulties at such a degree that it is near or at the point of insolvency.

Insolvency should be described as a circumstance in which a government generally is not paying its liabilities as they come due or is unable to pay its liabilities as they come due

Project Timeline

Pre-Agenda Research Started	April 2015
Added to Current Technical Agenda	December 2021
Deliberations Begin	July 2022
Preliminary Views Scheduled to Be Considered for Issuance	December 2024
Exposure Draft Scheduled to Be Considered for Issuance	June 2026

Revenue and Expense Recognition

Revenue and Expense Recognition

What?

The Board proposed a comprehensive model for recognition of revenues and expenses

Why?

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

When?

The Board is scheduled to consider the issuance of an Exposure Draft in Q1 2025

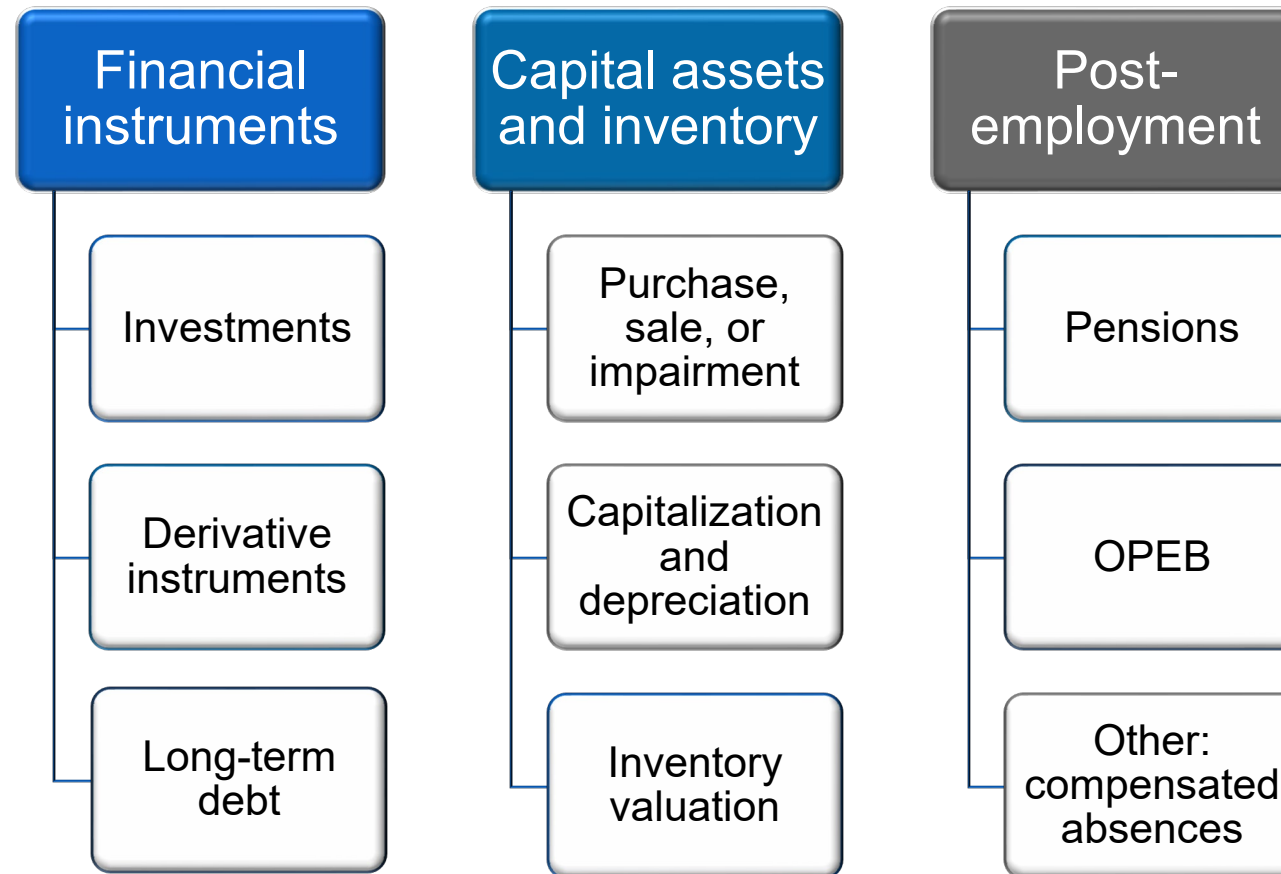
Broad Project Objective

Develop a comprehensive, principles-based model that establishes guidance applicable to a wide range of revenue and expense transactions to:

- Expand on areas where there is no guidance—Exchange Expenses
- Expand on areas where there is limited guidance—Exchange Revenues
- Consider practice issues and challenges identified in current guidance—Statement 33
- Consider the conceptual framework—issued after Statement 33
- Consider a performance obligation model applicable to revenues

Scope of the Project

- The scope is defined broadly to include revenues and expenses except for those ***explicitly excluded***:



Proposed Recognition Model Components

Categorization

Identify the *type* of transaction



Recognition

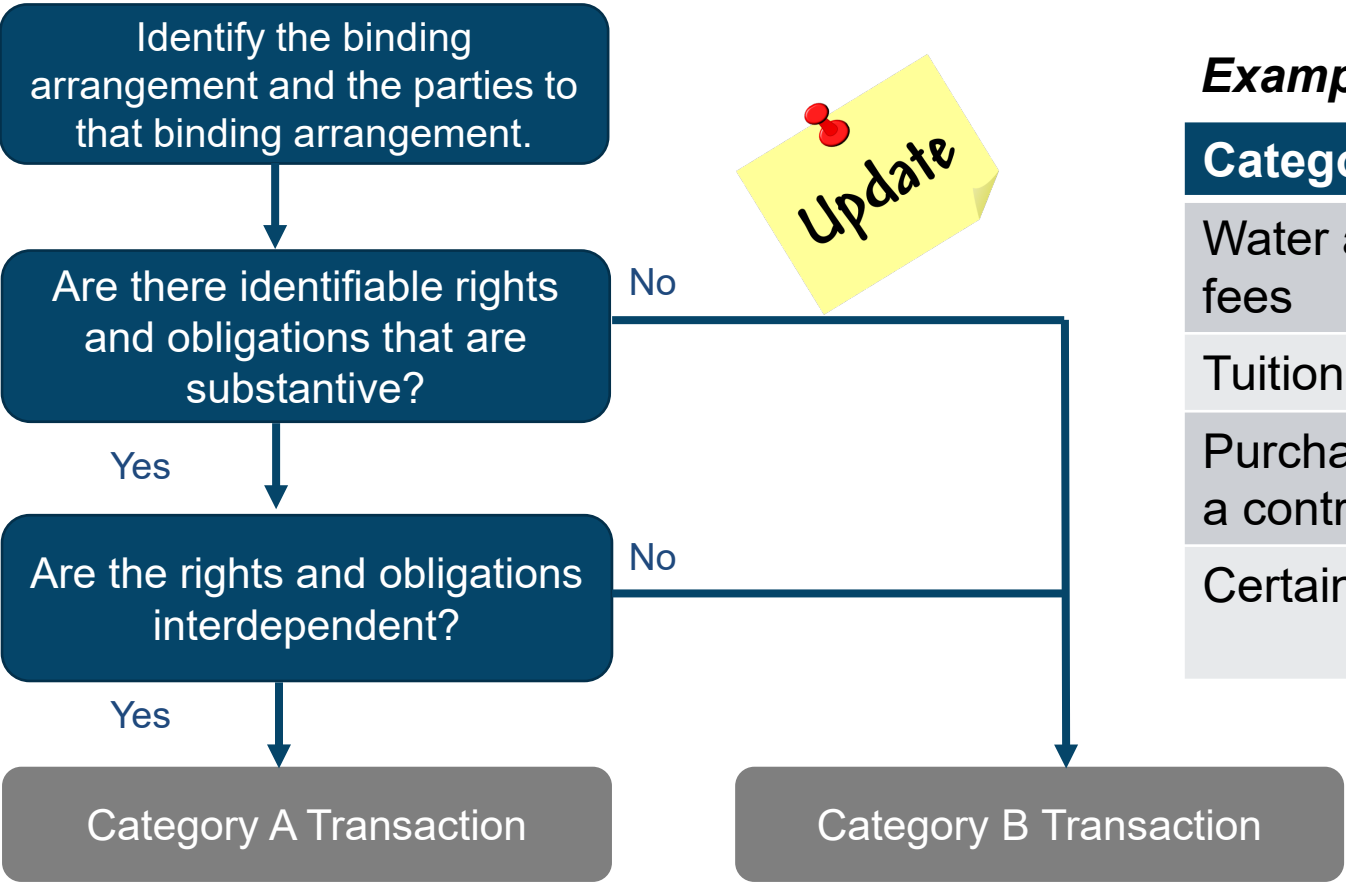
Determine *what* element should be reported and *when*



Measurement

Determine the *amount* to report

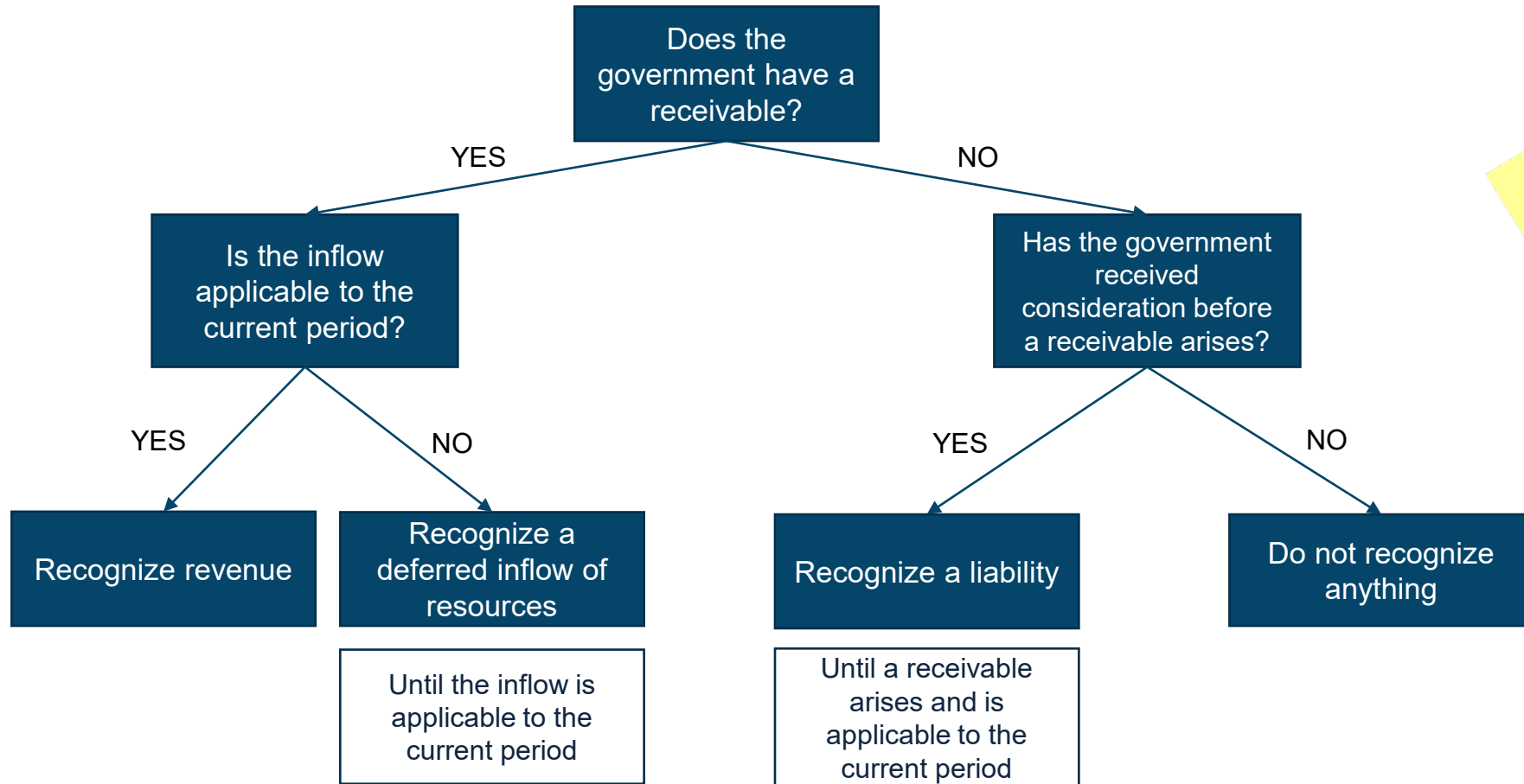
Proposed Categorization Methodology



Examples

Category A	Category B
Water and wastewater fees	Sales and Income taxes
Tuition	Property Taxes
Purchase of Supplies on a contract	Pledges
Certain research grants	Grants with qualifying requirements

Proposed Revenue Recognition Principles—Category A and B

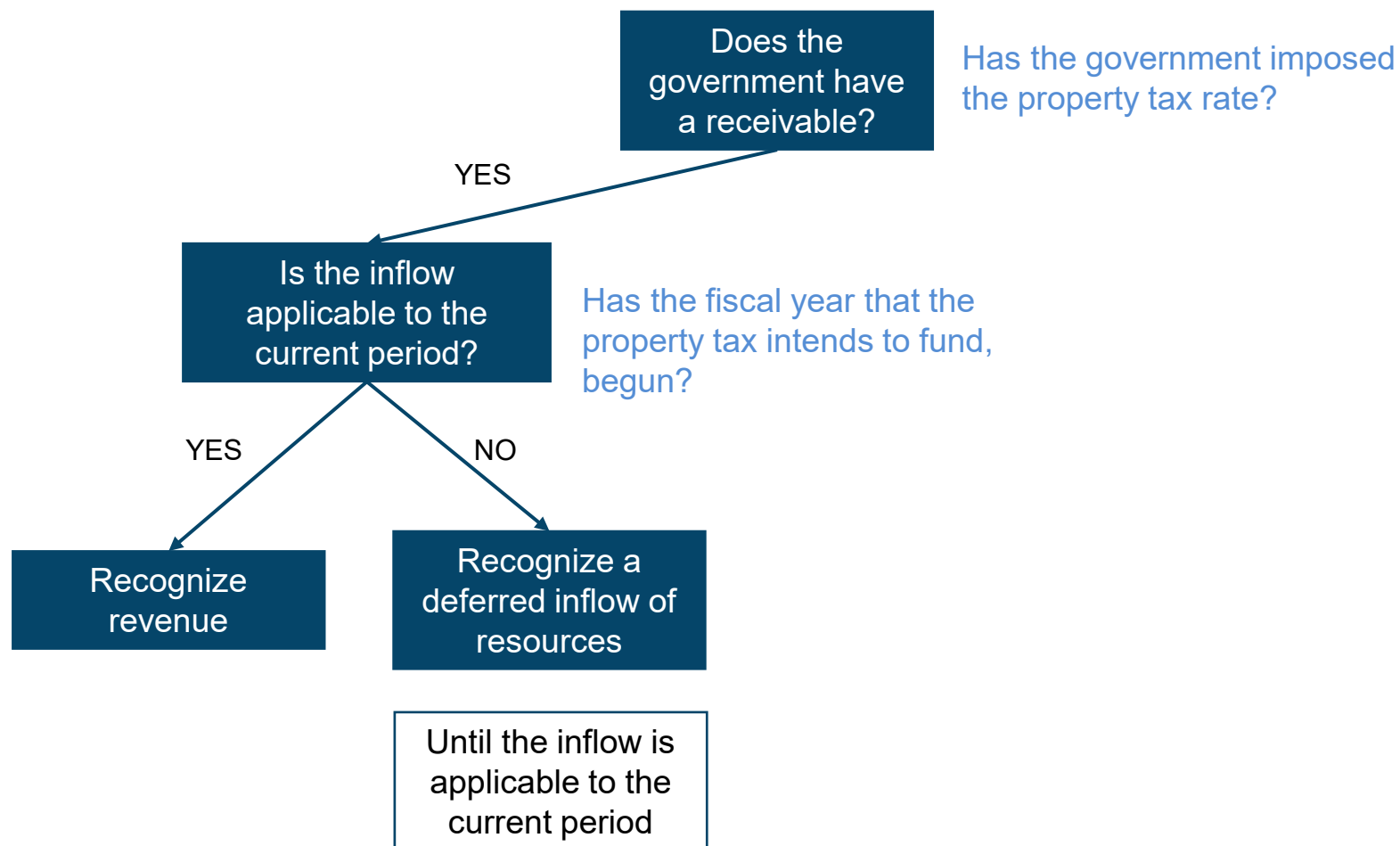


Proposed Revenue Recognition Principles—Category A and B

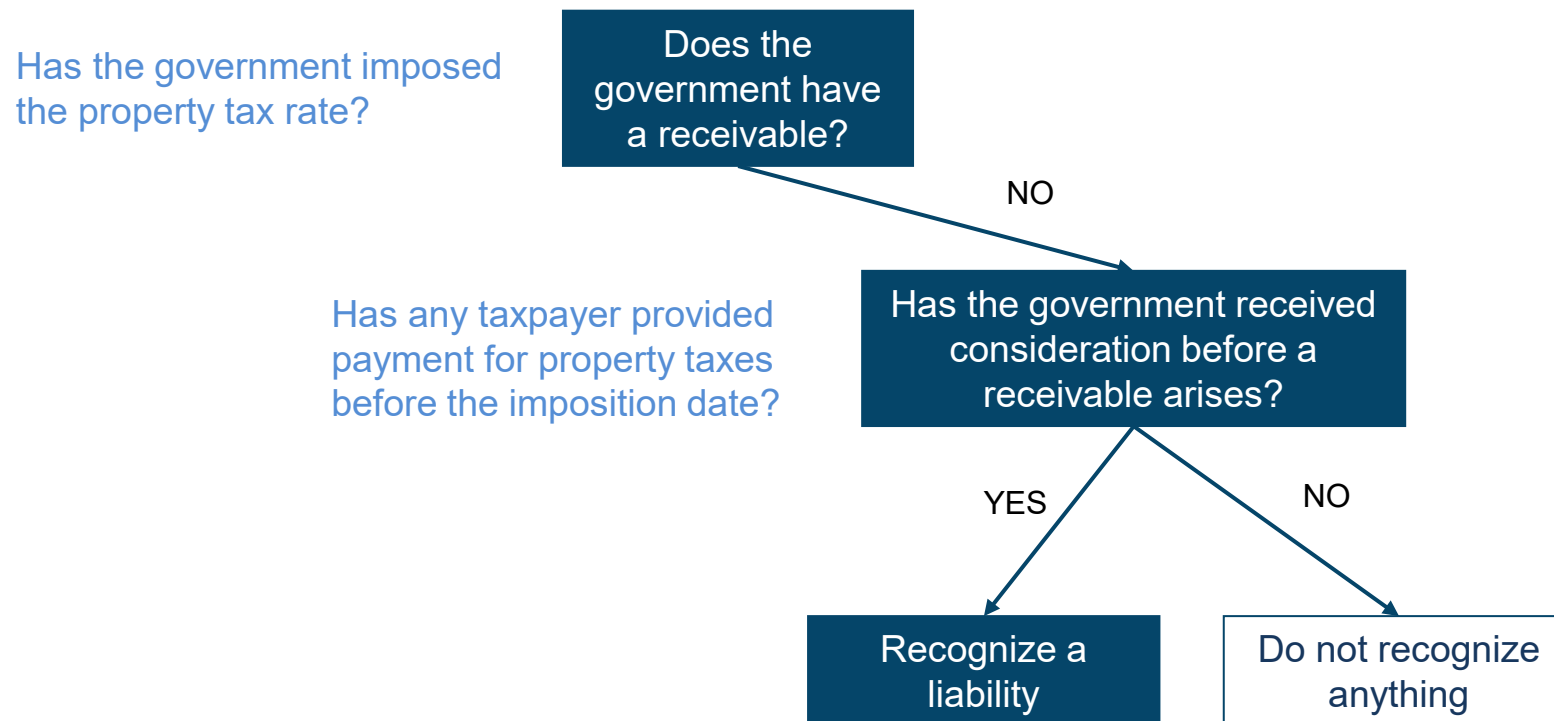
A receivable should be recognized when a legally enforceable claim arises in a revenue transaction. A legally enforceable claim arises at different points based on the terms and conditions specified in the binding arrangement.

Advances in revenue transactions are resources received before a legally enforceable claim arises and should result in a liability being recognized, regardless of whether those advances are refundable.

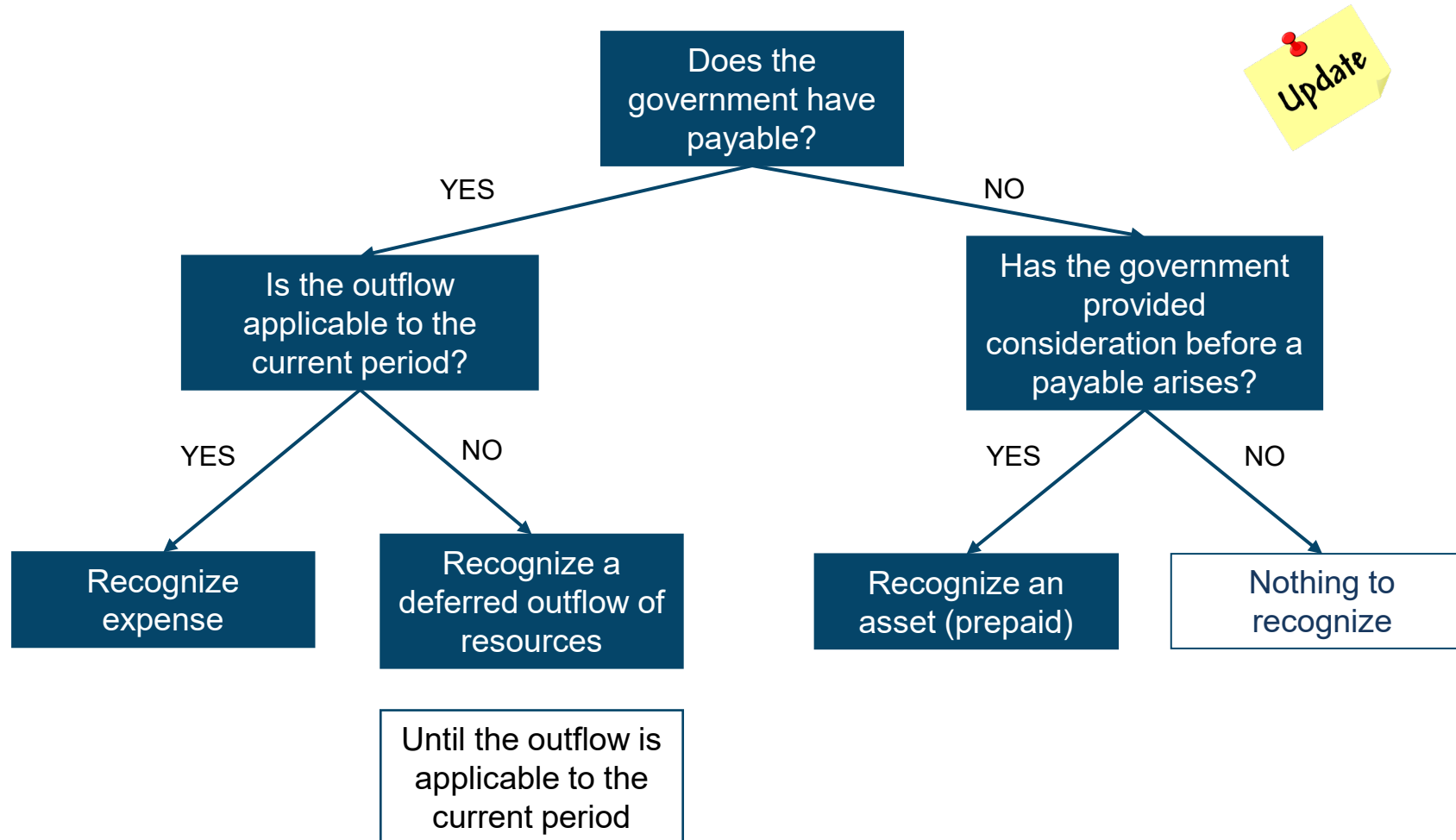
Property Taxes Revenue Example—Part I



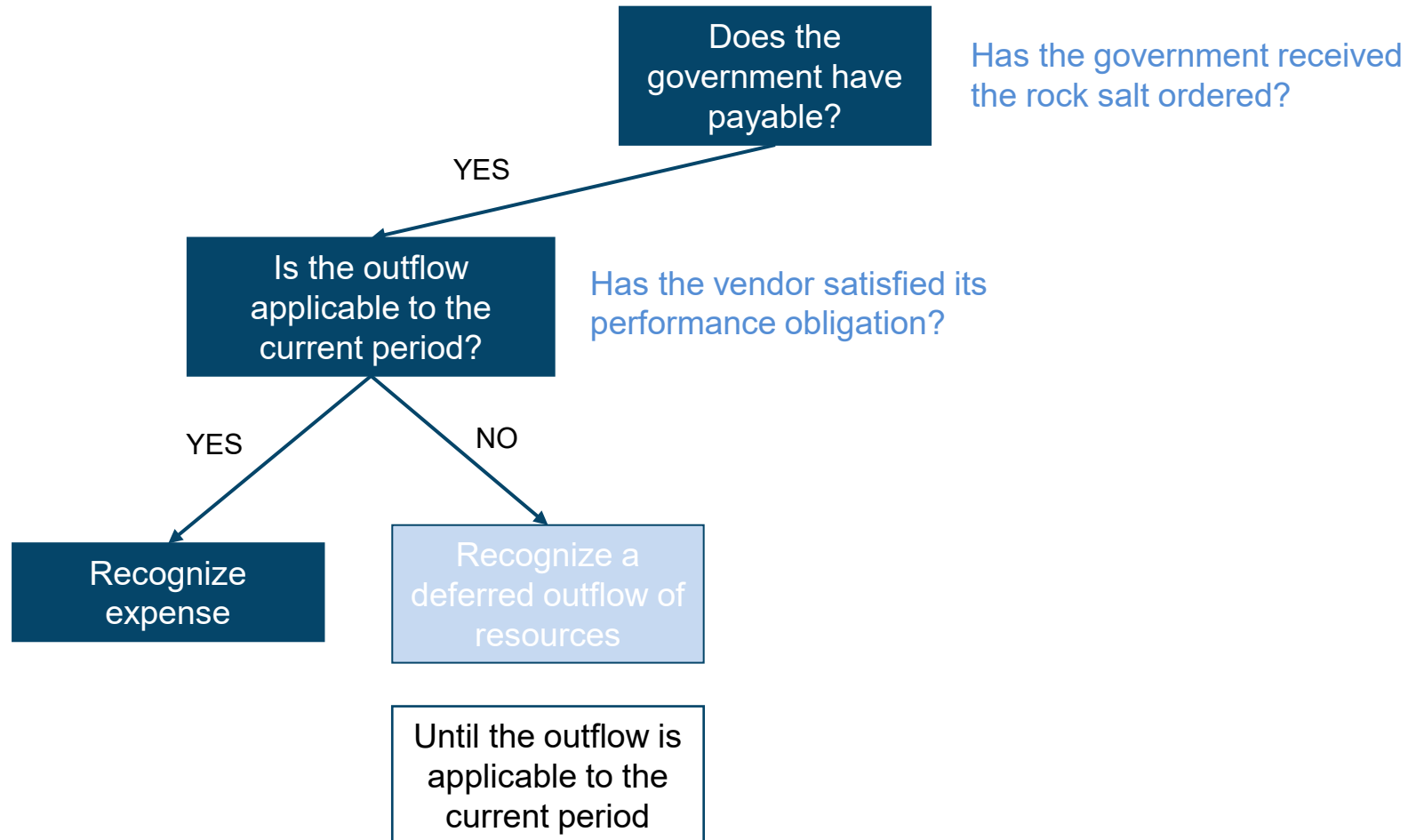
Proposed Revenue Recognition Principles



Proposed Expense Recognition Principles



Supplies Purchase Example—Part I



Supplies Purchase Example—Part II

Has the government received the rock salt ordered?

Does the government have payable?

NO

Has the government paid the vendor for rock salt for future deliveries?

Has the government provided consideration before a payable arises?

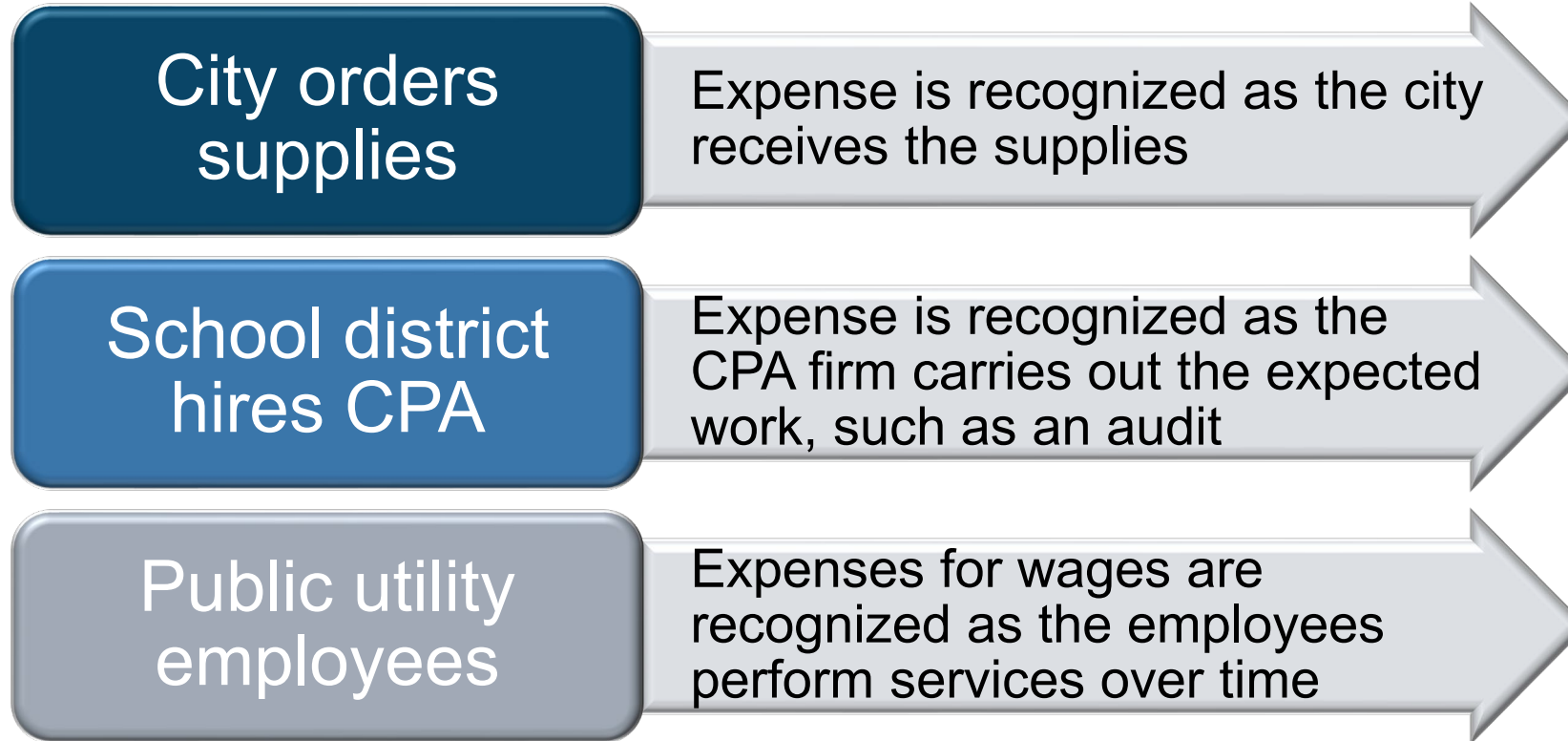
YES

NO

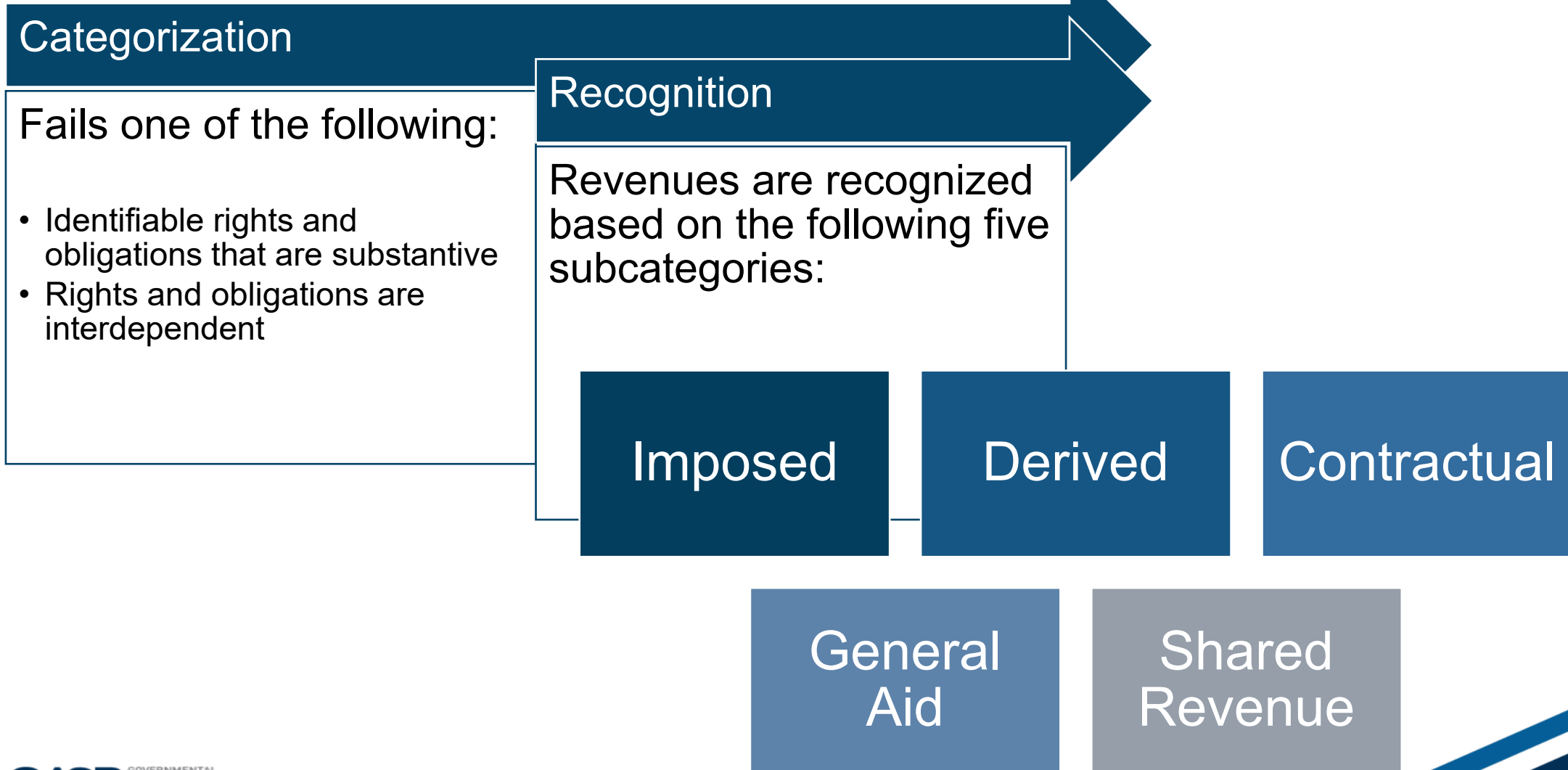
Recognize an asset (prepaid)

Nothing to recognize

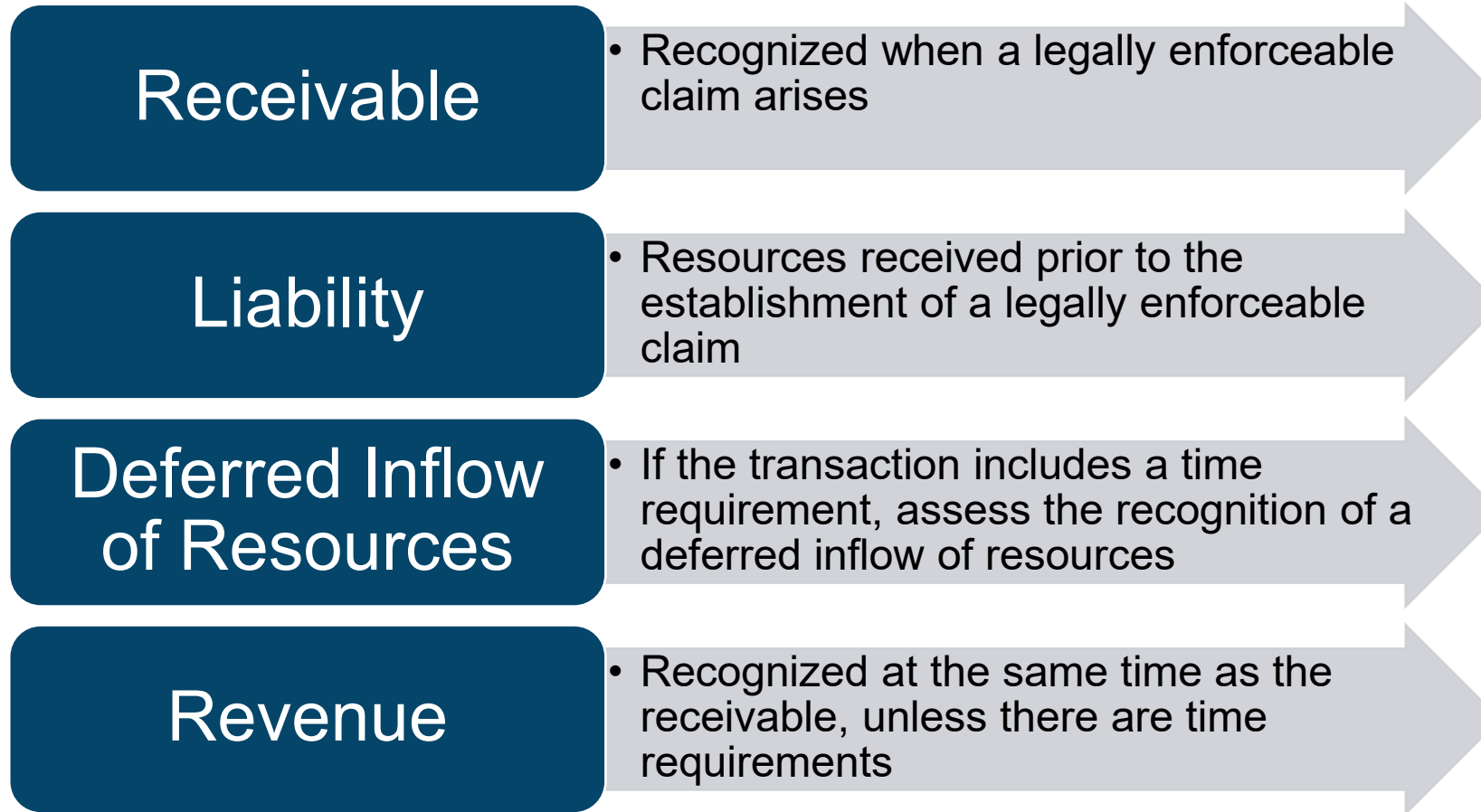
Category A Expense Recognition Examples



Category B Proposed Revenue Recognition Principles



Category B Proposed Revenue Recognition Principles Continued



Category B Expense Recognition Examples

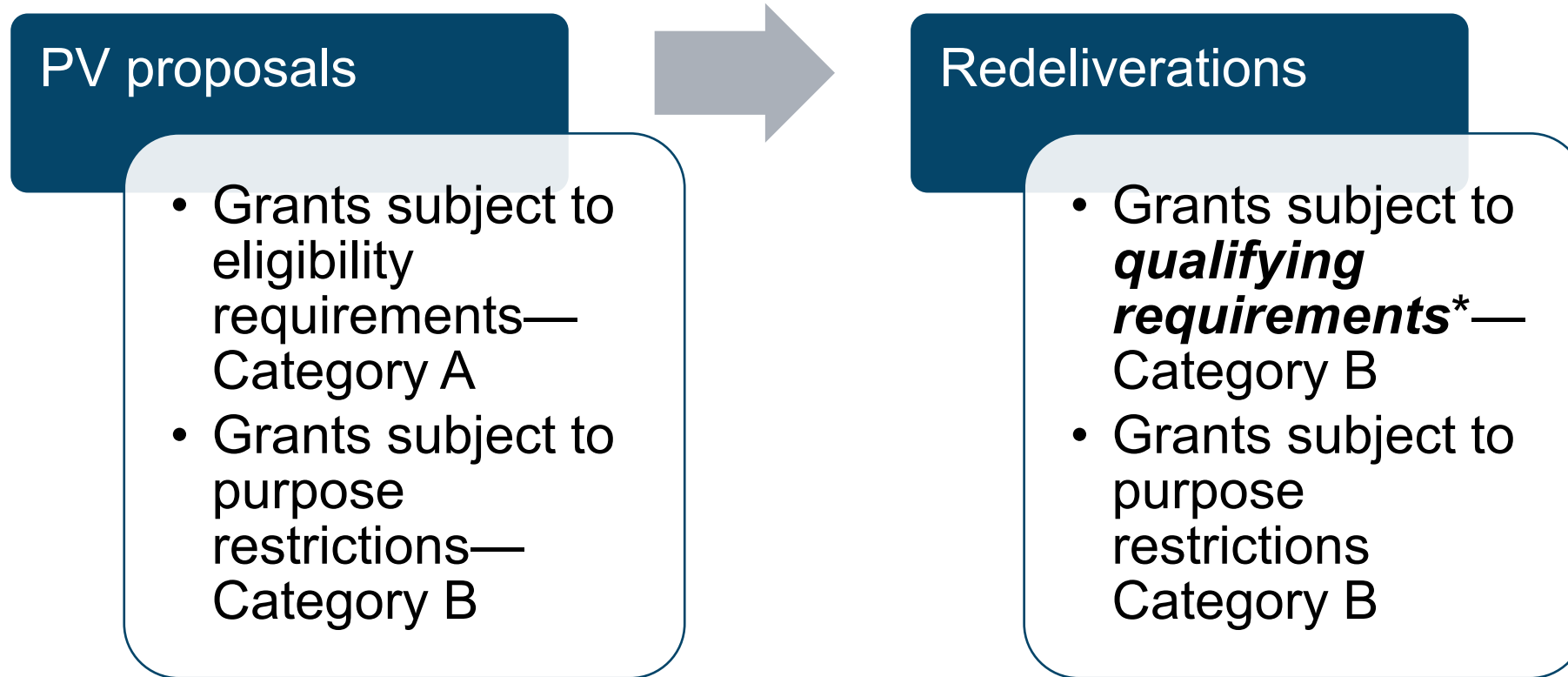
Expense is recognized at the same time as the *payable*, unless there are time requirements

Contractual arrangements

Shared revenue (outflows)

General aid (outflows)

Grant Categorization Update



*Certain research grants include substantive rights, substantive obligations, and interdependence and are therefore classified as Category A.

Grant Recognition Update

Statement 33

- Eligibility Requirements
 - Recipient
 - Time Requirements
 - Reimbursements
 - Contingency
- Purpose Restrictions

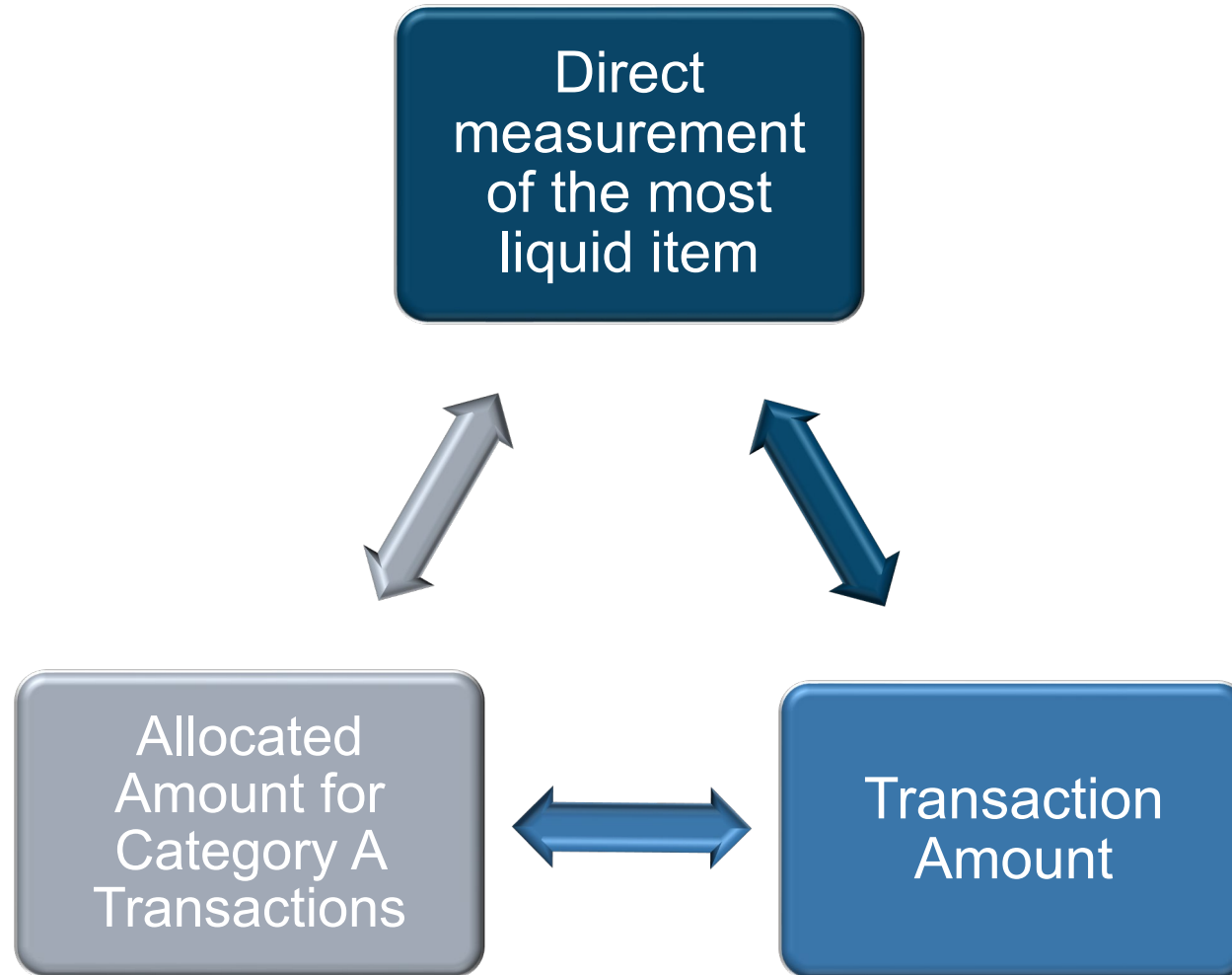
Preliminary Views

- Eligibility Requirements
 - Performance Obligations - Costs
- Time Requirements
- Purpose Restrictions

Redeliberations

- *Qualifying Requirements*
 - *Qualifying Costs*
 - *Other Qualifying Requirements*
- Time Requirements
- Purpose Restrictions

Proposed Measurement Principles



Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Cleared	January 23, 2018
Preliminary Views Approved	June 2020
Redeliberations Began	May 2021
Exposure Draft Scheduled to Be Considered for Issuance	March 2025

Infrastructure Assets

Infrastructure Assets

What?

The GASB is evaluating existing guidance related to infrastructure assets and the usefulness of information reported by governments

Why?

Stakeholders have asked the GASB to review various aspects of infrastructure asset reporting; the most relevant standards have been in effect 15-20 years

When?

The Board added the project to its technical agenda in April 2023

Topics to Be Considered

How should infrastructure assets be recognized and measured in financial statements? Should the optional use of the modified approach continue to be allowed to report infrastructure assets?

Should additional information related to maintenance and preservation of infrastructure assets be presented in financial statements and, if so, what information and what method of communication should be used to provide that information?

Major Tentative Decisions

Infrastructure assets should continue to be recognized and measured in financial statements using historical cost depreciation, except those governments that elect to use the modified approach

Requirements for use of the modified approach as described in Statement 34 generally should continue to apply

Maintenance and preservation costs that have been pushed to future periods (“deferred maintenance”) should not be recognized as a liability in financial statements

Project Timeline

Pre-Agenda Research Started	August 2019
Added to Current Technical Agenda	April 2023
Deliberations Begin	May 2023
Preliminary Views Scheduled to Be Considered for Issuance	July 2024
Exposure Draft Scheduled to Be Considered for Issuance	January 2026

Subsequent Events

Subsequent Events

What?

The GASB is evaluating existing guidance related to subsequent events and the usefulness of information reported by governments

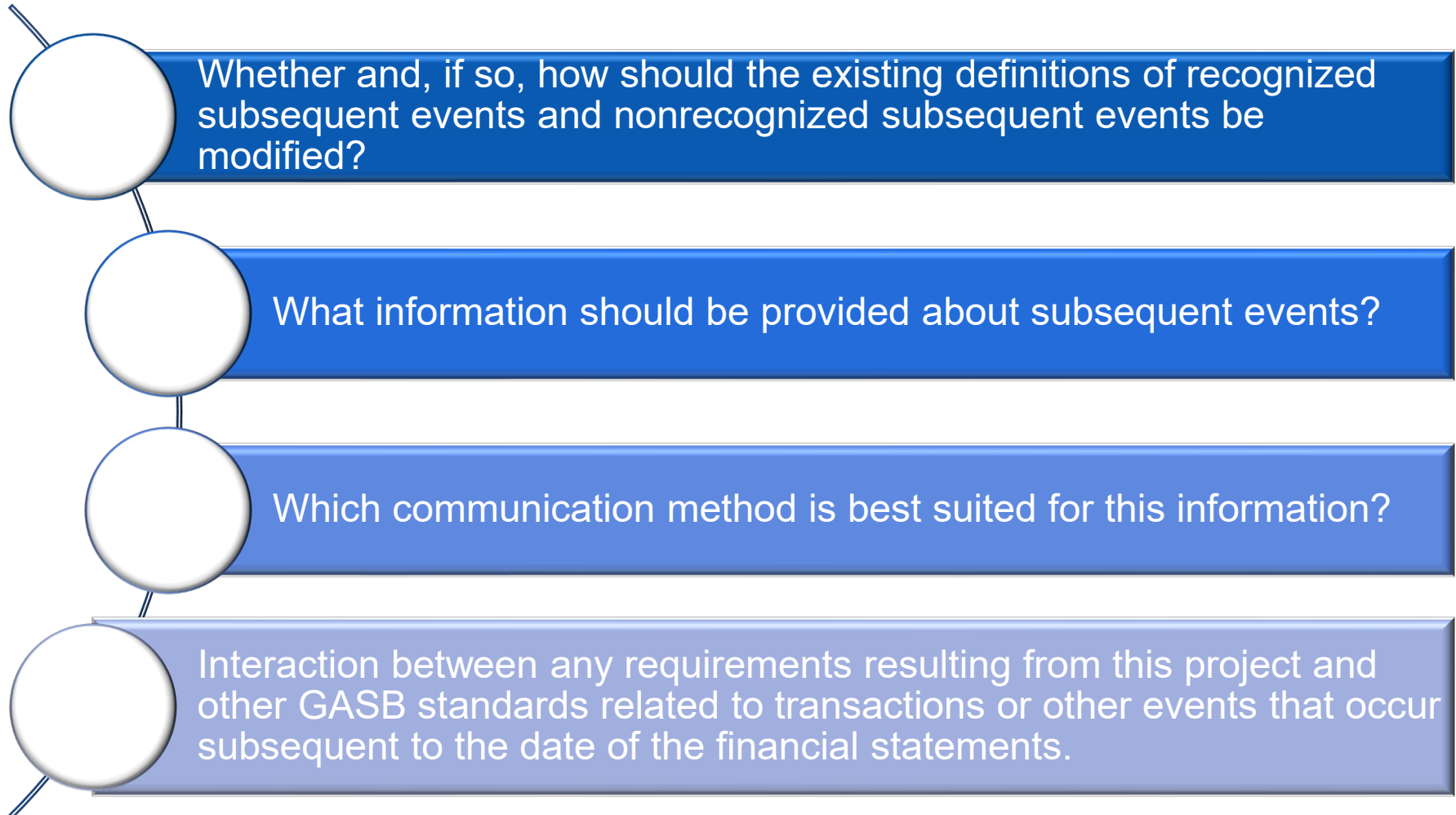
Why?

Existing guidance is based on other literature dating back to 1972 and generally have not be reevaluated

When?

The Board added the project to its technical agenda in August 2023

Topics to Be Considered



Pre-Agenda Research and Other Research Activities

GAAP Structure

GAAP Structure

What?

The GASB is evaluating the effectiveness of the GASB's current dual-authority approach to communicating GAAP for state and local governments.

Why?

The existing GAAP structure includes both original pronouncements and a codification, each with equal authoritative status.

When?

The Board added the pre-agenda research in August 2023

Research Objective

The initial research activities, which would be aimed at evaluating the efficacy of a dual-authority GAAP structure, include:

- Outreach with stakeholders to assess how they interact with the GASB's literature, including which aspects they find valuable and which they find challenging with respect to the current GAAP structure.
- An assessment of internal procedures, processes, and resources necessary to maintain a dual authority structure.
- An initial update is expected in April 2024—multiple stages for this research are anticipated.

GAAP Conformity

GAAP Conformity

What?

The GASB is studying state-level financial reporting requirements for governments and also evaluating the determinants of GAAP choice.

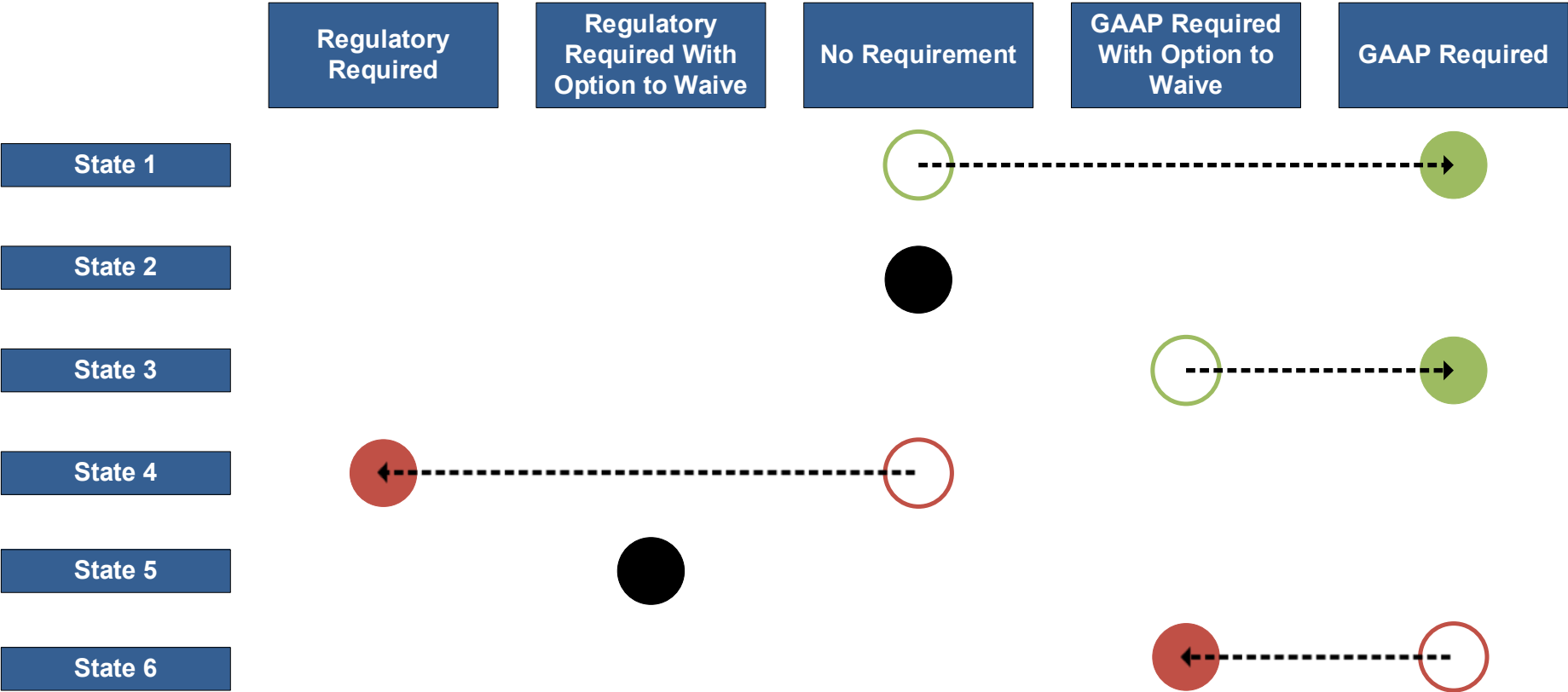
Why?

To gain an understanding of any shift in financial reporting requirements and determinants of GAAP choice to support EFR and broader impact.

When?

The Board added the research project in December 2023.

State-Level Financial Reporting Requirements 2008 to 2024



Determinants of GAAP Choice

- GAAP Conformity (1, 0) = function of:
 - State requirements
 - Size of government (total revenue)
 - MSRB filer
 - FAC filer
 - Other control variables
- Will be able to replicate periodically to determine shift in financial reporting framework choice

Post-Implementation Review (PIR)

What is PIR?

The GASB monitors and supports implementation of all of its pronouncements

For Statements resulting from comprehensive projects and major projects that address a fundamental aspect of the standards, the GASB also:

Examines a random sample of financial reports for the year prior to, year of, and year after implementation

Collects information from their preparers regarding staff hours and nonstaff costs for those three years

Examine financial reports for the same random sample in the fifth year of implementation

Conduct stakeholder roundtables and surveys regarding their experience with the standards

Reports the findings publicly

Why does the GASB conduct PIRs?

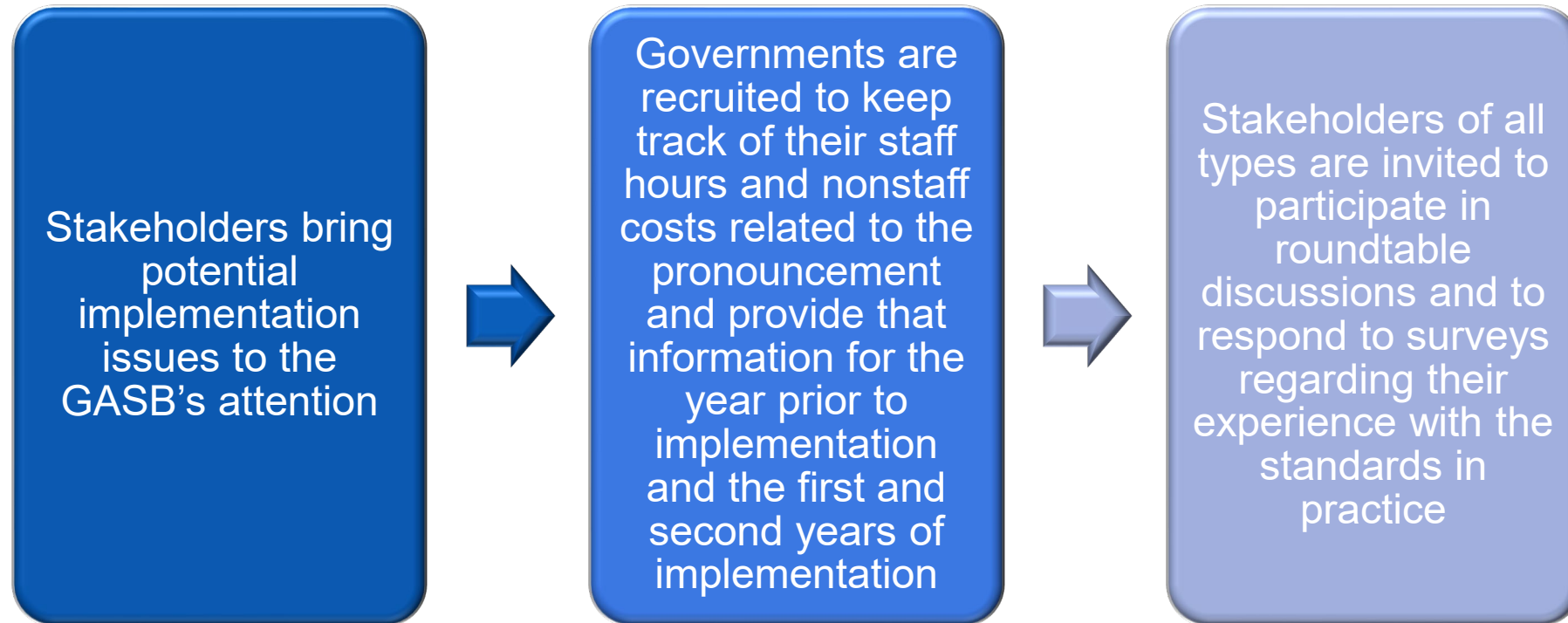
To provide general support to stakeholders when implementing significant new pronouncements

To identify and address practice issues that arise

To answer technical inquiries from stakeholders and develop and publish Q&A implementation guidance

To collect timely information that the Board can use to evaluate cost-benefit considerations as it develops other pronouncements and when it reexamines the standards in the future

How does the GASB involve stakeholders in PIR?



Which Statements are under review?

Statement 67—Pension plan reporting

Statement 68—Employer reporting for pensions

Statement 72—Fair Value measurement & reporting

Statement 75—Employer reporting for other
postemployment benefits (OPEB)

Statement 84—Fiduciary activities

Statement 87—Leases

What is the status of the PIRs?

Pensions	Board is reviewing the summary of the results of the PIR activities.
Fair value	Beginning collection and analysis of fifth-year reports
OPEB	Analysis of prior year, implementation year, and second year of implementation financial reports completed, fifth year of implementation in progress; Collection of implementation effort and cost information completed; All roundtables completed, results are being summarized and analyzed
Fiduciary activities	Collection of implementation effort and cost information completed
Leases	Collection of implementation effort and cost information and pre-implementation year reports has begun

Questions?



Visit www.gasb.org

www.gasb.org

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD®

CONTACT US | HELP [ADVANCED SEARCH](#)

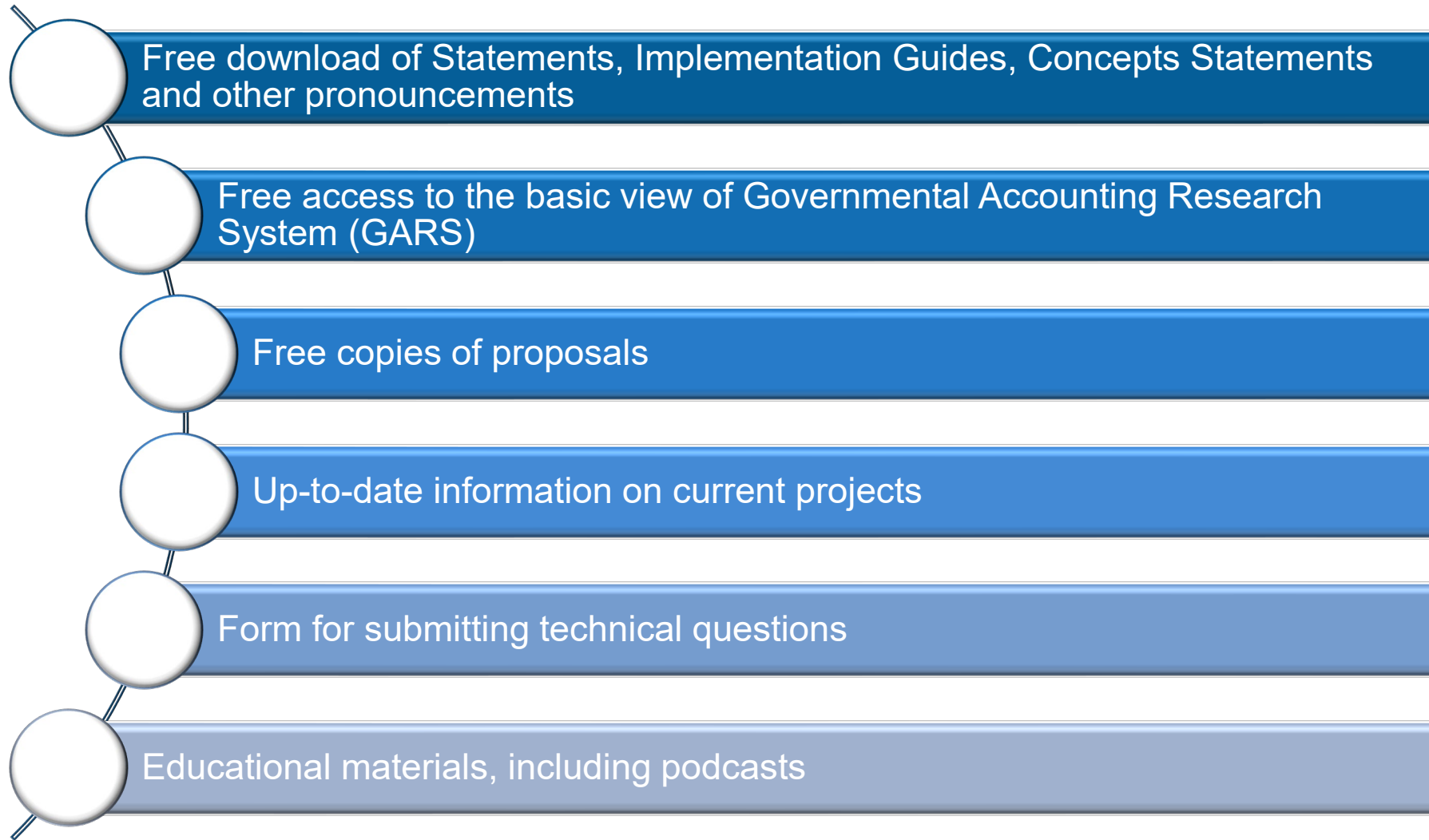
[HOME](#) [STANDARDS & GUIDANCE](#) [PROJECTS](#) [MEETINGS](#) [REFERENCE LIBRARY](#) [NEWS & MEDIA](#) [ABOUT US](#) [STAY CONNECTED](#) [STORE](#)

Financial Reporting Model Reexamination

In September 2018, the GASB issued a Preliminary Views in its Financial Reporting Model project. The Board has also proposed new concepts for developing standards on recognition in financial statements.

[MORE»](#)

Website Resources



Thank You



DEEPER DIVE INTO GASB CONCEPT STATEMENTS

May 3, 2024

Presented by Lisa Parker, CPA, CGMA

Oklahoma Society of CPAs Governmental Accounting and Auditing Conference



GASB's Conceptual Framework—The Whole Shebang

Lisa R. Parker, CPA, CGMA, Senior Project Manager and GASAC Coordinator

May 3, 2024

The views expressed in this presentation are those of Ms. Parker
Official positions of the GASB are reached only after extensive due process and deliberations.

Concepts Statements

Concepts Do:

- Assist the Board in considering alternatives to facilitate the development of well-reasoned standards
- Assist stakeholders in understanding the concepts underlying authoritative guidance
- Assist preparers and auditors in some situations when there is no authoritative guidance

Concepts Don't:

- Require “implementation” by governments
- Apply to a particular item or event
- Establish authoritative guidance
- Amend, modify, or interpret existing GAAP

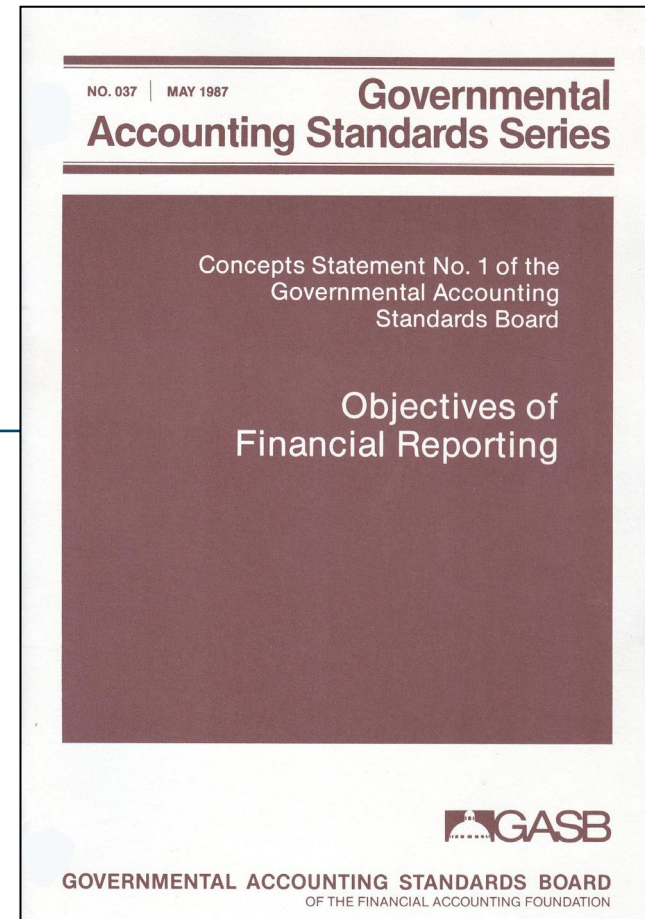
Their Place in the GAAP Hierarchy

GAAP Hierarchy Under Statement 76:

- Source of nonauthoritative accounting guidance and literature
 - Should first consider authoritative guidance for similar transactions or events, before considering nonauthoritative guidance
 - Nonauthoritative guidance should not conflict with or contradict authoritative GAAP
 - In evaluating the appropriateness of nonauthoritative literature, consider all of the following:
 - Consistency with the GASB Concepts Statements
 - Relevance to particular circumstances
 - Specificity of the guidance
 - General recognition of the issuer or author as an authority

Objectives of Financial Reporting

Concepts Statement No. 1



Objectives

- Governmental financial reporting objectives are influenced by:
 - The *characteristics* of the state and local government operating environment
 - The *needs* of those who use governmental financial reports—*Users*
- Activities of governmental entities are divided into:
 - Governmental activities
 - Business-type activities

Characteristics of the Governmental Environment

Governments Are Different from Businesses:

- Government structure and the services it provides:
 - Representative form of government and the separation of powers
 - Prevalence of intergovernmental revenues
 - Disconnect between price paid (taxes) for services and amount/quality received—nonexchange transactions
- Control characteristics as a result of the structure
 - Central importance of the budget as an expression of public policy and financial intent
 - The use of fund accounting

Characteristics of the Governmental Environment

Governments Are Different from Businesses:

- Other characteristics
 - Dissimilarities between similarly designated governments
 - Significant investment in non-revenue producing capital assets
 - Nature of the political process
- Other Differences per GASB's White Paper, *Why Governmental Accounting And Financial Reporting Is—And Should Be—Different*
 - Absence of a profit motive
 - Exist to provide services to improve the lives of citizens
 - Power to tax

Governmental Business-type Activities

- Governments frequently engage in business-type activities
 - Some resemble private-sector business activities
 - Provide the same services
 - Exchange relationship between the provider and the consumer
 - Some are self sufficient and operate as separate, legally constituted organizations
 - Other resemble governmental-type activities
 - Regularly subsidized by taxes
 - Operated as departments within a government
- All are subject to the same public accountability requirements as governmental-type activities

Governmental Business-type Activities

- Financial reporting objectives established for governmental-type activities are generally applicable to business-type activities
 - Environmental and user need differences considered when issuing standards

Financial Statement Users

- Those to whom the government is primarily accountable—**Citizenry**
 - Includes the media, advocate groups, and public finance researchers
- Those who directly represent the citizens—**Legislative and Oversight Bodies**
 - Includes members of state legislatures, county commissions, city councils, boards of trustees, school boards, and executive branch officials with oversight responsibility over other levels of government
- Those who lend or participate in the lending process—**Investors and Creditors**
 - Includes municipal security underwriters, bond rating agencies, bond insurers, and financial institutions

Why Are Financial Reports Prepared?

■ Linchpin is *accountability*

- Governmental financial reporting should provide information to assist users in (a) assessing accountability and (b) making economic, social, and political decisions.
- The duty to be publicly accountable is more significant in governmental financial reporting than in business enterprise financial reporting.
- For this reason, the Board gave considerable weight to the concept of accountability.
- Accountability appears throughout the discussion of the governmental environment.
- Assessing accountability is a pervasive use of financial reporting as indicated in the section on uses of financial reports.
- Accountability is implicit in all of the listed objectives in Concepts Statement 1.
- The Board considers it to be the paramount objective from which all other objectives must flow.

Interperiod Equity

- Is a significant part of accountability
- The current generation of taxpayers should not be able to shift the burden of paying for current-year services to future-year taxpayers.
- Expresses the concept of yearly balance
 - As opposed to intergenerational equity- generation is defined as approximately 30 years

Characteristics of Information

- **Qualitative Characteristics of Information in Financial Reporting**
 - **Timeliness**—issued soon enough after the reported events to affect decisions
 - **Understandability**—expressed as simply as possible
 - **Comparability**—against the government itself over time and other governments
 - **Consistency**—presumption that once an accounting principle or reporting method is adopted, it will be used for similar transactions and events—explanations provided for changes
 - **Relevance**—close logical relationship between the information provided and the purpose for which it is needed
 - **Reliability**—verifiable and free from bias and faithfully represent what it purports to represent
- **Pervasive constraint—cost/benefit**

Financial Reporting Objectives

Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.

Financial reporting should provide information to determine:

- Whether current-year revenues were sufficient to pay for current-year services.
 - Whether current-year citizens received services but shifted part of the payment burden to future-year citizens
 - Whether previously accumulated resources were used up in providing services to current-year citizens
 - Whether current-year revenues not only were sufficient to pay for current-year services, but also increased accumulated resources.

Financial Reporting Objectives

Financial reporting should demonstrate:

- Whether resources were obtained and used in accordance with the entity's legally adopted budget
- Compliance with other finance-related legal or contractual requirements.

Financial reporting should provide information to:

- Assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.

Financial Reporting Objectives

Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.

Financial reporting should provide:

- Information about sources and uses of financial resources.
 - The extent to which inflows met outflows.
 - Identify material nonrecurring financial transactions.
- Information about how the governmental entity financed its activities and met its cash requirements.
- Information necessary to determine whether the entity's financial position improved or deteriorated as a result of the year's operations.

Financial Reporting Objectives

Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.

Financial reporting should provide:

- Information about the financial position and condition of a governmental entity.
 - Information about resources and obligations, both actual and contingent, current and noncurrent.
 - Information about tax sources, tax limitations, tax burdens, and debt limitations.

Financial Reporting Objectives

Financial reporting should provide:

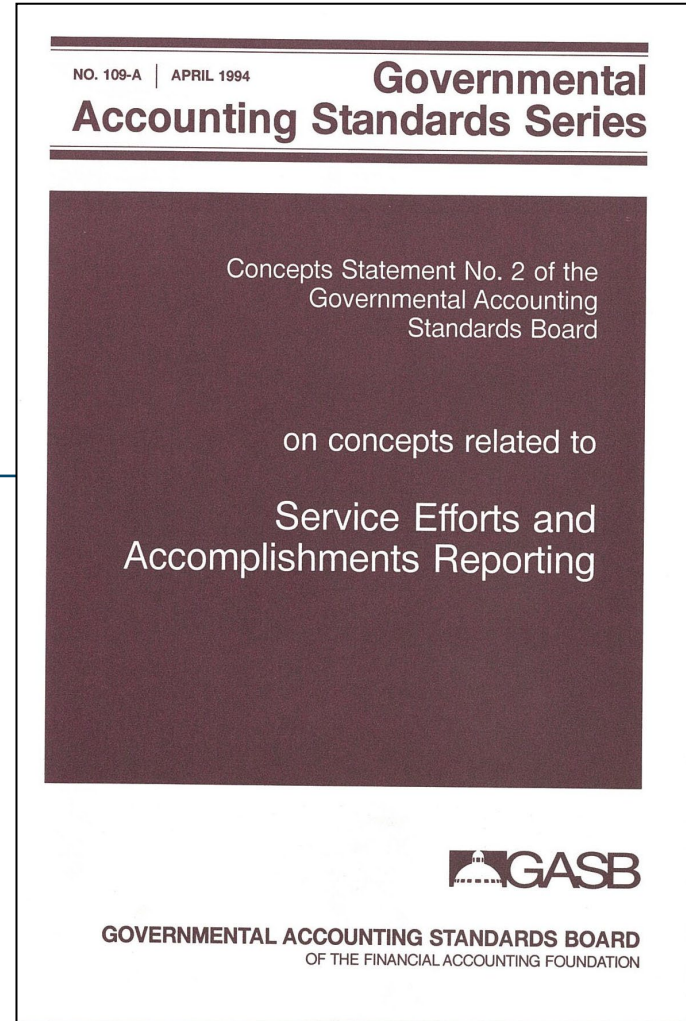
- Information about a governmental entity's physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources.

Financial reporting should:

- Disclose legal or contractual restrictions on resources and risks of potential loss of resources.

Service Efforts and Accomplishments Reporting

Concepts Statement No. 2

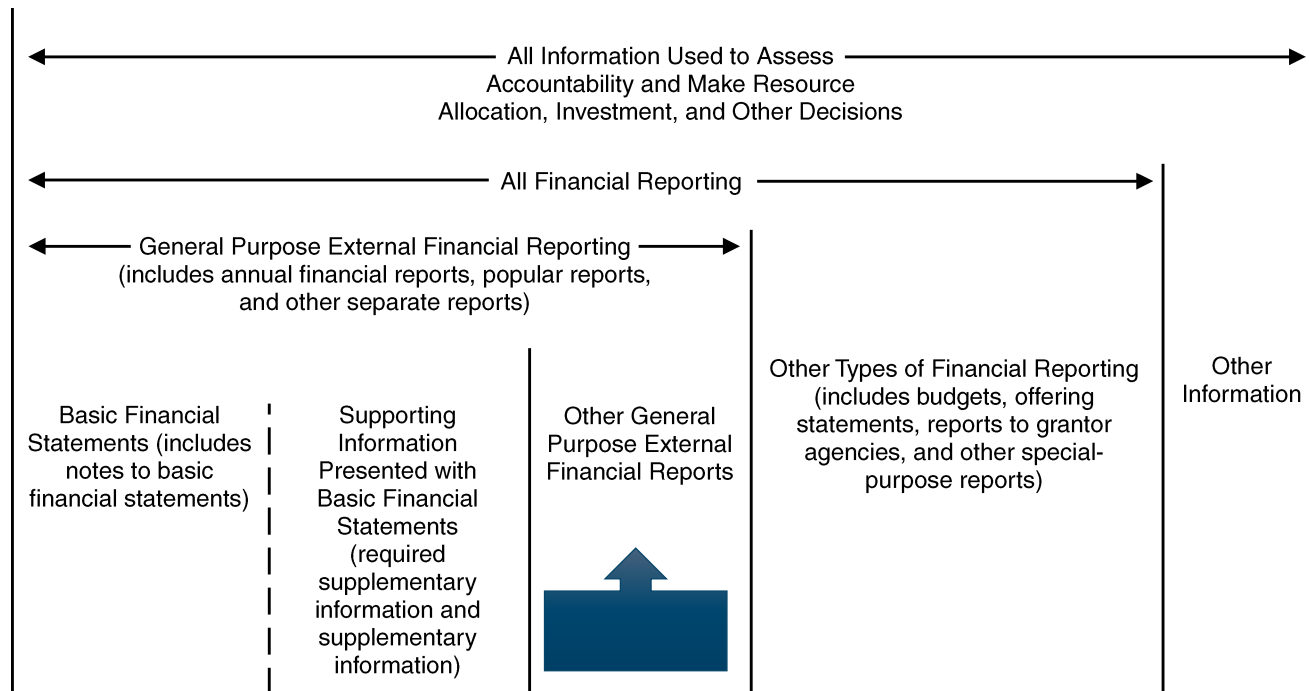


Concepts Statement No. 2

Further develops the objective of service efforts and accomplishments (SEA) reporting and defines its elements and characteristics

- Provides background information on:
 - the government environment
 - governmental decision making
 - accountability
 - the reporting of performance information as part of general purpose external financial reporting (GPEFR)
 - Calls for further extensive experimentation in measuring and reporting SEA before the GASB considers establishing SEA reporting standards

SEA Information as Part of GPEFR



SEA Information as Part of GPEFR

- An objective of GPEFR is to provide users with information that will assist them in assessing the performance of the reporting entity
- Because the primary purpose of governmental entities is to maintain or improve the well-being of their citizens, information that will assist users in assessing how efficiently and effectively governmental entities are using resources to maintain or improve the well-being of their citizens should play an important role in GPEFR
- The assessment of a governmental entity's performance requires information not only about the acquisition and use of resources, but also about the outputs and outcomes of the services provided and relationship between the use of resources and their outputs and outcomes

SEA Reporting Objective

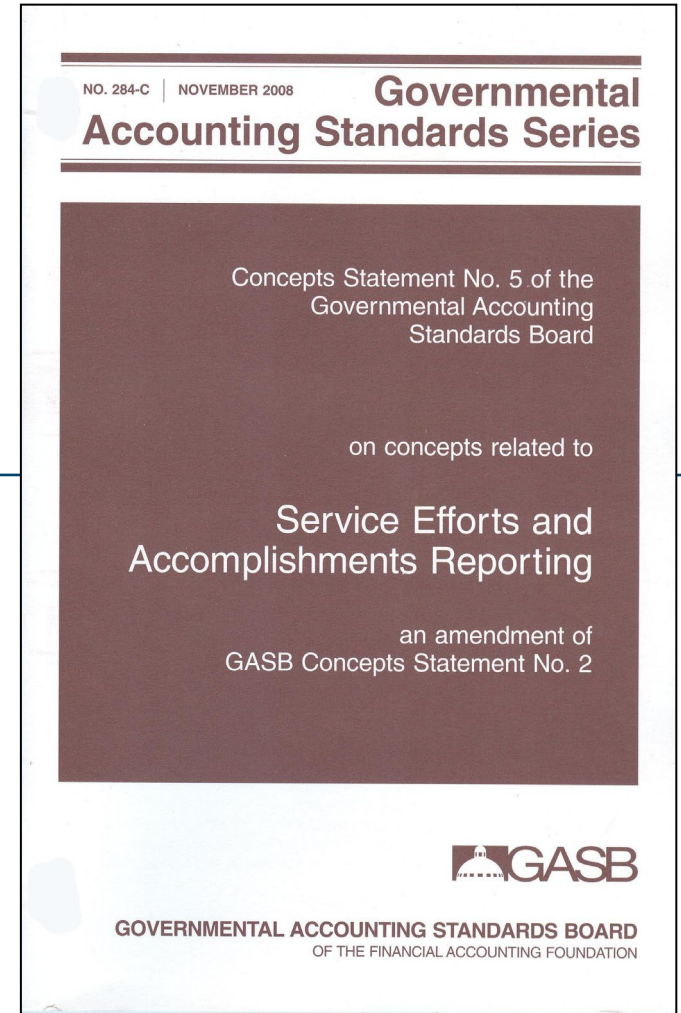
- To provide more complete information about a governmental entity's performance than can be provided by the traditional financial statements and schedules to assist users in assessing the
 - Economy,
 - Efficiency, and
 - Effectiveness of services provided.
- Based on the Board's belief that that SEA information is necessary for (1) assessing accountability and (2) making informed decisions.
- This information will likely be reported in a report separate from the ACFR.

Elements of SEA Reporting

- Categories of SEA measures
 - Measures of service efforts (input indicators)
 - Measures of service accomplishments (output and outcome indicators)
 - Measures that relate service efforts to service accomplishments (efficiency and cost-outcome indicators)
- Explanatory information

Service Efforts and Accomplishments Reporting, An Amendment of Concepts Statement No. 2

Concepts Statement No. 5



Amendments to Concepts Statement 2

- Section on *Developing Reporting Standards for SEA Information*—deleted
- Sections on *Limitations of SEA Performance Information* and *Usefulness of SEA Performance Information*—clarifying revisions only
- Section on *Purpose and Scope*—clarification that it is beyond the scope of the GASB to establish (1) the goals and objectives of state and local governmental services, (2) specific nonfinancial measures or indicators of service performance, or (3) standards of, or benchmarks for, service performance.

Amendments to Concepts Statement 2

- Section on *Elements of SEA Performance Measures*—proposes to separate the elements of SEA performance measurement from related factors.

Elements of SEA Performance Measures

- Measures of service efforts (costs),
- Measures of service accomplishments (outputs/outcomes),
- Measures that relate service efforts to service accomplishments (efficiency),
- Discussion of other factors (related information)—expanded to include comparisons, unintended effects, narrative information, and the concept of demand for services. Focus shifted to factors that influenced results.

Elements of SEA Performance Measures

Elements of SEA Performance Measures	Definition	Example
Measures of service efforts		
Input measures	Measure the amount of financial and nonfinancial resources that are applied to a service	Financial—cost of road maintenance Nonfinancial—total lane-miles of roads
Measures of service accomplishments		
Output measures	Measure the quantity of services provided; A quality requirement may be included	Number of lane-miles of road repaired or percentage of lane-miles of road repaired to a certain minimum satisfactory condition
Outcome measures	Measure the results of providing those outputs	Percentage of roads in good or excellent condition, or the residents' rating of the smoothness of the roads
Measures that relate service efforts to service accomplishments		
Efficiency measures	Measure the resources used or cost per unit of output	Cost per lane-mile of road maintained or more specifically, resurfaced or seal-coated
Cost–outcome measures	Measure the resources used or cost per unit of outcome or result	Cost per lane-mile of road maintained in good or excellent condition

Suggested Guidelines for Voluntary Reporting

- Suggested Guidelines for Voluntary Reporting, *SEA Performance Information* composed of three parts:
 - Four **essential components** of an effective SEA report
 - Six **qualitative characteristics** that are appropriate for reporting SEA performance information
 - A discussion of how to **effectively communicate** SEA performance information

Suggested Guidelines for Voluntary Reporting

- Suggested guidelines, although voluntary, will assist governments in improving the quality of their reported SEA performance information
- Traditional financial statements provide information about fiscal and operational accountability but not the degree to which the government was successful in helping to maintain or improve the well-being of its citizens by providing services

Essential Components and User Needs

Essential Components	User Needs
Purpose and Scope	The knowledge of why the information is being reported and what portion of a government the information relates to.
Major Goals and Objectives	A basis for determining whether the reported SEA performance measures are relevant measures of what a government intended to accomplish (that is, the measures are associated with the goals and objectives of the program or service).
Key Measures of SEA Performance	The ability to focus on the key measures of SEA performance that are most important to report users.
Discussion and Analysis of Results and Challenges	The ability to understand what has been achieved and what has affected the level of achievement.

Qualitative Characteristics and User Needs

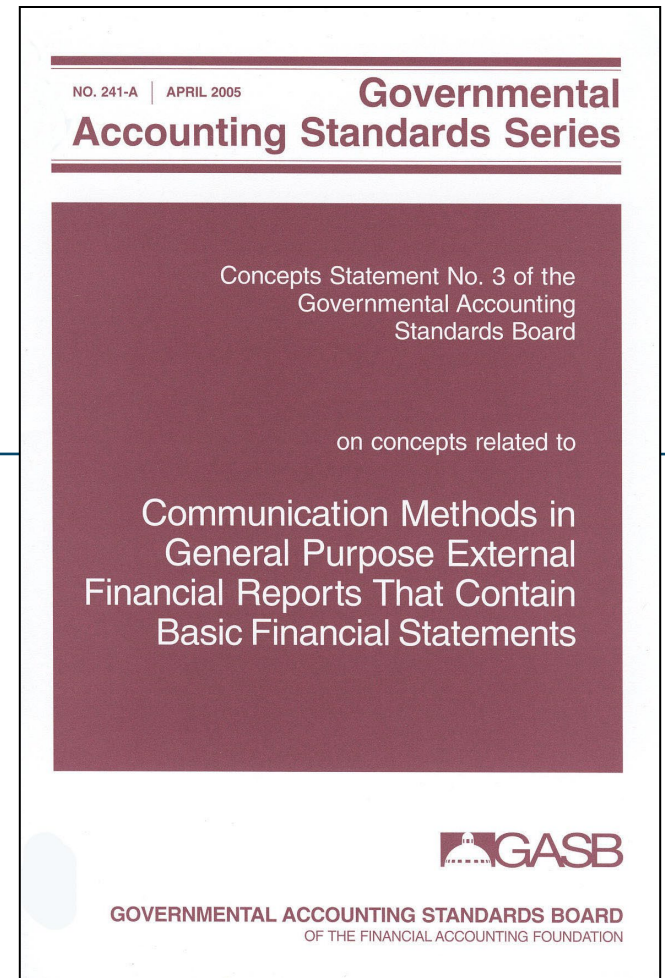
Qualitative Characteristics	User Needs
Relevance	The ability to assess the level of accomplishment of a government's goals and objectives with potentially significant accountability or decision-making implications.
Understandability	SEA performance information that is readily comprehensible.
Comparability	A clear frame of reference for assessing the SEA performance of a government and its agencies, departments, programs, and services.
Timeliness	SEA performance information issued while it is still of value in assessing accountability and making decisions.
Consistency	A basis for comparing similar SEA performance information over time.
Reliability	SEA performance information that is verifiable, free from bias and a faithful representation of what it purports to represent.

Effective Communication

- Provide further guidance on the effective communication of SEA performance information
 - Intended Audiences
 - Forms of Communication
 - Multiple Levels of Reporting

Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements

Concepts Statement No. 3



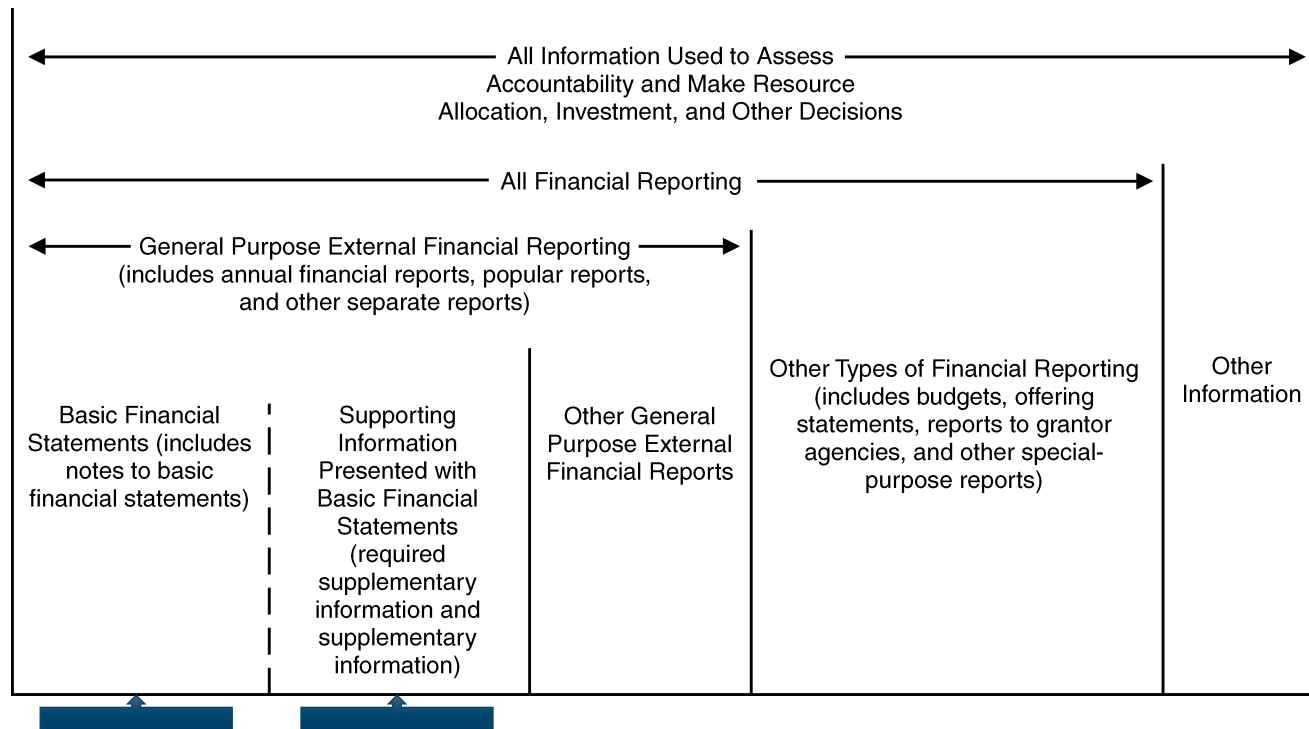
Objective

- To provide conceptual guidance regarding the placement of information within general purpose external financial reports that contain the basic financial statements, notes to basic financial statements, and supporting information related to basic financial statements.

Overview

- The statement defines and provides criteria for communication methods used in general purpose external financial reports.
 - Recognition in basic financial statements
 - Disclosure in notes to basic financial statements
 - Presentation as required supplementary information (RSI)
 - Presentation as supplementary information.

General Purpose External Financial Reporting



Communication and Financial Reporting

- All communication requires that a sender (that is, a communicator) generate a message or messages, which are received and understood by a recipient. In the communication of accounting information, the sender of messages is the preparer. Messages are contained in financial reports. The recipient of messages is the user of financial reports.

Essential Elements for Communication

■ Preparer Responsibilities:

- Producing financial reports that recognize relevant events in the financial statements or that disclose or present messages about such events elsewhere in the financial report
- Selecting events that are essential to assist the user in assessing accountability and making decisions
- Observing and making quantifiable measurements of the events that have been selected for recognition in the financial statements
- Understanding accounting and financial reporting principles applicable to state and local governments

■ Financial Reports:

- Contain messages that have been generated by the preparer for transmission to and interpretation by the user
- Can take many forms depending on who the message is intended for
- Can be transmitted through various channels

Essential Elements for Communication

■ User Responsibilities:

- Obtaining a reasonable understanding of government and public finance activities and the fundamentals of governmental financial reporting for studying the messages with reasonable diligence, and for applying relevant analytical skills
- Drawing conclusions and making decisions based on their interpretation of the messages in the financial reports or statements

■ GASB's Role:

- Establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports
- Act as an intermediary between preparers and users to help ensure that relevant information is communicated in a consistent manner
- Help preparers fulfill their role in the communication process by studying the needs of users, identifying the types of information they need, and establishing requirements for that information to be reported

What Should Be Included?

- Two conditions should be met before an item of information would be considered for inclusion in a general purpose external financial report.
 - The item is consistent with the objectives of state and local government financial reporting (GASB Concepts Statement 1, paragraphs 77-79)
 - Assessing accountability
 - Making economic, social, and political decisions
 - The item meets the basic characteristics for the communication of information in financial reports (GASB Concepts Statement 1, paragraphs 62-68)
 - Qualitative characteristics

Where?

- Where should an item of information that meets the two conditions be placed within a general purpose external financial report?
 - The proposed definition and criteria of communication methods are used to help answer this question.
 - Definitions and criteria are applied based on a hierarchical approach.

What is a Financial Statement

- A governmental financial statement is a tabulation of amounts, derived from accounting records and expressed in words and dollars, that displays either:
 - (a) the financial position of the reporting unit (that is, the group of activities covered by the financial statement) at a moment in time or
 - (b) Inflows and outflows of resources from transactions or other events during a period of time.

Amounts recognized in financial statements are assets, liabilities, and residual balances and the effects of transactions and other events that result in changes in those assets, liabilities, and residual balances.

Financial Statements

- Items recognized in a financial statement are intended to provide reliable representations of the effects of transactions and other events.
- Items that are elements of financial statements and are measurable with sufficient reliability are recognized in financial statements
- Disclosure in the notes to financial statements or presentation as supporting information is not an adequate substitute for recognition in the financial statements.

Notes to Financial Statements

- Notes to financial statements are integral to financial statements and are **essential** to a user's understanding of financial position or inflows and outflows of resources. Notes provide:
 - Descriptions of the accounting and finance-related policies underlying amounts recognized in financial statements
 - More detail about or explanations of amounts recognized in financial statements
 - Additional information about financial position or inflows and outflows of resources that does not meet the criteria for recognition.

Supporting Information

- Supporting information places basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. This information is required by GASB pronouncements to be presented with the basic financial statements and notes to basic financial statements, is required to be presented by laws or regulations, or is presented at the election of the preparer.

Required Supplementary Information (RSI)

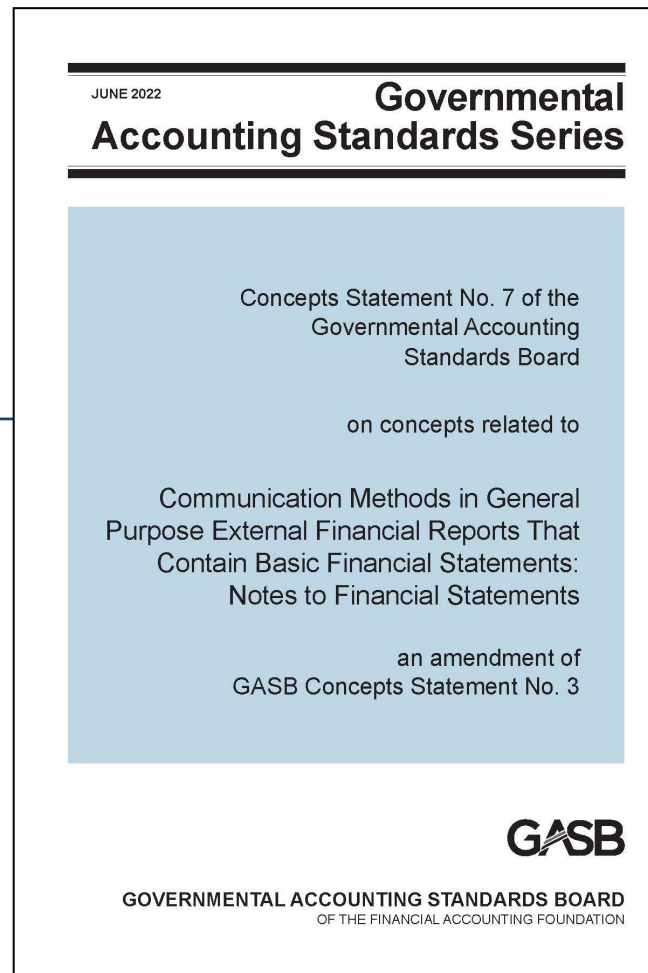
- RSI is supporting information that the GASB has concluded is **essential** for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. RSI is required to accompany the basic financial statements and notes to basic financial statements in a government's general purpose external financial report.

Supplementary Information (SI)

- SI is supporting information that is **useful** for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. SI is presented with the basic financial statements, notes to basic financial statements, and RSI in a government's general purpose external financial report. Although the GASB does not require SI to be presented, preparers of governmental financial reports who elect to present SI (or are otherwise required by law or regulations to present SI) with their basic financial statements, notes to basic financial statements, and RSI should follow any applicable GASB-issued or cleared guidance regarding the format and content of that information.

Notes to Financial Statements

Concepts Statement No.7



Criteria for Notes to Financial Statements

- Types of Information:
 - Description of accounting and finance-related policies
 - More detail about or explanations of amounts recognized in the financial statements
 - Information related to financial position or inflows and outflows that are NOT recognized
 - Other finance-related information associated with the accountability of the government

Criteria for Notes to Financial Statements

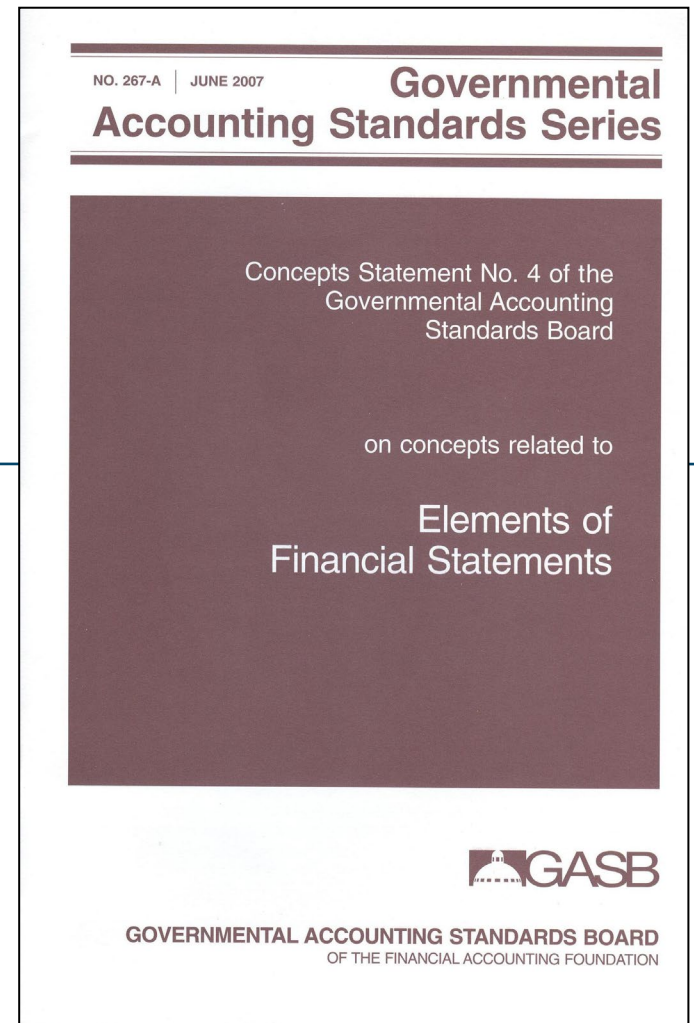
- Types of Information NOT appropriate:
 - Subjective assessments of the **effects of reported information** on the government's future financial position
 - Predictions about the **effects of future events** on the government's future financial position
 - General or educational information that is not specific to the government

Criteria for Notes to Financial Statements

- Essentiality: Degree of Importance
- Essential to users in making economic, social or political decisions or assessing accountability
 - Meaningful effect on users' analyses in making decisions or assessments
 - Breadth or depth of users utilize for making decisions or assessing accountability

Elements of Financial Statements

Concepts Statement No. 4



GASB's Periodic Table of Elements of Financial Statements

A Asset	Concepts Statement No. 4			L Liability
Do Deferred Outflow	O Outflow	I Inflow	Np Net Position	Di Deferred Inflow

Purpose

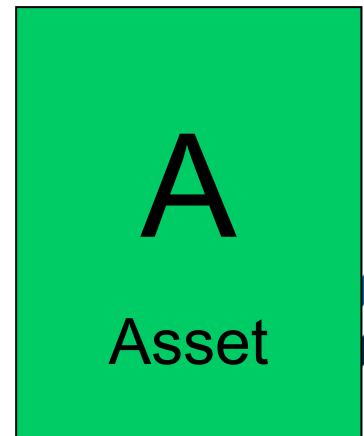
- Continue development of conceptual framework
- Assist the Board in future standards setting
- Does not require any changes in existing reporting requirements

Approach

- Elements are defined by their inherent characteristics – independently of each other
- For an item to be recognized in a financial statement -Meet the definition of an element, as well as meeting recognition and measurement criteria
- Resource is central
 - A supply or other means that can be drawn on when needed
 - For government, an item that can be drawn on to provide services to the citizenry

Assets

- Assets are resources with present service capacity that the government presently controls
 - Present service capacity = Existing capability to enable govt to provide services
 - Present control = Ability to utilize or direct use of service capacity
- Power to tax is a resource, but is not an asset



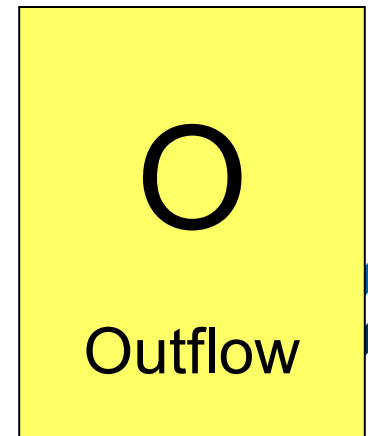
Liabilities

- Liabilities are present obligations to sacrifice resources that the government has little or no discretion to avoid
 - Obligation = social, legal, or moral requirement
 - Usually arise from legal requirements
 - Exchange vs. nonexchange
 - Present obligation vs. commitments



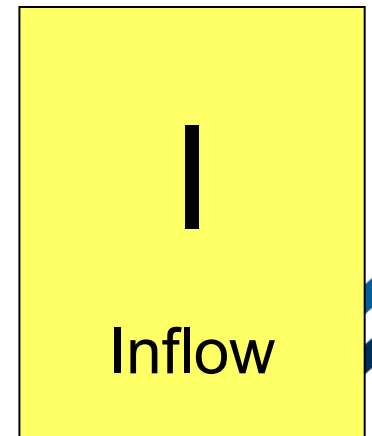
Outflows of Resources

- An outflow of resources is a consumption of net assets by the government that is applicable to the period
 - Consumption of net assets
 - Applicability to the period
 - Interperiod equity



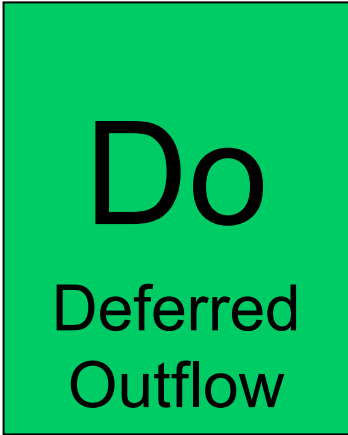
Inflows of Resources

- An inflow of resources is an acquisition of net assets by the government that is applicable to the period
 - Acquisition of net assets
 - Applicability to the period
 - Interperiod equity



Deferred Outflows of Resources

- A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future period
 - Consumption of net assets
 - Applicable to a future period
 - Interperiod equity



Do
Deferred
Outflow

Deferred Inflows of Resources

- A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future period
 - Acquisition of net assets
 - Applicable to a future period
 - Interperiod equity

Di

Deferred
Inflow

Net Position

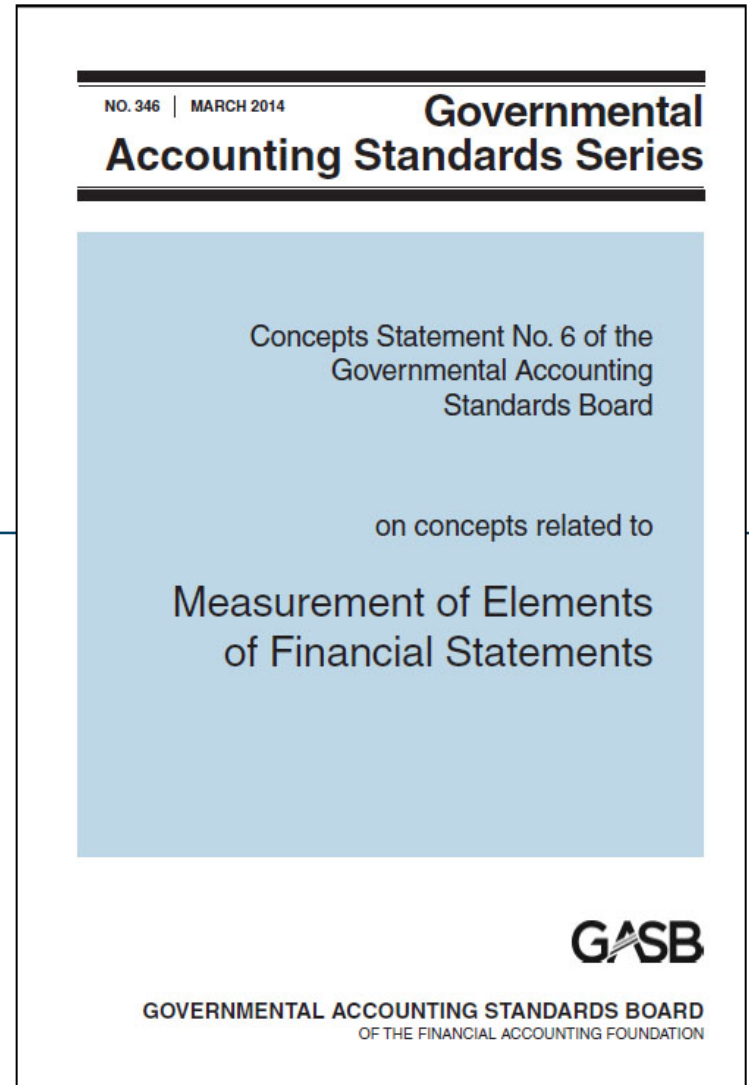
- Net position is the residual of all other elements presented in a statement of financial position
 - Residual element
 - Maintains articulation



Np
Net
Position

Measurement of Elements of Financial Statements

Concepts Statement No. 6



Scope of the Concepts Statement

- Applies to “traditional” financial statements
- Measurement is the act or process of assigning dollar amounts to elements in financial statements
- Concepts include both *measurement approaches* and *measurement attributes*

Measurement Approaches

- A measurement approach identifies the point in time to which the amount reported for an asset or liability refers
- Measurement approaches are:
 - ***Initial-Transaction-Date-Based Measurement (Initial Amount)***--The transaction price or amount assigned when an asset was acquired or a liability was incurred, including subsequent modifications to that price or amount that are derived from the amount at which the asset or liability was initially reported.
 - ***Current-Financial-Statement-Date-Based Measurement (Remeasured Amount)***--The amount assigned when an asset or liability is remeasured as of the financial statement date.

Measurement Approaches

- Both measurement approaches can be used
- Determining most appropriate measurement approach for an asset or liability involves considering the
 - Objectives of financial reporting
 - Qualitative characteristics
 - Costs and benefits
- Initial amounts are more suitable for assets that are used directly in providing services.
- Remeasured amounts are more suitable for
 - Assets that will be converted to cash (financial assets)
 - Liabilities for which there is uncertainty about the timing and amount of payments

Measurement **Attributes**

- A measurement attribute is the characteristic of an asset or liability that is being measured
- The four measurement attributes
 - *Historical cost*
 - *Fair value*
 - *Replacement cost*
 - *Settlement amount*

Measurement **Attributes**

- *Historical cost* is the price paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction.
- *Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- *Replacement cost* is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the measurement date.
- *Settlement amount* is the amount at which an asset could be realized or a liability could be liquidated with the counterparty, other than in an active market.



STATE AUDITOR AND INSPECTOR UPDATE

May 3, 2024

Presented by Cynthia Bryd, CPA

Materials for this course are currently unavailable.
Please check back later for updates.



GASB 87, 94, AND 96 COMMON ERRORS AND MISCONCEPTIONS (LEASES, P3s, SBITAs)

May 3, 2024

Presented by Christopher Pembroke, CPA

GASB 87, 94, & 96: Groundhog Day!

Chris Pembrook, CPA, CGAP, CRFAC



1

Topics

- ▶ General overview of GASB 87/94/96
- ▶ Areas of implementation issues
- ▶ Common Questions
- ▶ Open FAQ



2

SCOPE – Is It Still A Lease?

- ▶ Applicability:
 - GASB Statement 94 - P3s
 - GASB Statement 96 – SBITAs
 - See next slide
- ▶ Which standard applies to which agreement?



3

What is a lease?

A contract (e.g., an agreement between two or more parties that creates enforceable rights and obligations) that **conveys control** of the right to use another entity's **nonfinancial asset** (the underlying asset) as specified in the contract for a **period of time** in an **exchange or exchange-like transaction**.

- ▶ In order to “convey control of the right to use of the underlying asset”, a contract should have both of the following:
 - The right to obtain the present service capacity from use of the underlying asset
 - The right to determine the nature and manner of use of the underlying asset



4

What's a PPP (P3)

Public-private partnerships and public-public partnerships (P3s) are arrangements “in which a government (the transferor) **contracts with an operator** [governmental or nongovernmental] to **provide public services** by conveying control of the **right to operate** a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an **exchange or exchange-like transaction.**”

Availability payment arrangements (APA):

- Government contracts with another entity to operate or maintain the government's nonfinancial asset
- Entity receives payments from the government based on the asset's availability for use
- Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components



5

What's a SBITA?

A subscription-based information technology arrangement (SBITA) “is a contract that **conveys control** of the right to use another party's (a SBITA vendor's) **IT software, alone or in combination with tangible capital assets** (the underlying IT assets) as specified in the contract for a **period of time** in an **exchange or exchange-like transaction.**”

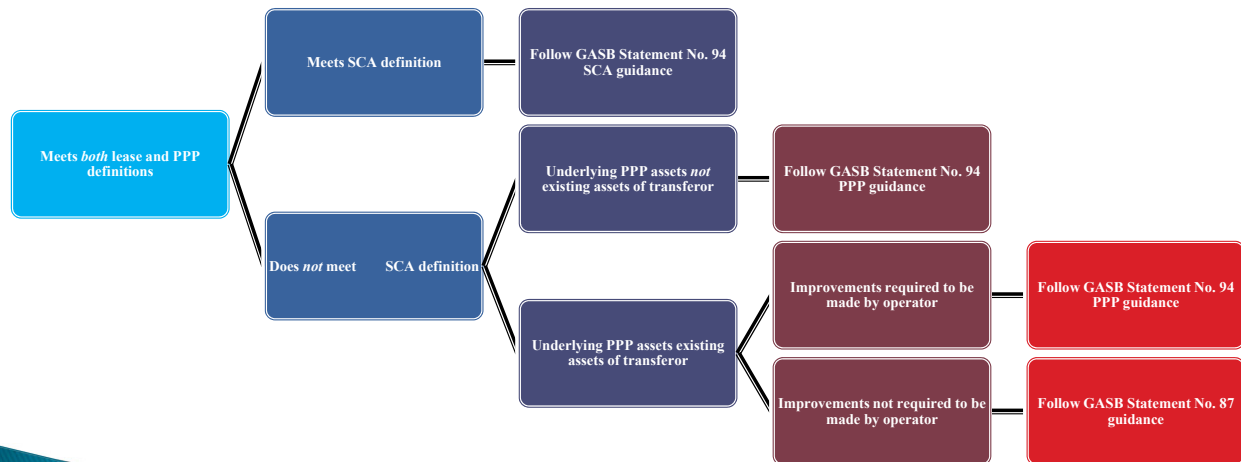
To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both:

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
- The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.



6

Relationship Between Leases and PPPs



7

Relationship Between Leases and SBITAs

- All SBITAs meet definition of lease
- Accounting depends on what the underlying asset is:
 - Tangible capital assets alone – GASB Statement No. 87
 - IT software alone – GASB Statement No. 96
 - IT software in combination with tangible capital assets:
 - Software component is insignificant compared to cost of underlying tangible capital asset – GASB Statement No. 87
 - Otherwise – GASB Statement No. 96



8

Completeness & the Population Year 2/3

- ▶ Start with existing population
 - Perform evaluation to determine if any impact from Stmts 94&96
 - Perform procedures to ensure evaluation of any new lease agreements
 - Perform procedures to identify any missed leases!
 - Never happens right!!!
 - Determine appropriate accounting (consideration of materiality, measurement)



9

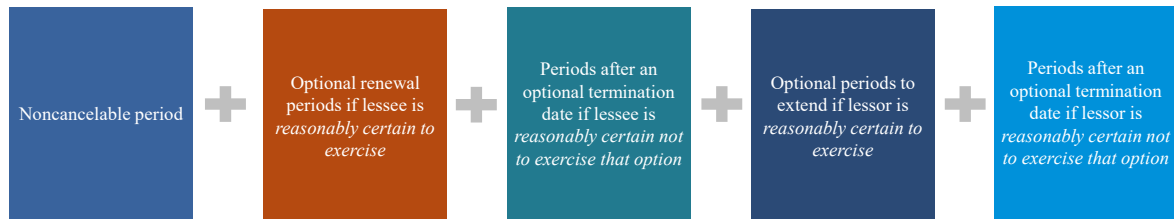
Accounting Term



10

Lease Term

Inconsistent conclusions



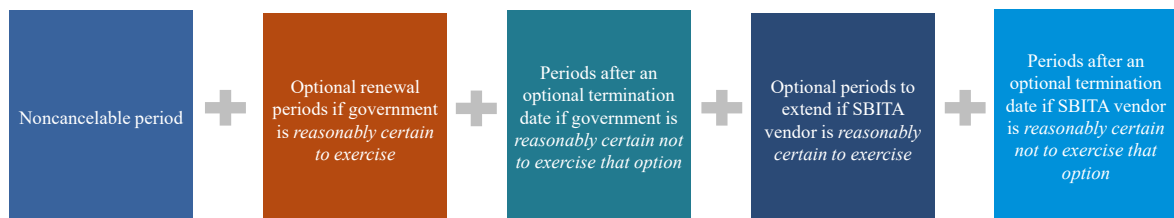
The lease term excludes periods in which both the lessee and lessor have options to terminate regardless of probability.

Fiscal funding or cancelation clauses ignored *unless* reasonably certain of being exercised



11

Subscription Term



The SBITA term excludes periods in which both the government and SBITA vendor have options to terminate regardless of probability.

Fiscal funding or cancelation clauses ignored *unless* reasonably certain of being exercised



12

Additional Preparer Considerations

- ▶ When determining if an entity is reasonably certain to exercise extension or termination options management should consider:
 - Economic factors or incentives
 - Known plans
 - Historical performance or decisions

▶ From basis for conclusion:

▶ “The Board believes that the term *reasonably certain*, although also requiring the use of professional judgment, is a higher threshold and is less speculative than *probable*.”



13

Term vs Maximum Possible Term

- ▶ Lease/SBITA Term – See previous slide
- ▶ Short-Term lease/SBITA – Lease/SBITA that has a “*maximum possible term*” under the contract, including any options to extend, of 12 months or less
 - Evaluation of 12 months or less (Q4.11 in IG 2021-1)
 - ...a three-year contract for the right to use a piece of equipment. However, the government only obtains the right to use the equipment from January through March for each of those three years...
 - Short-Term? Or Not Short-Term?



14

IG 2023 Short-term Vs Perpetual

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

4/30/2024



15

Short-Term Considerations

- ▶ GASB Statement No. 99
 - Par. 12 - ... a lease that previously had been determined to be short-term and that has been modified to extend the initial maximum possible term under the lease contract should be reassessed from the inception of the lease.
 - If reassessment is greater than 12 months – No Longer Short-Term!
 - Lease term to be assessed at the date of modification for measurement of receivable/liability



16

Reassessment of Lease Term

- ▶ Reassess the lease term only if one or more of the following occurs:
 - Lessee or lessor elects to exercise an option even though originally determined that the lessee or lessor would not exercise that option
 - Lessee or lessor elects to not exercise an option even though previously determined that the lessee or lessor would exercise that option
 - An event specified in the contract that requires an extension or termination of the lease takes place



17

Perpetual/Automatic Renewal

- ▶ Common question – “Period of Time” if a contract automatically renews and there is no specific end date, is this outside the scope of the lease definition?
 - No, provision under which the licensing agreement automatically renews until cancelled is an option to terminate
 - 2023-1



18

Term - Cancellable

- ▶ What is really *Cancellable*? Does probabilities matter?
 - If contract gives either party the option to cancel, even if it is highly unlikely that they wont, it is a cancellable period (Q4.15 in IG 2019-3)
- ▶ What if there is a termination penalty? What if penalty is significant? (Q4.15 in IG 2019-3)



19

Terminations/Modifications



20

Termination Options

- ▶ GASB 99 – application of par 12 of 87:
 - Option to terminate is an unconditional right that exists within the lease contract
 - Termination based on certain circumstances are not considered termination options:
 - Due to violation of contract provisions (terms and conditions)
 - Default on payment



21

Lease Termination

Lessee	Lessor
<ul style="list-style-type: none"> • Reduce the carrying values of the lease asset and lease liability 	<ul style="list-style-type: none"> • Reduce the carrying values of the lease receivable and deferred inflow of resources
<ul style="list-style-type: none"> • Recognize a gain or loss for the difference 	<ul style="list-style-type: none"> • Recognize a gain or loss for the difference
<ul style="list-style-type: none"> • Exception: If the termination occurs because the lessee purchases the underlying asset, then the lease asset should be reclassified to the proper asset class 	<ul style="list-style-type: none"> • Exception: If the termination occurs because the lessee purchases the underlying asset, then the carrying value of the underlying asset should be derecognized and included in the resulting gain or loss



22

Lease Modifications

Are both of the following conditions present?

- Modification gives the lessee an additional lease asset by adding one or more underlying assets that were not included in the original lease
- Increase in lease payments for the additional lease asset does not appear to be unreasonable

Yes

Account for amendment as a separate lease

No

Remeasure lease liability (lessee) or lease receivable (lessor)



23

Lease Modifications

See IG
2021-1,
4.20

Q—In Question 4.67 in Implementation Guide 2019-3, the school district remeasures the lease liability. Does that remeasurement require reassessment of the discount rate?

A—Yes. In accordance with paragraph 73 of Statement 87, a lease modification requires remeasurement of the lease liability. A remeasurement because of a lease modification is the same as reperforming an initial measurement. Therefore, reassessment of the discount rate is required.



24

Comprehensive Implementation Guide 12.109.1

Q—Three years into a 4-year lease, a [government] modifies its lease from 200 computers to 230 computers due to an increase in enrollment, changing the remaining lease liability from \$200,000 to \$202,500. The [government] has determined that the increase in the lease payments appears to be unreasonable because it is very low when compared to the value of the additional underlying assets. How should the [government] account for the amendment to the lease?

A—Because the [government] has determined that the increase in the lease payments appears to be unreasonable, the [government] should account for this as a lease modification, but not as a separate lease because the condition in paragraph 72b of Statement 87 is not present. Paragraph 73 of Statement 87 states that unless a modification is reported as a separate lease as provided by paragraph 72, a lessee should account for a lease modification by remeasuring the lease liability. The lease asset should be adjusted by the difference between the remeasured liability and the liability immediately before the lease modification. Thus, the lease asset should be increased by \$2,500, which represents the difference between the remeasured liability and the liability immediately before the lease modification.

25

Options vs New Contract

- ▶ Not just semantics – Can affect the accounting!
- ▶ If renewal is an option within the contract *versus* there being a new contract:
 - Could change the short-term lease evaluation (Q4.10 in IG 2020-1) –
 - Q—A governmental housing authority enters into a 12-month residential lease contract that states the lessee may renew. If the lessee decides to renew, the housing authority and the lessee will enter into a separate lease contract at a later date for the subsequent 12-month period. Is the existing 12-month residential lease contract a short-term lease under Statement 87?
 - It determines whether renewal history matters – it matters if there is a renewal option and it does not matter if it is a new contract (Q4.11 in IG 2020-1)
 - Q—A city leases boat slips in its marina to boat owners. Each lease is for 12 months and does not contain an option to extend. A certain boat owner has signed a new lease every year for the past 20 years, and the city expects her to continue to do so. Is this a short-term lease?



26

Existing Leases/SBITAs – Don't set it and forget it!

- ▶ Don't just roll information to the next year!
- ▶ Determine if existing lease terms are still applicable:
 - Any agreements terminate?
 - Any agreement terms modified?
 - Type of modification
 - What about assumptions used to evaluate options?
 - Did assumption occur?
 - Did assumption not occur?
 - Did my basis of evaluation change? Do I care ☺



27

Special Considerations



28

Accounting for Stages of Implementation (SBITA)

Preliminary Project Stage	Initial Implementation Stage	Operational & Additional Implementation Stage
<ul style="list-style-type: none"> Outlays expensed as incurred 	<ul style="list-style-type: none"> Outlays should be capitalized as part of the subscription asset If no subscription asset is recognized (for example, short-term SBITA), outlays should be expensed as incurred 	<ul style="list-style-type: none"> Outlays expensed as incurred unless they meet specific capitalization criteria

Outlays related to the implementation of the SBITA can overlap or occur in multiple cycles and are recognized based on the nature and timing of the outlay (activity).

29

Stages of Implementation (SBITA)

Preliminary Project Stage	Initial Implementation Stage	Operation and Additional Implementation Stage
<ul style="list-style-type: none"> Conceptual formulation and evaluation of alternatives Determination of the existence of needed technology Final selection of alternatives for the SBITA 	<ul style="list-style-type: none"> Ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation associated with the government's access to the underlying IT assets Other ancillary charges necessary to place the subscription asset into service Initial implementation stage completed when the subscription asset is placed into service 	<ul style="list-style-type: none"> Maintenance, troubleshooting, and other activities associated with the government's ongoing access to the underlying IT assets Additional implementation activities, such as those related to additional modules that occur after the subscription asset is placed into service

Data conversion is considered an activity of the initial implementation stage **only** when necessary to place the subscription asset into service. Otherwise, considered an activity of the operation and additional implementation stage.

Training cost are expensed as incurred, regardless of the stage the costs are incurred

30

Old But Applicable Guidance – Z.51.22

- ▶ Q—Statement 51 provides guidance for the treatment of outlays associated with data conversion and user training activities for internally generated computer software. How should such outlays be accounted for when the activities are associated with the acquisition of computer software that is not considered internally generated?
- ▶ ...Outlays associated with **data conversion activities** should be capitalized as an ancillary cost of the acquired computer software only if those activities are determined to be necessary to make the software operational. Otherwise, such outlays should be expensed as incurred. **Outlays associated with user training should not be considered an ancillary cost of acquired computer software**, and, therefore, those outlays should be expensed as incurred.



31

Presentation & Disclosure



32

Common Issues - Statement Presentation

- ▶ Classified Format:
 - Current/Non-Current presentation
 - Required for enterprise funds
- ▶ Leased/SBITA assets – not reported as capital assets
- ▶ Reclassification of current year payments
 - Payments made on leases are debt service
 - Principal & Interest
- ▶ Current year activity – Lessee/SBITAs
 - New leases result in recognition of an expenditures and other financing source
- ▶ Net Position



33

How's it calculated? (Net Invested – CA)

Capital assets (both tangible and intangible) ←

Less: Accumulated depreciation/amortization

Less: Outstanding principal of capital-related borrowings related to the government's own capital assets (limited to proceeds expended for capital purposes and excluding unspent proceeds) ("outstanding capital-related debt")

Less: Debt used to refund capital-related borrowings, including lease liabilities and subscription liabilities¹⁹ ←

Less: Any other (non-debt) capital-related liabilities as of fiscal year end, including accounts payable and retainage payable ←

Less: Original issue premiums on outstanding capital-related debt

Less: Capital-related deferred inflows of resources (such as a gain on refunding of outstanding capital-related debt or those resulting from the acquisition of a capital asset, such as through a service concession arrangement)

Plus: Original issue discounts on outstanding capital-related debt

Plus: Capital-related deferred outflows of resources (such as a loss on refunding of outstanding capital-related debt)

Equals: Net investment in capital assets

Leases, SBITAs, P3s

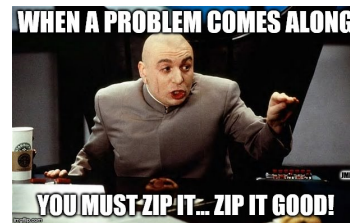


34

Common Issues - Note Disclosures

▶ Missing or inaccurate note disclosures, including –

- Accounting policy descriptions
 - Capital assets – policies/thresholds inclusion of right to use assets (leased/SBITA assets)
 - Deferred inflows of resources – existing disclosures not addressing those resulting from lessor agreements
- Use of old lease language
- Leasing arrangements – completeness of required disclosures
 - Lessee and Lessor
 - SBITA on lessee equivalent
 - Regulated leases
- Capital Asset Disclosures
- Long-term Obligations
- Over disclosing:
 - Are you an over disclosure?



35

Disclosures - Lessees

- | | |
|--|---|
| <p>1 General description of leasing arrangements</p> <hr/> <p>2 Total amount of lease assets, related accumulated amortization</p> <hr/> <p>3 Amount of lease assets by major classes of underlying assets</p> <hr/> <p>4 Amount of variable payments not previously included in liability</p> <hr/> <p>5 Amount of other payments not previously included in liability</p> | <p>6 Principle and interest requirements to maturity</p> <hr/> <p>7 Commitments under leases before commencement date</p> <hr/> <p>8 Impairment loss and any related change in lease liability</p> <hr/> <p><i>Additional disclosures are required for any sublease transactions, sale-leaseback transactions and lease-leaseback transactions, if applicable.</i></p> |
|--|---|



What about capital asset or long-term liabilities disclosures?



36

Disclosures: Lessee

Q—Should lease assets be included in the disclosure of changes in capital assets?

A— Yes. Lease assets are capital assets and, therefore, should be included in the disclosure of changes in capital assets. Paragraph 37c of Statement 87 requires lessees to disclose “the amount of lease assets by major classes of underlying assets. . . separately from other capital assets.” Paragraphs 116 and 117 of GASB Statement No. 34, as amended, require disclosure of information about major classes of capital assets, including disclosure of changes in capital assets.

Similarly, changes in the lease liability should be included in the long-term liabilities roll forward as required by GASB Statement No. 34.

**GASB IG
2019-3,
Q 4.41**



37

Disclosures - Lessor

- 1 General description of leasing arrangements
- 2 Amount of inflows of resources recognized, if amount cannot be determined from face financial statements
- 3 Amount of inflows of resources recognized for variable and other payments not previously included in lease receivable
- 4 Existence, terms and conditions of lessee options to terminate lease or abate payments if lessor has issued debt which is secured by lease payments



38

Disclosures – Regulated Leases

- 1 General description of leasing arrangements
- 2 Extent to which capital assets are subject to preferential or exclusive use (by class of asset/major counterparty)
- 3 Amount of inflows of resources recognized, if amount cannot be determined from face financial statements
- 4 Amount of inflows of resources recognized for variable and other payments not included in expected future minimum payments
- 5 Existence, terms and conditions of lessee options to terminate lease or abate payments if lessor has issued debt which is secured by lease payments
- 6 Schedule of expected future minimum payments under these agreements for each of the subsequent five years and in five-year increments



39

Intra Entity/Related parties

- ▶ Leases with/between blended component units
 - Eliminations for internal leasing activity take place before the financial statements are aggregated
- ▶ Leases with/between discretely-presented component units
 - Treat like normal leases, but - present receivables and payables separately
- ▶ Leases between ISF and departments/governmental funds
 - Doesn't convey control of another legal entities assets – not within scope
 - (Q4.4 in IG 2021-1)
- ▶ Recognize substance of the transaction, when substance is significantly different from legal form
 - For example, intent of short-term agreement is long-term
 - Disclose the nature and extent of related-party leases



40

Materiality

- ▶ Year 2: Considerations:
 - Est. Materiality for year 2:
 - Reminder materiality considerations by aggregate (Q4.23 of IG 2019-3)
 - Receivables/Deferred inflows – Lessor
 - Capital Assets/Liabilities by Lessee
 - Capital Assets – (Q5.1 of IG 2021-1)
 - directing governments to capitalize the **collective** amount if material in total
 - Prior year leases determined to be immaterial
 - Consider Prior & Current year leases not recognized in the aggregate
 - Consider amounts by reporting unit as a preparer
 - Consider amounts by Opinion unit as an auditor



41

Comprehensive Implementation Guide Z.110.1

Q—Upon completion of a capital asset project during the year, the government closes out a major capital projects fund and moves the remaining resources to the general fund. Does this circumstance constitute a change to or within the reporting entity?

A—**No.** Even though the capital projects fund will no longer be included in the government's financial reports in future periods (that is, the fund will be removed for financial reporting purposes), it does not constitute a change to or within the financial reporting entity in accordance with paragraph 9a of Statement 100 because, in this case, the removal of the fund does not result from the movement of continuing operations. Instead, the **movement of remaining resources to the general fund should be reported as interfund activity** in accordance with paragraph 112 of Statement 34.



42

Questions?

