

OSCPA'S GOVERNMENTAL ACCOUNTING AND AUDITING CONFERENCE

MAY 7-8, 2026

**PRESENTED BY: MELISA GALASSO, CPA
AUDITOR CINDY BYRD, CPA
ASHLEY PLYUSHKO, CPA
CHRIS PEMBROOK, CPA JACOB WINKLER, CPA
KENCY DUARTE, CPA
LISA PARKER, CPA FRANK CRAWFORD, CPA
LINDSEY KENNIMER, CPA MICK DODSON**

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GOVERNMENTAL ACCOUNTING AND AUDITING CONFERENCE

EMBASSY SUITES DOWNTOWN MEDICAL CENTER

MAY 7, 2026 – DAY 1

8:00 – 9:40 AM	GENERAL SESSION (100 MINUTES) AICPA AND YELLOW BOOK AUDITING STANDARDS UPDATE By: MELISA GALASSO, CPA	YOUNG CDE
<i>9:40 – 10:00 AM</i>	<i>NETWORKING BREAK</i>	
10:00 – 11:15 AM	GENERAL SESSION (75 MINUTES) STATE AUDITOR AND INSPECTOR UPDATE By: CINDY BYRD, CPA	YOUNG CDE
<i>11:15 AM – 12:00 PM</i>	<i>NETWORKING LUNCH (45 MINUTES)</i>	
12:00 – 1:40 PM	GENERAL SESSION (100 MINUTES) ETHICS By: ASHLEY PLYUSHKO, CPA	YOUNG CDE
<i>1:40 – 1:50 PM</i>	<i>NETWORKING BREAK</i>	
1:50 – 3:05 PM	CONCURRENT SESSIONS (75 MINUTES) A) SINGLE AUDIT AND UNIFORM GUIDANCE UPDATE BY: MELISA GALASSO, CPA B) COMMON ACCOUNTING, FINANCIAL REPORTING AND AUDITING DEFICIENCIES BY: CHRIS PEMBROOK, CPA	YOUNG C YOUNG DE
<i>3:05 – 3:15 PM</i>	<i>NETWORKING BREAK</i>	
3:15 – 4:30 PM	GENERAL SESSION (75 MINUTES) INCORPORATING AI INTO THE AUDIT AND ACCOUNTING FUNCTIONS BY: JAKE WINKLER, CPA AND KENCY DUARTE, CPA	YOUNG CDE
4:30 PM – 6:30 PM	NETWORKING RECEPTION	FASSLER HALL



GOVERNMENTAL ACCOUNTING AND AUDITING CONFERENCE

EMBASSY SUITES DOWNTOWN MEDICAL CENTER

MAY 8, 2026 – DAY 2

8:00 – 9:40 AM	GENERAL SESSION (100 MINUTES) GASB Update By: LISA PARKER, CPA, CGMA	YOUNG CDE
<i>9:40 – 10:00 AM</i>	<i>NETWORKING BREAK</i>	
10:00 – 11:15 AM	GENERAL SESSION (75 MINUTES) A DEEPER DIVE INTO GASB 103, THE NEW REPORTING MODEL By: LISA PARKER, CPA, CGMA; FRANK CRAWFORD, CPA	YOUNG CDE
<i>11:15 – 12:00 PM</i>	<i>NETWORKING LUNCH (45 MINUTES)</i>	
12:00 – 1:15 PM	GENERAL SESSION (75 MINUTES) AICPA GOVERNMENT AUDIT QUALITY CENTER UPDATE By: LINDSEY KENNIMER, CPA	YOUNG CDE
<i>1:15 – 1:30 PM</i>	<i>NETWORKING BREAK</i>	
1:30 – 2:45 PM	CONCURRENT SESSIONS (75 MINUTES) A) REVISITING OLDER GASB STANDARDS REFRESH By: CHRIS PEMBROOK, CPA B) UPDATE ON THE NEW CITY/TOWN AGREED UPON PROCEDURE ENGAGEMENTS, RULES, REGULATIONS, PROCEDURES AND THE AUDIT REFORM ACT OF 2022 REFRESHER By: FRANK CRAWFORD, CPA	YOUNG DE YOUNG C
<i>2:45 – 3:00 PM</i>	<i>NETWORKING BREAK</i>	
3:00 – 4:15 PM	GENERAL SESSION (75 MINUTES) PANEL Q AND A By: MICK DODSON; CHRIS PEMBROOK, CPA; FRANK CRAWFORD, CPA; JAKE WINKLER, CPA	YOUNG CDE
<i>4:15 PM</i>	<i>DAY TWO ADJOURNS</i>	



AICPA AND YELLOW BOOK AUDITING STANDARDS UPDATE

May 7, 2026

Presented by Melisa Galasso, CPA

AICPA and Yellow Book Auditing Standards Update

May 7, 2026

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About Your Instructor



Melisa Galasso
CPA, CGMA, CSP, CPTD

Melisa is the award-winning Founder & CEO of Galasso Learning Solutions - a premier, full-service provider of high-quality continuing professional education for CPAs. With over 20+ years of experience, Melisa has become a nationally recognized accounting & auditing standards authority, adult learning theory expert, and author trusted by CPA firms, governments, and organizations to deliver engaging, effective learning experiences.



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


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Agenda

- Quality Management
- SAS 149
- SSARS 27
- Exposure Drafts
- 2024 Yellow Book
- Quality Management FAQs from the GAO
- GAO Transition
- Green Book



 GALASSO
LEARNING SOLUTIONS

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Learning Objectives

1. Recall the impact of recent AICPA proposals on audit engagements
2. Identify changes to the effective date of the 2024 Yellow Book
3. Recognize the impact of SAS No. 149 on group audits
4. Identify key quality management requirements related to monitoring and remediation
5. Recognize the impact of SSAE No. 24 and SSARS No. 26 on attestation and consulting engagements



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Quality Management



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Monitoring & Remediation Process



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What is Monitoring?

- The monitoring and remediation process involves an ongoing consideration and evaluation of the appropriateness of the **design, implementation, and the effectiveness** of the operation of a firm's system of quality management (SOQM) and a firm's compliance with its QM policies and procedures

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Process

- A monitoring and remediation process
 - Provides relevant, reliable, and **timely** information about the design, implementation, and operation of the SOQM, and
 - Enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis

Monitoring Activities

- Monitoring activities include inspections of engagement documentation, reports, and financial statements, and inspections of other components covered by the firm's SOQM
- Reviews of engagement documentation, reports, and financial statements can occur
 - Before the report is issued (EQRs or other pre-issuance review) or
 - After the report is issued (post-issuance review)

EQR vs. Monitoring

- Monitoring activities are designed to **determine the root cause** of the problem and then fix the problem systemically
- Engagement performance procedures fix the problem at the engagement level but does not look for the root cause, nor designed to fix the problem systemically

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Factors to Consider in Monitoring

External Factors

- Changes in professional standards or other regulatory requirements applicable to the firm's practice
- Changes in applicable AICPA membership requirements

Internal Indicators

- Mergers and divestitures of portions of the practice
- Results of previous monitoring activities
- Results of inspections and peer reviews
- Review of litigation and regulatory enforcement actions against the firm and its personnel
- Changes in firm operations and services

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Internal Inspections

- Perform a post-issuance review of selected engagements at least annually for compliance with firm policies and procedures.
- Select engagements that represent a reasonable cross-section of the firm's accounting and auditing practice
 - Follow firm's policy
 - Consider risk areas like merging industries, merged in firm activity, quality center requirements, must select peer review engagements, tenure of partner

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Other Activities

- Inspection of engagement documentation, reports and financial statements is only one type of monitoring activity
- Don't forget other aspects, such as resources (human, intellectual, and technological), continuing professional education (CPE), licenses, and the requirements of audit quality centers of which your firm is a member

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Other Activities Cont'd

- Reviewing and determining that the firm's practice aids are current and reflect recent professional pronouncements and changes in practice
- Reviewing CPE records to determine whether classes are appropriate for the firm's practice
- Reviewing CPE records to determine compliance with the requirements of the AICPA and other applicable regulatory agencies

Other Activities Cont'd

- Reviewing compliance with the firm's policies and procedures related to the risk assessment process; governance and leadership; relevant ethical responsibilities, including independence; acceptance and continuance of client relationships and specific engagements; engagement performance; resources (human, intellectual, and technological); and information and communication
- Reviewing all policies and procedures and revising those affected by changes in professional standards or the nature of the practice
- Inspecting documentation and contracts with the firm's service providers to evaluate if the firm complied with the relevant policies and procedures
- Checking and evaluating IT applications to evaluate if they are operating as intended and are fit for purpose

AICPA Tip

- Monitoring and remediation is a **continuous process**
 - If you are in the frame of mind to always be looking for errors and root causes, that's monitoring
- Email the firm when you see something — that is monitoring, communicating, and documenting
 - Save the email in a “monitoring” folder and you have documented as you go along so you can “get credit” for what you already do

Peer Review vs. Monitoring

- Peer review is not a substitute for all monitoring activities

Do Something with the Information

- Evaluate the **severity and pervasiveness** of identified deficiencies by investigating **root causes** of the identified deficiencies
- Evaluate the **effect** of the identified deficiencies, individually and in aggregate, on the SOQM
- Design and implement **remedial actions** to address identified deficiencies that are responsive to the results of the root cause analysis
- Evaluate whether the remedial actions implemented to address previously identified deficiencies are **effective**

Conclusions

- 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

SAS 149



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SAS 149

Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)

- Issued: March 2023
- Background:
 - Convergence with IAASB

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Background

- Common audit deficiency in Peer Review

Outcome

New Definitions

Risk Based Approach

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Definition

Component

- An entity, business unit, function, or business activity determined by the group auditor for purposes of planning and performing audit procedures in a group audit
- The group auditor uses professional judgment in determining components at which audit work will be performed

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Groups & Components

- Group financial statements include financial information of more than one entity or business unit through a consolidation process
 - A group may be organized in various ways
 - Parent / Sub
 - JVs
 - Equity method investments
 - Branches/Divisions
 - Functions/Business Activities

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Audit Approach

- The group auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed RMM of the group financial statements
 - Use **professional judgment** in determining the components at which the audit work will be performed
 - Based on the group auditor's understanding of the group and its environment, and other factors
 - i.e., the ability to perform audit procedures centrally, the presence of shared service centers, or the existence of common information systems and control

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Involvement of Component Auditors

- The engagement partner is required to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner
 - May include component auditors, who are a part of the engagement team
- The group auditor may involve component auditors to provide information, or to perform audit work
 - Component auditors may have greater experience with and a more in-depth knowledge of the components and their environments than the group auditor

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Involvement of Component Auditors Cont'd

- Audit risk is a function of the RMM & detection risk
 - Detection risk in a group audit includes the risk that a component auditor may not detect a misstatement in the financial information of a component that could cause a material misstatement of the group financial statements, and that the group auditor may not detect the misstatement

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New Definition

Referred-To Auditor

- An auditor who performs an audit of the financial statements of a component to which the group engagement partner determines to make reference in the auditor's report on the group financial statements
- A referred-to auditor is not a component auditor, and accordingly, is not a part of the engagement team for a group audit

Revised Definition

Component Auditor

- An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team for a group audit.

Another Definition

Aggregation Risk

- The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

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Scalability

- Applies to all group audits, regardless of size or complexity
 - Intended to be applied in the context of the nature and circumstances of each group audit

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Making Reference



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Making Reference

- The group engagement partner may determine to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements in situations when the referred-to auditor has performed an audit of component financial statements and issued an auditor's report

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Relationship

- A referred-to auditor is **not** a component auditor, and is **not** part of the engagement team
 - The group auditor is not required to be involved in the work of referred-to auditors and therefore is not required to direct and supervise the referred-to auditor or review their work

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Understanding the Referred-to Auditor

- Group engagement partner should take responsibility for:
 - Referred-to auditors having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement
 - Confirming whether the referred-to auditors understand and comply with the ethical requirements that are relevant to the group audit engagement, including those related to independence
 - Determining whether referred-to auditor has the appropriate competence and capabilities

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Understanding the Referred-to Auditor Cont'd

- The group auditor should obtain sufficient and appropriate audit evidence relating to the work performed at the component without making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements if
 - The referred-to auditor **does not** comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement, or
 - The group engagement partner has serious concerns about the relevant ethical requirements for referred-to auditors

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Considerations Regarding Making Reference

- Consolidation process considerations for referred-to auditors
 - The group auditor should obtain an understanding of whether the group auditor will be able to obtain information affecting the consolidation process from group management or a referred-to auditor

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Considerations Regarding Making Reference Cont'd

- Determining whether to make reference
 - The group engagement partner should determine whether to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements
 - Reference should not be made unless
 - The group EP has determined that the referred-to auditor has performed an audit of the financial statements of the component in accordance with the relevant requirements of GAAS or the standards promulgated by the PCAOB, and
 - The referred-to auditor has issued an auditor's report that is not restricted as to use

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Component Auditor



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Update

- Introduces a risk-based approach to planning and performing a group audit
 - Requires use of professional judgment in determining the components for which procedures would be performed

Responsibilities of the Engagement Partner

- The group EP is required to take overall responsibility for managing and achieving quality on the group audit engagement
- The group EP should take responsibility for:
 - Creating an environment for the group audit engagement that emphasizes the expected behavior of engagement team members
 - Being sufficiently and appropriately involved throughout the group audit engagement, including the work of component auditors

Overall Group Audit Strategy

- Group auditor should establish, and update as necessary, an overall group audit strategy and group audit plan
- The group auditor should determine:
 - The components at which audit work will be performed
 - The resources needed to perform the group audit engagement, including the nature, timing, and extent to which component auditors are to be involved
 - The components for which, if any, the auditor's report on the group financial statements will reference the audit of a referred-to auditor
 - For components that are accounted for by the equity method, whether to use audited FS as audit evidence regarding the noncontrolled entity's financial results

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Engagement Performance

- The engagement partner should take responsibility for the nature, extent, and timing of direction and supervision of component auditors and review of their work, taking into account the following
 - Areas of higher assessed RMM of the group financial statements or significant risks identified
 - Areas in the audit of the group financial statements that involve significant judgment communications with component auditors

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Identifying & Assessing RMM

- The group auditor should take responsibility for the identification and assessment of RMM of the group financial statements, including with respect to the consolidation process

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Materiality

- The group auditor should determine
 - Component performance materiality
 - The threshold above which misstatements identified in the component financial information are to be communicated to the group auditor

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Responding to the Assessed RMM

- Group auditor should take responsibility for the nature, extent, and timing of further audit procedures to be performed, including determining the components at which to perform further audit procedures and the nature, timing, and extent of the work to be performed at those components

Responding to the Assessed RMM Cont'd

- The group auditor should take responsibility for designing and performing further audit procedures to respond to the assessed RMM of the group FS arising from the consolidation process

Equity Method Investments



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Equity Method Investments

- Identifies procedures the group auditor is required to perform to determine whether to use the audited financial statements
- Identifies matters that may cause the group auditor to conclude that additional audit procedures are necessary and additional procedures the group auditor may perform to obtain sufficient appropriate audit evidence

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Equity Method Cont'd

- If the group auditor intends to use the audited FS as audit evidence, the group auditor should
 - Obtain and read the audited FS of the noncontrolled entity, including the accompanying audit report, and determine whether the audited FS are satisfactory for this purpose
 - If the difference between the FS period of the group and the noncontrolled entity has or could have a material effect on the group FS, determine whether group management has properly considered the lack of comparability and determine the effect, if any, on the group auditor's report
 - If the carrying amount of the noncontrolled entity financial statements, obtain sufficient appropriate audit evidence for the material differences and determine that such differences are appropriate in accordance with the applicable FRF

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Considerations Regarding Using Audited Financial Statements of a Noncontrolled Entity as Audit Evidence

- To obtain sufficient appropriate audit evidence regarding the noncontrolled entity's financial results through using the audited financial statements, the group auditor may perform additional procedures such as:
 - Evaluating information regarding the professional reputation and standing of the investee's auditor
 - Interacting with the investee's auditor
 - Discussing the audit procedures performed by the investee's auditor and the results thereof
 - Reviewing the audit plan and audit documentation of the investee's auditor
 - Making inquiries of group management about the noncontrolled entity's financial results
 - Reading available interim financial statements of the noncontrolled entity and making inquiries of management of the noncontrolled entity

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Single Audits



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Single Audits

- Adds 2 paragraphs to AU-C 935 around the use of other auditors
 - Makes AU-C 600 not applicable in its entirety to Single Audits

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Effective Date



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Effective Date

- For audits of group financial statements for periods ending on or after December 15, 2026



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Also Issued

- SQMS No. 3, Amendments to QM Sections 10, A Firm's System of Quality Management, and 20, Engagement Quality Reviews
 - Conforming amendments

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SSARS 27



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SSARS 27

Applicability of AR-C section 70 to Financial Statements Prepared as Part of a Consulting Services Engagement

- Issued: April 2025

- Background:

- Questions regarding whether AR-C 70 is required to be applied in situations in which controllership or CFO services are performed under the consulting standards and financial statements are created as part of that

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Change to Scope

Scope of This Section

.01 This section applies when an accountant in public practice is engaged to prepare financial statements or prospective financial information **and is not engaged to perform an audit, review, or compilation of those financial statements or a compilation or examination of that prospective financial information.** (Ref: par. .A1-.A2) This section may also be applied, adapted as appropriate in the circumstances, to the preparation of other historical financial information. (Ref: par. .A3) This section ~~does not apply~~ **is not required to be applied, but application is not precluded, in whole or in part,** when an accountant prepares financial statements or prospective financial information (Ref: par. .A1-.A4)

- ▲ ~~and is engaged to perform an audit, review, or compilation of those financial statements,~~
- a. **as part of a consulting services engagement performed in accordance with CS section 100, Consulting Services: Definitions and Standards in which the preparation of financial statements is not the primary objective of the engagement.** (Ref: par. .A5)
- b. **as part of a personal financial plan performed in accordance with PFP section 100, Statement on Standards for Personal Financial Planning Services.**
- c. **as part of an engagement to estimate the value of a business, business ownership interest, security, or intangible asset in accordance with VS section 100, Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset.**
- d. ~~solely for submission to taxing authorities,~~
- ▲ ~~for inclusion in written personal financial plans prepared by the accountant,~~
- e. ~~in conjunction with litigation services that involve pending or potential legal or regulatory proceedings,~~
- ▲ **in conjunction with business valuation services.**^[fn1]

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Impact

“The practical difference for CPAs is that if they perform the engagement outside of AR-C Section 70, the quality management standards do not apply, and the engagements are not included in the population subject to peer review”

- Mike Glynn, CPA, CGMA, AICPA associate director—Audit & Attest Standards and ARSC staff liaison

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Consulting Services Guidance

- CS 100 states that the general professional standards of professional competence, due professional care, planning and supervision, and sufficient relevant data apply to consulting services
- Practitioners are required to follow the AICPA Code of Professional Conduct from an ethics and independence perspective

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Professional Judgment

.02 The determination about whether the accountant has been engaged to prepare financial statements or merely assist in preparing financial statements (which is a bookkeeping service that is not subject to this section) is determined based on services the client requests the accountant to perform and requires the accountant's to apply professional judgment. (Ref:

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Voluntary Application

- An accountant may voluntarily apply certain requirements of this section in instances in which this section would not otherwise apply
 - For example, if the accountant is not required to apply this section, to address the risk that users of the entity's financial statements may be misled by the practitioner's perceived association with the financial statements, the accountant may include the statement required by paragraph .14 of this section that "no assurance is provided" on the financial statements
 - The inclusion of such a statement does not result in the accountant being required to perform the engagement in accordance with this section and no other requirements would be required to be applied

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Consulting Services

- Consulting services differ fundamentally from the CPA's function of attesting to the assertions of other parties
- In a consulting service, the practitioner develops the findings, conclusions, and recommendations presented
 - The nature and scope of work is determined solely by agreement between the practitioner and the client
 - Generally, the work is performed only for the use and benefit of the client

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Effective Date

- Effective for the preparation of financial statements for periods ending on or after December 15, 2026
 - Early implementation is permitted



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Exposure Drafts



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Confirmations



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Background

Proposed SAS – External Confirmations

- Issued: February 2025
- Background:
 - In September 2023, the PCAOB replaced extent AS 2310, The Confirmation Process, with new AS 2310, The Auditor’s Use of Confirmation
 - The new AS 2310 is effective for fiscal years ending on or after June 15, 2025

Proposal

- Requires the auditor to use external confirmation procedures for cash and cash equivalents held by third parties to respond to the assessed RMM for certain **relevant assertions** of **significant classes of transactions, account balances, or disclosures**

Not Possible

- Acknowledges that the auditor may be unable to perform external confirmation procedures for cash in circumstances in which
 - External confirmation procedures are prohibited by law or regulation, or
 - The auditor has determined that the confirming party will not respond to confirmation requests as a matter of policy or practice
- In such circumstances, the auditor would not be required to perform external confirmation procedures

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Proposal Cont'd

- Risk, not materiality, is the driver of the confirmation process

~~.32.~~³³ The auditor should include in the audit documentation the basis for any determination not to use external confirmation procedures for accounts receivable *and cash in accordance with paragraphs .20 and .21* when the account balance is material.

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Exceptions

.20 The auditor should use external confirmation procedures for accounts receivable *in response to the assessed risks of material misstatement*, except when one or more of the following is applicable: (Ref: [par. .A57](#))

- a. The overall account balance is immaterial (*both qualitatively and quantitatively*).
- b. External confirmation procedures for accounts receivable would be ineffective. (Ref: [par. .A58](#))
- c. The auditor's assessed ~~level of~~ risk of material misstatement at the relevant assertion level is low, and the other planned substantive procedures address the assessed risk. In many situations, the use of external confirmation procedures for accounts receivable and the performance of other substantive procedures are necessary to reduce the assessed risk of material misstatement to an acceptably low level.

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Alternative Procedure

- For cash items, verifying information about the entity's cash account maintained in a financial institution's information system by viewing this information directly on a secure website of the financial institution when access is provided by management

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New / Updated Definitions

Confirmation request. *A request from the auditor to a confirming party regarding information about one or more particular accounts, balances, transactions, or other items as a means of obtaining audit evidence about one or more financial statement assertions.*

Confirming party. *A third party, whether an individual or an organization, to which the auditor sends a confirmation request. An intermediary is not a confirming party.*

Exception. *An external confirmation response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.*

External confirmation procedures. *Procedures that involve selecting one or more items to be confirmed, sending a confirmation request directly to a confirming party (or otherwise directly accessing the information held by a confirming party), and evaluating the information received and addressing nonresponses to obtain audit evidence about one or more relevant assertions.*

External confirmation response. *Audit evidence obtained as a direct written response communication to the auditor from a ~~third party~~ (the confirming party), either in paper form or by electronic or other medium (for example, through the auditor's direct access to information held by a ~~third party~~ provided by the confirming party) in response to a confirmation request. (Ref: par. .A1–.A2)*

Negative confirmation request. *A confirmation request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the confirmation request.*

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Intermediary

Intermediary. *A party, other than the auditor or the confirming party, who facilitates direct electronic transmission of confirmation requests and external confirmation responses between the auditor and the confirming party.*

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Intermediary Cont'd

.11 The auditor or the confirming party can engage another party as an intermediary. When determining whether to use an intermediary, the auditor should evaluate the implications on the reliability of confirmation requests and external confirmation responses. If the auditor determines that an intermediary will not be used, the auditor should send confirmation requests without using the intermediary, or if the auditor is unable to do so, the auditor should perform alternative procedures. (Ref: par. .A15-.A18, .A22)

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Proposed Effective Date

- If issued as final, the proposed SAS would be effective for audits of FS for periods ending no earlier than December 15, 2027
 - Early implementation would be permitted



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Comments Due

- Comments Due By: June 30, 2025



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Fraud



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Background

Proposed Statement on Auditing Standards: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

- July 2, 2025
- Background:
 - Public Interest Issues
 - IAASB & PCAOB Activity

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ASB Research Synthesis Project

- In March 2022, the ASB began conducting outreach and research related to fraud and going concern
- Sources:

 Academic
Research Survey Interviews

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Recommendations from Forensic Professionals

Recommendations with brainstorming session

Better guidance/examples of unpredictability

Best practices for fraud inquiries

Corroborating inquiries

Background checks on management

Recommendations for data analytics

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Fundamental Aspects of Exposure Draft

- The auditor's responsibilities relating to fraud
- Maintaining professional skepticism throughout the audit
- Engagement resources and the auditor's risk identification and assessment

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Fundamental Aspects of Exposure Draft Cont'd

- Evaluation of fraud risk factors
- Identifying and assessment the RMM due to fraud
- Responses to the assessed RMM due to fraud

Fundamental Aspects of Exposure Draft Cont'd

- Fraud or suspected fraud
- Overall evaluation based on audit procedures performed (stand-back provision)
- Ongoing nature of communication with management and TCWG

Fundamental Aspects of Exposure Draft Cont'd

- Documentation
- Other Matters
- Amendments to various other SASs

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Proposed Effective Date

- For audits of financial statements for periods ending on or after December 15, 2028



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Comments Due

- The comment period ends October 3, 2025



2024 Yellow Book



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"

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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

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Convergence

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

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Quality Management Overview



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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

95

Components of QM



96

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



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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



106

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



Quality Management FAQs from the GAO



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GAO's Government Auditing Standards QM FAQs

Frequently Asked Questions: Establishing and Maintaining a System of Quality Management GAO-26-108710

- Issued: December 15, 2025
- Background:
 - Since the 2024 Yellow Book was issued, the GAO has received numerous questions about establishing and maintaining a system of quality management
 - This document provides guidance to auditors and audit organizations by answering those FAQs

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One Small Issue...

- The GAO published and released this document on December 15, 2025, the same date as the deadline to implement a System of Quality Management!
- However, Federal Government Audit Organization may defer the design & implementation of its system of QM until no later than March 16, 2026



Section I: QM Risk Assessment Process Cont'd

- The 11 questions in this section include:
 - We met the 2018 Yellow Book requirements and have clean peer reviews; do we need a new set of policies and procedures?
 - When does the initial risk assessment need to be performed, December 15, 2025, or 2026?
 - Do you need to establish all the quality objectives?
 - Does the GAO have a template or guide for designing a system of quality management?

Section II: Quality Management Monitoring and Remediation Process Cont'd

- The 7 questions in this section include:
 - What's the relationship between the risk assessment and monitoring and remediation process?
 - Does a small firm need to hire another audit organization to monitor the system of QM?
 - What's the difference between an engagement quality review and an engagement inspection?

Section III: Engagement Quality Reviews

- The 4 questions in this section include:
 - Is an engagement quality reviewer subject Yellow Book CPE requirements if they don't perform Yellow Book engagements?
 - Yellow Book requires the engagement quality review to be done before report issuance, how can a firm do that and issue a timely report?

Effective Date

- This guidance was effective as of its release date, December 15, 2025



GAO Transition



Transition

- The eighth Comptroller General, Gene Dodaro, was appointed in 2010. His term ended on December 29, 2025.
 - After more than 50 years of public service with GAO and 15 years as Head
- Orice Williams Brown is serving as Acting Comptroller General until Commission selects new Comptroller General

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Green Book



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2025 Revision

Standards for Internal Control in the Federal Government

- Issued: May 2025
- Background:
 - Previous version of the Green Book was issued in September 2014. The 2025 revision contains changes from and supersedes the 2014 version.
 - Federal Managers' Financial Integrity Act of 1982 requires Comptroller General to issue standards for internal control in the federal government

119

Key Changes in the Revision

Improper payments and information security risks

Risk assessment documentation

Documentation for significant changes to the internal control system

2 new appendixes providing additional control activity information

120

Updates

- Emphasis on:
 - Prioritizing preventive control activities
 - Management's responsibilities for internal control at all levels of the organizations structure
- Clarify the intent of the standards
- Continue harmonizing with Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control – Integrated Framework

Improper Payments and Info Security

- Adds a requirement to consider risks related to improper payments and information security when identifying, analyzing, and responding to risks (paragraphs 8.01 through 8.05 and 8.11 through 8.20)

New Documentation Requirements

- Management documents the results of the risk assessment, including the identification, analysis, and response to risks, that are completed on both a periodic and ongoing basis
 - This includes documentation of the consideration of risks related to fraud, improper payments, information security, and significant internal and external changes that could impact the internal control system (paragraph 7.15)
- Management documents a process for responding to significant changes and related risks so that the internal control system can be quickly adapted as needed to respond to changes once they occur (paragraph 9.08)

123

Fraud Considerations

- The types of fraud have been broadened to clarify
 - That fraud can be both financial and nonfinancial; and
 - What other types of illegal acts are considered as fraud (paragraph 8.06)
- Emphasizes that fraud involves obtaining something of value through willful misrepresentation (paragraph 8.06)

124

Preventative Controls

- Emphasizes that management prioritizes preventive controls by considering them first, as they generally offer the most cost-efficient use of resources and are generally effective at mitigating fraud and improper payments (paragraphs 10.09 through 10.11)

125

Effective Date

- Effective beginning with fiscal year 2026 and the Federal Managers' Financial Integrity Act of 1982 reports covering that year
- Early implementation is permitted



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The Green Book



<https://www.gao.gov/assets/gao-25-107721.pdf>

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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



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Let's Keep in Touch



gls.advancecpe.com (*webinar*)



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



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What Questions Do You Have?



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Content last reviewed: 4/30/26
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STATE AUDITOR AND INSPECTOR UPDATE

May 7, 2026

Presented by Auditor Cindy Byrd



The Toxic Workplace: A Wells Fargo and OKSCAM Case Study

May 7, 2026

Presented by Ashley Plyushko, CPA

OKSCAM: Oklahoma's County Commissioner Scandal

A story of corruption, courage, and reform.



1

Warning Signs: Decades Before the Scandal

- 1 1950 — Statewide constitutional study: "incompetent and dishonest men still in office in OK."
- 2 1958 — Sandlin Report: supplies 20–25% above market price; competitive bidding ignored; counties operated as fiefdoms.
- 3 1964 — 71 of 77 counties found in violation of purchasing laws.
- 4 1972 — Culvert pipe cost counties 20% more than highway contractors — echoing the Sandlin findings.

Reform attempts, including Gov. Edmonson's centralized purchasing push in 1958, were dead on arrival. The conditions for OKSCAM were decades in the making.

2

It Started With a Mother

- The exposure of OKSCAM began with an ordinary citizen
- A mother — reportedly pregnant — was tired of driving her kids across dangerous bridges that never improved despite constant lumber purchases
- She spearheaded a petition drive, leading to a **Stephens County grand jury on April 10, 1978**



3

The 1978 Grand Jury



What They Found

The jury — largely homemakers and retirees — summoned 50+ witnesses and traveled the county asking: *why so many supplies, so few repairs?*

What Happened

Two county commissioners charged with gross neglect. Four suppliers charged with 14 counts of fraud. **Nothing came of it.** Community rationalization allowed the corruption to continue — for now.

4

Daxon & Muse: Connecting the Dots

Muse (State Auditor)

Found \$1.9 million in unaccounted infrastructure spending in Stephens County. Reported to OSBI – who handed findings back to the county.

Tom Daxon (State Auditor & Inspector)

Found ~1/3 of counties had bad record-keeping, fictitious road purchases, and kickback evidence.

Next Step

Together, Daxon and Muse escalated to a higher authority – the FBI and IRS. That's where things got interesting.

5

Enter the FBI — and Bill Price

- Known as **OKSCAM** (or CORCOM) by investigators
- Case champion: **Bill Price** – OKC native, OU law grad, Teen Age Republican alongside Tom Daxon
- First Assistant U.S. Attorney for the Western District at just 34
- His first red flag: Stephens County bought enough lumber in one year *to rebuild every bridge three times*



6

The Investigation Takes Shape

The Meeting at 50 Penn Place

Price, Muse, and FBI agents Jim Elroy and Hank Gibbons met to share findings. The FBI was already suspicious — when agents visited a supply yard, missing steel turned up with *green grass underneath it*.



7

S&J Materials: The Undercover Sting



The Plan

Price and the FBI set up a fake supply company — **S&J Materials** — complete with promotional cups and logos, to infiltrate the supply chain and solicit bribes.

The Problem

Small towns spot outsiders. S&J bid low, which was contrary to the scheme's culture. Commissioners on tape even called it "an FBI front."

The Silver Lining

It failed its main goal but revealed the critical need for IRS partnership — and produced recordings that confirmed the investigation was on the right track.

8

The IRS Connection: A Chance Discovery

The Arson Investigation

A chance arson investigation brought Bill Price together with IRS agent Paul Ellredge. During that unrelated case, Ellredge accidentally revealed that the IRS was also independently investigating Stephens County — igniting a powerful new partnership.



S&J's Silver Lining

Though S&J Materials failed its main goal, it produced recordings that confirmed the investigation was on the right track — and revealed the critical need for IRS partnership to follow the money through tax records.

9

Three Types of Corrupt Deals

10% Deals ("Ten Percenters")

- Most common
- Suppliers inflated prices and kicked back 10% to county commissioners
- Sometimes inferior materials were bought to require repeat purchases

Equipment Leasing

- Kickbacks negotiated on heavy equipment — graders, rock crushers, bulldozers
- Prices inflated to cover kickbacks
- Led to purchase of unnecessary, expensive machinery

Blue Sky Deals

- Supplies purchased but *never delivered*
- Purchase price split between county commissioner and supplier
- Only untraceable materials used: gravel, lumber, sand, tinhorn

10

The Fraud Triangle



Why It Matters

The fraud triangle – **Opportunity, Pressure, Rationalization** – explains how this scandal persisted for decades.

- Commissioners were both purchasing *and* receiving officers
- Boards didn't meet as required
- No competitive bidding requirement
- Rationalization by commissioners, vendors, *and the community* kept it alive

11



Dorothy Griffin: "We're Just Poor Country Folk"

- A grandmother barely over 5 feet tall in flowing Hawaiian muumuus
- Ran Griffin Lumber Company in Farris, OK – 130 miles from Stephens County
- Her husband had 8 heart attacks; medical bills piled up
- When a supplier approached her, she agreed
- From 1973, she supplied phony invoices – and kept a diary detailing her guilt

12

Griffin's Operation — and Her Breaking Point

01 Monthly Tallies

Griffin and suppliers met monthly to tally invoices for nonexistent supplies, creating matching paperwork at 90% of the county sale price.

03 The IRS Arrives

IRS showed Griffin her tax returns and cancelled checks. She broke down — then went to the barn and dug up **trash bags of phony invoices worth \$1.6 million**. She'd kept them as insurance.

02 The Cash Flow

Griffin cashed checks, kept 10%, gave the rest to the supplier who split it with the county commissioner. Suppliers claimed cost of goods sold on taxes.

04 Turns State's Evidence

Pled guilty to conspiracy to commit mail fraud and tax evasion. Became a key witness — making 130 secret recordings involving 57 county commissioners in 29 counties, plus ~40 cases in Texas.

13



Guy Moore: "This Is Just How It's Done"

- Former high school teacher turned road supply salesman for nearly 30 years
- Chosen as the second informant — smarter, more cooperative, and less socially entangled with county commissioners
- In 28 years, paid **8,000 bribes worth \$1 million** — roughly 5.5 per week
- When asked why, testified: *"I couldn't not do it and stay in business."*
- Knew only three county commissioners who refused kickbacks

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How They Caught Them: Griffin's Recordings

- **The Phony Tax Bill**
Investigators created a fake IRS bill for ~\$13k – the same amount raised to hire attorney Gene Stipe.
- **180 Tapes**
Early 1980 was spent traversing Oklahoma. Griffin had flirtations with several county commissioners, went on dates (one to McDonald's), and traveled to Texas. Result: 180 recordings.
- **Wired and Traveling**
A female FBI agent wired Griffin and traveled with her. She visited all 13 suppliers – they either agreed to help or stayed silent (legal consent).
- **"Act Dumb" Subpoenas**
FBI agents asked suppliers to provide receipts matching Griffin's fake invoices – suppliers thought they were proving their innocence but were proving guilt.

15

Moore's Gold Mine: The County Commissioner Convention

The Setup

Moore was sent to a county commissioner convention wired with a recorder and a hidden video camera in his room. His cover: discussing new AG regulations on competitive bidding that would threaten kickback schemes.

What They Got

Alcohol-fueled boasting about grand juries they'd fooled, kickback arrangements, and admissions that *"50% of the material didn't exist since statehood."*



16

The Great Round-Up

- More than **100 FBI agents** assembled at 50 Penn Place
- In a coordinated sweep, agents confronted commissioners one by one – confirming their oath prohibited compensation beyond salary, then playing the tapes
- Pre-signed plea agreements produced on the spot: **conspiracy to commit tax evasion and mail fraud, carrying 5 years**
- Cooperating commissioners called their suppliers to get incriminating admissions – creating a cascade of confessions

- One commissioner, confronted with six copies of a single witness statement, confessed – then asked why there were six when he'd only taken kickbacks from *five* suppliers.



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The Rationalizations They Used

"We Don't Make Enough"



"I Give It to Charity"



"Everyone Does It"



"I Help the Public"



"They will be spending the money anyway"



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Profile: Carl Pettigrew



Adair County — 22 Years

Pettigrew claimed he didn't know kickbacks existed for his first 6–7 years.

- Claimed he got less than \$5,000 total and used it to buy things for poor people
- Sentenced to two years federal prison, paroled after 7.5 months
- While incarcerated at El Reno with 100+ other county commissioners, said they were "good people" — and considered running again

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Profiles: Hughey & Lance

Bill Hughey — Alfalfa County

- Conceded he knew it was wrong but "fell into it"
- Salesmen seemed like good fellows and acted like it was normal.
- He hid the money: *"You'd be pretty foolish to put it in the bank."*
- His minister visited him; his church offered support

Bird Lance Jr. — Fought to the End

- One of the few who didn't plead guilty
- Sentenced to 17 years, \$59k fine, 59 counts of mail fraud
- Not remorseful in prison
- Constituents raised money for his defense
- His son ran for his seat, proud of his father's reputation for "good and efficient county government"

20

Those Who Stood Strong

- The U.S. AG launched **Operation Diogenes** to find honest county commissioners and suppliers
- Moore identified only 5 of his 60 customers as honest
- State Auditor Daxon confirmed only **three counties** – Tulsa, Washington, and Comanche – had internal controls strong enough to prevent wrongdoing

☑ Unfortunately for the FBI, most honest county commissioners were too principled to serve as informants – they didn't want to compromise their values or inform on neighbors.



21

Rufus Young: A Hero

Wagoner County

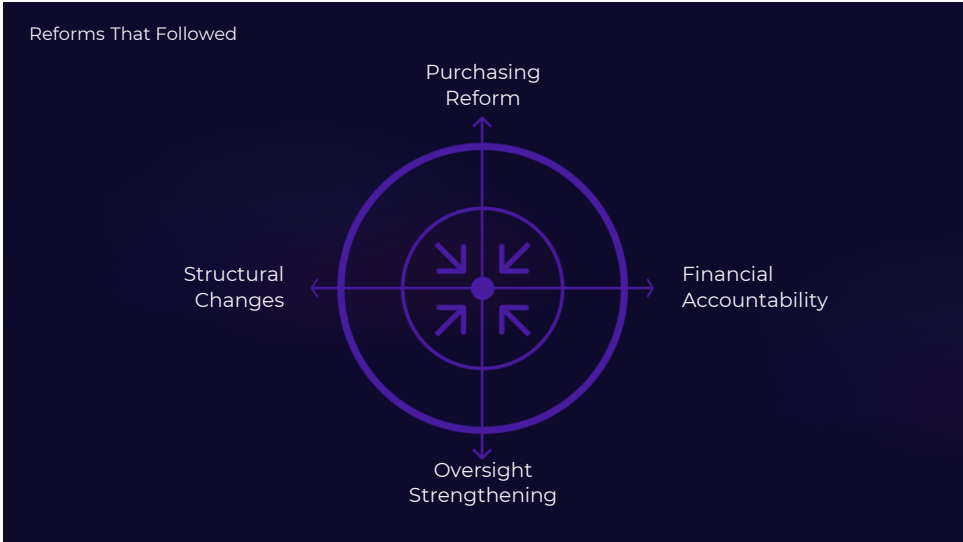
When a supplier approached the newly elected Young about a 10% deal, he went straight to the FBI. He agreed to be wired and spent 1980 working undercover.

A supplier offered him a blue sky deal. Young asked what that was. The supplier replied: **"That's when I get fifty percent, you get fifty percent, and the county gets [short end]"**

Young produced only four recordings but was awarded the **FBI's highest honor** at a celebratory dinner after the investigation ended.



22



23

The Final Tally

<p>220</p> <p>Convictions</p> <p>Across 60 of Oklahoma's 77 counties</p>	<p>13+</p> <p>Counties</p> <p>Lost all three commissioners to conviction</p>
<p>40-45%</p> <p>Cost Drop</p> <p>Reduction in cost of goods sold to counties after OKSCAM</p>	<p><200</p> <p>Recordings</p>

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Key Takeaways

Civic Courage Works

One mother's petition started a chain reaction that sent 220 people to prison.

Rationalization Is Dangerous

Fraud persists when communities, institutions, and individuals normalize corrupt behavior over generations.

Structure Enables Corruption

Weak oversight, no competitive bidding, and self-policing created the perfect environment for abuse.

Reform Is Possible

Structural changes — purchasing officers, state-funded DAs, stronger auditing — produced measurable results: costs dropped 40–45%.



25

Main Sources

1. Hightower, Michael J. *At War with Corruption: A Biography of Bill Price, U.S. Attorney for the Western District of Oklahoma*. 2 Cities Press, 2021.
2. Holloway, Harry, and Frank S. Meyers. *Bad Times for Good Ol' Boys: The Oklahoma County Commissioner Scandal*. University of Oklahoma Press, 1993.

26



Wells Fargo: A Story of Ambition, Pressure, and Scandal

From gold rush banking to a nationwide scandal that shook the financial industry.

27

The Foundation: 1852-1998

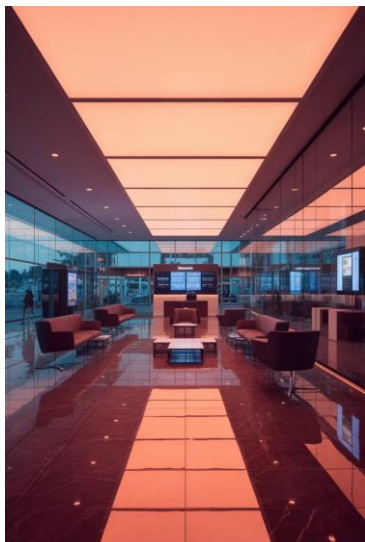
Early Days

- Founded 1852 by Henry Wells and William Fargo in San Francisco
- Provided banking & express services to western US
- Key services: buying gold, delivering valuables
- Expanded through mergers in 1980s
- Became national with Wachovia acquisition (2008)

The Norwest Merger

- Pivotal 1998 merger with Norwest
- Brought John Stumpf to Wells Fargo
- Introduced decentralized structure
- Emphasized cross-selling
- Richard Kovacevich coined "Eight is Great" slogan
- Set aggressive sales culture

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The Community Bank: Revenue Powerhouse

Market Dominance

- Contributed 50-67% of Wells Fargo's revenue (2007-2016)
- Managed everyday banking for individuals and small businesses

Sales Organization

- Self-identified as sales-focused
- Products called "solutions," branches called "stores"
- Made referrals across all Wells Fargo units

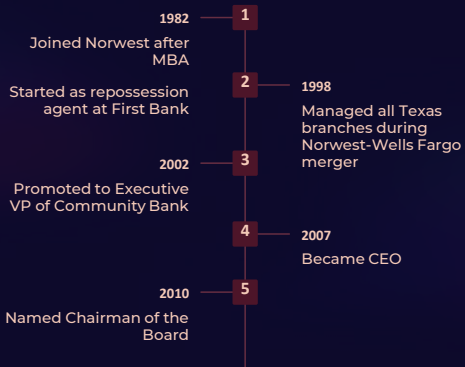
Network Scale

- Managed US branches nationwide
- Executive VP leadership with multiple VPs underneath

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John Stumpf: From Farm to Fortune Fortune



30

Cary Tolstedt: The Trusted Lieutenant



- Joined Norwest in 1986.
- Rose from Omaha branches to oversee operations in 39 states.
- Served as Senior Executive VP of Community Banking (2007 - 2016).
- Extremely trusted and respected by John Stumpf and the Board.
- Her influence would prove catastrophic.

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The Cross-Selling Strategy

01

The Vision

- Meet all customer needs
- Sell products to existing customers
- Called "needs-based cross-selling"

02

The Goal

- Sell at least 4 products to 80% of customers
- Target: 8 products per household

03

The Achievement

- By Oct 2013: 6.15 products per household
- Nearly 4x industry average

04

The Message

- Positioned as competitive advantage
- Cornerstone of business model to investors

32

Wells Fargo at Its Peak

2nd

Largest US Bank

5th largest in the world

269K

Employees

Across 8,600 locations

1/3

US Households

Served approximately

\$8T

Balance Sheet

At peak performance

- Ranked 26th largest corporation in 2017
- Strong reputation for weathering the 2008-2009 financial crisis relatively unscathed

33

The Scandal Breaks



34

The Fraudulent Practices

Forged Documents

- Created false records
- Forged customer signatures
- Opened unauthorized accounts
- Aided by "off-site" applications

Unauthorized Debit Cards

- Used customer info without consent
- Created unauthorized debit cards
- Falsely generated PINs
- Activated online banking profiles

Simulated Funding

- Opened unauthorized accounts
- Transferred minimum required amounts from legitimate accounts to meet funding criteria

Hidden Accounts

- Altered customer contact information (phone, email, address)
- Prevented discovery of unauthorized accounts

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The Scale of Deception

1.5M

Fake Bank Accounts

600K

Unauthorized Credit Cards

Family Account Example

- Teenage daughter: 24 accounts
- Adult daughter: 18 accounts
- Husband: 21 accounts
- Brother: 14 accounts
- Father: 4 accounts

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Timeline of Misconduct

- Gaming discovered
 - Sales integrity task force created
 - Rolling funding rate implemented
- 2002**
- Internal memo shows cases increased from 63 (2000) to projected 680
 - Terminations rose from 21 to 223
- 2004**
- Reported allegations per quarter surged from 288 (Q2 2007) to 1,469 (Q4 2013)
- 2007-2013**
- 5,300 employees terminated
 - 23,000+ investigated
 - Thousands received disciplinary action or resigned
- 2011-2016**

37



What is Tone at the Top?

- A safeguard under AICPA Code of Professional Conduct.
- Emphasizes fair financial reporting and compliance with laws, rules, and corporate governance policies.

The Concept

- Directors, CEO, and officers play critical roles in setting this tone.
- The CEO's behavior tells employees what counts, what is rewarded, and what is punished.

The Failure

- Wells Fargo failed on compliance with corporate governance policies and applicable laws.

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The Pressure Cooker Environment



Unrealistic Goals

- "50/50 goals"—set so high that half of regions couldn't meet them.
- Goals increased yearly from 2002-2013, even through economic downturns.



Daily Requirements

- Hourly check-ins on sales.
- Required to stay late or work Saturdays if goals not met.
- Branches ranked against each other.



Extreme Turnover

- At peak, 42% turnover among branch and call center personnel (90% of Community Bank employees).
- Industry average turnover is 28-33%.



- "I was in the 1991 Gulf War. This is sad and hard for me to say, but I had less stress in the 1991 Gulf War than working for Wells Fargo." —Employee testimony

39



The Motivator Culture

- Daily and monthly "motivator reports" highlighted sales rankings down to district level.
- Managers "lived and died" by these reports.
- Retail scorecards, instituted by Tolstedt, measured performance vs. sales plan.
- Some managers made meeting scorecard requirements the sole objective—"managing the scorecard."
- Employees felt failing to meet goals meant termination or career-hindering criticism.
- "Your other option is McDonald's" was a common sentiment.

40

Jump Into January

The Initiative

- Special sales program
- Higher daily targets
- Emphasized and rewarded elevated sales levels

The Tactics

- Lists of family and friends to contact
- "Sandbagging" December accounts until January
- No paid time off or training
- Extended by enthusiastic managers: "Fly into February, March into March"

The Result

- Breeding ground for bad behavior
- Low-quality accounts clearly shown by metrics

41

Regional Leadership Failures

Shelley Freeman - LA

- Regional President until 2009
- Sent motivator emails emphasizing sales increases
- Suggested signing up customers regardless of need

Pam Conboy - Arizona

- Banking leader 2007-2017
- Encouraged selling duplicate accounts regardless of customer need
- Held up as model by Wells Fargo

The "Teachers"

- Bad actors sent around as models to "teach" other branches
- Shared "tricks" leading to violation clusters

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The Compensation Trap



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The Self-Interest Threat

- A member could benefit financially from an interest in the employing organization.
- Value is directly affected by the member's decisions.

What They Knew

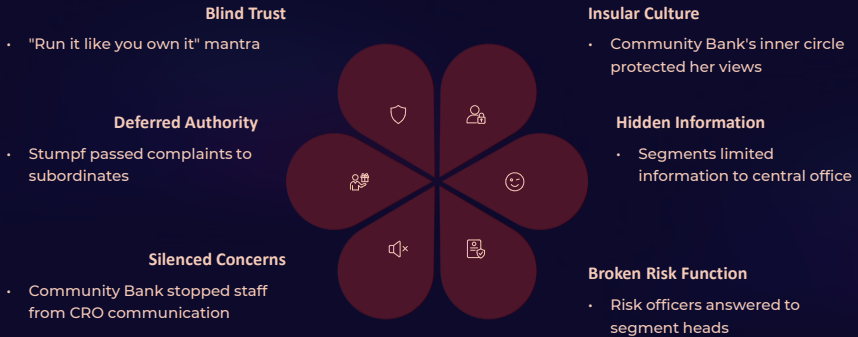
- Stumpf and Tolstedt believed in sales culture.
- They saw it as Wells Fargo's differentiator.
- Cross-sell metrics in annual reports and SEC filings were inflated by fake accounts.

What They Sold

- Stumpf emphasized fighting for numbers.
- Pushed Tolstedt to increase cross-selling due to elusive growth.
- After 2013 scandal, Stumpf worried employees might be "under-motivated" in sales pursuit.

44

The Decentralization Disaster



45

Lost in Committee: A Timeline of Inaction

2004

- Warnings of reputational risk in internal investigations ignored.

2012

- CRO learned of excessive pressure, but key information was withheld.

2013-2014

- Committee presentations still failed to address issues.

2015

- Board misled, claiming only 230 terminations.

2016

- True scope revealed: 5,300+ terminations confirmed.

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The Familiarity Threat

- A long or close relationship can lead to excessive sympathy or acceptance of another's interests/work.
- Stumpf admired Tolstedt as a banker, praising her strong financial results.
- Stumpf considered her "the most brilliant Community Bank he had ever met."
- Stumpf viewed her controlling nature and resistance to change as positive, seeing it as risk aversion.
- Even after all issues surfaced, Stumpf was hesitant to fire her.

47

The Fallout: Financial Penalties

\$185M

Initial Fines

- CFPB
- OCC
- LA County

\$3B

SEC Fine

- \$2.5B treasury
- \$500M civil

\$575M

50 States

- Mortgage loans
- Auto loans

\$1B

Shareholder Lawsuit

- Misleading statements

48

Lasting Consequences: The Individuals

Criminal Charges

- Tolstedt only one charged
- Pled guilty to obstructing regulators
- 3 years probation, 6 months home confinement

Industry Bans

- Stumpf, Tolstedt, Russ
Anderson banned from the industry

Individual Penalties

- Stumpf: \$69M
- Tolstedt: \$67M
- Raphaelson: \$925K
- Zimmerman: \$400K
- Kidd: \$350K

49



Lasting Consequences: The Company

Asset Cap

- \$1.95T cap (2018-2025)
- Lost ~\$400B in deposits
- Dropped from 2nd to 4th largest bank

Stock Impact

- 13% drop Sept 2016 (media frenzy)
- Nearly 10% dive 2018 (asset cap announced)

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SINGLE AUDIT AND UNIFORM GUIDANCE UPDATE

May 7, 2026

Presented by Melisa Galasso

Single Audit and Uniform Guidance Update

May 7, 2026

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1

About Your Instructor



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CPA, CGMA, CSP, CPTD

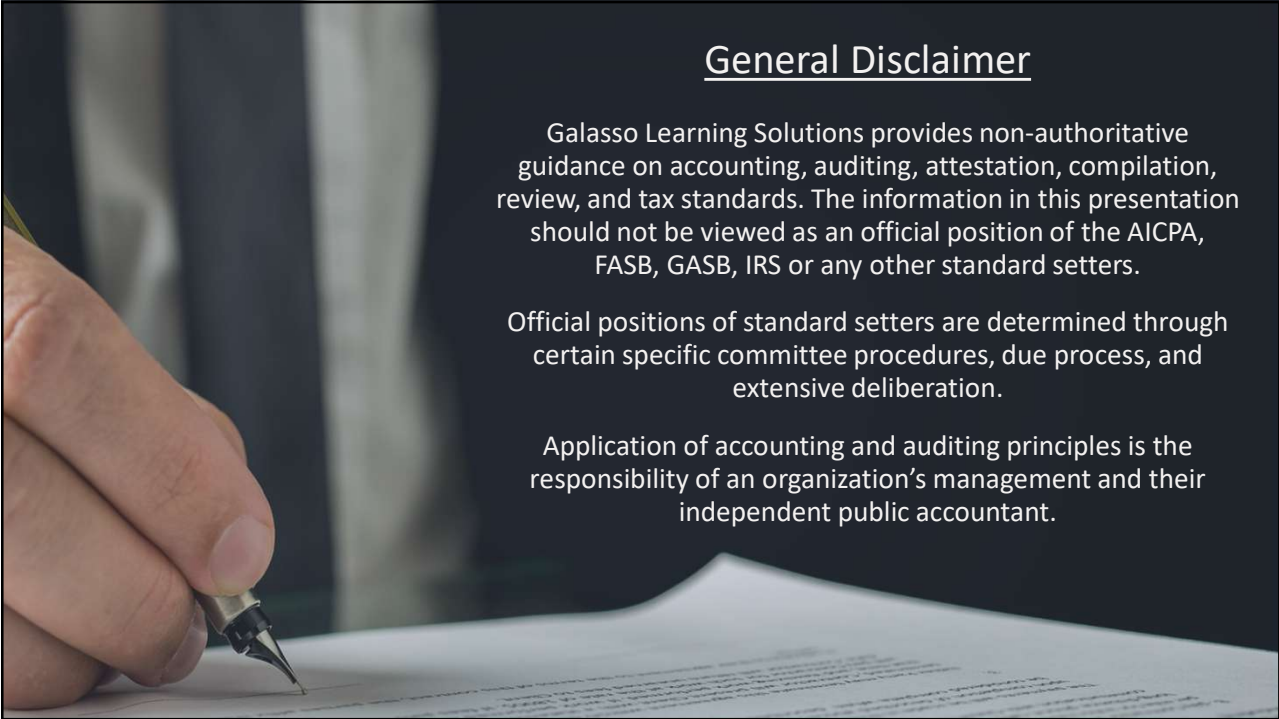
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Official positions of standard setters are determined through certain specific committee procedures, due process, and extensive deliberation.



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

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Agenda

- 2024 Uniform Guidance Update
- GAS Guide Update
- Proposed Changes to DCF
- Proposed Changes to FAC
- EO for Grants
- OMB Memo
- Other Changes of Note



4

4

Learning Objectives

1. Recognize the impact of the 2024 Uniform Guidance changes on Single Audits
2. Identify changes in Appendix B of the AICPA GAS/Single Audit Guide affecting Single Audit engagements
3. Recall key changes introduced through recent OMB memoranda relevant to Single Audits



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2024 Uniform Guidance Update



6

Background

2024 Uniform Guidance

- Issued: April 2024
- Background:
 - 2 CFR 200.109 requires updating every 5 years
 - Proposal issued October 2023

7

Purpose

- OMB is revising its guidance in 2 CFR for the purpose of:
 - Incorporating statutory requirements and administration priorities
 - Reducing agency and recipient burden
 - Clarifying sections that recipients or agencies have interpreted in different ways
 - Rewriting applicable sections in plain language, improving flow, and addressing inconsistent use of terms within the guidance

8

Audit Changes

- The threshold for audit has been increased from \$750,000 to \$1 million
- The Type A threshold has been increased to \$1 million and the amount of awards expended for which it applies has been increased from \$25 million to \$34 million

9

Indirect Cost Rate

- Raises the de minimis indirect cost rate from 10% to 15%



10

FAQ

Can an entity with a NICRA switch to the de minimis rate going forward?

Answer: Yes, once the NICRA expires. The 2024 UG 200.414(f) states that “Recipients and subrecipients that do not have a current Federal negotiated indirect cost rate (including provisional rate) may elect to charge a de minimis rate...”



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FAQ

Can I apply the 15% to existing Awards?

Answer: Federal agencies may allow a recipient to apply the 15% de minimis rate to an existing award if the agency determines that there are sufficient funds to support the 15% de minimis rate.

In these instances, the recipient must charge the 15% de minimis rate **only to costs incurred after the effective date of the amendment** to implement the 15% de minimis rate. Recipients **may not retroactively** apply the de minimis rate to costs incurred prior to the effective date of the amendment.



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Questioned Costs

- The questioned costs definition has been revised and examples have been provided to help provide further clarification
 - Including moving definitions of likely and known questioned costs from Subpart F to Subpart A
- Requires that when there are known questioned costs but the dollar amount is undetermined or not reported, a description of why the dollar amount was undetermined or otherwise could not be reported

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Equipment vs. Supplies

- Raises equipment and supply thresholds from \$5,000 to \$10,000



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NOFO

- Revises the template text for a Notice of Funding Opportunity (NOFO)

15

Internal Controls

- Added cybersecurity considerations to internal controls regarding safeguarding information

16

Procurement

- Adds “veteran-owned business” to the types of businesses that recipients and subrecipients are encouraged to consider for procurement contracts under a Federal award
- Clarifies that micro-purchase is referring to an individual procurement transaction
- Removes prohibition of the use of statutorily or administratively imposed state, local, or tribal geographical preference

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Procurement Cont'd

- Expressly **does not prohibit** using Project Labor Agreements (PLAs) or similar forms of pre-hire collective bargaining agreements; or requiring construction contractors to use hiring preferences or goals for people residing in high-poverty areas, disadvantaged communities or requiring a contractor to use hiring preferences or goals for individuals with barriers to employment

18

Procurement Cont'd

- Allows Indian Tribes to have similar exception to procurement rules as States

19

Subrecipient Monitoring

- Includes a requirement for PTEs to confirm that potential subrecipients are not suspended, debarred, or otherwise excluded from receiving Federal funds

20

Fixed Amount Awards

- Doubled the thresholds for fixed amount awards to \$500,000



Pensions

- Clarified that recipients and subrecipients may not charge unfunded pension and post-retirement health benefits to an award

Prior Approvals

- Removed some prior approval requirements
 - § 200.201 Use of grant agreements
 - § 200.311 Real Property
 - § 200.313 Equipment
 - § 200.413 Direct costs, paragraph (c)
 - § 200.438 Entertainment costs
 - § 200.454 Memberships, subscriptions, and professional activity costs, paragraph (c)
 - § 200.456 Participant support costs
 - § 200.467 Selling and marketing costs
 - § 200.470 Taxes (including Value Added Tax)

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Terminology

- Throughout subparts A – E of the regulation the use of the term non-federal entity has been replaced with recipient and/or subrecipient
 - Subpart F, Audit Requirements, retains the use of the non-federal entity term to maintain alignment with the statutory provisions of the Single Audit Act

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Terminology Cont'd

- Added the term **“for-profit organizations”** to definitions
 - Generally, means an organization or entity organized for the purpose of earning a profit
 - The term includes but is not limited to:
 - An “S corporation” incorporated under subchapter S of the Internal Revenue Code
 - A corporation incorporated under another authority
 - A partnership
 - A limited liability company or partnership
 - A sole proprietorship

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Terminology Cont'd

- Updated the definition of period of performance (again)
 - The time interval between the start and end date of a Federal award, which may include one or more budget periods

26

Terminology Cont'd

- Adds FASB and GASB to acronyms
- Removes some acronyms
- Added continuation funding, prior approval, and participants to definitions
- More frequent use of the term Federal Financial Assistance

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Not Changed

- OMB received several comments suggesting that OMB define the term beneficiary
 - OMB did not propose to define the term, the meaning of which can vary widely between Federal agencies as well as within agencies between assistance programs
 - OMB defers to Federal agencies to determine who is or is not a beneficiary under their respective programs consistent with law

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Effective Date

- Effective October 1, 2024



2024 Compliance Supplement Clarification

- The revisions to 2 CFR Part 200, Subpart F are effective for auditee fiscal years beginning on or after October 1, 2024
 - UG update was silent as to the effective date for fiscal years

OMB Memos



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Memos

- OMB Memorandum M-24-11, Reducing Burden in the Administration of Federal Financial Assistance issued April 4, 2024
- Council on Federal Financial Assistance (COFFA) issued supplemental information on Federal Agency Implementation of the 2024 Revisions on August 15, 2024

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Clarifications – New Awards

- New Federal awards issued on or after October 1, 2024 that apply OMB's guidance in 2 CFR, but do not specifically reference which version of the guidance they apply, may be assumed to apply the 2024 Revisions

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Clarifications – Amendments (Existing)

- Amendments issued on or after October 1, 2024 to existing awards **made before October 1, 2024** that applied a previous version of OMB's guidance in 2 CFR1 may be assumed to **continue applying the previous version** of the guidance unless the amendment explicitly applies the 2024 Revisions to the award

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Clarifications – Existing

- Federal awards issued before October 1, 2024 that applied a previous version of OMB's guidance in 2 CFR and have not been amended may be assumed to continue applying the previous version of the guidance

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Clarification – Subawards

- Subawards issued under Federal awards applying the 2024 Revisions (either at the time of issuance or through amendment) must also apply the 2024 Revisions
- Pass-through entities with awards amended by a Federal agency to include the 2024 Revisions must similarly amend existing subawards
- However, if the Federal award to a recipient applies a previous version of the 2 CFR guidance, then the previous version also applies to the subaward—even if the subaward itself is made after October 1, 2024

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Timing

- The 2024 Revisions do not automatically go into effect for existing awards issued prior to October 1, 2024
- If recipients or subrecipients have questions on which version of the guidance applies to a specific Federal award or amendment, they should communicate with the Federal agency that made the award (or pass-through entity as appropriate)

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Class Exceptions

- Notice of two OMB class exceptions available to Federal agencies for awards applying the prior version of the Uniform Grants Guidance
 - Tracking equipment and unused supplies at the revised threshold of \$10,000 (2 CFR 200.1, 200.313(e), 200.314(a), 200.439(b))
 - Once recipients make systems changes to track equipment and unused supplies at this higher threshold, it becomes increasingly difficult to simultaneously track these items for existing awards at the \$5,000 threshold
 - Procurement standards for Indian Tribes (2 CFR 200.317)
 - Indian Tribes wishing to follow their own procurement standards, as opposed to adhering to the procurement standards in 2 CFR 200.318 through 200.327, are still required to simultaneously adhere to the procurement standards in the prior version of the 2 CFR guidance for existing awards

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GAS Guide Update



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Background

- The AICPA Audit Guide, *Government Auditing Standards and Single Audits* is updated annually
 - Typically for specific technical updates and conforming changes
- In 2025, GAQC Executive Committee decided to take on a project to overhaul the Guide contents to ensure it addresses quality concern areas and also aligns with how practice has evolved

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Transition

- The enhanceive changes were included as Appendix B of the 2025 edition of the Guide
- Appendix B will replace all single audit chapters (Part II) in the 2026 edition of the Guide

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Chapters Reorganized

Ch #	2024 GAS-SA Guide Chapter Title	Ch #	2025 Appendix B Chapter Title
1 - 4	Government Auditing Standards	5	Overview of Uniform Guidance Audit Requirements
5	Single Audit Act, Uniform Guidance Audit Requirements, Compliance Supplement	6	Compliance Supplement
6	Auditor Planning Considerations Under the Uniform Guidance	7	Preliminary Engagement Activities
7	Schedule of Expenditures of Federal Awards	8	Planning Consideration
8	Determination of Major Programs	9	Schedule of Expenditures of Federal Awards
9	Consideration of Internal Control Over Compliance for Major Programs	10	Determination of Major Programs
10	Compliance Auditing Applicable to Major Programs	11	Performing Entity-Wide Procedures
11	Audit Sampling Considerations of Uniform Guidance Compliance Audits	12	Identification and Assessment of Risks of Material Noncompliance
12	Audit Considerations of Pass-Through Entities and Subrecipients	13	Testing Internal Control Over Compliance For Each Major Program
13	Auditor Reporting Requirements and Other Communication Considerations in a Single Audit	14	Testing Compliance Applicable to Each Major Program
14	Program-Specific Audits	15	Evaluation and Reporting of Findings
		16	Reporting
		17	Completion
		18	Post Audit Considerations
		19	Program-Specific Audits

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Added

- Table of contents with paragraph numbers to the beginning of each chapter
- Five chapters to reduce length of chapters and assist users with locating content
- Documentation boxes with the requirements from auditing standards
- Incorporated extant note boxes and certain footnotes into the body
- Additional examples to assist with the application of content

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Removed

- COVID-19 Considerations boxes
- Auditee information as guide's focus is auditors

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Chapters With More Changes

- Chapter 11 – Entity-Wide Procedures
 - Understanding the Entity and Its Environment
 - Understanding the Components of the Entity’s System of Internal Control
 - IT Applications and General IT Controls
 - Discussion Among the Engagement Team
 - Consideration of Fraud
 - Results of Previous Audits, Attestation Engagements, and Monitoring

Risk Assessment

- Entity Wide
 - Performed collectively for more than one major program that are administered (operate) within same environment (organizational unit)
- Major Program Level
- Direct & Material Compliance Requirement Level

Chapters with More Changes Cont'd

- Chapter 12 – Identification & Assessment of RMNCs
 - Understanding of Major Program
 - Determining Materiality for Each Major Program
 - Identifying Types of Compliance Requirements Subject to Audit
 - Determining DM Compliance Requirements
 - Identifying RMNCs Assessing Inherent Risk and Control Risk

D&M Determination

- Generally considered to contain more than one compliance category:
 - Equipment and real property management
 - Matching, level of effort, earmarking
 - Procurement and suspension and debarment

D&M Determination Cont'd

- If expenditures for a cost category exceed materiality for the major program, it is an indicator that all compliance requirements subject to audit are considered direct and material



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Conflict with Audit Guidance

- A risk of material noncompliance exists when
 - There is a reasonable possibility of noncompliance occurring (that is, likelihood), and
 - If it were to occur, there is a reasonable possibility of the noncompliance being material (that is, magnitude)
- However, in a Single Audit, the auditor is required to audit the types of compliance requirements identified as subject to audit that could have a D&M effect on each major program
 - The identification of RMNCs for each D&M compliance requirement does not include a consideration of the likelihood of noncompliance occurring

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Appendix

- **Nonauthoritative** appendix provides examples of identified RMNCs for each type of compliance requirement

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More Granular

- Historically, some auditors may have assessed risk at the overall compliance requirement level (e.g., Activities Allowed/Unallowed), not based on the composition of audit objectives that support overall compliance with the applicable compliance requirement
 - Results in overly broad RAP's and further audit procedures
 - Identified controls or substantive procedures may not be responsive to RMNCs

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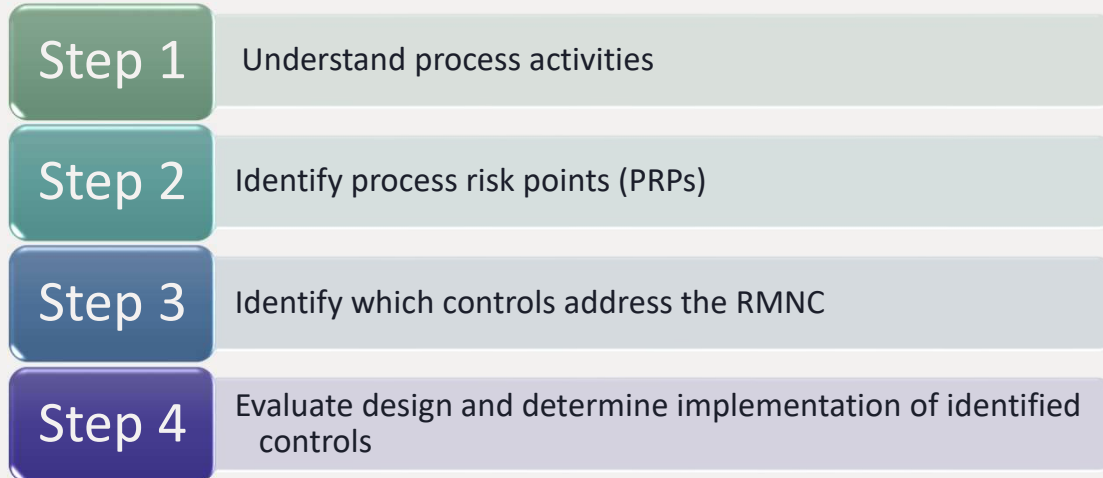
Example Allowable Cost

- Identified Risks
 - Direct payroll costs are not for allowable activities, are not reasonable, or are not based on records that accurately reflect the work performed
 - Fringe benefit costs are not charged based on rates that are federally negotiated, fringe benefit costs are not for allowable activities, are not allowable, are not properly assigned to federal awards
 - Direct other than personal services costs are not for allowable activities or are not allowable

Chapters with More Changes Cont'd

- Chapter 13 – Testing Internal Controls
 - Obtaining Understanding of Control Activities
 - Testing Operating Effectiveness of Controls
 - Performing Control Sampling of Manual Controls
 - Evaluating Cumulative Evidence for Operating Effectiveness

Four Step Processes for ICOC



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Risk Associated with the Control (RAWTC)



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Updated Sample Size Table

Control Sample Sizes When Zero Deviations Expected

Frequency of Manual Control and Population Size	Control Sample Size Based on RAWTC		
	Low	Moderate	High
Annual (1)	1	1	1
Quarterly (4)	2	2	2
Monthly (12)	2	3	4
Semi-Monthly (24)	3	5	7
Weekly (52)	5	7	9
Population Size 53-249	10%	15%	25%
Daily/Recurring (250+)	25	40	60

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Chapters with More Changes Cont'd

- Chapter 14 – Testing Compliance
 - Performing Tests of Compliance in Response to Assessed Risks
 - Understanding Population and Considering Completeness Testing Compliance
 - Evaluating Relevance and Reliability of Information
 - Considering Sufficiency and Appropriateness of Audit Evidence
 - Example Populations and Sampling Unit

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Primary Changes

- Enhance guidance on identifying individually important items to test that are quantitatively large
- New example populations, sampling units, and procedures to test completeness of population
- New guidance on testing relevance and reliability for information when used in substantive procedures
- New sample sizes tables for testing compliance based on whether the auditor is able to rely on internal controls
- New guidance on obtaining audit evidence when instances of noncompliance are identified

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Individually Important Items

- Items that, standing alone, are significantly different from the remainder of the population

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Zero Deviations & IC are Effective

Number of Units (Items) in the Population	Compliance Sample Sized Based on Inherent Risk		
	Low	Moderate	High
10 or less (a)	35%	45%	55%
11-24	20%	25%	30%
25-49	15%	18%	21%
50-149	12%	15%	18%
150-249	10%	12%	15%
250 +	25 items	30 items	40 items

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Not Effective, Expecting Zero Deviations

Number of Units (Items) in the Population	Compliance Sample Sized Based on Inherent Risk		
	Low	Moderate	High
10 or less (a)	50%	60%	70%
11-24	30%	40%	50%
25-49	25%	30%	35%
50-149	20%	25%	30%
150-249	15%	20%	25%
250 +	30 items	40 items	60 items

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Proposed Changes to DCF



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Proposed Revisions to the SF-SAC Form

General Services Administration [OMB Control No. 3090-0330; Docket No. 2025-001; Sequence No. 19] Submission for OMB Review; Federal Audit Clearinghouse

- Released: January 15, 2026
- **Background:**
 - In accordance with the Paperwork Reduction Act (PRA), the GSA is proposing a revision to an existing information collection request (ICR) for the Data Collection Form (SF-SAC) and associated FAC webform

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Proposed Revisions

- Optional resubmission pathway, with fields for resubmission type, reason, and report ID
- Optional structured fields within each audit finding to capture questioned costs (known and likely), criteria, condition, cause, effect, recommendation, and response
 - Have been included in narrative text. This change allows, but does not require, auditor to enter them in separate fields for improved clarity and data usability.

Proposed Revisions Cont'd

- Optional indicators within the audit finding section to report whether the auditor became aware of known fraud, likely fraud, or significant instances of abuse
- New Yes/No field in the FAC webform to capture whether a summary schedule of prior audit findings is included

Comment Criteria

- Comments are invited on:
 - Whether this collection is necessary
 - The accuracy of the burden estimate
 - Ways to enhance quality, utility, and clarity
 - Ways to minimize burden

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Comments and Recommendations Due

- Comments and recommendations for this information collection were due February 17, 2026



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Proposed Changes to FAC



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Background

Information Collection; Federal Audit Clearinghouse (FAC) (OMB Control No. 3090-0330)

- Released: August 28, 2025, by General Services Administration (GSA), Technology Transformation Services Division (TTS)
- Background:
 - FAC, managed by GSA collects & makes public Single Audit submissions required under the UG for entities. This notice proposes revisions to improve clarity, fraud/abuse reporting, and data usability

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Why is the GSA Looking to Change This?

Regulatory Rationale:

FAC information collection revision would be to comply with the Paperwork Reduction Act & to better align with UG

Practical Rationale:

More transparent, reliable, and usable Single Audit reporting

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Key Proposed Revisions

Optional resubmission pathway

- Fields for type, reason, report ID

Structured fields for audit findings

- Questioned costs (known/likely)
- Criteria, condition, cause, effect
- Recommendation, response

New Yes/No webform fields

- Known fraud/ likely fraud
- Summary schedule of prior audit findings included
- Significant instances of abuse disclosed

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Annual Reporting Burden

GSA Estimation of Annual Burden

- Respondents: 90,000 (45k auditees / 45k auditors)
- Responses per respondent: 1
- Hours per response: 100 hours for each of the 450 large respondents and 21 hours for each of the 89,550 small respondents
- *Total Burden Hours: 1,925,550*

Public Comments

GSA looked for comments on whether the proposed collection of information is necessary for proper performance of GSA's functions, including:

- Practical utility
- GSA's estimate of burden
- Ways to enhance quality, utility, and clarity of information collected
- Ways to minimize burden of collection on respondents

Comments Due

- Comments Due: October 27, 2025



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EO for Grants



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Background

Executive Order: Improving Oversight of Federal Grantmaking

- Issued: August 7, 2025
- Background:
 - EO focused on reducing waste

Reviews

- Each agency head shall promptly designate a senior appointee who shall be responsible for creating a process to review new funding opportunity announcements and to review discretionary grants to ensure that they are consistent with agency priorities and the national interest

Review Process

- Review and approval of agency funding opportunity announcements
- Continuation of existing coordination with OMB
- Review by designated subject-matter experts (SME)
- Review of funding opportunity announcements and related forms to ensure that they include only such requirements as are necessary for an adequate evaluation of the application and are written in plain language with a goal of minimizing the need for legal or technical expertise in drafting an application
- Interagency coordination to determine whether the subject matter of a particular funding opportunity announcement has already been addressed by another agency announcement and, if so, whether one of the announcements should be modified or withdrawn to promote consistency and eliminate redundancy
- For scientific research discretionary grants, review by at least one SME in the field
- Pre-issuance review of discretionary awards to ensure that the awards are consistent with applicable law, agency priorities, and the national interest, which shall involve in-person or virtual discussion of applications by grant review panels or program offices with a senior appointee or that appointee's designee

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Impact

- Agency heads shall designate one or more senior appointees to review discretionary awards on an annual basis for consistency with agency priorities and substantial progress
 - Such review shall include an accountability mechanism for officials responsible for selection and granting of the awards
- Until the process is in place, agencies shall not issue any new funding opportunity announcements without prior approval from the senior appointee, except as required by law

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Evaluation

- Senior appointees and their designees shall, as relevant and to the extent consistent with applicable law, apply the following principles, including in any scoring rubrics used to assess grant proposals:
 - Discretionary awards must, where applicable, demonstrably advance the President's policy priorities
 - Discretionary awards shall not be used to fund, promote, encourage, subsidize, or facilitate:
 - Racial preferences or other forms of racial discrimination by the grant recipient, including activities where race or intentional proxies for race will be used as a selection criterion for employment or program participation;
 - Denial by the grant recipient of the sex binary in humans or the notion that sex is a chosen or mutable characteristic;
 - Illegal immigration; or
 - Any other initiatives that compromise public safety or promote anti-American values
 - All else being equal, preference for discretionary awards should be given to institutions with lower indirect cost rates

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Evaluation Cont'd

- Discretionary grants should be given to a broad range of recipients rather than to a select group of repeat players
 - Research grants should be awarded to a mix of recipients likely to produce immediately demonstrable results and recipients with the potential for potentially longer-term, breakthrough results, in a manner consistent with the funding opportunity announcement
- Applicants should commit to complying with administration policies, procedures, and guidance respecting Gold Standard Science
- Discretionary awards should include clear benchmarks for measuring success and progress towards relevant goals and, as relevant for awards pertaining to scientific research, a commitment to achieving Gold Standard Science
- To the extent institutional affiliation is considered in making discretionary awards, agencies should prioritize an institution's commitment to rigorous, reproducible scholarship over its historical reputation or perceived prestige

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UG Impact

- The Director shall revise the UG and other relevant guidance to streamline application requirements and to further clarify and require all discretionary grants to permit termination for convenience, including when the award no longer advances agency priorities or the national interest, but subject to appropriate exceptions
- Limit the use of discretionary grant funds for costs related to facilities and administration

Implementation & Termination Clauses

- Within 30 days, each agency head shall review the agency's standard grant T&Cs and submit a report to the Director detailing:
 - Whether the agency's standard terms and conditions for discretionary awards permit termination for convenience and include the termination provisions described in 2 CFR 200.340(a)
 - Whether the agency's standard T&Cs for discretionary foreign assistance awards permit termination based on the national interest; and
 - The approximate number of active discretionary awards at the agency, as well as the approximate percentage of funding obligated under those awards that contain termination provisions allowing for termination
- Each agency head shall, to the maximum extent permitted by law and consistent with relevant EOs or other Presidential directives, take steps to revise the T&Cs of existing discretionary grants to permit immediate termination for convenience, or clarify that such termination is permitted, including if the award no longer advances agency priorities or the national interest

Implementation & Termination Cont'd

- Each agency head shall ensure that such terms are included in all future discretionary grants and likewise shall take steps to revise all applicable regulations binding on or incorporated in discretionary grant terms and conditions to require such terms. Agency heads shall take action to incorporate these new terms and conditions into all future amendments to grant awards.
- To the extent practicable and consistent with applicable law, agency heads shall insert in future discretionary grant agreements terms and conditions that:
 - Prohibit recipients from directly drawing down general grant funds for specific projects without the affirmative authorization of the agency; and
 - Require grantees to provide written explanations or support, with specificity, for requests for each drawdown

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OMB Memo



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Background

M-25-30 Ensuring Accountability: How We Oversee, Audit, and Improve

- Issued: June 23, 2025
- Background:
 - Memo to the Heads of Executive Departments and Agencies from the Executive Office of the President and the OMB regarding federal audits and the Administrations commitment to utilizing tools to prevent waste, fraud, and abuse of taxpayer dollars

Federal Audits

- Federal audits should provide transparency and accountability for the use of taxpayer dollars by Federal agencies
- Audit findings should be used to strengthen and improve internal controls

Circular A-136 Revision

- OMB Circular A-136, Financial Reporting Requirements, was updated July 14, 2025

Key Highlights:

- Continue to prepare financial statements and undergo a full financial statement audit
- Change format of the financial statements and associated audits to single-year presentation
- Revisions effective upon issuance unless otherwise specified in the Circular

Expected Results

The single-year model will:

- Focus on current-year activity and balances
- Streamline audit scope and prioritize necessary expenses
- Establish a cleaner, clearer baseline for progress in future years
- Address high-risk programs and control weaknesses in real time

Future Accountability Ideas

Auditing the auditors

- Assessing the value of dollars spent on audits

Focusing on high-impact audits

- Activities that reduce risk, increase accountability, and bring financial integrity

Linking transparency to reform

- Integrating audit results to program oversight and performance management

Addressing improper payments and waste

- Focus on identifying and preventing improper payments

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Other Changes of Note



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FFATA

- As of March 8, 2025, FSRs.gov is retired, and all Federal Funding Accountability and Transparency Act (FFATA) subaward and executive compensation reporting must be completed directly in SAM.gov
- Starting in October 2025, the assistance listings within SAM.gov will be updated pursuant to the GREAT Act and OMB Memorandum M-24-11
 - Changes 'Federal Assistance Number' to 'Federal Assistance ID' as this field will now include alphanumeric characters in the identifier (e.g. 31.123 vs 31.A1A)

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Data Standards

- Grants standard data elements (SDEs)
 - <https://grants.gov/data-standards>

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Sam.Gov

- SAM.gov is undergoing significant updates in 2025 and 2026
 - Updated entity registration interface
 - The Revolutionary FAR Overhaul (RFO) impacting representations and certifications, and updated Federal Assistance IDs
 - Alphanumerical characters in assistance listings

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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



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What Questions Do You Have?



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Content last reviewed: 4/30/26
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**COMMON ACCOUNTING,
FINANCIAL REPORTING, AND
AUDITING DEFICIENCIES**

May 7, 2026

Presented by Chris Pembroke, CPA

Oldies but Goodies – GASB Standards That Keep on Giving!

Chris Pembroke CPA, CGAP, CRFAC
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1

Top 15 Capital Asset Reporting Errors

Navigating GASB Standards, Implementation Guides, and Audit Pitfalls

2

What We Will Cover

- Classification and Threshold Errors
- Leases, SBITAs, and Intangibles
- CIP, Disposals, and Impairments
- Infrastructure and Depreciation
- Donations, Interest, and Interfund Transfers

3

1. Capitalizing Maintenance vs. Expensing Improvements

- The Error: Misclassifying routine repairs as assets, or expensing major life-extending improvements.
- The Fix: Strictly define 'betterments' vs. 'maintenance.'
- Reference: GASB 34 (¶18) & GASB IG 2015-1 (Q 7.9.6–7.9.7).

4

Life Comparisons

- Comparative Useful Life Standards

Organization	Building (Structure/Shell)	Roof (Component)	Focus Area
GASB (common)	30 – 50 Years	10 – 20 Years	Public Sector Accounting
IRS (Pub. 946 / MACRS)	39 Years	39 Years*	Tax Depreciation
APPA (Higher Ed Facilities)	50 – 100 Years	15 – 25 Years	Operational Life Cycle
Fannie Mae / HUD	50+ Years	20 Years	Physical Condition Assessment
State Comptrollers (e.g. Texas/OK)	30 – 40 Years	10 – 15 Years	State/Local Reporting

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Scenario A: The Building

- If you recorded the entire building as one \$10 million asset with a 60-year life – roof has a life span (its Oklahoma??):
 - The Problem:** When you replace the roof in year 17, you are adding a "betterment." If you capitalize the new roof, you now have the cost of **two roofs** sitting in your asset balance (the original portion of the \$10M and the new \$1.2m replacement).
 - The GASB Requirement:** You must estimate the original cost of the old roof, "de-capitalize" (remove) it and its accumulated depreciation, and then capitalize the new roof. This is often difficult and leads to "Ghost Assets" hidden inside your building values.



6

Scenario B: The Building

- If you recorded the building as one \$9.0 million asset with a 60-year life – roof as one asset worth \$1.0 with a 20-year life span
 - In year 20, the Roof component is fully depreciated (Net Book Value = \$0). You simply retire the old roof component and capitalize the new one.

7

2. Improper Application of Capitalization Thresholds

- The Error: Expensing a massive, bulk purchase of assets simply because the *individual* items fall below the capitalization threshold.
- The Fix: Implement an "Aggregate Significance" policy. If the total group purchase is significant to the financial statements, capitalize the group as a single asset and depreciate it over its useful life.
- Reference: GASB IG 2021-1 (Q 5.1).

8

IG Question - Thresholds

- Q—Should a government’s capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together? Consider a government that has established a capitalization threshold of \$5,000 for equipment. If the government purchases 100 computers costing \$1,500 each, should the computers be capitalized?
- A—Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers, classroom furniture, and library books are examples of asset types that may not meet a capitalization policy on an individual basis, yet could be significant collectively. In this example, if the \$150,000 aggregate amount (100 computers costing \$1,500 each) is significant, the government should capitalize the computers.

9

3. Ignoring Right-to-Use Assets

- The Error: Treating long-term leases or software subscriptions as simple operating expenses. Forgetting other intangible assets
- The Fix: Record as intangible right-to-use capital assets with corresponding liabilities. Revisit GASB 51.
- Reference: GASB 51, GASB 87, & GASB 96.

10

4. Mishandling Construction in Progress (CIP)

- The Error: Leaving completed projects in CIP long after they are placed into service.
- The Fix: Trigger reclassification and begin depreciation the moment the asset goes into use.
- Reference: GASB 34 (¶21–22) GASB 51, & GASB IG 2015-1 (Q 7.15.2).

11

5. Ghost Assets and Unrecorded Disposals

- The Error: Failing to remove assets from the books after they are sold, scrapped, or lost.
- The Fix: Require formal disposal forms and conduct periodic physical inventories.
- Reference: GASB 34 (¶117b) GASB 104 (held for sale)



12

6. Failing to Identify Impairments

- The Error: Continuing normal depreciation after physical damage, obsolescence, or permanent stoppage.
- The Fix: Monitor for "triggering events" and record impairment losses in the period they occur.
- Reference: GASB 42 (¶9–18)

13

Keys to impairment accounting

Why it matters: Impairment accounting helps ensure assets are not carried above amounts expected to be recovered through use or service potential.

Key concepts:

- **Triggering events:** Identify events/changes that indicate possible impairment (e.g., physical damage, obsolescence, unexpected decline in use, legal/environmental changes, permanent stoppage).
- **Timely recognition:** Record impairment losses **in the period they occur**; do not continue normal depreciation when impairment is evident.
- **Measurement focus:** Compare carrying value to post-event recoverable/service value and recognize the difference as a loss (method depends on facts and circumstances).
- **Documentation:** Support the triggering event, indicator assessment, valuation/assumptions, and loss calculation.
- **Ongoing monitoring:** Reassess periodically; strengthen controls around inspections, maintenance records, utilization metrics, and project status changes.

Common pitfall to avoid: Continuing normal depreciation after **physical damage, obsolescence, or permanent stoppage** instead of evaluating and recording impairment.

Reference: GASB 42 (¶9–18)

14

14

7. Inadequate Note Disclosures

- The Error: Lumping different asset classes together or failing to separate right-to-use assets.
- The Fix: Disaggregate and prepare for GASB 104.
- Reference: GASB 34 (¶116–117) & GASB 104

15

8. Errors in Infrastructure Reporting

- The Error: Missing capitalized design costs, or failing to maintain condition assessments under the "Modified Approach".
 - See componentization discuss on later slide
- The Fix: Capitalize all ancillary costs. Perform assessments every three years if avoiding depreciation
- Reference: GASB 34 (¶23–25) & GASB IG 2015-1 (Q 7.12.1–7.12.4)

16

9. Incorrect Useful Lives and Depreciation

- The Error: Arbitrary useful lives; depreciating below zero.
 - Or utilization of an old policy not reflective of current activity/environment.
- The Fix: Update useful lives based on actual experience – periodic evaluation/update; configure software to halt depreciation.
- Reference: GASB 34 (§161) & GASB IG 2015-1 (Q 7.14.1, 7.14.3, 7.14.1).

17

Set it and
forget it??

- Q— Once a depreciable asset's useful life is estimated, is it ever necessary to review the estimate in later years?
- A— Yes. Because depreciation is a method of allocating an asset's cost over its useful life, a periodic review of this useful life is necessary for depreciation to reflect that allocation. The effects of a change in useful life should be reported as a change in estimate in accordance with paragraphs [20](#) and [21](#) of Statement 100. As many factors may affect the useful life of an asset, periodic reassessment of estimated useful lives may be appropriate. For example, equipment may not be replaced according to property management policies if appropriations for the replacement costs are not made. Planned preventative maintenance may not be performed, resulting in a reduction in the useful life of an asset. The use of the asset may have changed, or the asset may have been damaged or impaired by weather or other circumstances. (See also [Question 7.13.5](#).)

18

11. Mishandling Donated Assets

- The Error: Recording donated assets at \$0 or at the donor's old historical cost.
 - Different than later slide – GASB 48
- The Fix: Record at acquisition value.
- Reference: GASB 72 (¶79), GASB 33, & GASB IG 2015-1

19

12. Capitalizing Construction Interest

- The Error: Capitalizing interest during construction.
- The Fix: Expense all interest incurred before the end of construction in the period it is incurred.
- Reference: GASB 89 (¶4–5)

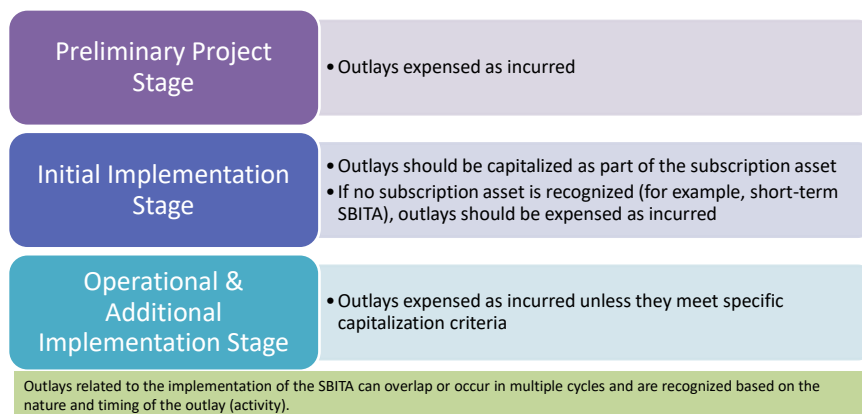
20

13. Internally/Off shelf Generated Intangibles

- The Error: Expensing all costs for custom software development, or capitalizing early planning stages.
 - Or ignoring to capture cost to modify/setup/develop software
 - Applicable to SBITAs
- The Fix: Capitalize application stage only.
- Reference: GASB 51 (¶7–15) & GASB IG 2015-1 (Section 4.51)

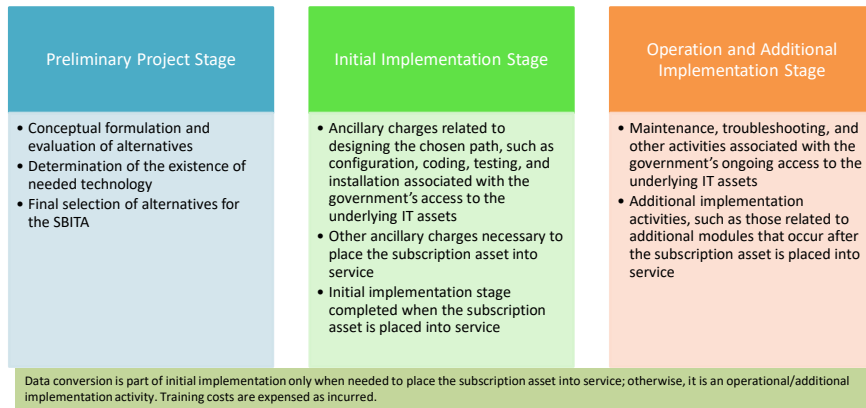
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Accounting for Stages of Implementation



22

Stages of Implementation



23

Old But Applicable Guidance – 2.51.22

- 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.

24

14. Failing to Componentize

- The Error: One asset, one useful life.
 - Recording a massive facility as one single asset with a blanket useful life.
- The Fix: Break into major components – when significant “material”.
- Reference: GASB 34 ¶ 161
 - Governments may use any established depreciation method. Depreciation may be based on the estimated useful life of a class of assets
 - GASB Exposure Draft (ED), *Infrastructure Assets* – Required if:
 - Component cost is significant to the total asset cost
 - Component has a substantially different est. useful life

25

15. Interfund Asset Transfer Errors

- The Error: Recording a "sale," recognizing a gain/loss, or leaving accumulated depreciation behind.
- The Fix: Transfer assets at their current net book value. No gain or loss should be recognized.
- Reference: GASB 48, GASB 72.

26

16. Miscalculating (NICA)

- **The Error:** Governments often default to a simple equation: *(Total Capital Assets - Accumulated Depreciation - Total Outstanding Debt)*. However, this oversimplification leads to several major misstatements:
 - **Unspent Bond Proceeds:** Deducting the *entire* balance of a bond when a portion of the proceeds remains unspent at year-end. Unspent proceeds are not yet invested in capital assets, so the related portion of the debt should not be deducted from the asset balance.
 - **Deferred Inflows/Outflows:** Failing to include D.O. of resources and D.I. of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt (e.g., unamortized losses on refunding, or unamortized bond premiums/discounts).

27

16. Miscalculating (NICA)

- **The Error:** Governments often default to a simple equation: *(Total Capital Assets - Accumulated Depreciation - Total Outstanding Debt)*. However, this oversimplification leads to several major misstatements:
 - **Non-Capital Debt:** Deducting debt that was used to fund operations, or debt issued to fund capital assets that the government does not actually own (e.g., issuing debt to give a capital grant to a separate component unit).
 - **Leases/SBITAS:** Failing to include the Intangible Assets and associated Liabilities
 - **Non-Debt Capital Liabilities:** Finance teams usually remember to deduct formal, long-term debt (like bonds or notes payable) associated with their assets. However, they frequently forget to deduct short-term, capital-related liabilities like construction accounts payable or retainage payable

28

16. Miscalculating (NICA)

- **The Fix:** Create a standardized NICA worksheet for year-end close.
- **The Reference:** GASB 34, GASB IG 2015-1, Question 7.22.6-.7, GASB 104

29

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

Don't Forget – Leases,
SBITAs, P3s

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

30

Questions & Best Practices



Review capitalization policies annually.



Strengthen coordination with IT and Public Works.



Monitor upcoming GASB standards (e.g., GASB 104).

31

Sections 2–5: Pensions, Fiduciary, Liabilities, GASB 54

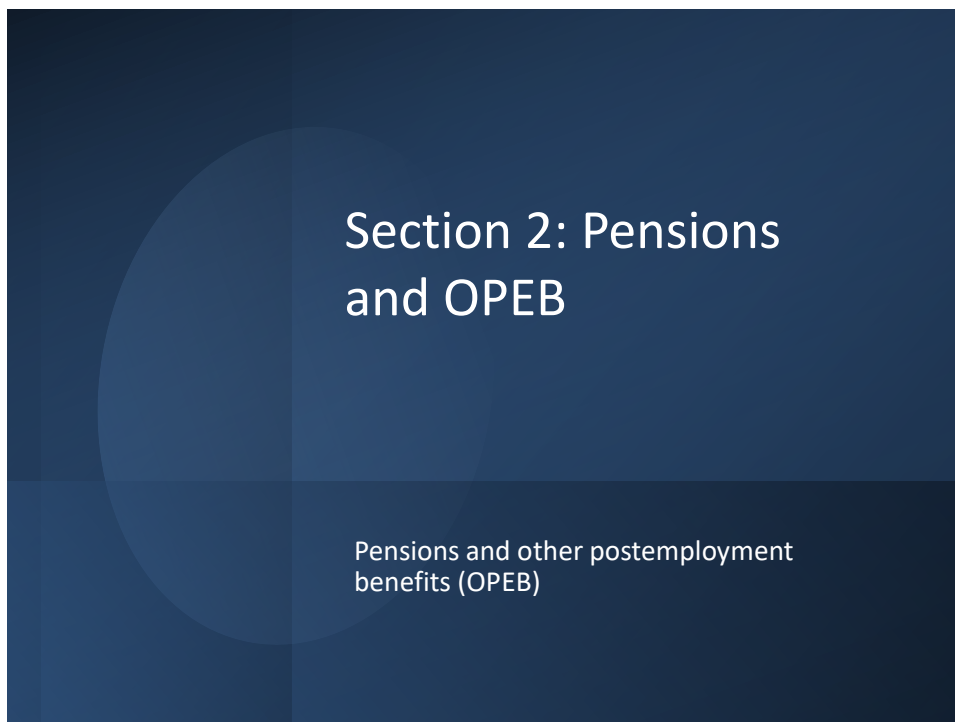
Common financial reporting pitfalls and how to prevent them

32

Agenda (Sections 2–5)

- **Section 2 (Pensions/OPEB):** Timing, subsidy, classification
- **Section 3 (GASB 84):** Criteria, custodial, materiality
- **Section 4:** Comp absences, revenue, fair value
- **Section 5 (GASB 54):** Fund balance traps
- **Use each slide:** Risk | why | verify | good practice

33



34

Pensions & OPEB Hotspots

Issue: Missing or inconsistent pension/OPEB reporting decisions that drive audit findings (timing, subsidy, fund allocation, and net position classification).

Fix: Use the following items as a checklist and confirm each decision is supported by the actuary, payroll basis, and fund structure.

GASB Ref: GASB 68 and GASB 75 (see slide-by-slide citations).

35

17. Timing of Contributions (Deferral Recognition)

•**The Error:** Recording all contributions paid during the fiscal year as pension or OPEB expense, regardless of the actuary's measurement date.

•**The Fix:** Reclassify contributions made after the measurement date but before fiscal year-end as **Deferred Outflows of Resources** to align the expense with the actuary's valuation period.

•**Reference:** GASB 68 (¶34, ¶71) and GASB 75 (¶58, ¶158).

36

18. Missing OPEB subsidy (Implicit Rate)

- The Error:** Reporting OPEB contributions as only the "cash" paid directly for retiree premiums, ignoring the subsidy created when retirees pay a "blended" rate lower than their actual age-adjusted cost.
- The Fix:** Quantify the implicit subsidy and record it as both an employer contribution and an expense/expenditure; confirm the actuarial report specifically addresses the subsidy.
- Reference:** GASB 75 (§159) and GASB IG 2017-3 (Q 4.30)

37

19. Responsible Fund Allocation

- The Error:** Reporting the entire Net Pension Liability (NPL) or Net OPEB Liability (NOL) only in Governmental Activities, failing to "push down" the liability to Proprietary or Internal Service Funds.
- The Fix:** Allocate the proportionate share of the liability, deferrals, and expense to every fund that has covered payroll based on a documented, consistent policy.
- Reference:** GASB 34 (§92) and AICPA SLG Guide (Chapter 13).

38

20. . Covered Payroll Mismatches in RSI Schedules

- **The Error:** Using the current fiscal year's payroll amount for both the *Schedule of Employer's Share of Net Pension/OPEB Liability* and the *Schedule of Employer Contributions*. When a government uses a "look-back" measurement date (a date one year prior to its fiscal year-end), the payroll figures for these two schedules must differ.
- **The Fix:**
 - * **Share of Liability Schedule:** Report payroll for the **measurement period** (the 12-month period ending on the measurement date).
 - **Contributions Schedule:** Report payroll for the government's **fiscal year** (the current reporting period).
 - **Terminology Check:** Ensure you are reporting "Covered Payroll" (the payroll on which contributions are based) rather than "Covered-Employee Payroll" (total payroll of all employees in the plan), per the amendments in GASB 82.
- **Reference:** GASB 82 (§15–10)
- GASB IG 2015-1 (Q 5.154.2) (CIG 8.154.2, 8.577.2)
- GASB IG 2017-3 (Q 4.156 & Q 4.448) (CIG 8.577.2, CIG 8.577.2)

39

21. Restricted Net Position

•**The Error:** When a plan is overfunded, recording a Net Pension Asset (NPA) but failing to restrict the resulting net position, leaving it in "Unrestricted".

•**The Fix:** Any net position resulting from a pension or OPEB asset **must** be classified as **Restricted Net Position** due to legally enforceable limits on those funds.

•**Reference:** GASB 34 (§34), GASB 68, and GASB 75.

40

Section 3: Fiduciary activities (GASB 84)

This content area can be updated or replaced as required

41

GASB 84 Breakdowns

- **Friction & approach:** Ministerial vs administrative; custodial flows misclassified in governmental funds; materiality bypass; inventory held-for-others; document owner/beneficiary/authority/admin; use repeatable templates—presentation/note expectations depend on it.

42

22. Administrative Involvement

•**The Error:** Incorrectly classifying activities as Fiduciary when the government has "administrative involvement"—monitoring compliance or exercising discretion over how money is spent.

•**The Fix:** If the government has discretion over spending or monitors compliance, report the activity in **Governmental Funds** rather than as Fiduciary.

•**Reference:** GASB 84 (¶11) and GASB IG 2019-2 (Q 4.14–4.17).

43

23. Failure to Account for Custodial Activities (e.g., Court Fees)

•**The Error:** Omitting pass-through activities, such as Oklahoma municipal court fees (CLEET, AFIS), because the balances are small or not part of core operations.

•**The Fix:** Establish a **Custodial Fund** to report the receipts as Additions and remittances as Deductions for mandated state fees.

•**Reference:** GASB 84 (¶11) and GASB IG 2019-2.

44

24. Misapplying “fiduciary materiality”

- **The Error:** Using "too small" shortcuts to bypass the GASB 84 fiduciary review, which drives inconsistent year-to-year treatment.
- **The Fix:** Fiduciary funds are a separate **opinion unit**; document ownership and beneficiaries for all activities first, regardless of size, to determine if a custodial fund is required.
- **Reference:** AICPA TQA 6950.24 and AICPA SLG Guide

45

Materiality - Opinion Unit

- **Inquiry** — A BTA has not previously reported any fiduciary activities and has, therefore, used a single column for financial statement presentation. In accordance with guidance in AICPA Audit and Accounting Guide State and Local Governments, the auditor has considered only one opinion unit for the BTA in previous audits. In implementing GASB Statement No. 84, the BTA determines that it has an activity that meets the criteria to be reported as a fiduciary fund in its financial statements. However, the BTA elects not to present the only identified fiduciary fund in the financial statements because it considers it to be immaterial based on the guidance in GASB Implementation Guide 2015-1, Q7.4.1, as amended.
- **Reply** — The auditor should first assess management’s assertion that the omission of the fiduciary fund is appropriate (that is, the fiduciary fund is both quantitatively and qualitatively immaterial based on relevant generally accepted accounting principles [GAAP]). Based on the guidance in GASB Implementation Guide 2015-1, Q7.4.1, as amended, the government can assess quantitative materiality of the fiduciary fund type based on the significance of those funds to all funds of the government. In all cases, qualitative materiality aspects should be appropriately considered. If the auditor agrees with management’s assessment of materiality (quantitative and qualitative) relevant to the omission, the auditor does not need to perform any further audit procedures related to this omitted fund.

46

Section 4: Liabilities and revenue

This content area can be updated or replaced as required

47

Liability/Revenue Trouble

- **Compensated absences:** Inconsistent “More likely to be paid” thresholds.
 - “Flow assumptions”
- **Salary-related payments:** Salary-tied costs excluded from accruals/CA.
- **Revenue restrictions/availability:** Time vs purpose; uneven support.
- **Fair value hierarchy:** Level errors from unclear inputs/documentation.

Theme: Errors are about *classification, timing, and documentation*.

48

25. Compensated absences

- **The Error:** Using inconsistent "More likely to be paid" thresholds or blanket assumptions rather than documented history and payout provisions.
- **The Fix:** Transition to the "**more likely than not**" threshold for leave expected to be used, cashed out, or settled; use full leave reports by group to support recorded amounts. Consideration of flow assumption impact – documented policies??
- **Reference:** GASB 101 (¶9–11).

49

26. Excluding salary-related payments

- **The Error:** Recording only the base salary for a leave liability and forgetting associated employer costs like **FICA, Medicare, and pension contributions**.
- **The Fix:** Capture all employer-paid benefit billings and accrue them consistently with salaries at year-end.
- **Reference:** GASB 101 (¶17–19).

50

27. Non-exchange Revenue Recognition & Modified Accrual

- **The Error:** Recognizing revenue before all **eligibility criteria**—specifically time requirements—are met; for modified accrual, failing to defer revenue that is not "available" (collected within the availability period).
- **The Fix:** Verify all criteria (Recipient, Time, Reimbursement, Contingency) are fulfilled before recognition; defer any revenue collected outside the formal availability period (e.g., 60 days) in fund-level statements.
- **Reference:** GASB 33 (¶12–15) and GASB 65 (¶30)

51

28. Opioid Settlements: Exchange vs. Non-Exchange

- **The Error:** Treating settlement payments only as expenditure-driven grants (non-exchange) and recognizing revenue only as cash is received.
- **The Fix:** Evaluate for a "release of claims." If the government surrendered legal rights in exchange for payments, recognize a receivable and revenue for the full measurable amount at the government-wide level.
- **Reference:** GASB 33 and GASB Technical Bulletin 2004-1 (Tobacco Settlement logic).

For Litigating Parties (Direct Settlement Share):

- **Classification:** Exchange-like transaction.
- **The Fix:** Recognize a long-term receivable and revenue for the full measurable amount at the government-wide level (accrual basis).
- **Reference:** GASB TB 2004-1 (Tobacco Precedent).

For Non-Litigating Parties (OAB Grants):

- **Classification:** Voluntary Non-exchange (Grant-like).
- **The Fix:** Recognize revenue as eligibility requirements are met (typically as expenditures are incurred).
- **Reference:** GASB 33.

52

28. Opioid Settlements: Exchange vs. Non-Exchange

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 - **The Fix:** Recognize revenue as eligibility requirements are met (typically as expenditures are incurred).
 - **Reference:** GASB 33.

53

Considerations on recognition - Exchange

Govt. Funds – Typically long-term receivable with the offset being to Deferred inflow (less any collectable within period of availability).

Full accrual Rec & Rev

• Measurable? Collectable? Material?

• Program Revenues – Exchange – Charge for Service (future note - grants awarded when recognized its nonexchange and would be an operating grant & contribution)



Fund Balance – Long-Term Receivables settlement states restrictions on use "opioid remediation efforts, etc" - therefore any impact on fund balance would be restricted vs non-spendable.

54

29. Investment Assets (Land/Property held for Income)

•**The Error:** Recording land or buildings purchased solely for income or profit as capital assets and depreciating them over an estimated useful life. (What is operations? General govt activities vs Economic Development)

•**The Fix:** Identify assets held primarily for income or profit with no service capacity. Report these as **Investments at Fair Value** rather than capital assets; these are not subject to depreciation.

•**Reference:** GASB 72 (¶¶64–68).

55

Section 5: GASB 54 Fund Balance

This content area can be updated or
replaced as required

56

GASB 54 Fund Balance

Top→bottom (most→least constrained):

- **Nonspendable:** Not spendable / intact
- **Restricted:** External limits
- **Committed:** Formal governing action
- **Assigned:** Intended use
- **Unassigned:** Residual (GF)

Theme: Common errors = confusing *restriction vs. commitment vs. assignment*; missing documented authority.

57

30. Improper application to proprietary funds

What GASB 54 applies to: GASB 54 fund balance classifications are designed for **governmental funds** fund balance presentation.

Common misapplication: Applying GASB 54 fund balance categories to **proprietary funds**, which instead report **net position** classifications.

What to verify:

- Confirm presentation is appropriate for fund type (governmental vs. proprietary).
- Ensure templates and reporting packages do not carry over governmental fund balance labels into proprietary statements.
- Review note disclosures to confirm terminology aligns with the statements presented.

Control idea: Lock statement templates by fund type so labels cannot be mixed across governmental and proprietary reporting.

58

31. Nonspendable vs. Restricted (the prepaid trap)

- **The prepaid trap:** Prepaids often labeled restricted for program purpose; usually nonspendable (not cash).
- **Classify correctly:** Not spendable at period end → nonspendable.
 - Restricted only if external constraint limits spendable use.
- Apply logic across all funds w/ prepaids.
- **Checklist:** Agree prepaids to schedules; map fund balance to spendability; verify disclosures use consistent terms.

59

32. Stabilization

Classification errors arise when 'Stabilization' is treated as formal without authority or documentation; follow actual authority and evidence.

- **Source of constraint:** Committed—Formal action by highest authority; Assigned—Government intent, authority to assign.
- **Typical pitfall:** Committed—Informal targets counted as committed; Assigned—Intent assumed without clear authority.
- **What to verify:** Committed—Evidence of formal action, resource conditions; Assigned—Assignment authority, documented intent.



60

33. Misstating “Authority to Assign”

- **Meaning:** Policy defines who can assign and how; document each year.
- **Misstatements:** Assignments with no delegation evidence; no policy/board authorization; committed vs assigned misclassified.
- **Verify/retain:** Board policy/action & delegation; annual memo/budget approval; consistent cross-fund review.

61

34. Other Common Financial Statement Errors

- Interfund borrowings - borrowing fund must have the resources to pay back the lending fund.
- Inappropriate expansion of other financing sources and uses category - only items specifically designated by authoritative standards may be classified as such
- Inappropriate reporting of the entire balance of compensated absences as a current liability
- Failure to report noncash activities in proprietary fund cash flow statements
- Budgetary comparison - must include a reconciliation of the basis of budgeting and GAAP in the budgetary comparison schedule or related notes
- Failure to include combining statements for major component units somewhere within the basic financial statements or notes
- Errors in major fund determination and presentation

62

62

35. Other Common Financial Statement Disclosure Errors

- Insufficient information for the justification for including component units
- Missing components of debt disclosures, such as defeased debt outstanding, conduit debt outstanding, details of advance/current refundings, details of pledged revenues, and short-term debt
- Lack of disclosure of which funds liquidate each long-term liability other than debt (Claims and judgments, Termination benefits, Pension and OPEB liabilities, etc.)
- Missing general description of the principal purposes of the government's interfund balances and transfers
- Incomplete disclosure of investment policies
- Purpose of each major special revenue fund

63

63



Questions???

64

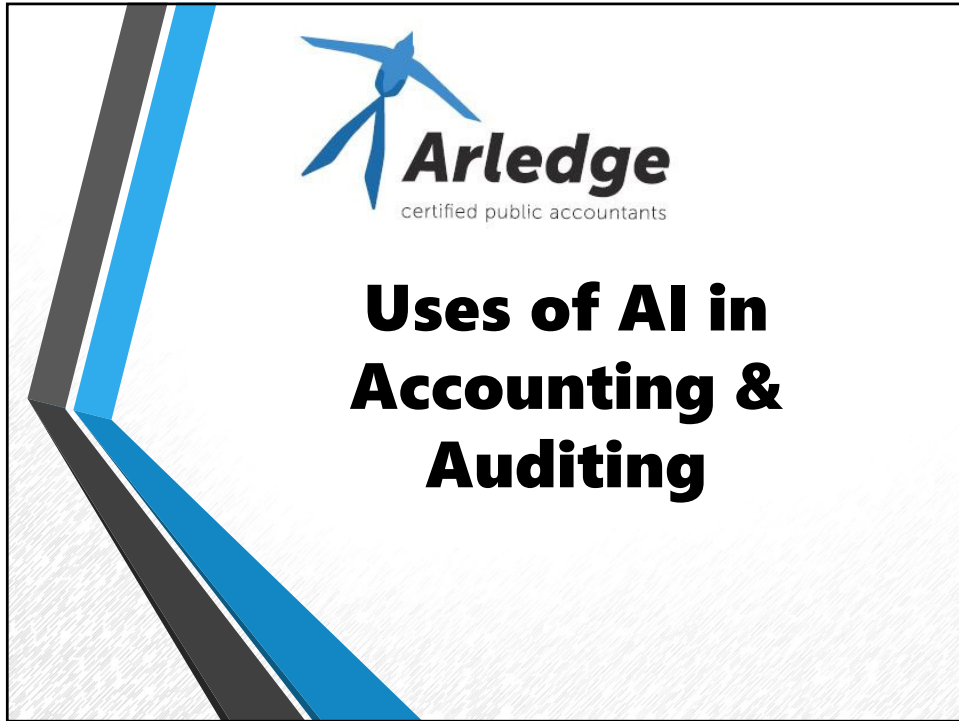


**INCORPORATING AI INTO THE
AUDIT AND ACCOUNTING
FUNCTIONS**

May 7, 2026

Presented by Jacob Winkler, CPA and

Kency Duarte, CPA



1




2

Presenters

Kency Duarte, CPA

- Assurance Partner at Arledge & Associates
- 13 years of Non-Profit, Foundations, Governmental and Single Audit Experience

A professional portrait of Kency Duarte, CPA, a man with short dark hair and a goatee, wearing a dark blue suit, white shirt, and light blue striped tie. He is sitting and smiling at the camera. A small blue logo is visible in the bottom right corner of the image.

3

Session Objectives and Roadmap

- Define AI in a practical accounting and audit context
- Distinguish key tool categories: RPA, machine learning, generative AI, analytics
- Review real-world use cases across accounting and auditing
- Highlight data, privacy, ethics, standards, governance, and implementation issues
- Case studies, workforce implications, and discussion points
- Close with actions participants can take immediately

A small blue logo consisting of three stylized, overlapping shapes resembling a bird or a leaf, located in the bottom right corner of the slide.

4

What Do We Mean by "AI"?

- **Broad term for systems that perform tasks associated with human judgment or pattern recognition**
- **Includes prediction, classification, anomaly detection, language generation, and workflow assistance**
- **Not all automation is AI; some tools are rule-based rather than adaptive**
- **In practice, AI often augments accountants and auditors rather than replaces them**



5

Why AI Matters Now for CPAs

- **Growing pressure to do more with limited time and talent**
- **Expanding data volumes and complexity across ERP, subledger, and operational systems**
- **Need for faster close cycles, more timely insights, and higher audit quality**
- **Maturing vendor tools embedded in familiar accounting and audit platforms**
- **Increased client and management expectations around efficiency and responsiveness**



6

Category 1 — Robotic Process Automation (RPA)

- **Uses rules and scripts to automate repetitive, structured tasks**
- **Best for stable, high-volume, well-defined processes**
- **Common tasks: data transfer, reconciliations, report extraction, workflow routing**
- **Often paired with AI tools to handle exceptions or unstructured inputs**
- **Delivers efficiency, but weak process design can simply automate bad steps faster**



7

Category 2 — Machine Learning

- **Learns patterns from data to predict, classify, or detect anomalies**
- **Useful for scoring risk, identifying outliers, and forecasting outcomes**
- **Can improve over time as data quality and model tuning improve**
- **Requires training data, monitoring, and validation of performance**
- **Outputs are probabilistic and should not be treated as unquestioned facts**



8

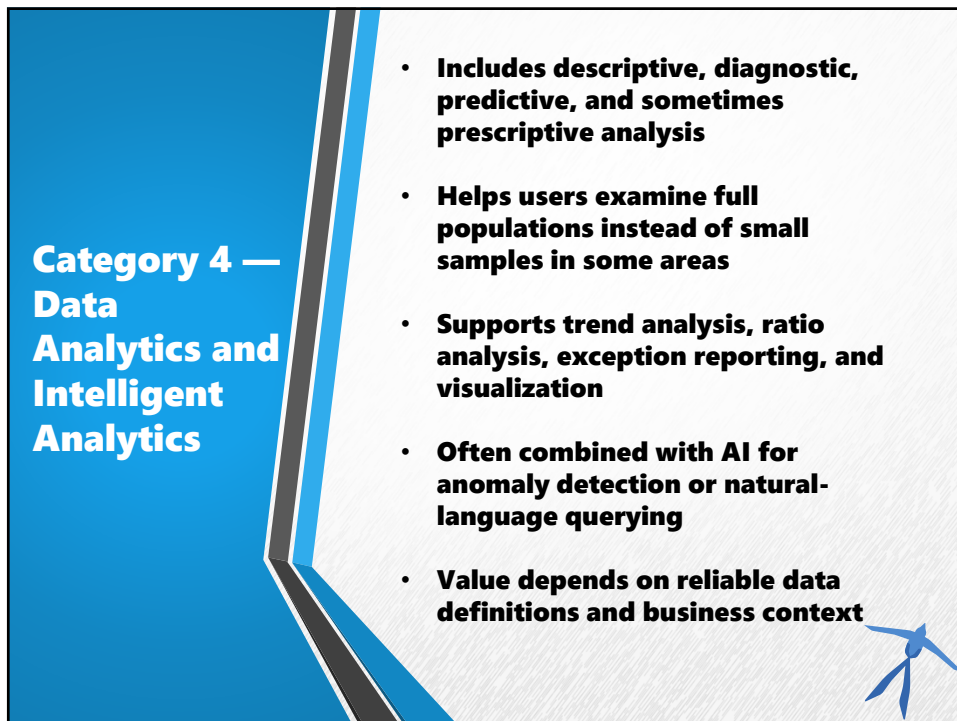


**Category 3 —
Generative AI**

- **Produces new text, summaries, code, images, or conversational responses**
- **Well-suited for drafting, summarization, extraction, and research assistance**
- **Helpful for unstructured content such as contracts, policies, memos, and workpapers**
- **Can be persuasive but inaccurate; outputs require human review**
- **Risks include hallucinations, leakage of sensitive data, and overreliance**




9



**Category 4 —
Data
Analytics and
Intelligent
Analytics**

- **Includes descriptive, diagnostic, predictive, and sometimes prescriptive analysis**
- **Helps users examine full populations instead of small samples in some areas**
- **Supports trend analysis, ratio analysis, exception reporting, and visualization**
- **Often combined with AI for anomaly detection or natural-language querying**
- **Value depends on reliable data definitions and business context**



10

Comparing the Tool Categories

- **RPA: automates routine steps using rules**
- **Machine learning: predicts, classifies, and detects patterns**
- **Generative AI: drafts, summarizes, and interacts with language**
- **Analytics: analyzes data for trends, insights, and exceptions**
- **Many real solutions combine multiple categories in one workflow**



11

Accounting Use Cases — General Ledger and Journal Entries

- **Flag unusual journal entries based on timing, user, amount, account, or combination patterns**
- **Assist with account mapping and transaction classification**
- **Summarize period-over-period movements and explain variances**
- **Support reconciliation workflows by highlighting unmatched or inconsistent items**
- **Help draft account analysis narratives for management review**



12

Accounting Use Cases — Accounts Payable and Accounts Receivable

- **Extract invoice data and route items through approval workflows**
- **Detect duplicate invoices, suspicious vendors, or anomalous payment patterns**
- **Prioritize collections using payment-behavior predictions**
- **Automate cash application and matching of remittances to open items**
- **Summarize disputes, deductions, or vendor/customer communications**



13

Accounting Use Cases — Financial Close and Reporting


- **Monitor close status and identify bottlenecks across entities or teams**
- **Predict late tasks or problematic reconciliations based on history**
- **Summarize supporting documentation for reviewers and approvers**
- **Generate first-draft variance commentary for management reporting**
- **Improve consistency in checklist execution and close governance**



14

Accounting Use Cases — Tax


- **Extract and classify tax-relevant data from invoices, contracts, and ledgers**
- **Assist with indirect tax determination and exception review**
- **Support provision workflows through reconciliation and variance analysis**
- **Summarize law changes, guidance, and internal policy impacts for first-pass review**
- **Help draft responses, memos, and documentation under professional supervision**



15

Accounting Case Walkthrough — AP Automation and Exception Review


- **Scenario: Mid-sized company receives 8,000 vendor invoices per month**
- **Pain points: manual keying, delayed approvals, duplicate-payment risk, inconsistent coding**
- **AI-enabled process: OCR + classification + workflow routing + exception flags**
- **Human role: review exceptions, approve edge cases, monitor vendor/master-data changes**
- **Likely outcomes: faster processing, fewer errors, better visibility into bottlenecks**



16

Audit Use Cases


- **Audit applications focus on risk, evidence, coverage, and documentation quality**
- **AI can help auditors analyze larger populations and target effort more effectively**
- **Benefits are strongest when paired with sound methodology and reviewer oversight**
- **Core audit objectives and professional skepticism remain unchanged**



17

Audit Use Cases — Risk Assessment

- **Analyze transaction populations for unusual trends, relationships, or anomalies**
- **Scan large sets of contracts, board minutes, or communications for risk indicators**
- **Highlight changes in controls, business models, or estimates that may affect audit approach**
- **Assist in identifying higher-risk locations, accounts, or transaction streams**
- **Support brainstorming and planning with structured summaries of risk factors**



18

Audit Use Cases — Sampling and Population Selection

- **Segment populations into risk-based strata before selecting items**
- **Identify unusual or higher-risk items for targeted testing**
- **Support coverage of full populations in some analytical procedures**
- **Improve focus beyond purely random or mechanically threshold-based selections**
- **Requires clear methodology to avoid biased or unjustified selection approaches**



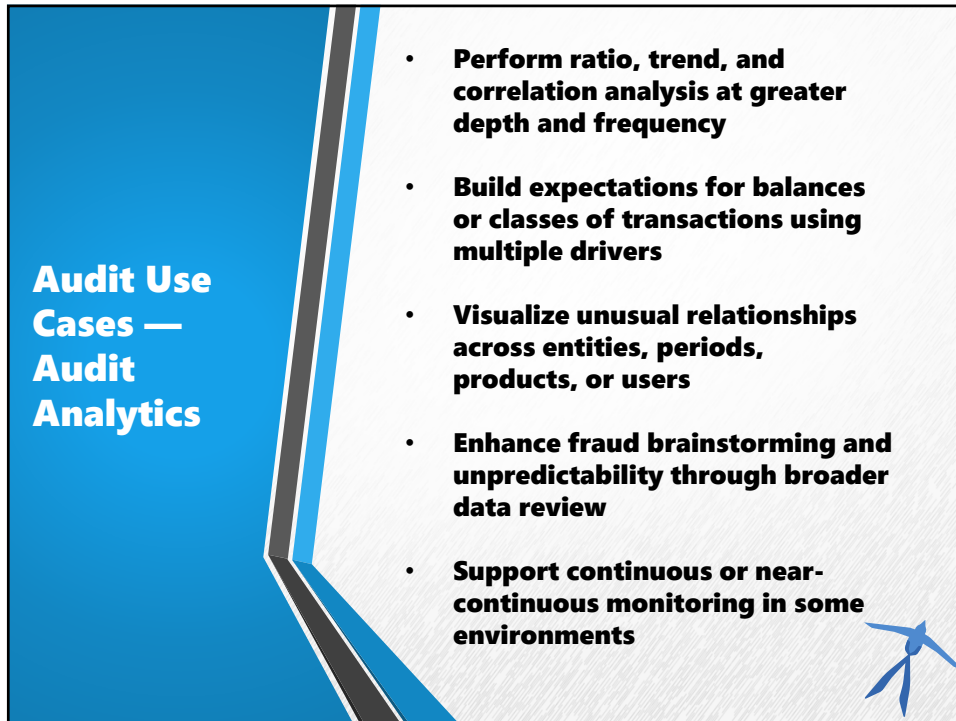
19

Audit Use Cases — Substantive Procedures

- **Compare large transaction populations to expectations and business rules**
- **Match documents across sources, such as invoices, POs, receiving, and payments**
- **Identify gaps, duplicates, outliers, or contradictory evidence**
- **Extract key terms from contracts and agreements for testing purposes**
- **Help focus manual testing on exceptions and higher-risk transactions**



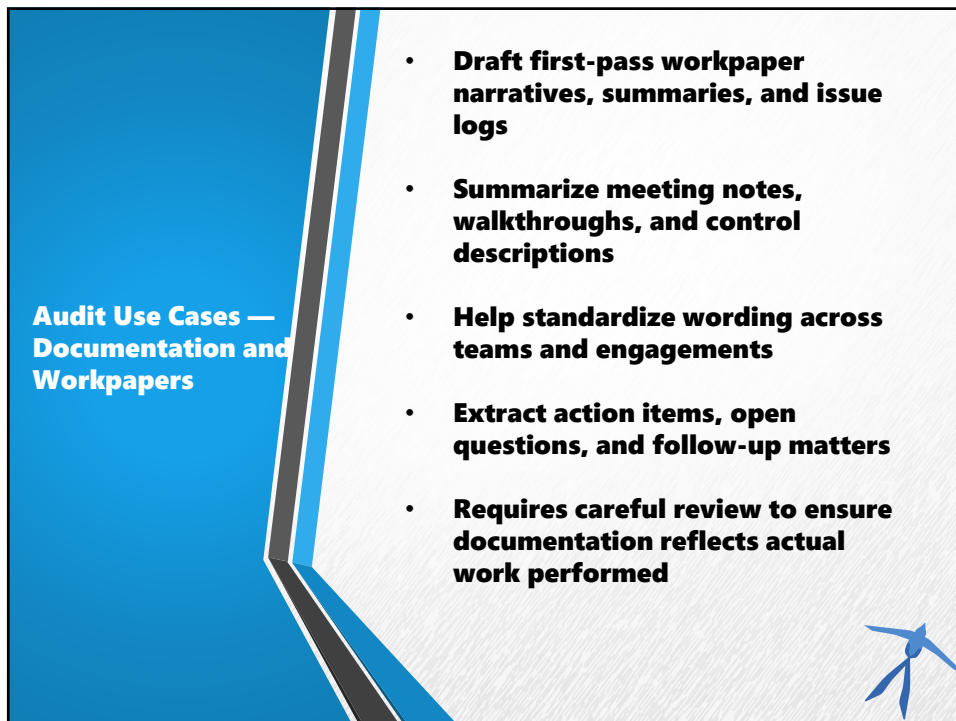
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Audit Use Cases — Audit Analytics

- **Perform ratio, trend, and correlation analysis at greater depth and frequency**
- **Build expectations for balances or classes of transactions using multiple drivers**
- **Visualize unusual relationships across entities, periods, products, or users**
- **Enhance fraud brainstorming and unpredictability through broader data review**
- **Support continuous or near-continuous monitoring in some environments**

21




Audit Use Cases — Documentation and Workpapers

- **Draft first-pass workpaper narratives, summaries, and issue logs**
- **Summarize meeting notes, walkthroughs, and control descriptions**
- **Help standardize wording across teams and engagements**
- **Extract action items, open questions, and follow-up matters**
- **Requires careful review to ensure documentation reflects actual work performed**

22

Audit Case Walkthrough — Journal Entry Testing and Risk Triage

- **Scenario: Audit team receives full-year journal entry population from a multi-entity client**
- **Pain points: volume, inconsistent descriptions, late entries, limited time for targeted review**
- **AI-enabled approach: anomaly scoring + keyword grouping + visualization of posting patterns**
- **Human role: validate data completeness, investigate flagged items, refine testing rationale**
- **Likely outcomes: sharper risk focus, better coverage, and more efficient follow-up**



23

Cross-Cutting Benefits of AI in Accounting and Audit

- **Greater efficiency on repetitive and time-intensive tasks**
- **Broader coverage of transactions, documents, and populations**
- **Faster identification of exceptions and emerging issues**
- **More time for analysis, judgment, and stakeholder communication**
- **Potential for improved consistency in process execution and documentation**



24




Data Quality, Availability, and Readiness

- **AI results depend heavily on complete, accurate, and well-structured data**
- **Fragmented systems and inconsistent definitions can limit model usefulness**
- **Historical data may contain errors, bias, or legacy process artifacts**
- **Metadata, lineage, and ownership matter for trust and troubleshooting**
- **Start with data inventory and fit-for-purpose assessment**




25



Privacy, Confidentiality, and Security Considerations

- **Accounting and audit data often includes sensitive financial, employee, vendor, and client information**
- **Not all AI tools are appropriate for confidential or regulated data**
- **Clarify where data goes, who can access it, and whether it is retained or used for training**
- **Apply role-based access, encryption, logging, and vendor due diligence**
- **Establish clear rules for prompts, uploads, and approved use cases**



26

Professional Standards and Ethics — High-Level Considerations

- **Core duties of competence, due care, objectivity, integrity, and confidentiality still apply**
- **AI outputs do not remove professional responsibility for judgments and conclusions**
- **Users should understand tool limitations well enough to use them responsibly**
- **Professional skepticism remains essential, especially when outputs appear polished or authoritative**
- **Documentation of significant judgments and review remains important**



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Governance and Controls Over AI


- **Define approved tools, use cases, owners, and decision rights**
- **Require validation, testing, and change management before broad deployment**
- **Establish review controls over outputs used in accounting or audit work**
- **Monitor performance, exceptions, overrides, and user behavior over time**
- **Align AI governance with existing risk, compliance, and internal control frameworks**



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Key AI Risks to Watch

- **Inaccurate outputs, hallucinations, or misleading recommendations**
- **Bias from historical data or poorly designed models**
- **Overreliance and reduced critical thinking by users**
- **Lack of transparency in model logic or vendor black-box tools**
- **Control failures from unauthorized use, poor configuration, or inadequate review**



29

AI's Impact on Staffing, Skills, and CPA Career Paths

- **Routine work may decline, while review, analysis, and exception handling grow**
- **Strong data literacy and technology fluency become more valuable across roles**
- **Communication, judgment, skepticism, and business insight remain core differentiators**
- **New opportunities may emerge in governance, analytics, process design, and AI oversight**
- **Career growth will likely favor professionals who combine accounting expertise with tech awareness**



30



Implementation Considerations — Where to Start

- **Begin with high-volume, low-complexity, high-friction processes**
- **Prioritize use cases with clear business value and measurable outcomes**
- **Confirm data availability, ownership, and control implications early**
- **Use pilots to test workflow fit, accuracy, and user adoption**
- **Scale only after demonstrating reliability and governance readiness**

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Implementation Considerations — People, Process, and Change Management

- **Success depends as much on workflow design and training as on technology**
- **Redesign roles to emphasize review, analysis, and exception handling**
- **Train users on strengths, limitations, and proper prompting or instruction methods**
- **Communicate that AI supports professional work rather than replacing judgment**
- **Build feedback loops so users can report errors and suggest improvements**

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Practical Questions to Ask Before Adopting Any AI Tool

- **What exact problem are we solving, and how will we measure success?**
- **What data does the tool use, and is that data reliable and permitted for use?**
- **How accurate are outputs, and how will they be validated and reviewed?**
- **Who owns the tool, monitors performance, and approves changes?**
- **What happens when the tool is wrong, unavailable, or used outside its intended scope?**



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Key Takeaways


- **AI is a broad set of capabilities, not a single tool or trend**
- **The strongest near-term value is often augmentation, not full replacement**
- **Accounting and audit use cases are real, but quality depends on data and controls**
- **Professional judgment, skepticism, and accountability remain essential**
- **Start practical, govern carefully, and scale intentionally**



34

Conclusion


- **AI can enhance accounting and audit work when applied thoughtfully**
- **Focus on useful, controllable, and well-governed applications first**
- **Keep people, process, data, and controls at the center of adoption**



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Wrapping Up


- **Almost the entire slideshow you just saw was generated by AI**
- **Why would we do that?**



36

Bring Your Questions

- **We will work through a few examples with a tool we use at our firm to expedite research and questions**
- **If you have a question and would like to see the capabilities of the software, raise your hand and we will get to as many as possible.**



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Questions

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GASB UPDATE

May 8, 2026

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

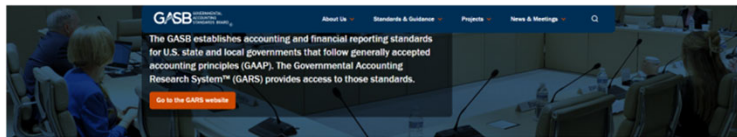
May 8, 2026

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.



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www.gasb.org



New Subsequent Events Guidance Issued

Statement No. 105 Available

Revised requirements related to the reporting of subsequent events were issued by the GASB in December.

[Document](#) [News Release](#)

GASB Chair Report

Q3 Report Available

GASB Chair Jeff Black provides an update on the activities of the GASB in the third quarter of 2025.

[View Report](#)

Current Projects

View information about current GASB projects, including status updates and expected issuance timelines for due process document and final standards.

[Explore More](#)

Meetings

Access information about upcoming and past meetings of the GASB and the GASAC, including meeting details and links to view live streams and recordings.

[Upcoming Meetings](#) [Past Meetings](#)

News

November 8, 2025
Financial Accounting Foundation Board of Trustees Issue Call for Nominations for FASB Chair, GASB Chair, FASB Member, and the Foundation Board of Trustees.
[News Release](#)

November 17, 2025
GASB Issues Guidance on Subsequent Events
[Media Advisory](#) [Statement 105](#)

December 11, 2025
Financial Accounting Foundation Trustees Name Three New and Eleven Reappointed Members to the Governmental Accounting Standards Advisory Council (GASAC).
[News Release](#)

[View All News](#)



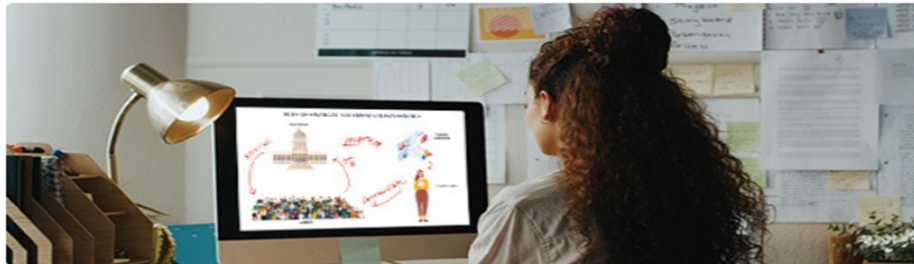
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Website Resources

- Free download of Statements, Implementation Guides, Concepts Statements and other pronouncements
- Link to the Governmental Accounting Research System (GARS) – a free resource
- Free copies of proposals
- Up-to-date information on current projects
- Form for submitting technical questions
- Educational materials, including podcasts (Bridging the GAAP)

3

Understanding the Government Financial Report



Video Series for Elected Officials

These videos can help elected officials and other stakeholders understand what the information in each section of a government financial report is meant to provide and how they can use it.

4

<https://gars.gasb.org>

WELCOME TO THE GOVERNMENTAL ACCOUNTING RESEARCH SYSTEM™

① The Governmental Accounting Research System™ has been updated through December 31, 2025.

About GARS
The Governmental Accounting Standards Board (GASB) Governmental Accounting Research System™ (GARS) provides access to all U.S. generally accepted accounting principles (GAAP) for state and local governments. It includes material from the GASB's Codification, Original Pronouncements, and Comprehensive Implementation Guide, as well as related resources and tools.

What's New in This Update
This update incorporates into the Codification and the Comprehensive Implementation Guide the effects of the following pronouncements that first became effective between July and December 2025:
None.
This update incorporates into the Original Pronouncements the following pronouncement that was issued by the GASB between July and December 2025:
[Statement No. 105, Subsequent Events](#)
[View documents for public comment](#) >
[Final Pronouncements Not Yet Incorporated into the Content](#) >

Help
The website offers several resources to enhance your working knowledge of GARS. They include a help page with descriptions of specific functions and features of the site and a downloadable user guide.
[Help Topics](#) >

Updated through December 31, 2025

[About](#) | [Help](#) | [Contact Us](#) | [Copyright](#) | [Terms and Conditions](#) | [GASB.org](#)

5

Effective Dates

December 31: Fiscal Year 2026

- Statement 103—*Financial Reporting Model Improvements*
- Statement 104—*Disclosure of Certain Capital Assets*
- Implementation Guide No. 2025-1, *Implementation Guidance Update—2025* (except for Question 4.16)

December 31: Fiscal Year 2027

- Statement 105—*Subsequent Events*

6

Effective Dates

June 30: Fiscal Year 2026

- Statement 103—*Financial Reporting Model Improvements*
- Statement 104—*Disclosure of Certain Capital Assets*
- Implementation Guide No. 2025-1, *Implementation Guidance Update—2025* (except for Question 4.16)

June 30: Fiscal Year 2027

- Statement 105—*Subsequent Events*

7

Technical Plan Overview

- **Comprehensive Projects:**
 - Revenue and Expense Recognition
- **Major Projects:**
 - Going Concern/Severe Financial Stress
 - Infrastructure Assets
- **Practice Issues:**
 - Implementation Guide—Update
- **Technology Project:**
 - Voluntary Digital Financial Reporting
- **Research Activities:**
 - Cybersecurity Risk Disclosures
 - Revenue and Expense – Note Disclosures
 - GAAP Structure
 - Pension & OPEB Disclosures – Concepts Statement 7

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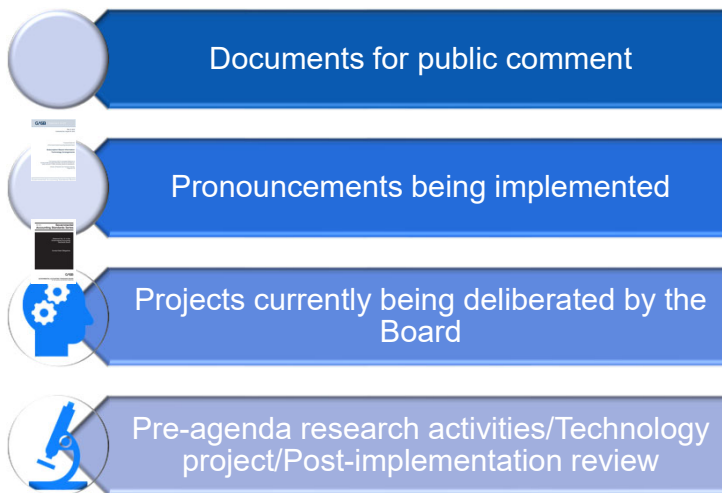
Materiality

Included in EVERY Statement:

The provisions of this Statement need not be applied to immaterial items.


9

Presentation Overview



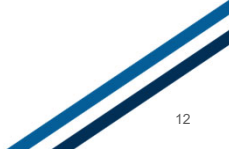
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Documents for Public Comment



11

Infrastructure Assets



12

12

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 issued an Exposure Draft in March 2026. Comment deadline is June 26, 2026. Public forums are scheduled for June and July of 2026.

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Exposure Draft—Definition of Infrastructure Assets

- **Infrastructure Assets** are capital assets that are:
 - Part of a network
 - Stationary in nature
 - Can be maintained or preserved for a significant number of years
 - Examples include roads, bridges, tunnels, water and sewer, dams, lighting, and communication towers
 - Buildings that have a primary purpose that is integral to a network of infrastructure assets but are only an ancillary part of that network should be considered infrastructure assets.

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Exposure Draft—Recognition and Measurement

Existing Methods from Statement 34

- Statement No. 34, *Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments*, provides two methods for recognizing and measuring infrastructure assets:
 - Historical cost net of accumulated depreciation
 - The Modified Approach

- The Exposure Draft proposes retaining both methods, with:
 - Minor modifications to the requirements to be able to use the modified approach.
 - Certain proposed requirements depending on the method applied.

Exposure Draft—Recognition and Measurement

For Infrastructure Assets Reported at Historical Cost Net of Accumulated Depreciation

- The Exposure Draft proposes that a component of an infrastructure asset be depreciated separately if it has:
 - A cost that is significant in relation to the total cost of the infrastructure asset
 - An estimated useful life that is substantially different from the estimated useful life of the infrastructure asset.

- The Exposure Draft emphasizes the requirement for governments to perform a periodic review of the estimated useful lives and salvage values used in the measurement of depreciation expense.

Exposure Draft—Note Disclosures

For All Infrastructure Assets (regardless of method)

- Divide information in note disclosures about infrastructure assets by network of infrastructure assets.
- Governments with a policy for monitoring the maintenance and preservation of their infrastructure assets should briefly describe that policy in notes to financial statements.

Exposure Draft—Note Disclosures

For Infrastructure Assets Reported at Historical Cost Net of Accumulated Depreciation

- Governments would disclose the following for infrastructure assets exceeding 80 percent of their estimated useful lives:
 - Historical cost
 - Accumulated depreciation
 - Historical-cost weight-average age
- Disclosed by network
- Separating information for infrastructure assets between:
 - Those that reached 100 percent of their estimated useful lives, and
 - Those that exceeded 80 percent of their estimated useful lives

Exposure Draft—RSI

For Infrastructure Assets Reported using the Modified Approach

- Statement 34 already requires certain information to be presented as RSI for infrastructure assets reported using the modified approach.
- The Exposure Draft proposes amending those requirements to:
 - Present those schedules by network
 - Present 10 years of data (instead of the 5 years currently required)
 - Disclosing any changes (and the reasons for those changes) to the condition levels at which a government intends to preserve its infrastructure assets reported using the modified approach.

Exposure Draft—Transition Provisions

- Prospective application for fiscal periods beginning after June 15, 2028, with some exceptions for:
 - Separating components of infrastructure assets
 - Performing a review of the estimated useful lives and salvage values of infrastructure assets
 - Separating disclosures and RSI by network, and disclosures of infrastructure assets exceeding 80 percent of their estimated useful lives

Providing Feedback

- **Written comments**
 - Comment letter
 - Electronic feedback form
 - **Deadline: June 26, 2026**
- **Public forums**
 - June 23, 2026 – Norwalk, CT
(Deadline to notify of intent to participate: June 12, 2026)
 - July 13, 2026 – Virtual
 - July 23, 2026 – Virtual
(Deadline to notify of intent to participate: June 16, 2026)



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Project Timeline

Pre-Agenda Research Started	August 2019
Added to Current Technical Agenda	April 2023
Deliberations Began	May 2023
Preliminary Views Issued	September 2024
Exposure Draft Issued	March 2026



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GAAP Structure




23

GAAP Structure

<h2>What?</h2> <p>The GASB is evaluating the effectiveness of the GASB's current dual-authority approach to communicating GAAP for state and local governments.</p>	<h2>Why?</h2> <p>The existing GAAP structure includes both Original Pronouncements and the Codification, each with equal authoritative status.</p>	<h2>When?</h2> <p>The GASB issued a Discussion Memorandum in April 2026. Comment deadline is August 31, 2026.</p>
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Reasons for the Research

- Existing dual-authority structure
 - GAAP resides in two places: Original Pronouncements and the Codification
 - Both OPs and Codification have equal authoritative status
- Issues raised by stakeholders as part of feedback on other due process documents
- Suggestions from stakeholders to move to a single-authority structure
- Using and maintaining a dual-authority structure becomes more complex as literature evolves

Research Phases

Phase 1

- Evaluate effectiveness of GASB's current dual-authority approach to communicating GAAP for state and local governments

Phase 2

- Explore a potential single-authority structure, including whether and how it could be operationalized

Phase 1 Research Activities

- **Primary focus**
 - How do GASB stakeholders engage with GASB literature
- **Research conducted**
 - Survey of preparers, auditors, and users
 - Interviews of preparers and auditors
 - Assessment of internal processes and procedures associated with maintaining a dual-authority structure
- **Phase 1 findings led to Phase 2**

27

Phase 2 Research Activities

- **Objective**
 - Determine what a single-authority structure would entail and whether it is operable
- **Activities**
 - Review structures of other standard setters
 - Identify alternatives for components of a potential single-authority structure
 - Establish consultative group and conduct working sessions
 - Gather broad stakeholder feedback on potential single authority structure through a Discussion Memorandum

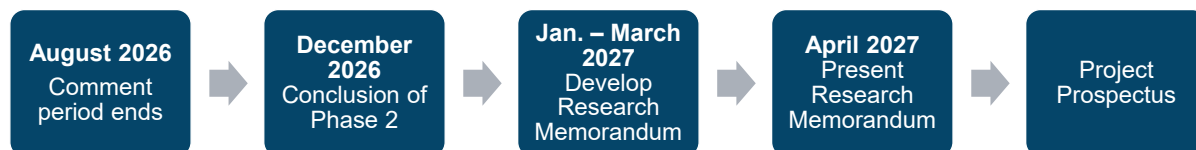
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Discussion Memorandum

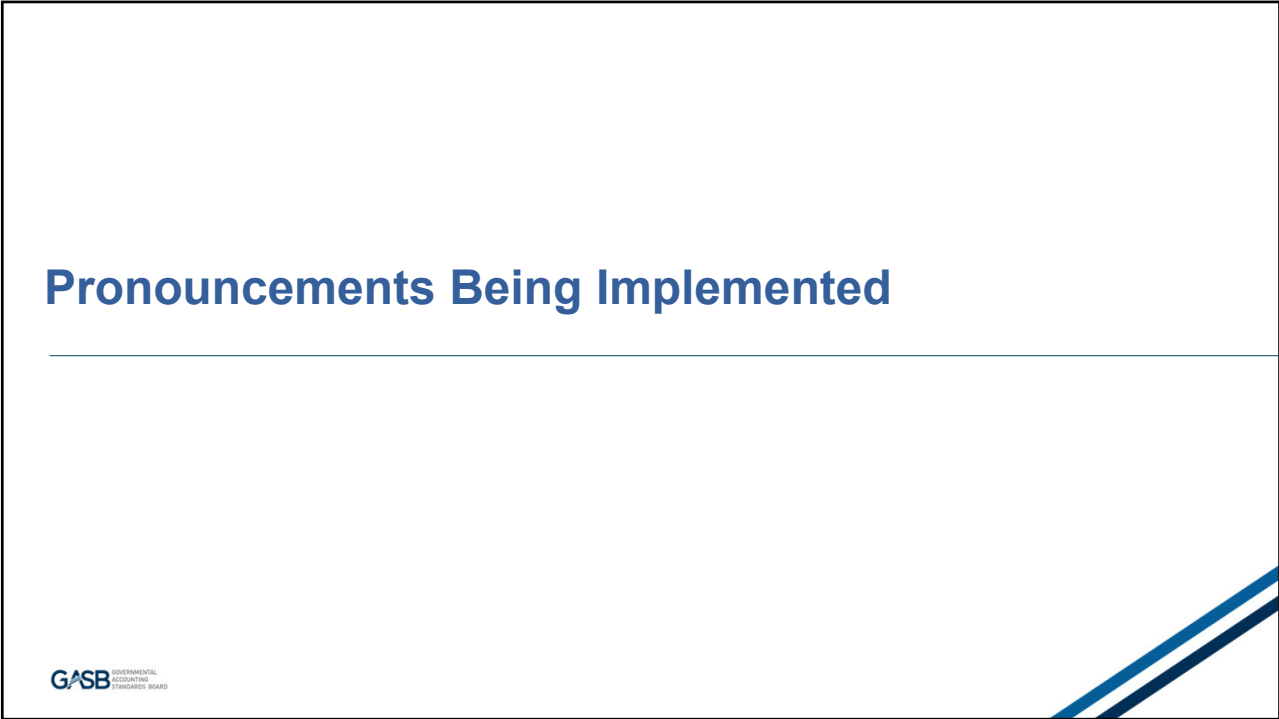
- Staff document designed to seek comments at an early stage
- Explores the potential for a single-structure and how it could be operationalized
- Respondent feedback
 - Will be incorporated into research memorandum
 - Help to inform project prospectus recommendation and Board's considerations related to whether a project to move to a single-authority structure should be initiated

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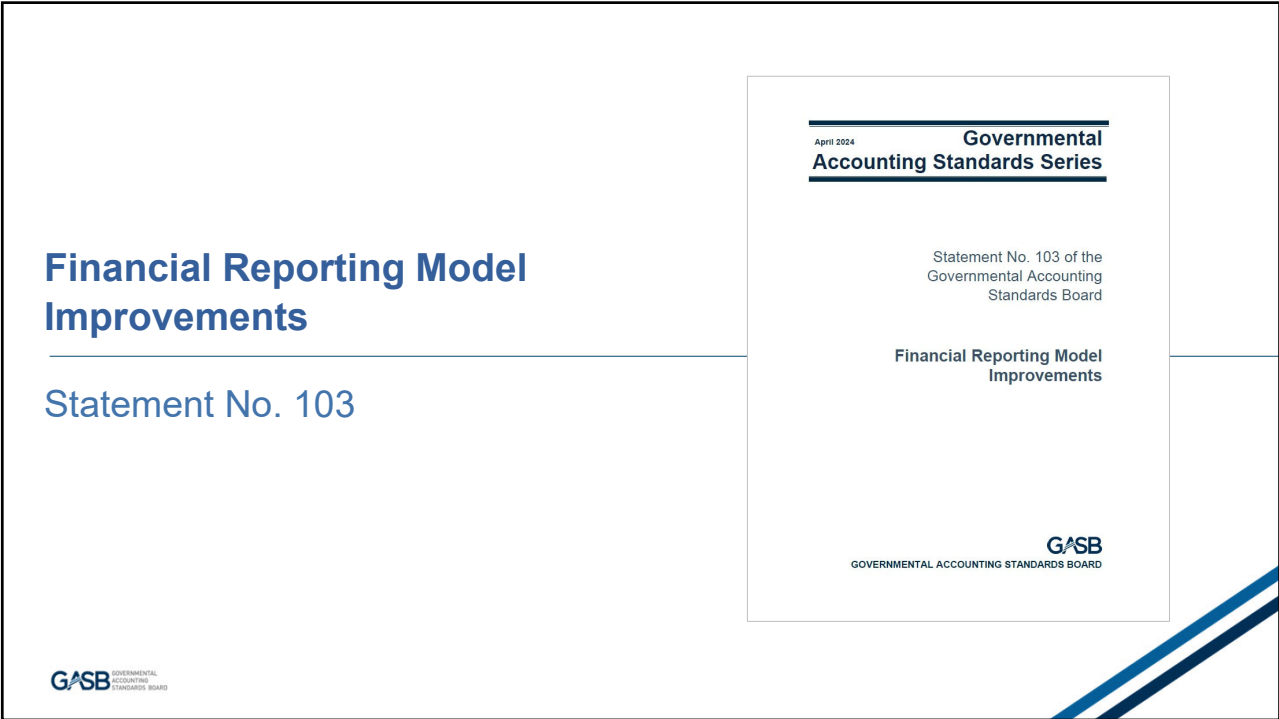
Looking Ahead...



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31



32

Financial Reporting Model Improvements

What?

The Board has made certain 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?

Effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

Earlier application is encouraged.

33

Overview

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

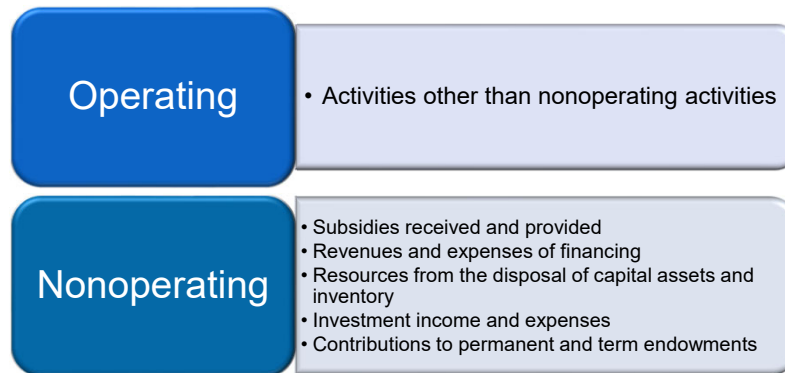
Major component unit presentations

Unusual or infrequent items

34

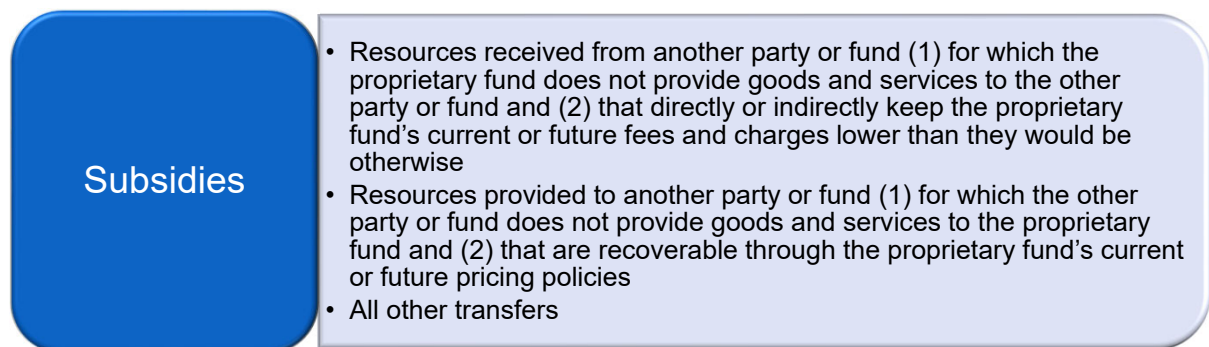
Proprietary Funds—Operating and Nonoperating

Separate presentation of operating and nonoperating revenues and expenses



35

Proprietary Funds—Subsidies



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

36

Sample City Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Funds for the Year Ended June 30, 20X5 (amounts expressed in thousands)					
	Enterprise Funds				Internal Service Funds
	Public Utility	Transit Authority	Golf Courses	Total	
OPERATING REVENUES					
Charges for services	\$ 41,003	\$ 18,636	\$ 2,561	\$ 62,200	\$ 42,523
Miscellaneous	283	33	104	420	78
Total operating revenues	<u>41,286</u>	<u>18,669</u>	<u>2,665</u>	<u>62,620</u>	<u>42,601</u>
OPERATING EXPENSES					
Personnel services	13,991	-	-	13,991	5,786
Contractual services	13,952	16,406	4,893	35,251	4,117
Insurance claims and expenses	-	-	-	-	26,388
Depreciation	11,767	8,972	2,375	23,114	415
Other	1,067	-	165	1,232	7,834
Total operating expenses	<u>40,777</u>	<u>25,378</u>	<u>7,433</u>	<u>73,588</u>	<u>44,540</u>
Operating income (loss)	<u>509</u>	<u>(6,709)</u>	<u>(4,768)</u>	<u>(10,968)</u>	<u>(1,939)</u>
NONCAPITAL SUBSIDIES					
Intergovernmental revenue	-	-	-	-	881
Transfers in	-	2,090	110	2,200	300
Transfers out	(1,980)	-	-	(1,980)	-
Total noncapital subsidies	<u>(1,980)</u>	<u>2,090</u>	<u>110</u>	<u>220</u>	<u>1,181</u>
Operating income (loss) and noncapital subsidies	<u>(1,471)</u>	<u>(4,619)</u>	<u>(4,658)</u>	<u>(10,748)</u>	<u>(758)</u>

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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OTHER NONOPERATING REVENUES (EXPENSES)					
Investment earnings	1,496	75	103	1,674	446
Gain from the sale of capital assets	-	-	-	-	3
Interest expense	(1,910)	(448)	(963)	(3,321)	-
Capital contributions	2,938	-	-	2,938	-
Transfers in restricted for capital assets	<u>1,032</u>	<u>15,360</u>	<u>2,384</u>	<u>18,776</u>	<u>1,215</u>
Total other nonoperating revenue (expenses)	<u>3,556</u>	<u>14,987</u>	<u>1,524</u>	<u>20,067</u>	<u>1,664</u>
Increase (decrease) in fund net position	<u>2,085</u>	<u>10,368</u>	<u>(3,134)</u>	<u>9,319</u>	<u>906</u>
Fund net position—beginning of period	<u>331,657</u>	<u>177,997</u>	<u>29,423</u>	<u>539,077</u>	<u>12,387</u>
Fund net position—end of period	<u>\$ 333,742</u>	<u>\$ 188,365</u>	<u>\$ 26,289</u>	<u>\$ 548,396</u>	<u>\$ 13,293</u>

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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”
- Analysis of current-year balances and activity to explain why balance and results changed from prior year
- Avoid unnecessary duplication, avoid “boilerplate” language
- Focus on primary government, discussion of discretely presented component units is a matter of professional judgment

Management's Discussion and Analysis Components

- Overview of the financial statements
- Financial summary—condensed financial statements
- Detailed analyses
 - Primary government's financial position and results of operations—both governmental and business-type activities
 - In addition to amounts/percent of change, explain **why** change occurred
 - Fund balance or net position and results of operations of each major fund (nonmajor funds excluded)
 - In addition to amounts/percent of change, explain **why** change occurred

Management's Discussion and Analysis Components

- Significant capital asset and long-term financing activity
 - Capital asset activity
 - Include intangible capital assets
 - Discussion of significant additions and disposals
 - Discussion of significant policy changes and economic factors
 - Avoid duplication between the analyses and this component
 - Long-term financing activity
 - Includes debt, leases, PPPs, and SBITAs
 - Discuss new agreements, changes to credit rating, debt limit
 - Discussion of significant policy changes and economic factors
 - Avoid duplication between the analyses and this component

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Management's Discussion and Analysis Components

- Currently known facts, decisions, and conditions that are expected to have a significant effect on financial position or results of operations in the subsequent year
 - Trends in relevant economic and demographic data
 - Factors used to develop the subsequent year's budget
 - Those affecting revenues available for appropriation, for example, changes in rates and bases of activity
 - Those affecting planned spending, for example, inflation, labor contracts, changes in programs
 - Expected changes in budgetary net position or fund balance
 - Actions government has taken related to PEB, capital plans, leases, PPPs, SBITAs (long-term items)
 - Actions other parties have taken, such as new laws or regulations

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Budgetary Comparisons and Major Component Unit Presentations

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.

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Unusual or Infrequent Items

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.

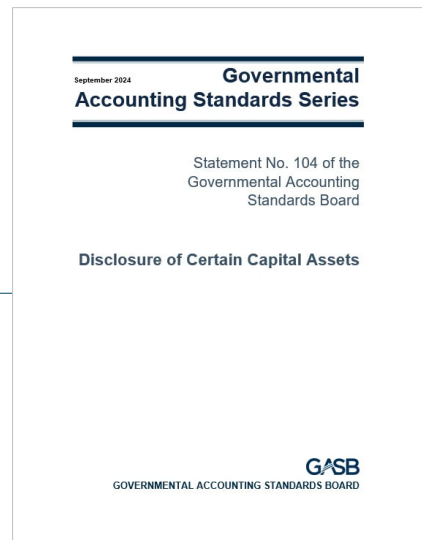
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Effective Date and Transition

- Effective for fiscal years beginning after June 15, 2025
 - All reporting periods thereafter
 - Earlier application is encouraged
 - Changes adopted at transition—change in accounting principle (Statement 100)
 - All component units should implement the provisions in the same year as the primary government

Disclosure of Certain Capital Assets

Statement No. 104



Disclosure of Certain Capital Assets

What?

Establishes

- 1) Requirements for certain capital assets to be disclosed separately in Statement 34 disclosures
- 2) Capital assets held for sale

Why?

Provide essential information to users about certain types of nonfinancial assets

When?

Approved September 2024.

Effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

Capital Assets Disclosure

- Within note disclosures required by Statement 34, separate disclosure of:
 - Lease assets by major class of underlying asset
 - Intangible right-to-use assets recognized by operator in PPP, by major class of underlying PPP asset
 - Subscription assets
 - Intangible assets other than those mentioned above, by major class of asset
- Intangible assets that represent the right to use a type of underlying asset should not be in same major class as owned assets of that type

Capital Assets Held for Sale

- Capital assets are capital assets held for sale if:
 - The government has decided to pursue the sale of 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 be finalized within one year
- No change to measurement
- Disclosures:
 - Historical cost and accumulated depreciation, by major class of asset
 - Carrying amount of debt for which capital assets held for sale are pledged as collateral

Effective Date and Transition

- Effective for fiscal years beginning after June 15, 2025
 - All reporting periods thereafter
 - Earlier application is encouraged
 - Retroactive application, if practicable
 - All periods presented in basic financial statements
 - Disclosure that Statement was implemented and any financial statement line items affected
 - If not practicable, disclose reason for not applying to prior periods

Subsequent Events

Statement No. 105

December 2025 **Governmental Accounting Standards Series**

Statement No. 105 of the Governmental Accounting Standards Board

Subsequent Events

GASB
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Subsequent Events

What?

Based on a reexamination of the requirements in Statement 56, Statement 105 replaces the guidance for subsequent events in Statement 56 with an objective of improved requirements to better meet information needs of users.

Why?

Existing guidance is based on other literature dating back to 1972 and generally has not been reevaluated.

When?

Approved December 2025

Effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter.

Earlier application encouraged.

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Subsequent Events—General

- Subsequent events
 - Transactions or other events that occur after the date of the financial statements and before the date the financial statements are available to be issued
- Available to be issued
 - Complete in a form and format that complies with GAAP
 - Approvals necessary for issuance have been obtained
- Disclose the date through which subsequent events are evaluated

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Recognized and Nonrecognized Events

- Recognized and nonrecognized events
 - Scope: proposed requirements should be applied in the absence of more specific GASB standards
- Recognized events
 - Occur during the subsequent events time frame
 - Provide evidence of conditions that existed at the financial statement date
 - Inform the accounting estimates reported as of the financial statement date

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Recognized and Nonrecognized Events (cont.)

- Nonrecognized events
 - Occur during the subsequent events time frame
 - Results in a significant effect (favorable or unfavorable) that is recognized or disclosed in the basic financial statements in the period in which the event occurs
 - Either are:
 - One of the following specific events: debt-related transaction, combination/disposal, change to legally separate entities, or
 - Of such a nature to be essential to a user's analysis for making decisions or assessing accountability
 - Should be disclosed in notes to financial statements

Nonrecognized Events—Notes to Financial Statements

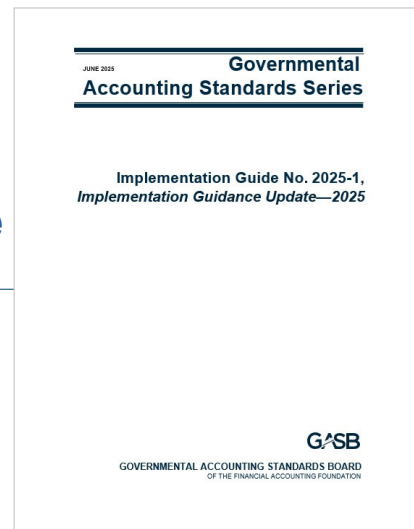
- Notes to financial statements for nonrecognized events
 - Description of nonrecognized event and its effects
 - Estimate of the amount of effect of the nonrecognized event
 - Or reason why an estimate cannot be made
 - Correspond to reporting units
 - Avoid unnecessary duplication

Effective Date and Transition

- Effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter
 - Earlier application is encouraged
- Prospective application at transition

Implementation Guidance Update

IG Update 2025



Implementation Guidance Update

What?

The need for updates to Q&A implementation guidance is considered annually.

Why?

New guidance is added as new pronouncements are issued and new issues arise.

When?

The Board cleared the issuance of the guidance in June 2025.

Effective date and transition varies by topic.

Implementation Guide Update—2025



- New questions related to:
 - Statement 103
 - Statement 101
 - Statement 100
 - Statement 91
 - Statement 87
- Amendments to existing questions related to:
 - Capital assets (7.9.6 in Implementation Guide 2015-1)
 - Special revenue funds (Z.54.30 in Implementation Guide 2015-1)

Current Technical Agenda Projects



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Going Concern Uncertainties and Severe Financial Stress



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Going Concern Uncertainties and Severe Financial Stress Project

What?

The Board is:

- Reviewing existing standards related to going concern, and
- Addressing issues related to disclosures regarding going concern uncertainties and severe financial stress.

Why?

Existing guidance presents challenges that result in diversity in practice.

Some governments experience severe financial stress but do not dissolve and others dissolve for reasons other than severe financial stress.

When?

The Board issued a Preliminary Views in March 2025.
Redeliberations began in October 2025.

Preliminary Views – Two Independent Ideas

- **Severe Financial Stress (SFS)**
 - Condition existing as of financial statement date
 - Regardless of continued existence
- **Probable Dissolution (PD)**
 - Uncertainty about future event occurring
 - Regardless of financial condition
- Government could be required to make SFS disclosures, PD disclosures, or both
- *Going concern uncertainty* not used for greater clarity

Preliminary Views – Severe Financial Stress

- Disclosures required if government is experiencing financial difficulties such that it is near or at the point of insolvency
 - Regardless of continued existence
 - Condition as of the financial statement date
 - Guidance to help evaluate whether government is near insolvency (proximity not time, indicators)
- Disclosures to be made
 - Reasons and causes for the condition
 - Government's evaluation of significance of those reasons and causes
 - Actions taken in response
 - Known effects
 - Additional disclosures in subsequent periods if condition persists or is alleviated

Preliminary Views – Probable Dissolution

- Disclosures required if probable that government will cease to exist as the same legally separate entity within 12 months from the date FS available to be issued
 - Regardless of financial condition
 - Could be merger, acquisition, or dissolution without replacement
- Disclosures to be made
 - Statement that there is PD
 - Reasons and causes for PD
 - Government's evaluation of significance of those reasons and causes
 - Actions taken in response
 - Recoverability or classification of assets and liabilities
 - Additional disclosures in subsequent periods if PD persists or no longer present

Project Timeline

Pre-Agenda Research Started	April 2015
Added to Current Technical Agenda	December 2021
Deliberations Began	July 2022
Preliminary Views Issued	March 2025
Exposure Draft Scheduled to Be Considered for Issuance	June 2027

Implementation Guidance

Financial Reporting Model Improvements—Subsidies

Implementation Guidance on Financial Reporting Model Improvements—Subsidies

What?

The need for updates to Q&A implementation guidance is considered annually.

Why?

New guidance is added as new pronouncements are issued and new issues arise. This proposed guidance specifically addresses the Statement 103 provisions related to subsidies.

When?

The Board cleared the issuance of a proposed Exposure Draft in February 2026. Comment deadline was April 27, 2026.

Implementation Guidance on Financial Reporting Model Improvements—Subsidies

- Proposed new questions related to:
 - Statement 103, provisions related to subsidies
- Proposed amendments to existing questions related to:
 - Subsidies (4.5 in Implementation Guide 2015-1)

Revenue and Expense Recognition




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Revenue and Expense Recognition

<h2>What?</h2> <p>The Board has proposed a comprehensive model for recognition of revenues and expenses</p>	<h2>Why?</h2> <p>Guidance for exchange transactions is limited; guidance for nonexchange transactions could be improved and clarified</p>	<h2>When?</h2> <p>Exposure Draft scheduled for March 2027</p>
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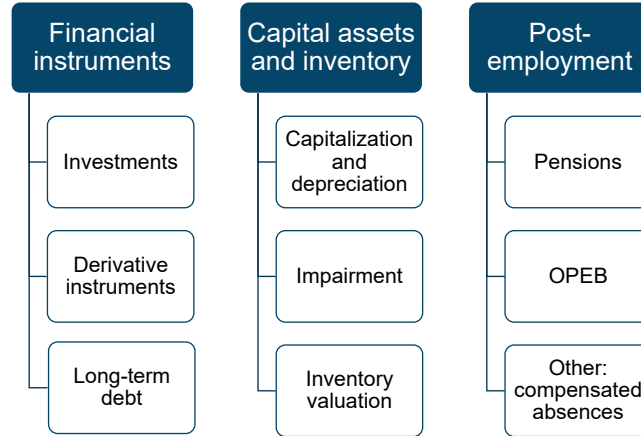
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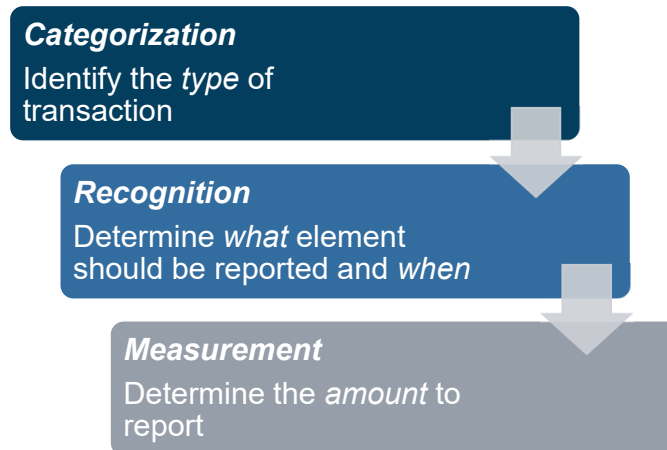
Scope of the Project

- The scope is defined broadly to include revenues and expenses that are not **explicitly excluded**:



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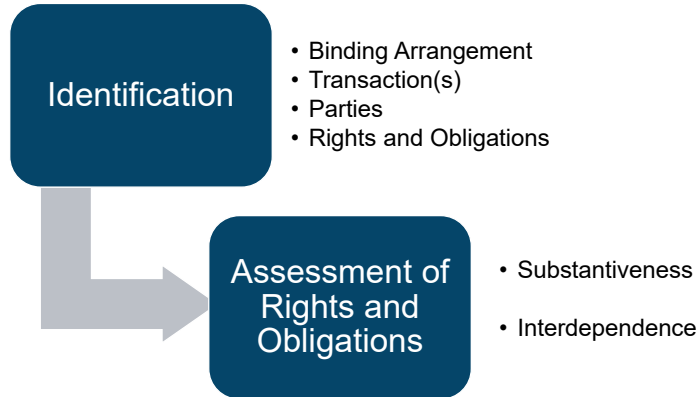
Proposed Recognition Model Components



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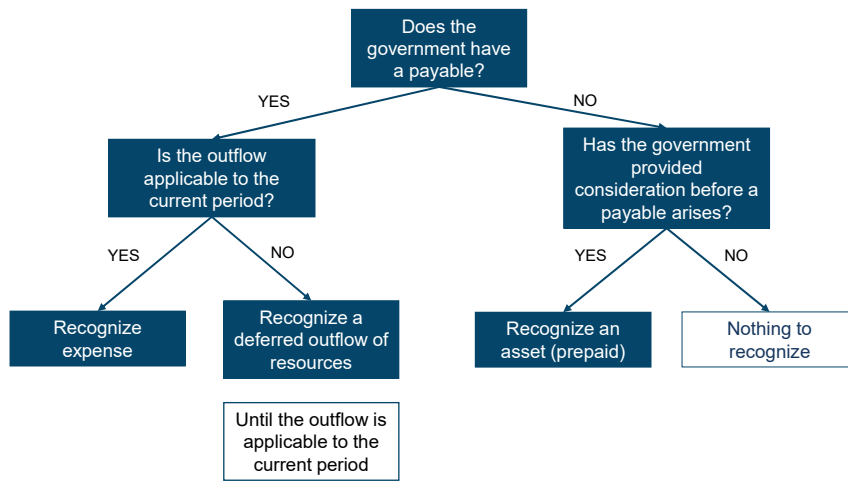
Categorization Methodology

Process to identify transactions as Category A (include a performance obligation) or Category B (does not include a performance obligation)



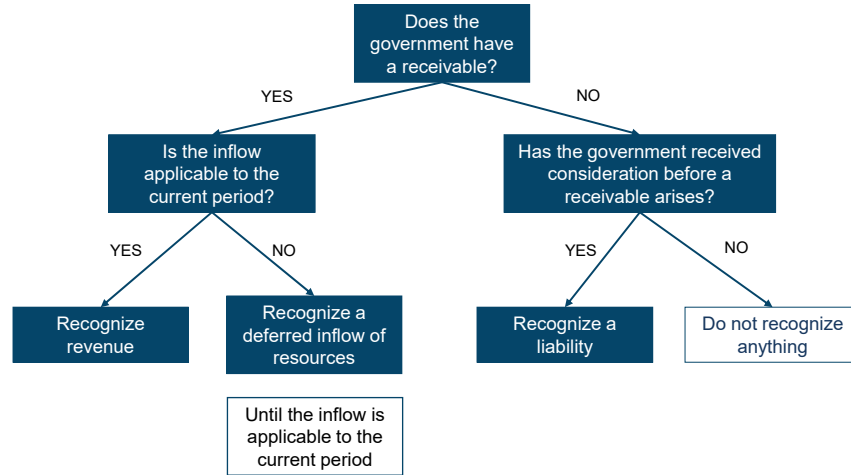
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Proposed Expense Recognition Principles



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Proposed Revenue Recognition Principles



Organization of Category B Transactions

Imposed Transactions			Transactions with Qualifying Requirements	Transactions without Qualifying Requirements		
Imposed on an underlying transaction	Imposed on actions committed or omitted	Imposed on property ownership		Contractual Binding Arrangement	Legislative Binding Arrangement Periodic Appropriation	Legislative Binding Arrangement Continuous Appropriation
Sales Tax Income Tax	Regulatory Fees Punitive Fees	Property Taxes	Federal Grants	Pledges PILOTS	K-12 Aid	Shared Motor Fuel Tax

Imposed on an Underlying Transaction

Characteristics

- A government **imposes** a requirement to provide resources
- Upon the occurrence of an underlying transaction

Recognition

- Receivable is recognized when the underlying transaction occurs
- Revenue is generally recognized along with the receivable

Examples

- Sales Tax
- Personal and Corporate Income Taxes
- Passenger Facility Charges



Imposed on Actions Committed or Omitted

Characteristics

- A government **imposes** a requirement to provide resources
- Upon an action or an omission

Recognition


- Receivable is recognized when the underlying action or omission takes place
- Revenue is generally recognized along with the receivable

Examples

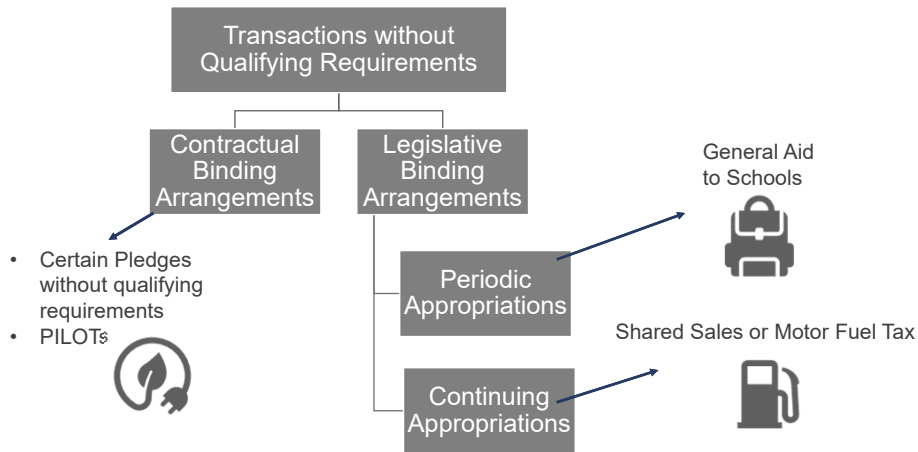
- Regulatory fees: Fishing License
- Punitive fees: Moving Violations
- Escheats and seizures






Imposition on Property Ownership

Characteristics	Recognition	Examples
<ul style="list-style-type: none"> • A government imposes a requirement to provide resources • On property ownership <ul style="list-style-type: none"> • Personal property • Real Property 	<ul style="list-style-type: none"> • Receivable is recognized at the imposition date • A deferred inflow of resources is recognized if the imposition occurs before the fiscal period the tax is intended to fund • Revenue is recognized in the fiscal period the tax is intended to fund 	<ul style="list-style-type: none"> • Real Property Tax • Personal Property Tax 

Transactions without Qualifying Requirements—Examples



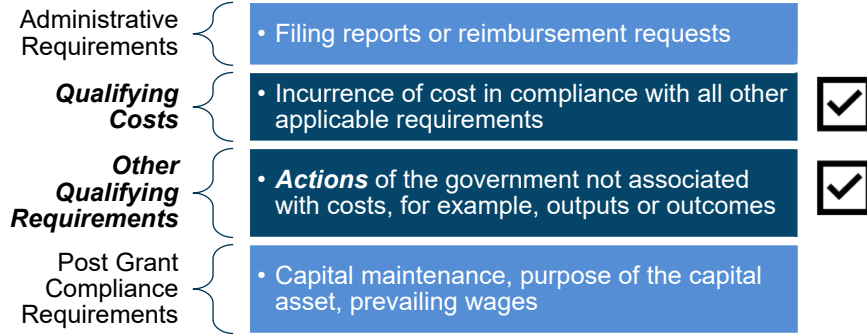
Transactions without Qualifying Requirements — Recognition

General Aid to Schools (Periodic Appropriation)	Shared Revenue (Continuing Appropriation)	Pledges (without Qualifying Requirements)
<ul style="list-style-type: none"> • The provider government has appropriated the resources. • The period of the appropriation has begun, and • The provider government intends to provide the resources. 	<ul style="list-style-type: none"> • Recipient recognizes the asset when the underlying transaction has occurred if: • There is an appropriation (if required), and • The provider government intends to provide the resources 	<ul style="list-style-type: none"> • Recognize a receivable when the government receives or becomes aware of the binding arrangement. • If subject to time requirements, recognize a DIR.
		

Transactions with Qualifying Requirements—Proposed Clarifications

Characteristics	Recognition	
<ul style="list-style-type: none"> • Externally imposed conditions or conditions imposed by law that are required to be satisfied by the recipient before said recipient is entitled to the resources 	<ul style="list-style-type: none"> • Recipient recognizes a receivable when qualifying requirements are satisfied. 	<ul style="list-style-type: none"> • <i>Terminology difference to communicate change in concept.</i> • <i>Timing of cash does not determine the type of transaction (no longer identified as “reimbursement based”).</i> • Exercise of professional judgement remains a necessary step to determine if a transaction includes qualifying requirements.

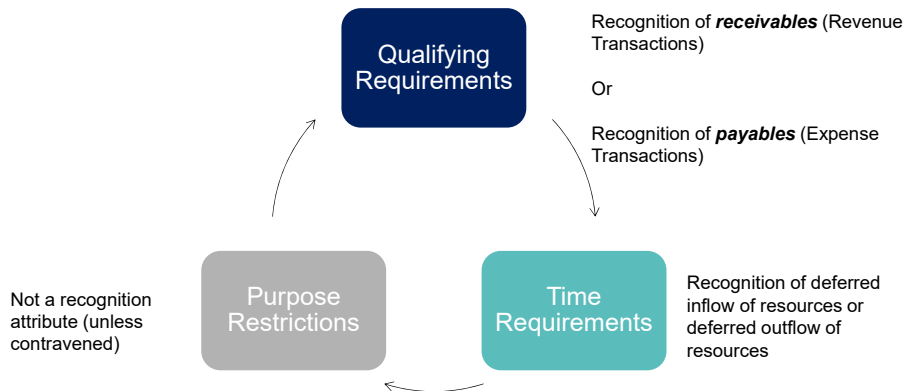
Tentative Decisions about Qualifying Requirements



A receivable (for the recipient) is recognized when the government has complied with either qualifying costs requirements or other qualifying requirements.

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Transactions with Qualifying Requirements—Clarifications

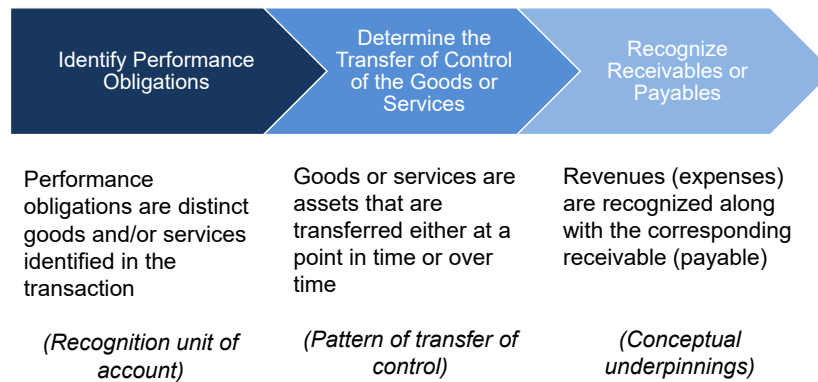


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Purpose Restrictions and Time Requirements

Purpose Restrictions	Time Requirements
<ul style="list-style-type: none"> Externally imposed or imposed by law that limits the activities or programs for which resources can be deployed Not a recognition attribute Not self-imposed Can simultaneously exist with qualifying requirements Motor fuel tax 	<ul style="list-style-type: none"> Externally imposed or imposed by law that establish the period or periods when the use (sale, disbursement, or consumption) of resources may begin or should end. A recognition attribute that establishes the existence of a deferral Neither permanent constraint nor self-imposed Not appropriations nor performance periods For example, property taxes to fund a specific fiscal period.

Proposed Recognition Principles for Category A Transactions



Criteria for Identifying Performance Obligations

Service capacity of the good or service can be obtained by being:

1. Combined with readily available resources
2. Used, consumed, or sold

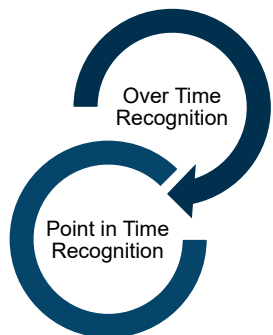
Goods and services are separately identifiable within the context of the transaction. Indications that they are NOT separately identifiable:

1. Significant integration
2. Significant customization
3. Highly interrelated

Goods and/or services may be combined into bundles, or a transaction may result in a single performance obligation.

Category A Revenue Recognition: Over Time or Point in Time

Criteria for Recognition Over Time



Criterion 1	Criterion 2	Criterion 3
<ul style="list-style-type: none"> • Simultaneous consumption • Example: Electricity 	<ul style="list-style-type: none"> • Creates or enhances an asset • Example: Construction in progress 	<ul style="list-style-type: none"> • Creates a resource without an alternative use • Has right to payment • Example: Research work

- If one over time criterion is met, revenue is recognized over time.
- If no criterion is met, then recognition is at a point in time.

Category A Revenue Recognition Examples

A performance obligation is satisfied when there is a transfer of control of resources

- Bus Service

- The performance obligation is satisfied as the government makes the service available
- Tuition

- The performance obligation is satisfied as education is provided
- State Lottery

- The performance obligation is satisfied when the State provides the opportunity for financial gain

Category A Expense Recognition Examples

A performance obligation is satisfied when there is a transfer of control of resources.
Expenses are assets even if only momentarily.

- City orders supplies

- The performance obligation is satisfied when the city receives the supplies
- School District hires CPA

- The performance obligation is satisfied as the CPA firm carries out the expected work, such as an audit
- Public Utility employees

- The performance obligation is satisfied as the employees perform services over time

Measurement Methodology Overview



Measurement is a component of recognition



Measurement estimates are required to be developed to the extent practicable



Measurement principles apply to Category A and Category B transactions*

*Unless otherwise noted

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Measurement Approach: Allocated Amount

Determine the total binding arrangement amount

Rely on terms and conditions of a binding arrangement to determine the total amount of consideration described in the binding arrangement.



Allocate to each transaction in the binding arrangement

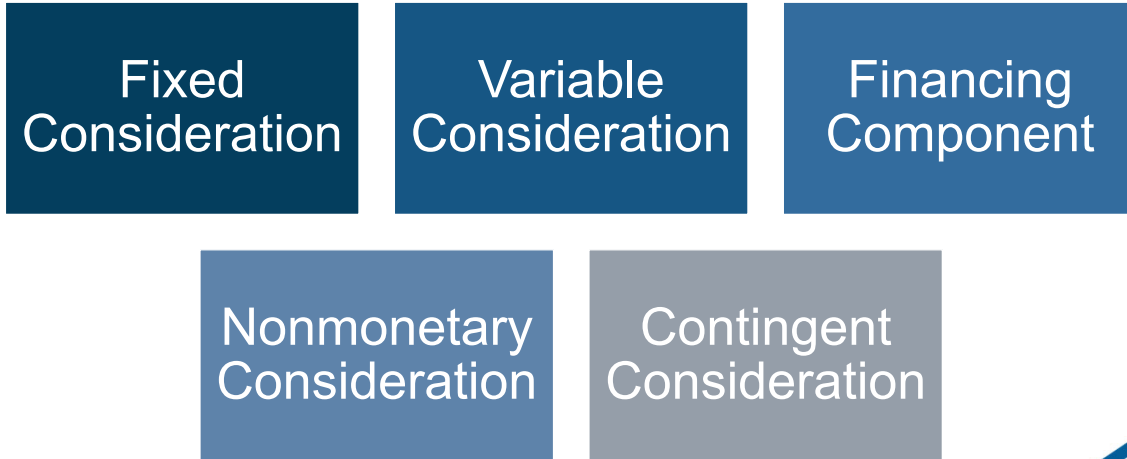
Binding arrangements may give rise to more than one transaction.



Allocate the transaction amount to the respective unit of account



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Components of Consideration





Pre-Agenda Research and Technology Projects

Pre-Agenda Research



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Cybersecurity Risk Disclosures



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Cybersecurity Risk Disclosures

What?

The GASB is determining whether additional guidance may be able to improve financial reporting with specific disclosures related to cybersecurity threats.

Why?

State and local governments are increasingly being exposed to cybersecurity threats.

When?

The Board added the research project to the technical plan in December 2024.

Cybersecurity Risk Disclosures—Objectives

This research effort had three objectives. To determine:

- The types of cybersecurity threats faced by state and local governments
- Whether and how cybersecurity threats are currently disclosed in the financial statements
- Whether financial reporting guidance has the potential to address user needs for this information

Cybersecurity Risk Disclosures—Methods

- **Reviews of financial statements:**
 - A sample of governments that had been victims of cybersecurity incidents
 - A sample of governments that had not
- **Interviews of stakeholders (including individuals involved with cybersecurity efforts)**
- **Literature reviews:**
 - Academic research
 - Professional publications
 - News articles related to cybersecurity incidents
 - Cybersecurity reporting requirements promulgated by the SEC and CISA
 - Standard-setting literature

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Cybersecurity Risk Disclosures—Findings (Objective 1)

- **Categories of the effects of cybersecurity incidents:**
 - The theft of governmental resources through ransoms and other means
 - The theft of sensitive and confidential data held by governments
 - The disruption of the business operations or of services provided by governments
 - Reputational harm
- **Governments have variability in the internal factors that affect the maturity of their cybersecurity posture and ability to withstand and respond to cybersecurity incidents.**

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Cybersecurity Risk Disclosures—Findings (Objective 2)

- Some state and local governments voluntarily provide information about cybersecurity in their financial statements.
 - Generally limited information about cybersecurity incidents and insurance.
 - Some of that information is provided in accordance with existing guidance on broader topics (for example, contingencies).
- The quantified impact of cybersecurity incidents generally appears to be relatively small in magnitude.

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Cybersecurity Risk Disclosures—Findings (Objective 3)

- Users interviewed for the research indicated interest in information about a government's cybersecurity (1) posture, (2) insurance, and (3) incidents.
- There are concerns that disclosing information about cybersecurity risks may increase the exposure governments already have to such risks ("**cybersecurity disclosure conflicts**").
- Disclosure may be at odds with varying state legislation exempting such information from open public records requests.

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Cybersecurity Risk Disclosures—Path Forward

- The project staff presented the research findings to the Board at the February 2026 meeting.
- The final research paper is available to the public on the GASB's website.
- The Board is to consider whether to add a project about cybersecurity to the current technical agenda at its May 2026 meeting.

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Pension and OPEB Disclosures—Concepts Statement 7

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Pension and OPEB Disclosures—Concepts Statement 7

What?

The GASB is evaluating required note disclosures in the pension and OPEB Statements through the lens of Concepts Statement 7.

Why?

Concepts Statement 7 was issued after the pension and OPEB Statements.

When?

The Board added the pre-agenda research in April 2025.


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Pre-Agenda Research Activities

- Identify and catalog all existing pension and OPEB note disclosure requirements (plans and employers)
- Conduct research with users to identify whether they use existing note disclosures (to inform whether a breadth or depth of users use the information), and if so, how they use the information (to inform whether the information has a meaningful effect on their analysis for making decisions or assessing accountability)

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Revenue and Expense Recognition—Note Disclosures



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Revenue and Expense Recognition—Note Disclosures

What?


The GASB is evaluating the need for note disclosures associated with transactions that are in the scope of the revenue and expense recognition project.

Why?

Note disclosures were scoped out of the revenue and expense recognition project.

When?

The Board added the pre-agenda research in August 2024.



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Research Activities

- Survey of users – to determine what information users need related to revenue and expense transactions in the scope of the revenue and expense recognition project to make decisions or assess accountability
- Focus groups – to further discuss the types of information identified in the user survey as being needed

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Technology Project

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Voluntary Digital Financial Reporting



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Voluntary Digital Financial Reporting

What?


The GASB is developing one or more governmental digital taxonomies for GAAP financial reporting.

Why?

The taxonomies that may result from this effort could be used by governments on a voluntary basis to report their GAAP financial statements in digital formats.

When?

The Board added the technology project in December 2024.



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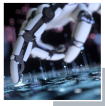
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GASB GAAP Taxonomy Voluntary Digital Financial Reporting Project



Phase I

- Basic Financial Statements
- Required Supplementary Information



Phase II

- Supplementary Information

- Basic Financial Statements:**
- Government-Wide Financial Statements
 - Fund Financial Statements
 - Notes to Financial Statements

- Required Supplementary Information:**
- Management Discussion and Analysis (MD&A)
 - Pensions and OPEB Schedules
 - Infrastructure Schedule
 - Budgetary Schedules



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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.

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

Conducts stakeholder roundtables and surveys regarding their experience with the standards.

Reports the findings publicly.

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Why does the GASB conduct PIRs?

To provide general support to stakeholders when implementing significant new pronouncements

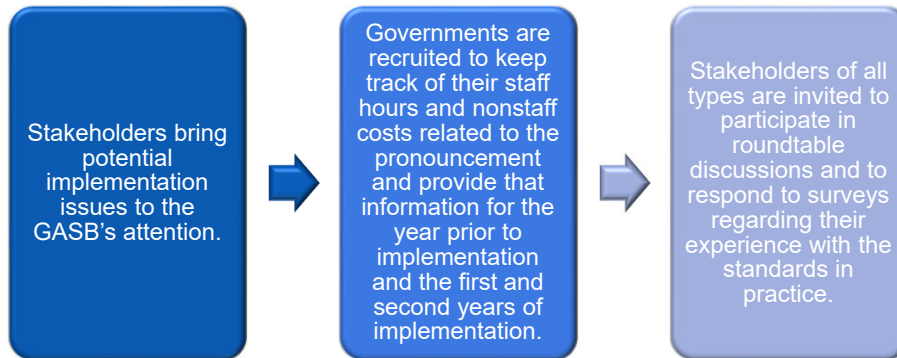
To identify and address practice issues that arise

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

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How does the GASB involve stakeholders in PIR?



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Which Statements Are under Review?

Statement 75—Employer Reporting for Other Postemployment Benefits (OPEB)

Statement 84—Fiduciary Activities

Statement 87—Leases

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What is the status of the PIRs?

OPEB	Final report being drafted. Expected to be discussed with the Board at their December 2026 meeting.
Fiduciary activities	Collection of implementation effort and cost information completed; archival data collection completed. Surveys expected in 2026.
Leases	Collection of implementation effort and cost information completed; archival data collection has begun

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Questions?



Visit www.gasb.org

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**A DEEPER DIVE INTO GASB 103,
THE NEW REPORTING MODEL**

May 8, 2026

Presented by Frank Crawford, CPA and

Lisa Parker, CPA, CGMA

Oklahoma Society of CPAs – Governmental Accounting and Auditing Conference



FINANCIAL REPORTING MODEL IMPROVEMENTS

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May 8, 2026

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



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Financial Reporting Model Improvements

Statement No. 103

APRIL 2024
Governmental Accounting Standards Series

Statement No. 103 of the
Governmental Accounting
Standards Board

Financial Reporting
Model Improvements



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION



2

Financial Reporting Model Improvements

What?

The Board has made certain 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 was approved in April 2024

3

Project Activities

Pre-agenda research

- Roundtables
- Surveys
- Literature review
- Archival
- Interviews

Invitation to Comment, *Financial Reporting Model Improvements—Governmental Funds*, issued December 2016

Preliminary Views, *Financial Reporting Model Improvements*, issued September 2018

Exposure Draft, *Financial Reporting Model Improvements*, issued June 2020

Public hearings and user forums

4

Overview

Management's Discussion and Analysis

Clarification of operating and nonoperating in proprietary funds

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

Budgetary comparisons

Major component unit presentations

Unusual or infrequent items

5

Management's Discussion and Analysis (MD&A) Overarching Guidance

- 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”
- Analysis of current-year balances and activity to explain **why** balance and results changed from prior year
- Avoid unnecessary duplication, avoid “boilerplate” language
- Focus on primary government, discussion of discretely presented component units is a matter of professional judgment

6

MD&A – Five Sections

- Overview of the financial statements
- Financial summary
- Detailed analyses
- Significant Capital Asset and Long-Term Financing Activity
- Currently Known Facts, Decisions, or Conditions

7

MD&A – Overview of the Financial Statements

Overview of the Financial Statements

The City's financial report contains basic financial statements. Those financial statements present the City's finances at both an overall and a detailed level. The first two—the *government-wide financial statements*—cover the City's governmental activities and business-type activities (together, the *primary government*) and discretely presented component units. (See the diagram in Figure A-1.)

- **Governmental activities** comprise the City's most basic functions, such as public safety, culture and recreation, and social and economic development. Governmental activities primarily are financed by taxes paid by City residents and businesses and grants from the State of Example and the federal government.
- **Business-type activities** are City services primarily financed in whole or in part with charges to customers—electric utility, public buses, and municipal golf courses.
- **Discretely presented component units** are legally separate entities for which the City is financially accountable—most notably the Sample City Energy Authority and the Robert L. Antonio Airport. (To see their separately issued financial reports, visit www.sampleenergyurl.gov and www.rlaairporturl.gov.)

The remaining basic financial statements present the City's finances in greater detail and present fiduciary activities. As their name implies, the *fund financial statements* disaggregate financial information by separate funds to report on the specific purposes for which resources are used or for which they are restricted. The City reports three groups of funds:

- **Governmental fund financial statements** report all of the governmental activities except those that involve providing services to City departments. In addition to the City's main operating fund—the general fund—those financial statements report a special revenue fund to track the use of a portion of the City's restricted sales tax for public safety and transportation, a debt service fund to record the repayment of outstanding bonds, and a capital projects fund to account for resources used to acquire transportation infrastructure and certain other long-lived assets.
- **Proprietary fund financial statements** report all of the business-type activities (*enterprise funds*) and the services provided to City departments (*internal service funds*).

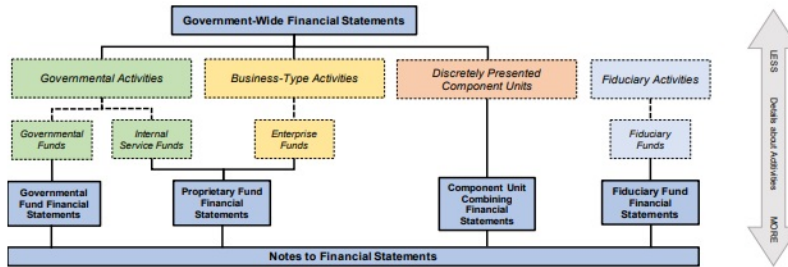
Types of Information Reported in the City's Financial Statements

	Financial Statements			
	Government-Wide	Proprietary Fund	Fiduciary Fund	Component Unit
Types of assets and liabilities	All assets and liabilities, both financial and nonfinancial, short term and long term			Governmental Fund
Types of revenues/additions	All types of revenues/additions that flow into the government during the year that relate to that year, regardless of when cash is received			Only current financial resources, such as cash, taxes receivable, and accounts payable
Types of expenses/deductions/expenditures	All types of expenses/deductions that flow out of the government during the year that relate to that year, regardless of when cash is paid			Only revenues that are measurable and available to finance expenditures of that year
Types of deferred outflows of resources and deferred inflows of resources	All types of resources that flow into and out of the government during the year that relate to a future year			Only expenditures for which the related governmental fund liability is incurred in that year
				Current financial resources that flow into and out of the governmental funds during the year that relate to a future year

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MD&A – Overview of the Financial Statements (continued)

Contents of the City's Basic Financial Statements



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MD&A – Financial Summary

- Financial summary—condensed financial statements

Changes in Sample City's Net Position
(amounts expressed in thousands)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2025-2024
	2025	2024	2025	2024	2025	2024	
Revenues							
Program revenues:							
Charges for services	\$ 45,301	\$ 41,393	\$ 62,200	\$ 59,998	\$ 107,501	\$ 101,391	6.0%
Operating grants and contributions	38,163	31,057	-	-	38,163	31,057	22.9%
Capital grants and contributions	30,885	14,846	2,938	2,199	33,823	17,045	96.4%
General revenues:							
Sales taxes	279,567	278,136	-	-	279,567	278,136	0.5%
Property taxes	78,930	77,074	-	-	78,930	77,074	2.4%
Other taxes	74,940	61,861	-	-	74,940	61,861	21.1%
Payments in lieu of taxes	16,869	15,872	-	-	16,869	15,872	6.3%
Investment earnings	20,667	7,629	1,674	951	22,341	8,580	160.4%
Other	12,419	11,755	220	56	12,639	11,811	9.5%
Total revenues	597,641	639,633	67,232	63,254	664,873	602,637	10.3%
Expenses							
General government	46,059	42,388	-	-	46,059	42,388	8.7%
Public safety	205,416	218,558	-	-	205,416	218,558	-6.0%
Public works	71,308	67,872	-	-	71,308	67,872	5.1%
Culture and recreation	25,631	21,347	-	-	25,631	21,347	20.1%
Social and economic development	79,701	26,014	-	-	79,701	26,014	206.4%
Interest on long-term debt	25,566	21,284	-	-	25,566	21,284	20.1%
Public utility	-	-	42,687	40,526	42,687	40,526	5.3%
Transit authority	-	-	25,826	25,755	25,826	25,755	0.3%
Gift courses	-	-	6,395	7,252	6,395	7,252	15.8%
Total expenses	453,681	397,483	76,909	73,631	530,590	470,994	12.7%
Excess (deficiency) before unusual/inrequent items and transfers	144,160	142,170	(9,677)	(10,327)	134,483	131,643	2.0%
Transfers	(18,996)	(4,639)	18,996	4,639	-	-	-
Unusual or infrequent item—food damage:							
Grant revenue	2,500	-	-	-	2,500	-	100%
Cleaning	(10,000)	-	-	-	(10,000)	-	100%
Change in net position	117,664	137,631	9,319	(5,688)	126,883	131,643	-3.7%
Net position—beginning of period	1,616,147	1,478,616	539,077	544,765	2,155,224	2,023,381	8.5%
Net position—end of period	\$ 1,733,811	\$ 1,616,247	\$ 548,396	\$ 539,077	\$ 2,282,207	\$ 2,155,024	5.9%

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MD&A – Detailed Analysis

- Detailed analyses
 - Primary government's financial position and results of operations—both governmental and business-type activities
 - In addition to amounts/percent of change, explain **why** change occurred
 - Fund balance or net position and results of operations of each major fund (nonmajor funds excluded)
 - In addition to amounts/percent of change, explain **why** change occurred

Growth in intergovernmental grant revenues

There were notable increases in 20X5 in both operating and capital grants and contributions. Capital grants and contributions, which account for 5.2 percent of overall revenues for governmental activities, more than doubled to \$30.9 million from 20X4 to 20X5. Most of that amount was a one-time \$22.0 million capital contribution from the federal government in the form of the land and facilities of former Army Base 559, which is located in Sample City and ceased operations in 20X0. The City is in the process of converting the base to a central public works and transportation garage and headquarters.

Operating grants and contributions, which account for 6.4 percent of overall revenues for governmental activities, increased 22.9 percent to \$38.2 million in 20X5. All of that growth came from an increase in public safety grants from both the State and federal governments, which totaled \$31.4 million or over 82 percent of the operating grant revenue. Most of the additional grant revenue was received as part of a federal program to improve local emergency services readiness to respond to a variety of emergency scenarios, including natural disasters, terrorist attacks, and medical crises.

11

MD&A – Significant Capital Asset and Long-Term Financing Activity

- Capital asset activity
 - Include intangible capital assets
 - Discussion of significant additions and disposals
 - Discussion of significant policy changes and economic factors
 - Avoid duplication between the analyses and this component
- Long-term financing activity
 - Includes debt, leases, PPPs, and SBITAs
 - Discuss new agreements, changes to credit rating, debt limit
 - Discussion of significant policy changes and economic factors
 - Avoid duplication between the analyses and this component

Significant capital asset and long-term financing activity

The discussion thus far has only touched upon certain significant transactions and events during 20X5 with respect to capital assets and long-term debt. Overall, the carrying value of capital assets—original cost minus accumulated depreciation—increased 3.2 percent over 20X4. However, that relatively small change does not completely capture the substantial amount of capital investment activity that occurred in 20X5.

The City's governmental activities had \$182.8 million in its beginning balance of construction in progress with another \$145.9 million in capital projects started during 20X5. Of those amounts, the City put \$127.4 million into operation during the year and, therefore, reclassified that amount to the other capital asset classifications of infrastructure and buildings and improvements. Additionally, the City contributed \$55.3 million of capital assets to not-for-profit organizations. This resulted in an ending balance of construction in progress of \$145.9 million. Many of the completed and ongoing capital projects are a part of the city-wide highway and street improvement program.

As previously noted, significant capital investments also are expected to be made as part of converting the former Army base to a city-wide public works and transportation garage and headquarters. The receipt of the base was reported as a \$22 million capital contribution, which increased both the land and buildings and improvement categories of the City's capital assets by \$15 million and \$7 million, respectively.

As discussed earlier, a portion of the sales tax is used to fund a reserve for road and bridge construction and other infrastructure projects, which provides financing on a pay-as-you-go basis.

In 20X3, voters approved a referendum authorizing the City to issue up to \$125 million of tax-backed bonds to pay for a city-wide capital program to reconstruct major routes, including adding lanes, upgrading street surfaces in the business district, and adding additional buses and bus routes serving the business district. The City issued \$118.1 million of those bonds in 20X5, which is the primary reason that governmental activities long-term liabilities increased 5.7 percent overall. Slightly more than half of the addition to long-term liabilities by those bonds was offset by a reduction in general obligation debt outstanding (which decreased 12.4 percent) due to a series of bond calls and refundings that continued in 20X5.

12

MD&A – Currently Known Facts, Decisions, and Conditions

- Include a description of currently known facts, decisions, and conditions that are expected to have a significant effect on financial position or results of operations in the subsequent year. Examples could include:
 - Trends in relevant economic and demographic data
 - Factors used to develop the subsequent year's budget
 - Those affecting revenues available for appropriation, e.g. changes in rates and bases of activity
 - Those affecting planned spending, e.g. inflation, labor contracts, changes in programs
 - Expected changes in budgetary net position or fund balance
 - Actions government has taken related to PEB, capital plans, leases, PPPs, SBITAs (long-term items)
 - Actions other parties have taken, such as new laws or regulations

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MD&A – Currently Known Facts, Decisions, and Conditions - Example

Currently known facts, decisions, or conditions

The City is aware of five developments that will have an impact on the City's finances in the future and were therefore incorporated into next year's budget:

- (1) Public safety employee unions' new contract
- (2) Amendments to the City budget
- (3) Recent economic reports
- (4) Adoption of the State budget
- (5) Pension plan changes.

Public safety employee unions' new contract

The collective bargaining agreement for uniformed police officers and firefighters expired at the end of fiscal year 20X5. On September 15, 20X5, the members of the public safety employee unions **ratified a new four-year contract that is retroactive to the start of fiscal year 20X6.** The key features of the contract are annual increases in base pay of 3.5 percent; increases in rank pay, shift premiums, and other add-ons averaging 2.5 percent; and a series of nonpensionable bonuses at the end of each calendar year. The contract also **changes certain staffing rules that will allow the City more flexibility in deploying its uniformed employees and, as a result, is expected to reduce overtime spending.** The City's Labor Relations Division budgeted an annual increase of \$4.1 million of expenses to the public safety function, net of reduced overtime costs, as a result of the contract.

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MD&A – Currently Known Facts, Decisions, and Conditions – Example (continued)

Amendments to the City budget

The first mid-year amendment to the City's operating budget addresses budgetary variances that are found in the actual results for the first quarter ending September 30, 20X5. The additional public safety expenses resulting from the new contract were a prominent aspect of the amendment, which was adopted by the City Council on November 1, 20X5. Use tax revenues for the first quarter were 4.6 percent below budget. Extrapolated for the full year, use taxes would fall short of the budget by \$1.9 million. The City Council decided to monitor ongoing tax receipts for further deterioration and to postpone consideration of a rate increase until the second mid-year modification. To potentially buffer the lost revenue, the City Council identified certain positions that are vacant or expected to become vacant that could be filled more slowly than originally planned and adjusted the department budgets accordingly.

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MD&A – Currently Known Facts, Decisions, and Conditions – Example (continued)

Recent economic reports

The unemployment rate for the City has increased slightly for five consecutive months through September 20X5 (the most recent month for which data were available at the time this report was issued). Unemployment in May 20X5 was 2.7 percent. By September 20X5, unemployment had reached 3.4 percent.

Building permit applications were assumed in the adopted budget for fiscal year 20X6 to increase approximately 2.0 percent, a lower level than the average annual increase of 4.1 percent since 20W7. However, through the first quarter of fiscal year 20X6, applications were flat compared with the same period last year.

Adoption of the State budget

In May 20X5, the State adopted its operating budget for the fiscal year ending June 30, 20X6. The City's finances are affected by many parts of the State budget, though two provisions in particular may have a negative impact on the City's finances. First, the adopted State budget includes a plan to retain a quarter of a percentage point from the local-option sales tax imposed by counties and municipalities beginning in calendar year 20X6. The loss of that 0.25 percent from the City's sales tax is expected to reduce the City's revenue by approximately \$11.0 million in City fiscal year 20X6 and \$23.5 million in City fiscal year 20X7.

The other State budget provision is the winding down of a Department of Transportation grant program that provides resources for transportation and mass transit capital projects and subsequent maintenance. The City's Capital Improvement Plan anticipated that program would be a funding source for parts of the city-wide highway and street improvement program and the conversion of the Army base to a public works and transportation garage and headquarters. In total, the City budgeted \$28.7 million from that grant program through 20X9 based on the published long-term capital plan. The City still is budgeting to receive that amount through the end of the grant period.

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MD&A – Currently Known Facts, Decisions, and Conditions – Example (continued)

Pension plan changes

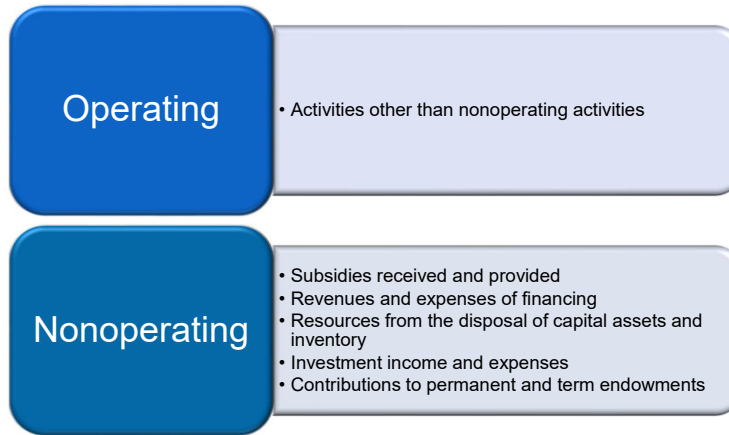
The City provides pension benefits to its nonuniformed employees through the Municipal Employee Pension Plan, a cost-sharing defined benefit plan administered by the State of Example Retirement System. In April 20X5, the System announced that it was revising certain assumptions that factor into the measurement of the total pension liability for all participating governments in the plan, including lowering the long-term expected rate of return on plan investments (and, thereby, the discount rate) from 6.50 to 6.25 percent and utilizing updated mortality tables with longer life expectancies. The changes would be effective for State fiscal year 20X6.

It is expected that the change in the discount rate will increase the City's contractually required contribution for the fiscal year beginning July 1, 20X6. This amount is not yet determinable.

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Proprietary Funds-Operating and Nonoperating

Separate presentation of operating and nonoperating revenues and expenses



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Proprietary Funds-Subsidies

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 the proprietary fund's 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

Sample City
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
for the Year Ended June 30, 20X5
(amounts expressed in thousands)

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

	Enterprise Funds				Internal Service Funds
	Public Utility	Transit Authority	Golf Courses	Total	
OPERATING REVENUES					
Charges for services	\$ 41,003	\$ 18,636	\$ 2,561	\$ 62,200	\$ 42,523
Miscellaneous	283	33	104	420	78
Total operating revenues	41,286	18,669	2,665	62,620	42,601
OPERATING EXPENSES					
Personnel services	13,991	-	-	13,991	5,786
Contractual services	13,952	16,406	4,893	35,251	4,117
Insurance claims and expenses	-	-	-	-	26,388
Depreciation	11,767	8,972	2,375	23,114	415
Other	1,067	-	165	1,232	7,834
Total operating expenses	40,777	25,378	7,433	73,588	44,540
Operating income (loss)	509	(6,709)	(4,768)	(10,968)	(1,939)
NONCAPITAL SUBSIDIES					
Intergovernmental revenue	-	-	-	-	881
Transfers in	-	2,090	110	2,200	300
Transfers out	(1,980)	-	-	(1,980)	-
Total noncapital subsidies	(1,980)	2,090	110	220	1,181
Operating income (loss) and noncapital subsidies	(1,471)	(4,619)	(4,658)	(10,748)	(758)

OTHER NONOPERATING REVENUE S (EXPENSE S)					
Investment earnings	1,496	75	103	1,674	446
Gain from the sale of capital assets	-	-	-	-	3
Interest expense	(1,910)	(448)	(963)	(3,321)	-
Capital contributions	2,938	-	-	2,938	-
Transfers in restricted for capital assets	<u>1,032</u>	<u>15,360</u>	<u>2,384</u>	<u>18,776</u>	<u>1,215</u>
Total other nonoperating revenue (expenses)	<u>3,556</u>	<u>14,987</u>	<u>1,524</u>	<u>20,067</u>	<u>1,664</u>
Increase (decrease) in fund net position	2,085	10,368	(3,134)	9,319	906
Fund net position—beginning of period	<u>331,657</u>	<u>177,997</u>	<u>29,423</u>	<u>539,077</u>	<u>12,387</u>
Fund net position—end of period	<u>\$ 333,742</u>	<u>\$ 188,365</u>	<u>\$ 26,289</u>	<u>\$ 548,396</u>	<u>\$ 13,293</u>

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Implementation Guide No. 2025-1, Implementation Guidance Update—2025

4.2. Q—Paragraph 13 of Statement No. 103, *Financial Reporting Model Improvements*, indicates that interest revenues of a proprietary fund established to provide loans to first-time homeowners should be reported as operating revenues because those transactions constitute the proprietary fund’s principal ongoing operations. If this proprietary fund reports interest expenses associated with borrowings that finance operations, would the interest expenses be reported as operating expenses?

A—No. Interest expenses related to financing are always reported as nonoperating expenses. The interest revenues are related to the operations of the program, whereas the interest expenses are related to how the fund obtained resources (financing) to operate its lending program.

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Implementation Guide No. 2025-1, *Implementation Guidance Update—2025*

4.3. Q—If the principal ongoing operation of a business-type activity (BTA) or an enterprise fund is leasing property to other entities, should interest revenue related to leases be reported as operating revenue?

A—No. Interest revenue is a revenue related to financing, which, in accordance with paragraph 13 of Statement 103, is a nonoperating revenue unless financing transactions constitute the proprietary fund's principal ongoing operations. If the principal ongoing operation of a BTA or an enterprise fund is leasing property to other entities, the principal ongoing operation is conveying control of the right to use an underlying asset. Because interest revenue related to a lease is recognized from financing the operation of conveying control of the right to use an underlying asset, rather than from the operation itself, interest revenue from a lease should not be reported as operating revenue.

Although the foundational principle of Statement No. 87, *Leases*, as amended, is that leases are financings, leases are different from other types of financings (such as loans) because, in addition to interest revenue, a lease results in revenue from conveying control of the right to use an underlying asset through the recognition of the deferred inflow of resources as inflows of resources in subsequent periods.

Implementation Guide No. 2025-1, *Implementation Guidance Update—2025*

4.4. Q—Paragraph 54 of Statement 87 requires that the deferred inflow of resources related to a lease be recognized as inflows of resources (for example, revenue) over the term of the lease. If reported as revenue, should a BTA or an enterprise fund report those inflows of resources as operating revenue?

A—Yes. Paragraph 13 of Statement 103 provides that operating revenues are revenues other than nonoperating revenues and that revenues related to financing are nonoperating revenues. As discussed in Question 4.3, only interest revenue recognized from a lease is related to financing. Revenue recognized from the deferred inflow of resources related to a lease, therefore, is not related to financing. Such revenue does not meet any of the other categories for nonoperating revenue and, therefore, should be reported as operating revenue.

Implementation Guide No. 2025-1, *Implementation Guidance Update—2025*

4.6. Q—Do payments in lieu of taxes (PILOTs) made by a BTA or a proprietary fund meet the definition of subsidies?

A—It depends on the substance of the transaction. In many circumstances, a PILOT is an arrangement in which (a) a payment from a BTA or proprietary fund is made either to the general fund of the primary government or to another government to compensate for tax revenue lost due to tax exemptions for the purpose of supporting general governmental activities and (b) the BTA or proprietary fund establishes a rate or fee that produces operating income greater than or equal to the amount of the PILOT. In these circumstances, the PILOT would meet the definition of subsidies. However, in other circumstances, a PILOT is a payment from a BTA or proprietary fund to another government or fund for goods or services provided to the BTA or proprietary fund. In those circumstances, the PILOT would not meet the definition of subsidies. The name of the arrangement is not relevant to the determination of whether it is a subsidy for accounting and financial reporting purposes. (See also paragraph 112 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, regarding interfund services provided and used and interfund transfers.)

Implementation Guide No. 2025-1, *Implementation Guidance Update—2025*

4.7. Q—An insured individual receives covered healthcare services from a governmental healthcare provider, resulting in recognition of a revenue and receivable by the governmental healthcare provider. The third-party insurer is responsible for making payments to the governmental healthcare provider in accordance with the terms of the insurance contract. Does this circumstance meet the criterion established in paragraph 14a of Statement 103 for purposes of the definition of subsidies?

A—No. Even though the third-party insurer did not directly receive goods or services from the governmental healthcare provider, those payments do not meet the criterion in paragraph 14a. The insured individual received goods or services from the governmental healthcare provider that resulted in the healthcare provider receiving resources in the form of a receivable. The third-party insurer is paying the governmental healthcare provider in place of the insured individual because of the contractual relationship between the insured individual and the third-party insurer.

Exposure Draft - Implementation Guide, Financial Reporting Model Improvements - Subsidies

4.1. Q—A government provides supplemental payments to hospitals in addition to the standard contractual Medicaid base payments made on a fee-for-service or managed-care basis. In this circumstance, the supplemental payments are not part of any contractual relationship between the patient and the government for healthcare coverage. Do those supplemental payments received by a hospital that reports as a BTA or an enterprise fund meet the definition of subsidies in paragraph 14a of Statement 103?

A—Yes. In contrast to a circumstance in which there is a contractual relationship between the patient and the government for healthcare coverage, the patient has no contractual relationship for healthcare coverage associated with supplemental payments. Therefore, in this circumstance, the supplemental payments would meet the definition of subsidies because the payments (a) are not related to the goods or services provided by the hospital as part of the contractual relationship with the patient and (b) allow the hospital's current or future charges to be lower than they would be otherwise. (See also Question 4.7 in Implementation Guide 2025-1 regarding contractual arrangements for covered medical services.)

Exposure Draft - Implementation Guide, Financial Reporting Model Improvements - Subsidies

4.2. Q—A higher education institution that reports as a BTA or an enterprise fund receives donations for scholarships from individuals who do not receive goods or services in return. Do those donations meet the definition of subsidies in paragraph 14a of Statement 103?

A—Yes. Those donations for scholarships meet the definition of subsidies because they (a) are received from parties who have not received goods or services from the higher education institution as a result of the donations and (b) keep the higher education institution's current or future tuition or other charges lower than they would be otherwise.

4.3. Q—Would the answer to Question 4.2 change if published tuition rates do not change based on the donations for scholarships received?

A—No. Regardless of whether published tuition rates change, donations for scholarships either directly or indirectly keep current or future tuition or other charges paid lower than they would be otherwise. Therefore, even if published tuition rates do not change, donations for scholarships meet the definition of subsidies.

Exposure Draft - Implementation Guide, Financial Reporting Model Improvements - Subsidies

4.4. Q—Do research grants received by a higher education institution that reports as a BTA or an enterprise fund meet the criterion established in paragraph 14a(2) of Statement 103 for purposes of the definition of subsidies?

A—It depends on the substance of the transaction. For example, if the higher education institution receives a research grant that is used to offset operating expenses, such as salaries and laboratory costs, that would exist in the absence of the grant, the grant funds received would allow the higher education institution to keep the tuition or other charges lower compared to what would be charged had the higher education institution not received the grant. Therefore, in this circumstance, the research grant would meet the criterion established in paragraph 14a(2). In contrast, other research grants are not used to offset operating expenses, such as salaries and laboratory costs, that would exist in the absence of the grant. In those circumstances, the grant funds received would not allow the higher education institution to keep the tuition or other charges lower compared to what would be charged had the higher education institution not received the grant. Therefore, those research grants would not meet the criterion established in paragraph 14a(2) because the proceeds would not keep current or future tuition or other charges lower than they would be otherwise.

Exposure Draft - Implementation Guide, Financial Reporting Model Improvements - Subsidies

4.5. Q—Do taxes imposed by a BTA meet the definition of subsidies in paragraph 14a of Statement 103?

A—Yes. Taxes imposed by a BTA meet the definition of subsidies because they (a) are received from parties who do not directly receive goods or services from the BTA as a result of the tax and (b) directly or indirectly keep the BTA's current or future fees and charges lower than they would be otherwise.

Exposure Draft - Implementation Guide, Financial Reporting Model Improvements - Subsidies

4.6. Q—Passenger facility charges fund airport projects approved by the Federal Aviation Administration. Do passenger facility charges received by an airport that reports as a BTA or an enterprise fund meet the definition of subsidies in paragraph 14a of Statement 103?

A—Yes. Similar to taxes discussed in Question 4.5, passenger facility charges are fees imposed on passengers that meet the definition of subsidies because they (a) are received from parties who do not directly receive goods or services from the airport as a result of the fee and (b) allow the airport to directly or indirectly keep current or future fees and charges to airlines and concessionaires lower than they would be otherwise.

Exposure Draft - Implementation Guide, Financial Reporting Model Improvements - Subsidies

4.7. Q—How should subsidies other than noncapital subsidies be reported?

A—Subsidies other than noncapital subsidies are capital subsidies and should be reported as other nonoperating revenues and expenses. (See also Question 7.73.2 in *Implementation Guide No. 2015-1*, as amended.)

4.8. Q—How should subsidies be classified if the provider of the resources limits the use to debt service for capital-related debt?

A—In this circumstance, subsidies should be classified as capital subsidies because the use of the resources is limited by the provider to debt service for capital-related debt, which is capital in nature.

Exposure Draft - Implementation Guide, Financial Reporting Model Improvements - Subsidies

Question 4.5 in Implementation Guide 2025-1

5.1. Q—How should subsidies be classified if the resources are used for the acquisition of capital assets in circumstances in which the ~~provider of a subsidy did not limit the use of the resources~~ is not limited by the provider to the acquisition of capital assets?

~~A—Subsidies are classified as noncapital subsidies if the provider of the subsidy either does not limit the use of the resources or limits the use of the resources to something other than the acquisition of capital assets. Subsidies are only classified as capital subsidies (that is, all subsidies other than noncapital subsidies) if the provider of the subsidy has limited the use of the resources to the acquisition of capital assets. Unless there are other external limitations, such as legislation or regulation, that limit the use of the resources to capital purposes, the subsidies should be classified as noncapital because the use of the resources is not limited. The recipient's use of all or a portion of a subsidy for capital purposes does not, by itself, result in all or a portion of the subsidy being classified as a capital subsidy. Subsidies other than noncapital subsidies should be reported as other nonoperating revenues and expenses. (See also Question 7.73.2 in Implementation Guide 2015-1, as amended.)~~

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Unusual or Infrequent Items - Definitions

Unusual or Infrequent Items

- **Unusual in nature** - the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the government, taking into account the environment in which the government operates.
- **Infrequency of occurrence** - the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates.
- Further details in Statement No. 62 (p. 47 & 48).

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Unusual or Infrequent Items

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

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Budgetary Comparisons and Major Component Unit Information

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

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Effective Date and Transition

- Effective for fiscal years beginning after June 15, 2025
 - All reporting periods thereafter
 - Earlier application is encouraged
 - Changes adopted at transition – change in accounting principle (Statement 100)
 - All component units should implement the provisions in the same year as the primary government

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Implementation Guide No. 2025-1, *Implementation Guidance Update—2025*

4.16. Q—If a primary government is implementing Statement 103 for its fiscal year ended June 30, 2026, and it will include in its financial statements a component unit with a fiscal year-end of December 31, 2025 (in accordance with the provisions in paragraph 59 of Statement No. 14, *The Financial Reporting Entity*), when should the component unit implement Statement 103?

A—For the purposes of implementing Statement 103, which requires changes to the presentation of certain financial statements, the component unit should implement that Statement in its December 31, 2025 financial statements.

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Thank You

GASB GOVERNMENTAL
ACCOUNTING
STANDARDS BOARD

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AICPA GOVERNMENT AUDIT QUALITY CENTER UPDATE

May 8, 2026

Presented by Lindsey Kennimer, CPA



AICPA Governmental Audit Quality Center Update

1

Speaker



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Auditing and Accounting, AICPA

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Introductions and What We Will Cover

Current federal environment

Key information expected in the 2026 OMB *Compliance Supplement*

Other single audit and SLG updates and reminders

AICPA Updates

GAQC/AICPA Resources

3

Terminology and Abbreviations

AICPA	Association of International Certified Professional Accountants	QCR	Quality Control Reviews
ALN	Assistance Listing Number	R&D	Research and Development
CFR	Code of Federal Regulations	SAS	Statement on Auditing Standards
CPE	Continuing Professional Education	SEFA	Schedule of Expenditures of Federal Awards
DCF	Data Collection Form	SFA	Student Financial Assistance
FAC	Federal Audit Clearinghouse	TQA	AICPA Technical Questions and Answers
FAQ	Frequently asked questions	USAID	U.S. Agency for International Development
FR	Federal Register	UG	Uniform Guidance
F/S	Financial statements	YB	Yellow Book, Government Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards		
GAQC	Governmental Audit Quality Center		
GAS-SA Guide	AICPA Audit Guide, <i>Government Auditing Standards and Single Audits</i>		
HHS	Department of Health and Human Services		
OMB	Office of Management and Budget		

4

4

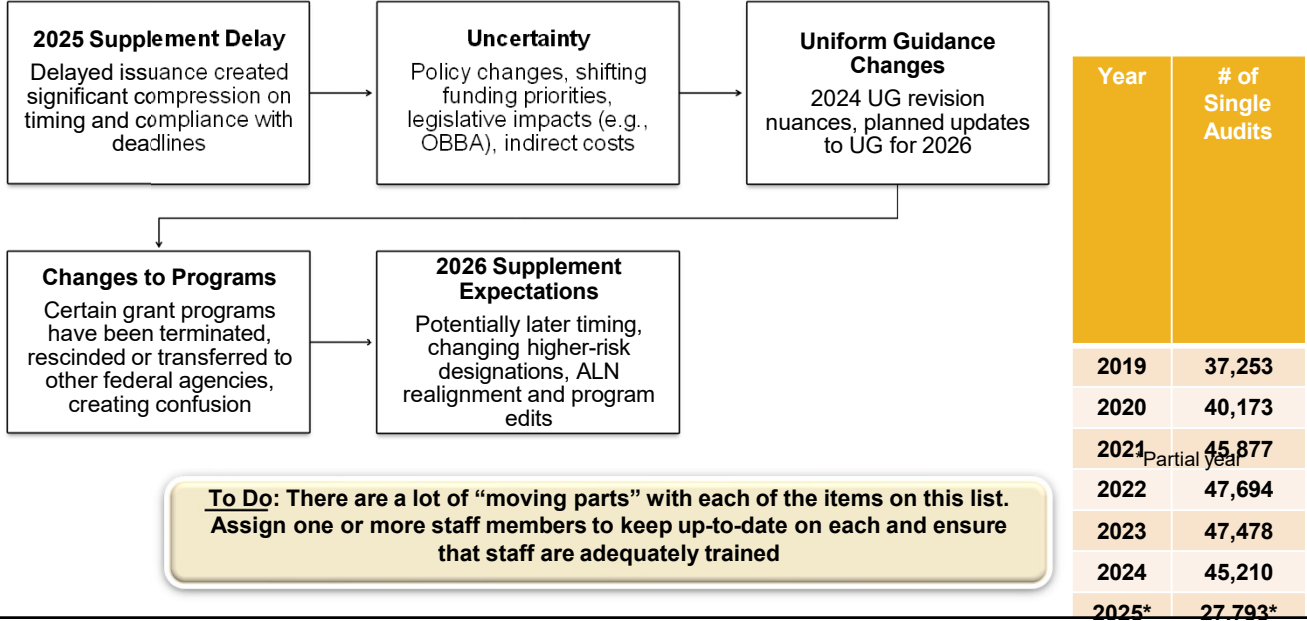
Supplement Sections and Titles

Table of Contents (TOC)	Appendix II, <i>Federal Agency Codification of Government-wide Requirements and Guidance for Grants and Cooperative Agreements</i>
Part 1, <i>Background, Purpose and Applicability</i>	Appendix III, <i>Federal Agency Single Audit, Key Management Liaison, and Program Contacts</i>
Part 2, <i>Matrix of Compliance Requirements</i>	Appendix IV, <i>Higher Risk Designation</i>
Part 3, <i>Compliance Requirements</i>	Appendix V, <i>List of Changes for the 2025 Compliance Supplement</i>
Part 4, <i>Agency Program Requirements</i>	Appendix VI, <i>Program-Specific Audit Guides</i>
Part 5, <i>Cluster of Programs</i>	Appendix VII, <i>Other Audit Advisories</i>
Part 6, <i>Internal Control</i>	Appendix VIII, <i>Examinations of EBT Service Organizations</i>
Part 7, <i>Guidance for Auditing Programs Not Included in This Compliance Supplement</i>	Appendix IX, <i>Compliance Supplement Core Team</i>
Appendix I, <i>Federal Programs Excluded from the A-102 Common Rule and Portions of 2 CFR Part 200</i>	

AICPA Governmental Audit Quality Center

Current Federal Environment

Single Audits in a Compressed and Uncertain Environment



7

Best Practices to Navigate Current Federal Landscape

Stay informed and do not panic!	Consider the need for additional footnotes disclosures.
Evaluate internal controls and conduct risk assessments to identify potential areas of concern and develop strategies to mitigate those risks.	Identify and document executive orders.
Maintain open and transparent communication between auditors and clients.	Review federal stop orders closely.
Be flexible and adaptable to changing circumstances.	When in doubt, DOCUMENT!!!
Follow existing policies and procedures – do not take rash actions.	

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Governmental Audit
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Key Changes Expected in the 2026 Supplement

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Background and Effective Date

OMB has not yet issued the Supplement

Once issued it will be effective for audits of fiscal years beginning after June 30, 2025

Anticipate the Supplement will be posted on OMB's Web site at: <https://www.whitehouse.gov/omb/>

Once issued, the GAQC's OMB Compliance Supplement Resource Center will be updated with the 2026 Supplement

The GAQC will issue a *GAQC Alert* once the Supplement is issued!

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Can I issue a 6/30/26 year-end single audit before the final 2026 Supplement is released?

No, auditors are required to use the version of the Supplement effective for the year-end associated with the audit

Need key information from the Supplement, such as higher risk designations, 6 compliance requirements subject to audit, etc.

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2025 Compliance Supplement Update



A GAQC comment letter was submitted to OMB regarding the 2025 Supplement. The letter addressed our concerns and highlighted areas of improvement. The letter has been posted to the GAQC website, and we encourage members to read the letter. Click [here](#) to access the comment letter



For firms that issued their 2025 audit report before the final 2025 OMB *Compliance Supplement* was released, the peer review department issued a [peer reviewer alert](#) that addresses potential implications, peer review perspectives, and other resources

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CAUTION

The following 2026 Supplement information is based on GAQC's review of drafts from OMB

Changes could be made by OMB before issuance

Important to review the issued 2026 Supplement to identify any changes



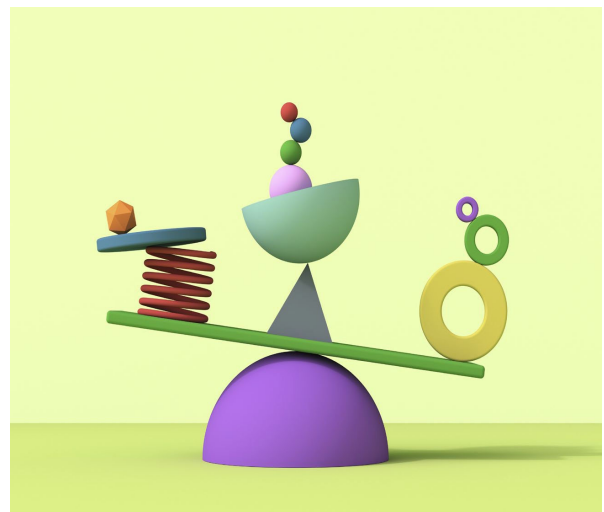
13

2026 Compliance Supplement Expectations

Appendix V is the starting point

- Identifies a high-level description of changes made in the Parts and Appendices
- Includes a list of programs that have changed

To understand the changes made, a best practice is to run comparisons between the 2025 and 2026 Supplement



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Supplement information based on drafts reviewed by GAQC; check the final Supplement once issued!

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Expectations for 2026 Compliance Supplement

Timeline update – May issuance unlikely

Limited scope review process – only statutory and regulatory updates

5 new programs; 9 deleted programs

Realigned/Decoupled programs – This is when the agency creates separate ALNs for an existing program. There are several in the 2026 Supplement

- Not considered new programs as no new funding is involved. Treated as a cluster
- Realignments are made for agency reporting purposes and to align with the current administration’s initiatives in [OMB Memorandum M-24-11](#)
- For look back requirements, these programs will still be considered to have been audited in the prior 2 years, where applicable
- Part 2, Matrix of Compliance Requirements will identify realigned programs separate from new and deleted programs

CAUTION!
Information on 2026 Supplement is based on most recent vet drafts the GAQC has reviewed

Review final Supplement closely to learn more about the final changes

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Expectations for 2026 Compliance Supplement

Part 3 of the Supplement will revert to a single Part 3, rather than being split into Parts 3.1 and 3.2

No changes expected to Part 4 for Dept. of Ed programs, including Part 5, SFA Cluster. Part 5.4 (Other Clusters) will be updated for realignments

Terminology change from “matching” to “cost sharing” throughout the Supplement

Changes to Part 4 program drafts include:

- Changes due to law and regulation updates; updates to compliance requirements; and special tests and provisions updates

Changes to remove Part 6 completely from the Supplement as part of OMB’s broader efforts to streamline the *Compliance Supplement*

Changes to Part 8 to completely remove Appendix I and II and to provide guidance on realignments as well as the look back criteria for program realignments

CAUTION! Information on 2026 Supplement is based on most recent vett drafts the GAQC has reviewed. Review final Supplement closely to learn more about the final changes

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Expectations for 2026 *Compliance Supplement*

Appendix IV, Higher Risk Designation: Likely to be only three higher risk programs

Assistance Listing Number	Title
93.778/93.777/93.775	Medicaid Cluster
93.489/93.575/93.596	Child Care and Development Fund Cluster (CCDF)
93.558	Temporary Assistance for Needy Families (TANF)

Latest draft showed that the following programs were removed from the higher risk list:

- ALN 15.252 – Abandoned Mine Land Reclamation (AMLR)

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CAUTION!
Information on 2026 Supplement is based on most recent vett drafts the GAQC has reviewed

Review final Supplement closely and attend June GAQC event to learn more about the final changes

17

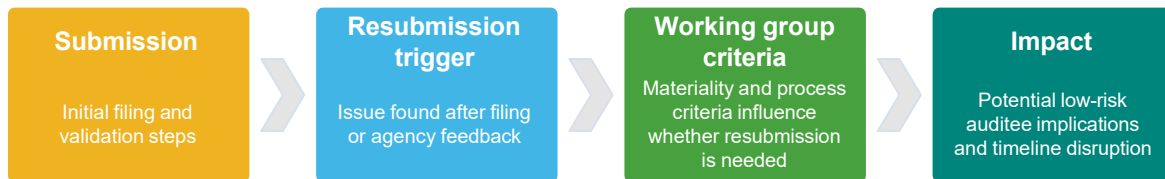


Governmental Audit
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Other Single Audit and SLG Updates and Reminders

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FAC Updates



Other FAC Updates

- GSA issued PRA to add several 'optional' fields to the SF-FAC.
- New feature introduced allowing users to delete "In Progress" audits before they have been submitted. Review [this FAC Helpdesk article](#) to learn more.
- No movement on reinstating email notifications for each step in the process.
- Watch for future updates on the [Updates from the FAC](#) section of the GSA FAC site.

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Single Audit - UG Revisions Update

Executive Order – [Improving Oversight of Federal Grantmaking](#)

- Mandates political appointee oversight of all discretionary federal grants, plain-language, and expert-reviewed grant announcements, restrictions on certain types of funded activities, tighter indirect-cost control, and mandatory termination-for-convenience clauses
- OMB is reopening UG for additional updates for the following:
 - Pre-award considerations
 - Proposed changes to indirect costs
 - Strengthen the existing provisions to allow the federal government to terminate all discretionary grants for convenience

The COFFA website which used to be the repository for related 2024 UG implementation guidance has been retired

- The core content of the site transitioned to: [About COFFA - Councils.gov | Federal Executive Councils](#)

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Single Audit Quality Analysis

Required by the Financial Management Risk Reduction Act (an amendment to the Single Audit Act) enacted on December 23, 2024

OMB designated HHS to conduct the analysis

- Kicked off in October 2025
- The results will go to OMB who must then submit them to Congress by December 31, 2027

HHS is gathering data from:

- AICPA and NASACT on peer review results
- Federal agencies on QCR and desk review results

HHS will also be conducting surveys of federal agency staff

[Access the law](#)

Read the [Senate Committee Report](#)

for more detail about Congress' view on the need for this legislation

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AICPA Audit Guide, *Government Auditing Standards and Single Audits*

Key AICPA resource for auditors of UG compliance audits

GAQC Executive Committee is involved in developing updates to this guide

2026 edition development in process and expected issuance in Sept. 2026

Key changes expected:

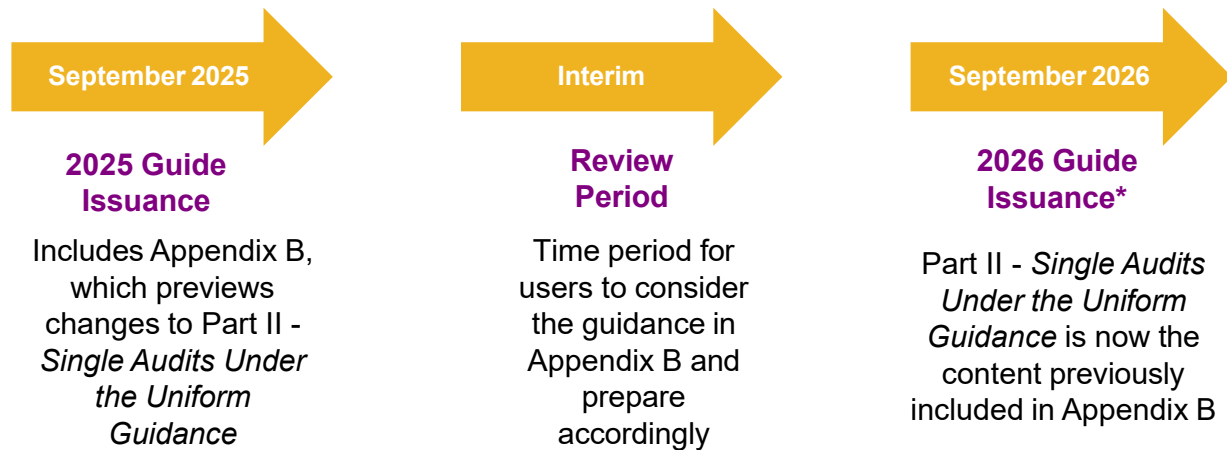
- **Significant enhance changes** for single audits as Appendix B in 2025 edition of guide becomes Part II
- **Dual guidance** for SAS 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*



Order when published at: <https://www.aicpa-cima.com/cpe-learning>

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Implementation Timeline for the 2026 Edition of the GAS-SA Guide



***This edition of the Guide has been updated with dual guidance to reflect changes that result from SAS No. 149**

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Why are the enhancive changes included in Appendix B of the 2025 edition of the GAS-SA Guide?

AICPA Guides do not have effective dates as they do not establish requirements

Appendixes to the Guide are included for informational purposes and have no authoritative status

The appendix approach allows users time to consider the new guidance and incorporate it, as appropriate, into audit practice aids and other documents used as part of a Uniform Guidance compliance audit in advance of its final issuance in the 2026 edition of the Guide

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What is the effective date of the enhanceive changes included in Appendix B of the 2025 edition of the GAS-SA Guide?

There is not a specific date that the 2026 Guide applies to engagements. Firms have flexibility in implementing the Guide since interpretive publications become effective upon issuance without prescribed dates

For example, a firm may decide to implement for audits with years ending on or after September 30; or they may choose December 31. Alternatively, firms may decide to implement based on a specific date not tied to audit year-ends (for example, for audits started on or after September 1). When deciding on an implementation approach, a few considerations may be your firm's size, client base, workload cycles, and resource availability

Each firm should evaluate the changes, determine what needs to be updated, and determine when those updates will take effect for the firm. We recommend documenting the firm's chosen implementation approach and effective date in written policies and methodology guidance and provide staff with sufficient lead time for training and transition

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Other Federal Updates – Current Status of Indirect Cost Rate Caps

Note: As of now, no federal 15% indirect cost rate caps are in effect

Agency	Current Status
NIH	Proposed policy to cap IDC 15% blocked from implementation. First Circuit Court of Appeals affirming lower courts decision to block
DOE	Proposed policy to cap IDC 15% for IHE's blocked from implementation. Policy guidance rescinded in the FY26 Energy-Water Appropriations Bill. DOE is moving to dismiss case
NSF	Proposed policy to cap IDC at 15%, summary judgement issued on June 20, 2025, blocking implementation of the policy. New NSF awards issued will not implement NSF 25-034 but will include a term applying NSF 25-034 for the entirety of the award if a subsequent court decision permits application of the policy
DoD	Proposed policy to cap all new awards to IHEs at 15% or lower. Challenged in court, appealed and on February 18, 2026, First Circuit Court of Appeals granted governments motion to drop its appeal, permanently vacating the DoD policy

To-Do: Institutions should continue using their federally negotiated indirect cost rates unless explicitly notified otherwise

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Other Federal Updates – Fraud Risk and Program Integrity Actions

Program integrity issues related to emerging fraud risks in federal assistance programs, especially related to benefit programs. As a result, an EO was issued as follows:

- EO - [Establishing the Task Force to Eliminate Fraud](#) – To coordinate enhanced oversight, eligibility verification, data sharing and enforcement actions aimed at preventing, detecting and responding to fraud, waste and abuse in federal benefit programs

To-Do: Stay tuned for how this might impact future regulations

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Other Federal Updates – HUD

HUD's REAC FASSUB (Financial Assessment Subsystem – Multifamily Housing) system multifamily submission template has not been updated to reflect the non-profit threshold increase from \$750k to \$1M and it currently remains at \$750k

FASSUB still applies the \$750K threshold, preventing validation of owner-certified submissions when total federal awards are between \$750K–\$1M

Owner-certified submissions cannot validate, even though an audit is not required under the current \$1M threshold

Note: GAQC has raised the issue with HUD OIG NSAC; no resolution yet but follow-up pending

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Other Federal Updates – HUD Continued



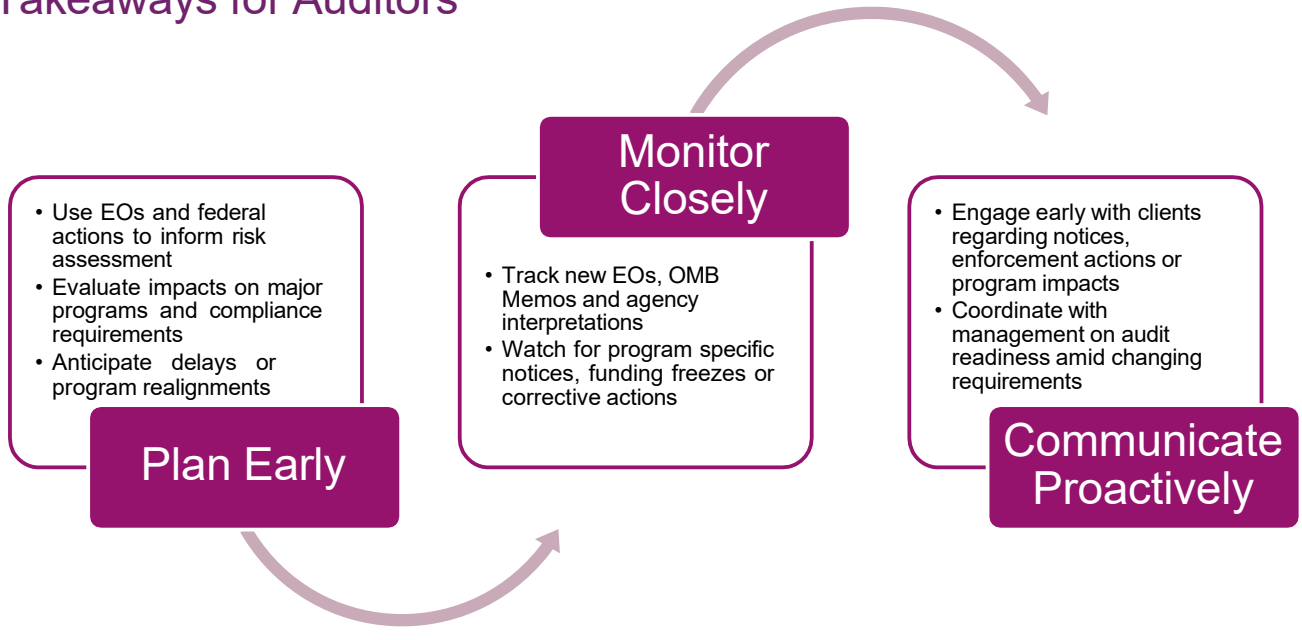
HUD’s REAC Technical Assistance Center’s (REAC-TAC) employees were laid off effective February 27, 2026. Members should expect some delay in services provided and anticipate the introduction of new policies and procedures from REAC-TAC



Ginnie Mae issued [APM 26-04](#) announcing a new Audit Schedules Report that may be used in lieu of certain HUD Consolidated Audit Guide schedules for issuers’ audited financial statements, beginning with fiscal year-ends December 31, 2025

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Other Federal Updates – Key Takeaways for Auditors



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GAO - Yellow Book - 2024 Revision

Key changes in the 2024 Yellow Book include:

Shift from Quality Control to Quality Management

Majority of changes in Chapter 5

Clarifies when the concept of reporting key audit matters, previously introduced in AICPA auditing standards, might apply

Effective date aligns with AICPA's SQMS standards:

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



[Access the 2024 Yellow Book](#)

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GAO - Yellow Book - 2024

Revision

Non-government audit organizations subject to the [AICPA's quality management standards](#) should comply with those quality management requirements, as well as specific additional requirements as follows:

- If an engagement is terminated before it is completed and an audit report is not issued, a requirement to document the results of the work to the date of termination and why the engagement was terminated
- If auditors change the engagement objectives during the engagement, a requirement to document the revised engagement objectives and the reason for the changes
- Quality objectives relevant to resources should address that auditors performing work in accordance with the Yellow Book meet its CPE requirements

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

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SLG – ADA Compliance Requirements

Issue: The GAQC has received questions regarding [DOJ's regulation](#) amending [28 CFR 35.200](#), to require state and local public entities to ensure web content and mobile apps meet Web Content Accessibility Guidelines 2.1 Level A and AA accessibility standards

Effective dates: April 26, 2027, for public entities serving 50,000+ population; April 26, 2028, for entities serving under 50,000, or special district governments. To learn more, read the [FR Notice](#)

Who is covered: State and local governments and related entities; federal agencies are excluded and instead follow separate Section 508 requirements

Resource: Members should refer to [GAQC Alert #499](#) for more information

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SLG – ADA Compliance Requirements (continued)

What is the auditor's responsibility, if any, for audit reports that are posted on a government's website?

Management is responsible for compliance with applicable laws and regulations. Accordingly, management is responsible for ensuring financial statements and Single Audit reports posted on its website on or after the effective date comply with WCAG 2.1

Management may request the auditor to provide their reports in a specific format (for example, Word or PDF) and with certain style settings (such as black and white formatting, 12-point font, and no images) to facilitate incorporation into the financial statements or Single Audit reporting package. The extent to which the auditor assists management in complying with these requirements is a matter of professional judgment

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AICPA Audit and Accounting Guide, *State and Local Governments*

Key AICPA resource for state and local government financial statement auditors

SLGEP is involved in developing and reviewing updates to this guide each year

2026 edition development in process


Key changes expected:

- Conforming changes for newly effective GASB Statements
- Conforming and potentially enhanceive changes relative to SAS No. 149 which will be effective for audits of group financial statements with periods ending on or after December 15, 2026



<https://www.aicpa-cima.com/cpe-learning/publication/state-and-local-governments-audit-and-accounting-guide>

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Governmental Audit
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Common Single Audit Quality Findings

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Common Single Audit Quality Findings from Peer Review, Ethics and Federal Agency Reviews



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The slide features a purple and blue background with a light blue rectangle in the top right corner. In the top left, the AICPA logo is displayed. In the top right, the text "Governmental Audit Quality Center" is stacked vertically. The main title "AICPA Update" is centered in large white font.

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Public Sector Pipeline Resources Update

The GAQC created new resources in response to recommendations from the October 2024 joint [AICPA/NASACT public sector CPA talent report](#). These resources aim to:

- Support discussions on how state and local governments might reconsider their audit requirements and financial reporting frameworks
- Help reduce pressure from CPA staffing shortages while still ensuring appropriate accountability

Resources available include:

A [comparison](#) of the different types of engagements that CPAs can perform on financial information for governments to consider in lieu of a full financial statement audit

[Checklists](#) designed to aid state societies and their CPA members in preparing for discussions with stakeholders regarding the various audit requirements and accounting and financial reporting frameworks that could be considered in their states

A [flyer](#) highlighting areas in which state and local governments could take action to improve the public sector CPA pipeline for accounting, auditing and finance

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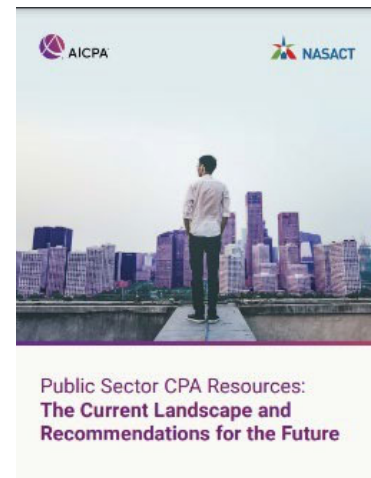
Public Sector CPA Resources

AICPA released a report: [Public Sector CPA Resources: The Current Landscape and Recommendations for the Future](#)

Joint project with NASACT

Study of the pipeline challenges specifically in the government sector

The problems cited need a collective effort to address by all stakeholders!



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AICPA Profession Ready Initiative

Purpose

- AICPA launched this initiative to identify and develop the skills early-career CPAs need to succeed in an AI-driven and evolving business environment

Why it Matters

- The accounting profession's work is rapidly changing, creating a clear need for new capabilities, faster skill development and better alignment between education and workplace expectations

Key Deliverables

- Deliverables scheduled to be deployed in 2027 include a skills framework, technology-enabled learning and enhanced teaching resources

To learn more about this initiative, including the timeline, visit the [Profession Ready Initiative](#) website



Governmental Audit
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GAQC and Other AICPA Resources

Governmental Audit Quality Center



AICPA membership center for CPA firms and state auditor organizations

Focus on Government Auditing Standards and single audit engagements

Not a member?

[Access membership information](#)



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GAQC Web Site

www.aicpa-cima.com/topic/government

Key areas to check out and/or bookmark:

- [GAQC Alert Archive Library](#)
- [Archived GAQC Web events](#)
- [Illustrative Auditor's Report Resource Center](#)
- [OMB Compliance Supplement Resource Center](#)
- [Single Audit Resources](#)



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GAQC Resources

Auditors

Auditees

Access GAQC Web event, [Preparing for Your First Single Audit: An Auditee Perspective](#)

- Archived 2025 GAQC Single Audit Fundamentals
 - [Part 1](#)
 - [Part 2](#)
- Archived GAQC Single Audit Fundamentals (covers pre-2024 UG)
 - [Part 3](#)

Other GAQC resources for auditees

- [Procuring Governmental Services](#)
- [Tips for organizations](#)

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GAQC Webcast Calendar 2025-2026
(all 1 – 3 pm Eastern Time)

Web Event Name	Date
2026 State and Local Government Audit Planning Considerations	05/19/2026
2026 <i>Compliance Supplement</i> and Single Audit Update	06/25/2026

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“Summer Fun” GAQC CPE rebroadcast week (all times Eastern) -
Watch for registration *GAQC Alert*

Monday, June 22nd

- 11am to 1pm – 2026 Auditing State and Local Governments Lightning Round ([CPE link](#))
- 1pm to 3pm – GAQC 2026 Single Audit Lightning Round ([CPE link](#))

Wednesday, June 24th

- 11am to 1pm – 2026 Annual Required GAQC Webcast ([CPE link](#))

Monday, July 13th

- 11am to 1pm – AICPA GAS-Single Audit Guide: An Overview of Big Changes Coming ([CPE link](#))
- 1pm to 3pm – AICPA GAS-Single Audit Guide: Risk Assessment Process Changes Coming([CPE link](#))

Tuesday, July 14th

- 11am to 1pm – AICPA GAS-Single Audit Guide: Internal Control Testing Changes Coming ([CPE link](#))
- 1pm to 3pm – AICPA GAS-Single Audit Guide: Compliance Testing Changes Coming ([CPE link](#))

A chance to catch up on GAQC events you or your staff missed!

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“Summer Fun” GAQC CPE rebroadcast week (all times Eastern)

- Watch for registration *GAQC Alert*

Wednesday, July 15th

- 11am to 1pm – AICPA GAS-Single Audit Guide: An Emphasis on Evaluating Instances of Noncompliance
> ([CPE link](#))

Thursday, July 16th

- 11am to 1pm – 2026 State and Local Government Audit Planning Considerations
> ([CPE link](#))

Monday, July 20th

- 11am to 1pm – Single Audit Fundamentals Part 1: What is a Single Audit?
> ([CPE link](#))
- 1pm to 3pm – Single Audit Fundamentals Part 2: Major Program Determination
> ([CPE link](#))

Tuesday, July 28th

- 1pm to 3pm – 2026 Compliance Supplement and Single Audit Update
> ([CPE link](#))

A chance to catch up on GAQC events you or your staff missed!

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2026 AICPA Conferences

Not-for-Profit Industry Conference

- June 15-17, 2026
- Online
- In-person at Gaylord National, National Harbor, MD
- [Register here](#)

Governmental Accounting and Auditing Update Conference

- August 12-14, 2026
- Online
- [Register here](#)

Governmental and Not-For-Profit Conference

- October 19-21, 2026
- Online
- In-person at Hyatt Regency Dallas, Dallas, TX
- [Register here](#)

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Other AICPA Resources



[Audit and Assurance](#)

A&A Technical Hotline (877) 242-7212
techinquiry@aicpa.org

[Ethics Division](#) (including AICPA Ethics Code)

Ethics Hotline (888) 777-7077 ethics@aicpa.org


[Not-for-Profit Section](#) - For individuals interested in NFP A&A

[Quality Management resources](#)

[Peer Review](#)

[Sustainability/ESG Web page](#)


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Governme
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Quality
Center

Questions?

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Thank you

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**REVISITING OLDER GASB
STANDARDS REFRESH**

May 8, 2026

Presented by Chris Pembroke, CPA



Capital Assets Preperation

Entity: _____ | FY: _____ | Prepared: _____

Section	Step #
Phase 1: PBCs	1.1
Phase 1: PBCs	1.2
Phase 1: PBCs	1.3
Phase 1: PBCs	1.4
Phase 1: PBCs	1.5
Phase 1: PBCs	1.6
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Phase 1: PBCs	1.8
Phase 1: PBCs	1.9
Phase 1: PBCs	1.1
Phase 2: Preparation	
Phase 2: Preparation	2.1
Phase 2: Preparation	2.2
Phase 2: Preparation	
Phase 2: Preparation	3.1
Phase 2: Preparation	3.2
Phase 2: Preparation	3.3
Phase 2: Preparation	
Phase 2: Preparation	4.1
Phase 2: Preparation	4.2
Phase 2: Preparation	
Phase 2: Preparation	5.1

Phase 2: Preparation	5.2
Phase 2: Preparation	
Phase 2: Preparation	6.1
Phase 2: Preparation	6.2
Phase 3: Reporting	
Phase 3: Reporting	7.1
Phase 3: Reporting	7.2
Phase 3: Reporting	7.3
Phase 3: Reporting	7.4

Checklist

| Updated: 05/01/2026

Task / Procedure

The government's formal capitalization policy (including thresholds, useful lives, and depreciation conventions).

Prior year audited financial statements and final capital asset roll-forward schedules.

General ledger detail for all capital outlay/expenditure accounts, PLUS transaction detail for high-risk operating expense accounts (e.g., Repairs & Maintenance, IT/Software/Technology, Minor Equipment, Professional Fees/Engineering, and Grant Expenditures) to scan for misclassified capital additions.

A schedule of all assets purchased or constructed during the year, including supporting invoices or contracts for items over the capitalization threshold.

A schedule of all Construction in Progress (CIP) projects, noting which projects were completed and placed into service during the year.

A schedule of all assets disposed of, sold, or scrapped during the year, including original cost, date of disposal, and any cash proceeds received.

Copies of any new lease agreements (equipment, vehicles, facilities), Subscription-Based IT Arrangements (SBITAs), or Public-Private/Public-Public Partnerships (P3s) entered into during the year.

Entity's assessment of any potential asset impairments (e.g., physical damage, regulatory changes making an asset obsolete) per GASB 42.

Details of any donated assets received during the year, including Entity's estimate of acquisition value at the date of donation per GASB 72.

A schedule identifying any capital assets that meet the criteria for being "held for sale" as of the end of the fiscal year, including their historical cost and accumulated depreciation.

PRELIMINARY ANALYTICAL & MINUTE REVIEW

Compile and scan the minutes of the governing body for the fiscal year (and immediately subsequent months) to identify major authorized construction contracts, capital purchases, surplus declarations, or discussions of impaired/damaged assets.

Cross-reference findings from the minutes, as well as the scan of high-risk operating accounts (PBC 1.3), to the internally prepared addition and disposal schedules to ensure completeness. Confirm with responsible personnel regarding any potential omissions or misclassifications.

ROLL-FORWARD & ADDITIONS

Input prior year ending balances (historical cost and accumulated depreciation) as the current year beginning balances.

Review the internally prepared schedule of additions. Ensure items meet the capitalization threshold and are classified into the correct GASB asset categories (Land, Buildings, Infrastructure, Equipment, etc.).

Reclassify completed CIP projects from the CIP balance into their respective depreciable asset categories.

DISPOSALS & RETIREMENTS

For entity-identified disposals, remove the historical cost and the associated accumulated depreciation from the asset schedules.

Calculate the gain or loss on disposal based on the net book value and any cash proceeds received per entity records. Ensure this is mapped to the correct revenue/expense account.

DEPRECIATION CALCULATION

Calculate (or update software to calculate) current-year depreciation expense based on the entity's established useful lives and policy (straight-line, half-year, or full-month convention).

Allocate depreciation expense to the proper governmental functions/programs (e.g., Public Safety, General Government, Public Works) based on guidance from responsible personnel or historical allocation methods.

LEASES, SBITAs, & P3s

Input internally maintained lease, SBITA, and P3 contract details into the amortization schedules.

Record the initial Right-to-Use (RTU) asset and calculate the current year amortization expense over the shorter of the lease term or the useful life of the underlying asset.

FINANCIAL STATEMENT & NOTE DISCLOSURE

Compile the final roll-forward schedule (Beginning Balances + Additions - Retirements = Ending Balances) for both Gross Assets and Accumulated Depreciation.

Draft the Capital Asset Note Disclosure. Ensure the roll-forward tables (Beginning Balances, Additions, Retirements, Ending Balances) separately disclose the following, categorized by major class of underlying asset, per GASB 104: Right-to-use lease assets (GASB 87), Intangible right-to-use assets recognized by SBITAs (GASB 96), Intangible right-to-use assets recognized by P3s (GASB 94), and Capital assets held for sale.

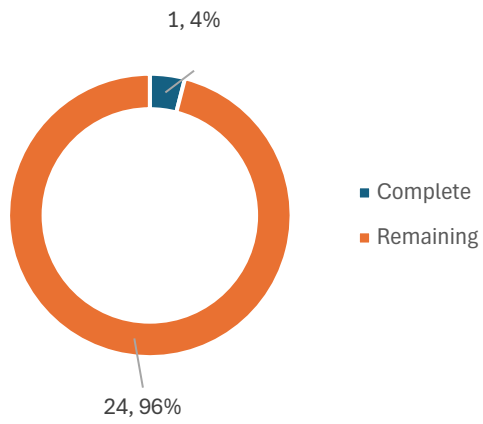
Draft the journal entries necessary to convert the modified accrual (fund level) capital outlay expenditures and other financing sources into full accrual (government-wide) capitalized assets, liabilities, and depreciation.

Utilized NICA worksheet and prepare journal entry to reflect appropriate amount for net invested in capital assets.

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See Lease/SBITA worksheets @

Completion



Common Quality Issues in State and Local Government Financial Statement Audits

CHRIS PEMBROOK
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What We Will Cover

- ▶ Common Audit Quality Issues:
 - ← Documentation and Performance
 - ← Presentation and Disclosure
 - ← Reporting
 - ← Key Takeaways

2

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Terminology & Abbreviations

ACFR	Annual Comprehensive Financial Report	OPEB	Other Post-Employment Benefits
APA	Availability Payment Arrangements	PPP	Public-Private and Public-Public Partnerships
ASB	Auditing Standards Board	RMM	Risk of Material Misstatement
AU-C	Codification of Statements on Auditing Standards	RSI	Required Supplementary Information
D&I	Design and Implementation	SAS	Statement of Auditing Standards
EAQ	Enhancing Audit Quality	SBITA	Subscription-Based Information Technology Arrangement
ED	Exposure Draft	SCOTABD	Significant Class of Transactions, Account Balance, or Disclosure
EQCR	Engagement Quality Control Review	SKE	Skills, Knowledge, and Experience
GAAP	Generally Accepted Accounting Principles	SI	Supplementary Information
GAGAS	Generally Accepted Government Auditing Standards (also referred to as Yellow Book)	SLG	State and Local Governments
GAQC	Governmental Audit Quality Center	SLG Guide	AICPA Audit and Accounting Guide, <i>State and Local Governments</i>
GASB	Governmental Accounting Standards Board	SQMS	Statements on Quality Management Standards
GFOA	Government Finance Officers Association	YB	Yellow Book
MD&A	Management's Discussion and Analysis	Yellow Book	Generally Accepted Government Auditing Standards
OI	Other Information		

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Audit Quality

- Documentation and Performance
- Presentation and Disclosure
- Reporting
- Key Takeaways

4

Audit Quality Issue Identified: Independence Documentation

Auditor performed multiple non-attest services. The non-attest services were not identified as significant threats, the auditor did not identify an appropriate safeguard and therefore did not reduce the threat to an acceptable level through audit planning.

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Example Safeguards Related to Nonaudit Services



Not including individuals who provided the nonaudit service on the audit engagement (i.e., separate engagement teams);



Having another auditor, not associated with the engagement, perform a concurring review of the audit engagement; or



Having another audit organization re-perform the nonaudit service to the extent necessary to enable that other audit organization to take responsibility for the service

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▶ If you do not have the ability to apply appropriate safeguards when required, you should:

1. Decline to perform audit;
2. Decline to perform nonaudit service; or
3. Alter the scope of the nonaudit service.

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Reminder – Identification of Nonaudit Services

► Examples of nonaudit services

- Preparing accounting records and financial statements
- Internal audit assistance
- Internal control monitoring
- IT systems services
- Valuation services
- Assistance with implementation of new accounting standards
- Other services that are not part of conducting the audit or obtaining audit evidence

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Reminder – Nonaudit Services Documentation Requirements

YB 3.107

► What should an auditor document?

- Threats to independence that require the application of safeguards, along with safeguards applied
- Consideration of audited entity management's ability to effectively oversee a nonaudit service
- Auditor's understanding with an audited entity management of services to be provided and related responsibilities
- Evaluation of the significance of the threats created by providing the nonaudit services

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Other Common Problems Noted: Independence Documentation

Evaluation of nonaudit services not documented

Nonaudit services identified not consistent between engagement letter, independence analysis documentation, and management representation letter

Lack of proper identification of management's SKE

Documented management's SKE in place of safeguards

Did not identify preparation of financial statements as a significant threat

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Independence and Nonaudit Services Resources

- ▶ GAQC Practice Aid *Yellow Book Independence: Nonaudit Services Documentation Practice Aid*
- ▶ The *2024 Yellow Book* is effective for periods beginning on or after December 15, 2025. Early Implementation is permitted. No changes to independence rules.

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Reminder:

Management SKE is NOT a safeguard to an independence threat

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Audit Quality Issue Identified: Understanding D&I

The risk assessment process for governmental audit engagements reviewed lacked appropriate documentation concerning:

- Key controls relevant to activity level processes and conclusions on design and implementation
- Sources of information from which conclusions were drawn about design and implementation (D&I) of controls

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Audit Quality Issue Identified: Risk Assessment Documentation

The risk assessment process for governmental audit engagements reviewed lacked appropriate documentation concerning:

- Inherent risk assessment, defaulting to high with little or no explanation
- Conclusion to use basic audit steps in areas with assessed high RMM (including significant or fraud risks such as improper revenue recognition) or additional responsive procedures are not properly linked
- Response to risk or further audit procedures of identified areas where management could override IT controls
- Changes to the overall audit strategy for identified potential fraud during the performance of risk assessment procedures such as analytics or fraud interviews

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A Refresher on SAS No. 145

- ▶ SAS No. 145 Clarified work effort related to understanding each of the components of internal control and was driven in part due to being a significant area of peer review findings.

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Design and Implementation

Evaluating Design –

- Involves consideration of whether the identified control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements.

▶ Determining Implementation –

- Involves establishing that the control exists, and that the entity is using it.

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Identified Controls (Relevant to the Audit)

Evaluating design and determining implementation required in following areas within **control activities** component:

- ▶ Significant and/or fraud risks (such as **revenue recognition**)
- ▶ Controls over **journal entries and other adjustments** as required by AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*
- ▶ Controls for which there is a plan to test operating effectiveness (**planned control reliance or substantive procedures alone not sufficient**)
- ▶ Other controls, based on professional judgment
- ▶ ¹⁵ **General IT controls** that address risks arising from the use of IT

The phrase "identified controls" replaces the phrases "relevant controls" and "controls relevant to the audit." Some methodologies refer to "key" controls.

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Walk-Throughs (Implementation)

Involve following a transaction from origination through the entity's processes, including information systems, until it is reflected in the entity's financial records, using the same documents and IT that entity personnel use

May assist in understanding the information system, including information-processing activities for SCOTABD

- ▶ Different types of significant transactions that may be handled
- ▶ Points at which important processing procedures occur
- ▶ Points at which controls are missing or not designed effectively

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Walk-throughs will frequently be the most effective way to evidence the design and implementation for identified controls and **MUST** include procedures beyond inquiry alone.

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Inherent Risk Factors

May be qualitative or quantitative and include:

- Complexity
- Subjectivity
- Change
- Uncertainty
- Susceptibility to misstatement due to management bias or other fraud risk factors

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Inherent risk factors

Characteristics of events or conditions that affect the susceptibility to misstatement, whether due to fraud or error, of an assertion about a class of transactions, account balance, or disclosure, before consideration of controls

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Significant Risks

An identified risk of material misstatement:

- for which the assessment of inherent risk is close to the upper end of the **spectrum of inherent risk** due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur, or
- that is to be treated as a significant risk in accordance with the requirements of other AU-C sections

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Depending on the degree to which the inherent risk factors affect the susceptibility to misstatement of an assertion, the level of inherent risk varies on a scale that is referred to as the **spectrum of inherent risk**.

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Maximum” Control Risk Assessment

Assess control risk at “maximum level” when identified controls:

- Are not designed effectively or implemented
- Are not tested for operating effectiveness
- Understanding and evaluating design of identified controls may impact nature and timing of further audit procedures but not extent

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Tests of controls required when substantive procedures alone are not sufficient

Control risk is assessed such that the assessment of the risk of material misstatement is the same as the assessment of inherent risk.

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SCOTABD in State and Local Government Audits

- ▶ For state or local governments, an audit of the government's financial statements as a whole provides opinion(s) (or disclaimer) on each opinion unit
- ▶ A reporting unit, or aggregation of reporting units, of the governmental entity represents an opinion unit
- ▶ SCOTABD are identified for each opinion unit

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Specific Governmental Entity Considerations

Understand ability of entity to make unilateral decisions and ability of other governmental entities to control or influence entity's mandate and strategic direction

Consider relevant government activities, such as related programs, program objectives and strategies, and public policy elements

Obtain information from additional resources, such as auditors involved in performance or other audits related to the entity

Inquire of internal audit function about matters related to noncompliance with laws and regulations and control deficiencies

Consider inspecting documents prepared by management of the governing body (for example, documents related to performance reporting)

SAS No. 145 includes various considerations specific to governmental entities

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Audit Quality Issue Identified: Audit Response to Risk

Revenue recognition was documented as a significant risk but neither a test of controls or a test of details was performed. A substantive revenue analytic and testing on accounts receivable was performed.

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Designing and Performing Further Audit Procedures

Steps reduce risk to an acceptably low level:

- Determine overall responses to address the assessed risks of misstatement at the financial statement level.
- Design and perform further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the relevant assertion level.

Further Audit Procedures are defined as:

- Tests of Controls
- Substantive Procedures

AU-C Section 330

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Audit Quality Issue Identified: Use of Specialist

Disclosures for pension and OPEB plans relied on the reports of other auditors and specialists.

Evaluation of the specialist's professional qualifications as well as whether the plan auditor's report on the schedule of employer allocations and the schedules of pension and OPEB amounts is adequate and appropriate for the auditor's purposes was not documented.

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Documentation – Use of Specialist

Employer Auditor should evaluate :

- Whether the actuarial valuation is appropriate and consistent with the Requirements of GASB Statement No. 68
- Assumptions used by employer management are reasonable in light of the measurement objectives
- Underlying census data is complete and accurate

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Documentation – Use of Specialist

AU-C Section 620

Other Considerations

- ▶ Evaluate the competence, capabilities and objectivity of the specialist
- ▶ Obtain an understanding of the work of that specialist
- ▶ Evaluate the appropriateness of the work of that specialist for audit evidence for the relevant assertions

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Reminder – SAS No. 144, *Use of Specialists and Use of Pricing Information*

Amends AU-C sections 501, 540, and 620 related to the use of specialists and the use of pricing information obtained from external information sources

Adds a new appendix to AU-C 540, "Use of Pricing Information From Third Parties as Audit Evidence," to provide guidance on using such information as audit evidence for estimates related to the fair value of financial instruments

Provides additional guidance on the use of specialists, both auditor's and management's

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Audit Quality Issue Identified: Analytical Procedures

Proper audit procedures were not performed in response to assessed audit risk:

- The auditor did not document engagement expectations when analytical procedures were used as a substantive analytic.
- There was not proper documentation related to expectations or analysis explanations of relationships in the audit work papers.

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Requirements for Substantive Analytical Procedures

AU-C Section 520

- ▶ Determine suitability of substantive analytical procedures for given assertions, considering the assessed RMM and tests of details, if any, for these assertions
- ▶ Evaluate the reliability of data from which the auditor's expectation of amounts is developed
- ▶ Develop an expectation of amounts and ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement
- ▶ Determine the amount of any difference that is acceptable without further investigation, and compare actual amounts with expectations

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Audit Quality Issue Identified: Sampling

Auditor did not document rationale for a sample tested including the basis for the size of the selection, conclusions on the results of the testing, or consideration of untested balance.

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Typical Documentation

- ▶ Test objective
- ▶ Accounts or assertions affected
- ▶ Definition of a deviation/exception
- ▶ Description of the population and sampling unit
- ▶ Desired confidence or assurance level, expected deviations
- ▶ Sample size chosen
- ▶ Sample selection method
- ▶ Selected sample items with clear documentation supporting control and compliance testing



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Key Considerations and Conclusions When Sampling

- Project the results of the sample to the population
- Address factual and projected misstatement amounts
- Aggregate all factual and projected misstatements in other balances and classes to evaluate whether the financial statements as a whole may be materially misstated
- Consider materiality of untested balances within the population
- ▶ Resource: [AICPA Audit Guide, Audit Sampling](#)

AU-C Section 530

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Audit Quality

Documentation and Performance

Presentation and Disclosure

Reporting

Key Takeaways

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Audit Quality Issue Identified: Leases and SBITAs

Lease and subscription assets are not included as a component of capital assets on the face of the financial statements or in the capital assets notes.

Also, when a statistical section is presented for an ACFR, lease and subscription liabilities are not incorporated into the ratios of outstanding debt and total direct debt.

REMINDER: The terms "Capital Lease" and "Operating Lease" are no longer recognized after implementation of GASB Statement No. 87, Leases

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GASB Comprehensive Implementation Guide

▶ 12.52.1.

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 Statement 34, as amended, require disclosure of information about major classes of capital assets, including disclosure of changes in capital assets.

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Disclosures – Leases & SBITAs

- 1 General description of Lease/SBITA arrangements
- 2 Total amount of Lease assets (by class) and subscription assets, related accumulated amortization, separate from other capital assets
- 3 Amount of variable payments not previously included in liability
- 4 Amount of other payments not previously included in liability
- 5 Principal and interest requirements to maturity
- 6 Commitments under Lease/SBITAs before commencement date
- 7 Impairment loss and any related change in lease/subscription liability

For disclosure purposes, SBITAs may be grouped. Disclosure of major classes of subscription assets is not required. Required for GASB Statement No. 87.



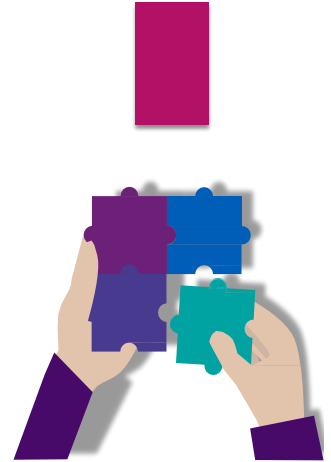
For disclosure purposes, leases and subscription liabilities are not considered debt that is subject to disclosures required in GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.

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Key Considerations For Disclosures

- ▶ Summary of Significant Accounting Policies
 - Modification to basis of accounting
 - Modification to capital assets
 - New Lease/SBITA policy
 - Modification to deferred outflows of resources/deferred inflows of resources (if applicable)



Where to include the new required disclosures

- New Lease/SBITA note; or,
- Modifications to the capital assets, long-term debt, and commitments note

Recently issued GASB Statement No. 104 - Lease assets and intangible right-to-use assets should be disclosed separately by major class in the capital assets note disclosure. SBITAs should also be separately disclosed.

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Example Capital Assets Activity Disclosure

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 29,484	\$ 2,020	\$ (4,358)	\$ 27,146
Construction in progress	2,915	13,220	(14,846)	1,289
Total capital assets not being depreciated	32,399	15,240	(19,204)	28,435
Capital assets being depreciated:				
Buildings and improvements	40,861	334	-	41,195
Equipment	32,110	1,544	(1,514)	32,140
Road network	72,885	10,219	-	83,104
Bridge network	18,775	4,627	-	23,402
Software	2,100	548	(650)	1,998
Lease assets:				
Buildings	25,821	209	-	26,030
Equipment	20,389	2,312	(2,456)	20,245
Subscription assets	5,490	687	(743)	5,434
Total capital assets being depreciated	218,431	20,480	(5,363)	233,548
Less accumulated depreciation for:				
Buildings and improvements	(10,358)	(691)	-	(11,049)
Equipment	(9,247)	(2,676)	1,040	(10,883)
Road network	(12,405)	(823)	-	(13,228)
Bridge network	(2,896)	(197)	-	(3,093)
Software	(543)	(110)	25	(628)
Lease assets:				
Buildings	(7,456)	(596)	-	(8,052)
Equipment	(5,864)	(1,782)	823	(6,823)
Subscription assets	(1,009)	(450)	209	(1,250)
Total accumulated depreciation	(49,778)	(7,325)	2,097	(55,006)
Governmental activities capital assets, net	<u>\$ 201,052</u>	<u>\$ 28,395</u>	<u>\$ (22,470)</u>	<u>\$ 206,977</u>

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Example Disclosures

▶ **Lease and subscription IT liabilities**

▶ A summary of the changes in the lease and subscription IT liabilities during the year ended June 30, 2024 is as follows:

	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Remeasurements</u>	<u>Deductions</u>	<u>Balance end of year</u>	<u>Amounts due within one year</u>
Lease liabilities	\$					
Subscription IT liabilities						
Total	\$					

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Example Disclosures

▶ **Changes in long-term obligations**

▶ Changes in long-term obligations for the year ended June 30, 2024 are as follows :

	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance end of year</u>	<u>Amounts due within one year</u>
Bonds payable					
General obligation bonds	\$				
Special obligation bonds					
Revenue bonds					
Unamortized premiums					
Unamortized (discounts)					
Total bonds payable					
Other long-term obligations					
Certificates of participation					
Workers compensation					
Auto liability					
Pollution remediation obligations					
Net pension liability					
OPEB liability					
Total other long-term liabilities					
Total long-term obligations excluding lease and subscription IT liabilities	\$				
Lease and subscription IT liabilities (Note 7)					
Total long-term obligations as reported in the statement of net position					

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Other Common Issues – Financial Statement Presentation

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

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Other Common Issues – Note Disclosure

- ▶ Missing or inaccurate note disclosures, including:
 - Accounting policy descriptions
 - Capital assets – policies/thresholds inclusion of right to use assets (leased 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
 - Regulated leases
 - Capital Asset Disclosures
 - Long-term Obligations
 - Over disclosing

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Audit Quality Issue Identified: Pension and OPEB Plans

Net Pension or OPEB assets are not reported separately from other net or total pension or OPEB liabilities. Additionally, the effect of plan assets on restricted net position were not properly reported.

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Key Points to Remember – Pension and OPEB Plans

- Aggregated pension liabilities should be displayed separately from aggregated pension assets. [**GASBS 68, ¶21**]
- Aggregated OPEB liabilities should be displayed separately from aggregated net OPEB assets. [**GASBS 75, ¶22**]
- Net pension/OPEB asset is a restricted asset, there should be a restriction of net position for the same amount on the statement of net position. Deferred outflows and inflows of resources should NOT be included in the calculation.

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Other Common Pension and OPEB Plan Reporting Errors

- Pension and OPEB liabilities are not properly reported with long-term liabilities on the financial statements
- Reporting current portions of net pension/OPEB liabilities even though plan net position is not less than the amount of benefits expected to be paid in within a year
- Note disclosures do not include a statement that contributions made after measurement date will reduce net pension/OPEB obligation in subsequent year
- Improper calculations of covered payroll and covered-employee payroll
- Pension and OPEB expense was not disaggregated in the notes to the financial statements

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Audit Quality Issue Identified: Net Investment in Capital Assets

Net investment in capital assets calculation is incorrect, most commonly due to including noncapital assets (cash restricted for capital investment or for maintenance of capital assets) and non-capital related liabilities (portion of outstanding debt related to unspent bond proceeds).

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Net Investment in Capital Assets Reconciliation

GASBS 63, ¶19

- ▶ **GASB Cod. Sec. 2200.118**
- ▶ The *net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

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Net Investment in Capital Assets Calculation

- ▶ Common errors per GFOA:
 - ▶ Not adding back unspent debt proceeds
 - ▶ Omitting retainage payables & construction-related accounts payable
 - ▶ Including accrued interest payable
 - ▶ Omitting deferred inflows and outflows from refundings
 - ▶ Including noncapital liabilities or liabilities not related to the entity's own capital assets
 - ▶ Amount of borrowing is limited to the amount actually spent for capital purposes
 - ▶ Do not include borrowings used to fund debt service reserves

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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 <i>excluding</i> unspent proceeds) ("outstanding capital-related debt")	
Less: Debt used to refund capital-related borrowings, including lease liabilities and subscription liabilities ¹⁹	
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	

Don't Forget –
Leases, SBITAs,
P3s

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Other Common Financial Statement Errors

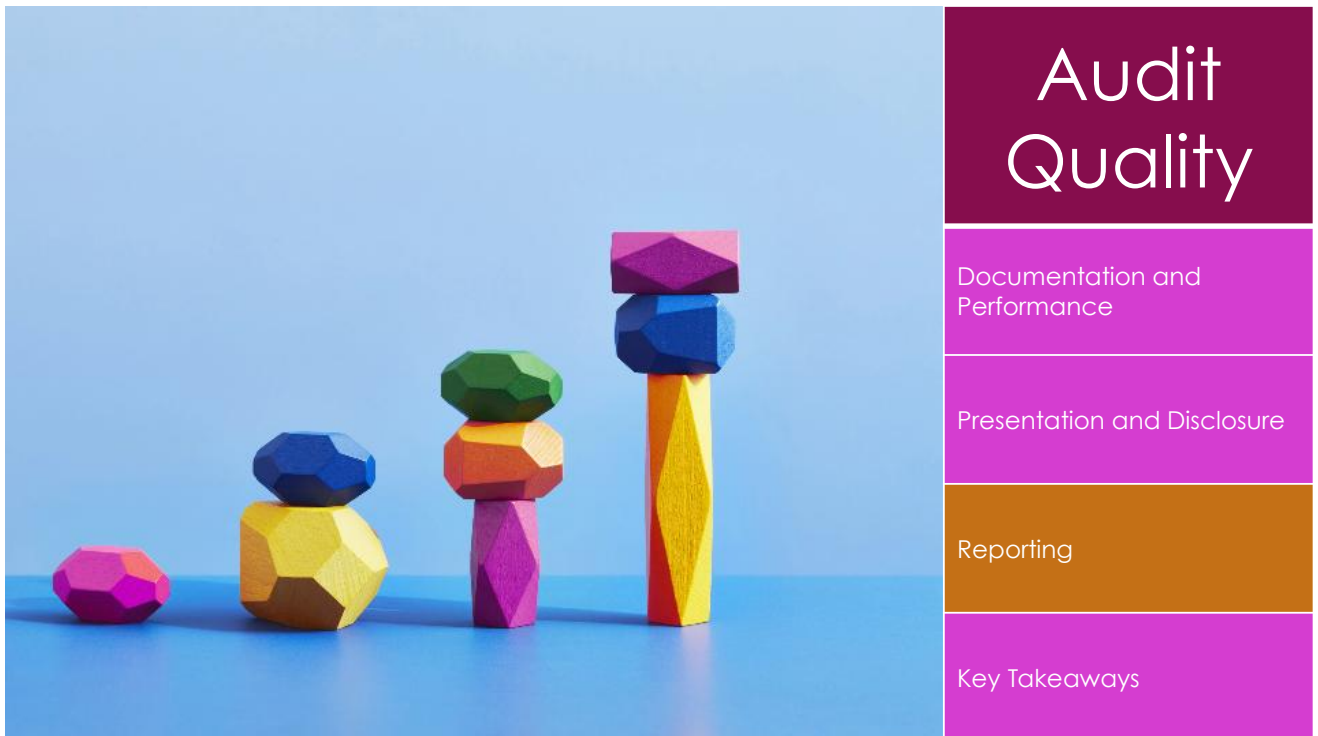
- Interfund borrowings - borrowing fund must have the resources to pay back the lending fund.
- Inappropriate expansion of other financing sources and uses category - only items specifically designated by authoritative standards may be classified as such
- Inappropriate reporting of the entire balance of compensated absences as a current liability
- Failure to report noncash activities in proprietary fund cash flow statements
- Budgetary comparison - must include a reconciliation of the basis of budgeting and GAAP in the budgetary comparison schedule or related notes
- Failure to include combining statements for major component units somewhere within the basic financial statements or notes
- Errors in major fund determination and presentation

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Other Common Financial Statement Disclosure Errors

- Insufficient information for the justification for including component units
- Missing components of debt disclosures, such as defeased debt outstanding, conduit debt outstanding, details of advance/current refundings, details of pledged revenues, and short-term debt
- Lack of disclosure of which funds liquidate each long-term liability other than debt (~~Compensated Absences~~, Claims and judgments, Termination benefits, Pension and OPEB liabilities, etc.)
- Missing general description of the principal purposes of the government's interfund balances and transfers
- Incomplete disclosure of investment policies
- Purpose of each major special revenue fund

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Audit Quality Issue Identified: Financial Reporting

The Auditor's Report did not include proper language relevant to the audit.

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Common Financial Reporting Errors

- Missing reference to all applicable opinion unit(s)
- Misuse of "opinion" vs "opinions" and "year" vs "years"
- Missing reference to predecessor auditor and/or component auditor when applicable
- Problems with RSI, SI and OI wording
- Missing GAGAS references

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Auditor's Report Reminder:

SAS No. 134 and SAS Nos. 136-140 amending the auditor reports were effective for periods ending on or after December 15, 2021

Audit Quality Issue Identified: MD&A

Management's discussion and Analysis (MD&A) was not properly reported in the financial statements.

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Common Financial Reporting Errors

- Scope of analysis is too narrow
 - MD&A must provide needed analysis for both the government-wide financial statements and the individual major fund financial statements
- Missing the third year when comparative FS are presented
- "Why" versus "What"
 - Narrative analysis of changes between both sets of years is mandatory
- Discussion of capital assets and long-term debt activities
 - Charts and tables do not replace the required narrative
- Discuss differences resulting from implementation of new GASB pronouncements
- Appropriate number of years are not presented

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MD&A Reminder:

Recently issued GASB Statement No. 103, *Financial Reporting Model Improvements*, improves key requirements related to MD&A

Audit Quality

Documentation and Performance

Presentation and Disclosure

Reporting

Key Takeaways

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Key Overall Takeaways

- Accept only engagements that you are competent to perform
- Use practice aids and Audit and Accounting Guides that are up to date
- Make sure the engagement team is your "A" team (and "A" doesn't stand for "available")
- Establish policies requiring engagement partners to take robust government specific continuing professional education
- Consider the engagement team's experience and government specific education
- ³⁵ Engage a knowledgeable third party where appropriate



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Key Overall Takeaways – Quality Control Policies

Review your quality control policy manual to ensure it is in compliance with the AICPA *Quality Management Standards*, in particular QM Section 10, *A Firm's System of Quality Management*

Look ahead and plan to incorporate the new quality management standards that will be effective December 15, 2025. The AICPA has made available several [Quality Management resources](#).

Provide appropriate resources for consultations and ensure that engagement teams perform appropriate consultations throughout the engagement

Consider the need for EQCR and use EQCR criteria that are appropriate in light of the risks of operating in this area

If you are a firm or state audit organization that has not joined the GAQC, consider doing so

- See information about the GAQC in the later resources section

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Key Overall Takeaways – CPE and Training

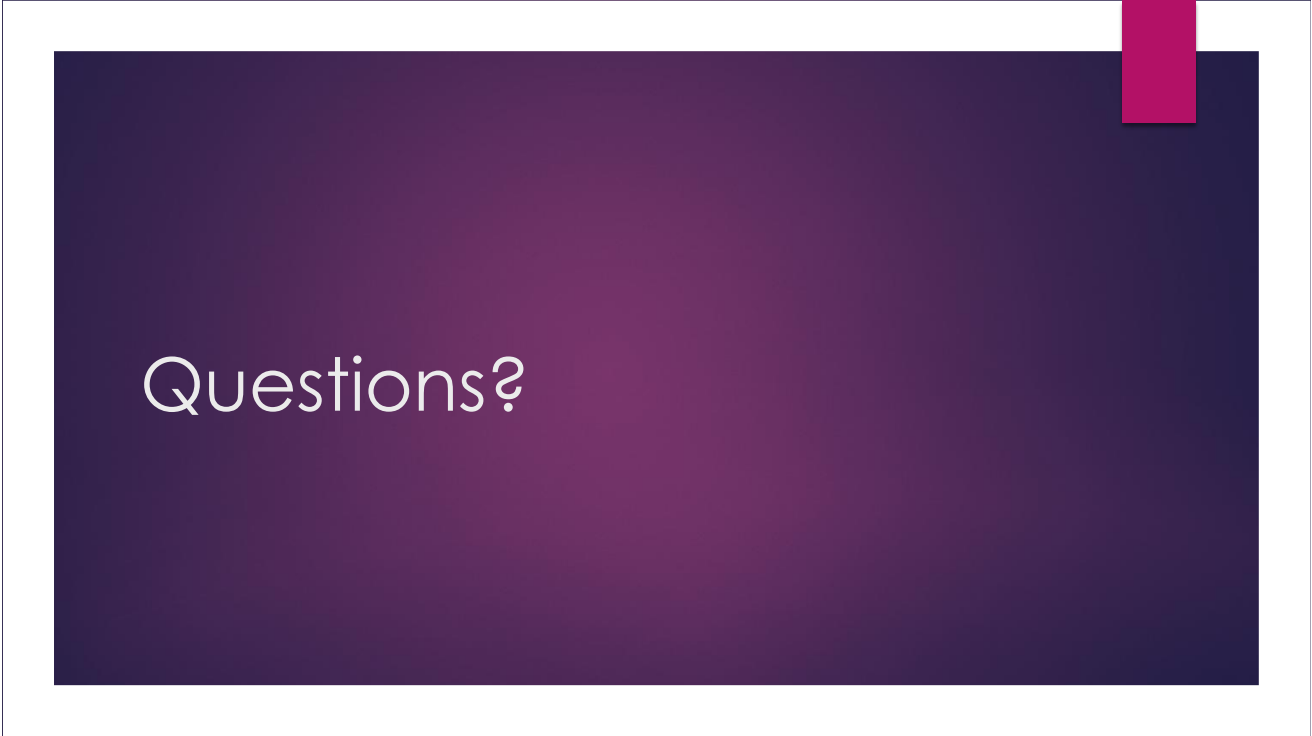
Obtain appropriate CPE for staff each year and ensure competency

- Attend government specific audit training (e.g., GAQC Web events are a great resource)
- Make sure staff understand governmental audit fundamentals
- Utilize [peer review checklists](#) to assist in reviewing governmental audit engagements

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Drugs

Types of activity – OPIOID Settlements

- ▶ Considerations:
 - ▶ Party to the settlement – Is the govt named? If so Exchange Transaction
 - ▶ GASB TB 2004-1 – Tobacco Settlement Trust – equivalent guidance to identify exchange transaction
 - ▶ Govt not named – OAG and Opioid Abatement Board will be awarding grants – Nonexchange
 - ▶ <https://www.oag.ok.gov/opioid-abatement-board>
 - ▶ \$23,000,000 in available grant award funding - \$1,250,000 in reserve for appeals from grant awards
 - ▶ Deadline for Applications March 8, 2024
 - ▶ Expected funding roll out Later April-May 2024

Tier Number	Maximum available funding
Tier 1 (up to 15,000 in population)	\$60,000
Tier 2 (15001-100,000)	\$125,000
Tier 3 (100,001 or more)	\$250,000

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Considerations on recognition - Exchange

- ▶ Govt. Funds – Typically long-term receivable with the offset being to Deferred inflow (less any collectable within period of availability).
 - ▶ Full accrual Rec & Rev
 - ▶ Measurable? Collectable? Material?
 - ▶ Program Revenues – Exchange – Charge for Service (future note - grants awarded when recognized its nonexchange and would be an operating grant & contribution)
- ▶ Fund Balance – Long-Term Receivables settlement states restrictions on use “opioid remediation efforts, etc” - therefore any impact on fund balance would be restricted vs non-spendable.

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Questions?

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**UPDATE ON THE NEW CITY/TOWN AGREED
UPON PROCEDURE ENGAGEMENTS,
REGULATIONS, PROCEDURES, AND THE
AUDIT REFORM ACT OF 2022 REFRESHER**

May 8, 2026

Presented by Frank Crawford, CPA

New Rules Related to Audits and Agreed-Upon Procedures Engagements for Oklahoma Municipalities, plus a case study example report

OSCPA GAA Conference
May 7-8, 2026
Presented by – Frank Crawford, CPA



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- * Website: www.crawfordcpas.com



2

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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

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Types of Audits

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



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Statutes Related to Audits

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



6

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House Bills 1058 and 2362

- * 1058 passed, was signed by Gov in 2023; Legislature then passed HB 2362 in June 2024, then signed by Gov, with an effective date of November 1, 2024
- * Causes significant changes to nearly all the aspects of the Title 11 current law (and Title 60 by reference)
 - * Changed threshold limits of how much and what to include as revenue
 - * Certain size governments qualify for biennial audits instead of annual audits or biennial AUPs instead of annual AUPs, each of which include 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); see procedures on subsequent slides
 - * It also set up a fund for the State Auditor's office to utilize for special investigative audits of municipalities, funded primarily by the municipalities who forfeited their gas excise taxes (depending upon the lateness of the audit or AUP), and other funds provided for such by the Oklahoma Legislature



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HB 1058 and 2362 Cities and Towns: how it affects FY 2024 and FY 2025 audits and AUPs

- * 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



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HB 1058 and 2362 Cities and Towns: how it affects FY 2024 and FY 2025 audits and AUPs

- * 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 AUP procedures were 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



9

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HB 1058 and 2362 Cities and Towns: how it affects FY 2024 and FY 2025 audits and AUPs

- * 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 summary



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HB 1058 and 2362 Cities and Towns: how it affects FY 2024 and FY 2025 audits and AUPs

* 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



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HB 1058 and 2362 Cities and Towns: how it affects FY 2024 and FY 2025 audits and AUPs

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

- * In order to spread the implementation efforts by auditors, the State Auditor put out guidance shortly after June 30, 2024 that divided cities and towns into two groups, those whose city/town names begin with the letters A-F, and those that begin with G-Z
- * It was determined that those cities/towns whose name begins with the letters A-F would implement the new law for the June 30, 2024 year, with only a single year presentation (even though the law called for biennial audit/aup)
- * The effective date for the new law for all A-F governments was to be for all audits and AUPs for the June 30, 2024 year **IF** the government had not engaged an auditor to do the work until **AFTER** the November 1, 2024 effective date of the law
- * If an A-F government with a June 30, 2024 year end had already engaged an auditor to do the audit/aup prior to the November 1, 2024 effective date of the law, the prior audit/aup laws would have still applied (the old law and old list of procedures)



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HB 1058 and 2362 Cities and Towns: how it affects FY 2024 and FY 2025 audits and AUPs

- * A few other items of the laws to note, cont.
 - * For all cities/towns whose name begins with the letters G-Z, they would get to temporarily skip the audit/aup requirements for the June 30, 2024 year, **however**, in the June 30, 2025 year, their audit/aup would be required to be performed over **both** years, June 30, 2024 AND June 30, 2025
 - * Then, for the June 30, 2026 year end, all A-F cities/towns will finally have their first biennial audit/aup, which will include the June 30, 2025 year and the June 30, 2026 year
 - * After that, the alternative cycles will then continue based on the lettering of the city/town
 - * So you may now be thinking, could we have made it any more confusing? Answer, yes! Let's look at the new AUP procedures and contrast them to the previous AUP procedures



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A quick note about the prior law AUP procedures

- * Those older procedures would have been in effect for auditors performing audits of the smaller governments for the June 30, 2024 year IF and only IF they had an engagement letter for the work that was signed and dated prior to the November 1, 2024, the effective date of the law
- * Note they were very “schedule-driven” procedures, focusing more on compliance with various aspects of municipal finance-related laws, whereas the new procedures are focused more on potential frauds and less schedule-driven

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In a moment, we will take a look at the new procedures on some of the following slides

- * Remember, these new AUP procedures were in effect for the June 30, 2024 fiscal year for all A-F governments ONLY if you had an engagement letter that was signed and dated PRIOR to November 1, 2024, however the auditor will only perform the procedures over that single year, June 30, 2024
- * These new AUP procedures will be applicable to all June 30, 2025 cities/towns with city/town names that begin with the letters G-Z, AND they will require the auditor to perform the AUP procedures over BOTH years, June 30, 2024 and June 30, 2025
- * And lastly, these new AUP procedures will be applied to both fiscal years of the A-F governments starting in FY 2026 (covering both FY 2025 and FY 2026)

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But first, issues that have arisen since implementation

- * Gas Excise Tax withholdings
 - * Remember the rule about not filing and audit or AUP within 2 years of your report date made you FORFEIT your gas excise tax? All of these biennial AUPs are literally forcing the municipal governments to give up their gas excise tax to the State Auditor's forensic investigation fund
- * Findings not being reported timely
 - * If you had findings in the AUP, even significant ones, there is a chance that the governing body may not even hear about them for 2+ years due to the biennial requirement

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But first, issues that have arisen since implementation

- * OML and the State Legislature authored new legislation this legislative session to move the AUP requirements back to an annual requirement and shorten the filing of the AUP back to 6 months from its current 9 months, but it died in committee last week and can't be brought up again until next year
- * Several firms have asked if they can continue to do annual AUPs for their clients, which of course they can, but it will no relieve them of their duties to do the biennial AUP when it is time, nor is there a filing requirement with the state auditor for an annual AUP at this time

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New 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

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New 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

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New 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

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New 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

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New 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

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New 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

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New AUP Procedures

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

24

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New AUP Procedures

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

25

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New AUP Procedures

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

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Example report

* Now let's take a look at an example biennial report

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QUESTIONS



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THE TOWN OF EXAMPLE, OKLAHOMA

**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURES**

**AS OF AND FOR THE FISCAL YEARS ENDED
JUNE 30, 2024 AND JUNE 30, 2025**

To the Specified Users of the Report:

Board of Trustees, Town of Example
Example, Oklahoma

Trustees of the Example Public Works Authority
Example, Oklahoma

Oklahoma Office of State Auditor and Inspector
Oklahoma City, Oklahoma

Report on Applying Agreed-Upon Procedures

We have performed the procedures enumerated below which were agreed to by the specified users of the report as identified above, and as defined within the applicable state laws of the State of Oklahoma solely to assist the Town and Public Works Authority in meeting its financial accountability requirements as prescribed by applicable Oklahoma law and evaluating compliance with specified legal or contractual requirements for the fiscal years ended June 30, 2024 and June 30, 2025. Management of the Town of Example (the Town) and the Example Public Works Authority (the Authority) are responsible for the Town's and the Authority's financial accountability and its compliance with those legal and contractual requirements.

The Town and the Authority have agreed to and acknowledge that the procedures performed are appropriate to meet the intended purpose of meeting their financial accountability requirements as prescribed by applicable Oklahoma law and evaluating compliance with specified legal or contractual requirements for the fiscal years ended June 30, 2024 and June 30, 2025. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Procedures and Findings

As to the Town of Example as of and for the fiscal years ended June 30, 2024 and June 30, 2025:

1. **Procedures Performed:** From the Town's trial balances, we prepared a cash basis schedule of changes in fund balances for each fund for each year (see accompanying Exhibit 1) and compared the schedules results to the statutory prohibition of creating fund balance deficits to report any observed instances of noncompliance.

Results for FY 2024: No instances of noncompliance observed.

Results for FY 2025: No instances of noncompliance observed.

Town of Example and Example Public Works Authority
Page 2

- 2. Procedures Performed:** We agreed the Town's material fiscal year-end bank account balances to bank statements, and traced the timely clearance of significant reconciling items to report any significant or unusual instances of reconciling items that have not cleared. Additionally, we determined if any bank accounts exist that are not under Town Board purview.

Results for FY 2024: We noted no significant or unusual instances of reconciling items that had not cleared, and no bank accounts that are not under Town Board purview.

Results for FY 2025: We noted no significant or unusual instances of reconciling items that had not cleared, and no bank accounts that are not under Town Board purview.

- 3. Procedures Performed:** We compared the Town's uninsured deposits at fiscal year-end to the fair value of pledged collateral to report any amounts of uninsured and uncollateralized deposits.

Results for FY 2024: At June 30, 2024, all deposits were covered by FDIC.

Results for FY 2025: At June 30, 2025, all deposits were covered by FDIC.

- 4. Procedures Performed:** We haphazardly selected two (2) months of bank statements in each year of the General Fund and confirmed cash deposits were made in the appropriate account(s) and verified receipts and/or posting reports agree to the daily deposits.

Results for FY 2024: We obtained and reviewed the July and May bank statements. Due to the nature of activity accounted for in the General Fund, there were no cash receipts.

Results for FY 2025: We obtained and reviewed the July and December bank statements. Due to the nature of activity accounted for in the General Fund, there were no cash receipts.

- 5. Procedures Performed:** We inquired of various Town staff if any instances of known fraud, illegal acts, or noncompliance with law and regulations have occurred.

Results for FY 2024: The current town administrator and clerk/treasurer were not employed during FY 2024. There were no concerns with the exception of the results from Procedure 9 related to debit cards.

Results for FY 2025: No instances were voiced or observed with the exception of the results from Procedure 9 related to the debit cards.

- 6. Procedures Performed:** We compared the Town's use of material restricted revenues and resources to their restrictions to report any observed instances of noncompliance.

Results for FY 2024: No instances of noncompliance were observed.

Results for FY 2025: No instances of noncompliance were observed.

7. **Procedures Performed:** We determined the establishment of policies related to adjustments, write-downs, or write-offs for various receivables due to the municipality and selected a sample of adjustments to test for adherence to policies and for appropriate supporting documentation.

Results for FY 2024: The Town did not have any material receivables that had adjustments to their balance.

Results for FY 2025: The Town did not have any material receivables that had adjustments to their balance.

8. **Procedures Performed:** For the following four positions: town administrator, town clerk, town treasurer and payroll clerk, we obtained the authorized and documented payrate by the governing body. We inquired of the payroll clerk or equivalent if any employees received compensation over and above their authorized salary or hourly rate and traced it to appropriate documentation of authorization of such pay.

Results for FY 2024: We haphazardly selected September and March to obtain paystubs and trace the payrate to the authorized documentation. The town clerk/treasurer was paid partially out of the General Fund and partially out of the PWA. No instances of noncompliance were voiced or observed. In November 2023, the clerk/treasurer received a \$500 bonus. No documentation could be provided to verify the authorization for this compensation.

Results for FY 2025: We haphazardly selected October and January to obtain paystubs and trace the payrate to the authorized documentation. During the fiscal year, the interim town clerk/treasurer served from 8/19/24-10/26/24. The elected town clerk/treasurer started in April 2025. For the October payroll, there was no documentation provided for the interim town clerk/treasurer's authorized payrate.

9. **Procedures Performed:** We determined the establishment of policies of use of debit and/or credit cards and selected a sample of transactions to test for supporting documentation, proper municipal purpose, and adherence to prescribed policies.

Results for FY 2024: The Town had debit cards for the General Fund, Fire, Community Center and Street and Alley bank accounts. There was not a known policy for the use of debit cards. We inquired about the supporting documentation for the transactions during the months of September and June totaling \$2,554. Receipts for these transactions could not be found due to lack of documentation kept by the treasurer at this time.

Results for FY 2025: The Town had debit cards for the General Fund, Fire, Community Center and Street and Alley bank accounts. There was not a known policy for the use of debit cards. Due to embezzlement with the PWA debit card, the Town deactivated all debit cards early in the fiscal year. We verified that there were no debit card transactions by reviewing the August and September bank statements. The amount of embezzlement is noted in Procedure 9 in the PWA section of this report.

Town of Example and Example Public Works Authority
Page 4

As to the Example Public Works Authority, as of and for the fiscal years ended June 30, 2024 and June 30, 2025:

1. **Procedures Performed:** From the Authority's trial balances, we prepared a cash basis schedule of changes in fund balances for each year (see accompanying Exhibit 1) and compared the schedules results to the statutory prohibition of creating fund balance deficits to report any observed instances of noncompliance.

Results for FY 2024: No instances of noncompliance were observed.

Results for FY 2025: No instances of noncompliance were observed.

2. **Procedures Performed:** We agreed the Authority's material fiscal year-end bank account balances to bank statements, and traced the timely clearance of significant reconciling items to report any significant or unusual instances of reconciling items that have not cleared. Additionally, we determined if any bank accounts exist that are not under Authority's purview.

Results for FY 2024: We noted no significant or unusual instances of reconciling items that had not cleared, and no bank accounts that are not under Authority's purview.

Results for FY 2025: We noted no significant or unusual instances of reconciling items that had not cleared, and no bank accounts that are not under Authority's purview.

3. **Procedures Performed:** We compared the Authority's uninsured deposits at fiscal year-end to the fair value of pledged collateral to report any amounts of uninsured and uncollateralized deposits.

Results for FY 2024: At June 30, 2024, all deposits were covered by FDIC.

Results for FY 2025: At June 30, 2025, all deposits were covered by FDIC.

4. **Procedures Performed:** We haphazardly selected two (2) months of bank statements in each year of the utility fund and confirmed cash deposits were made in the appropriate account(s) and verified receipts and/or posting reports agree to the daily deposits.

Results for FY 2024: We obtained and reviewed the July and May bank statements and agreed the cash collections to the daily deposit reports. All cash deposits were made in the appropriate accounts and agreed to the deposit reports.

Results for FY 2025: We obtained and reviewed the July and December bank statements and agreed the cash collections to the daily deposit reports. All cash deposits were made in the appropriate accounts and agreed to the deposit reports.

5. **Procedures Performed:** We inquired of various Authority staff if any instances of known fraud, illegal act, or noncompliance with law and regulations have occurred.

Results for FY 2024: The current town administrator and clerk/treasurer were not employed during FY 2024. There were no concerns with the exception of the results from Procedure 9 related to debit cards.

Results for FY 2025: No instances were voiced or observed with the exception of the results from Procedure 9 related to the debit cards.

6. **Procedures Performed:** We compared the Authority's use of material restricted revenues and resources to their restrictions to report any observed instances of noncompliance.

Results for FY 2024: No instances of noncompliance were observed.

Results for FY 2025: No instances of noncompliance were observed.

7. **Procedures Performed:** We determined the establishment of policies related to adjustments, write-downs, or write-offs for various receivables due to the municipality and selected a sample of adjustments to test for adherence to policies and for appropriate supporting documentation.

Results for FY 2024: The Authority does not have an official written policy for adjustments to utility receivables. The accounting system in place during this time did not track adjustments, therefore, there was not a report to select a sample from.

Results for FY 2025: The Authority does not have an official written policy for adjustments to utility receivables. In FY 2025, the Authority switched to a new accounting system that has the capability to track and prepare adjustment reports. If an adjustment is needed, there is a note put in for that account as to why the adjustment was made and by who. We looked at the March adjustments and no unusual instances were noted.

8. **Procedures Performed:** For the following four positions: town administrator, town clerk, town treasurer and payroll clerk, we obtained the authorized and documented payrate by the governing body. We inquired of the payroll clerk or equivalent if any employees received compensation over and above their authorized salary or hourly rate and traced it to appropriate documentation of authorization of such pay.

Results for FY 2024: We haphazardly selected September and March to obtain paystubs and trace the payrate to the authorized documentation. The town clerk/treasurer was paid partially out of the General Fund and partially out of the PWA. No instances of noncompliance were voiced or observed.

Results for FY 2025: We haphazardly selected October and January to obtain paystubs and trace the payrate to the authorized documentation. The town administrator was hired in December 2024 and is paid from the PWA. No instances of noncompliance were voiced or observed. There was a \$250 bonus received by the Town Administrator in December. Proper authorization for this compensation was verified.

- 9. Procedures Performed:** We determined the establishment of policies of use of debit and/or credit cards and selected a sample of transactions to test for supporting documentation, proper municipal purpose, and adherence to prescribed policies.

Results for FY 2024: The Authority has a debit card for the Public Works bank account. There was not a known policy for the use of debit cards. We inquired of supporting documentation for the transactions during the months of September and June. The receipts for these transactions could not be found. The treasurer during this time was charged with embezzlement using the Public Works Authority debit card from August 2022-August 2024. She was charged with making questionable purchases from retail stores, online stores and paying personal water bills totaling more than \$6,000. She plead guilty and is paying restitution.

Results for FY 2025: The Authority has a debit card for the Public Works bank account. There was not a known policy for the use of debit cards. Due to the realization of embezzlement from August 2022-August 2024, the Town deactivated all debit cards. We verified the debit card was no longer being used by reviewing bank statements. The last transaction for the use of the debit card appeared to be in September 2024.

As to the Town of Example and Example Public Works Authority grant programs, as of and for the fiscal years ended June 30, 2024 and June 30, 2025:

- 1. Procedures Performed:** From the Town and Authority's trial balances, we prepared schedules of grant activity for each grant/contract (see accompanying Exhibit 2) and compared the receipts and disbursements to grant agreements and supporting information to report any observed instances of noncompliance with the grant agreement.

Results for FY 2024: No instances of noncompliance were observed by the Town and the Authority.

Results for FY 2025: No instances of noncompliance were observed by the Town and the Authority.

We were engaged to conduct this agreed-upon procedures engagement in accordance with the attestation standards established by the American Institute of Certified Public Accountants to meet the requirements prescribed in Oklahoma Statutes §11-17.105-.107 and §60-180.1-.3, as amended. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the Town or the Authority meeting their financial accountability requirements as prescribed by applicable Oklahoma law and evaluating compliance with specified legal or contractual requirements for the fiscal years ended June 30, 2024 and June 30, 2025. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the Town and the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

Town of Example and Example Public Works Authority
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This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.

Crawford & Associates, P.C.

Crawford & Associates, P.C.
April 30, 2026



EXHIBIT 1
TOWN OF EXAMPLE AND EXAMPLE PUBLIC WORKS AUTHORITY
SUMMARY OF CHANGES IN FUND BALANCES - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2024

	<u>Beginning of Year Fund Balances</u>	<u>Current Year Change</u>	<u>End of Year Fund Balances</u>
TOWN			
General Fund	\$ 74,217	\$ 4,152	\$ 78,369
Street & Alley Fund	650	(185)	465
ARPA Fund	9,993	(9,980)	13
Volunteer Fire Department Fund	21,618	8,132	29,750
Town Subtotal	<u>106,478</u>	<u>2,119</u>	<u>108,597</u>
EXAMPLE PUBLIC WORKS AUTHORITY			
PWA	130,203	5,427	135,630
EPWA Subtotal	<u>130,203</u>	<u>5,427</u>	<u>135,630</u>
Overall Totals	<u>\$ 236,681</u>	<u>\$ 7,546</u>	<u>\$ 244,227</u>

EXHIBIT 1
TOWN OF EXAMPLE AND EXAMPLE PUBLIC WORKS AUTHORITY
SUMMARY OF CHANGES IN FUND BALANCES - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2025

	<u>Beginning of Year Fund Balances</u>	<u>Current Year Change</u>	<u>End of Year Fund Balances</u>
TOWN			
General Fund	\$ 78,369	\$ 3,993	\$ 82,362
Street & Alley Fund	465	(230)	235
ARPA Fund	13	(13)	-
Volunteer Fire Department Fund	29,750	14,591	44,341
Town Subtotal	<u>108,597</u>	<u>18,341</u>	<u>126,938</u>
EXAMPLE PUBLIC WORKS AUTHORITY			
PWA	135,630	(40,193)	95,437
EPWA Subtotal	<u>135,630</u>	<u>(40,193)</u>	<u>95,437</u>
Overall Totals	<u>\$ 244,227</u>	<u>\$ (21,852)</u>	<u>\$ 222,375</u>

See independent accountant's report on agreed-upon procedures.

EXHIBIT 2

TOWN OF EXAMPLE, OKLAHOMA
 SCHEDULE OF GRANT ACTIVITY - CASH BASIS
 Year Ended June 30, 2024

	<u>Fire Operational Grant</u>	<u>Fire Grant</u>	<u>2024 REAP Contract #242242</u>	<u>Coronavirus State and Local Fiscal Recovery Funds</u>
Awarding agency	Oklahoma Department of Agriculture	Southern Oklahoma Development Authority	Association of South-Central Oklahoma Governments	U.S. Department of Treasury
ALN	N/A	N/A	N/A	21.027
Award Amount	\$ 9,994	\$ 645	\$ 45,000	\$ 67,563
Program Budget	9,994	645	48,550	67,563
Current Year Activity				
Current Year Receipts:				
Received from agency	9,994	645	45,000	-
Received from local match	<u>-</u>	<u>-</u>	<u>3,550</u>	<u>-</u>
Total current year receipts	9,994	645	48,550	-
Current Year Disbursements	9,994	645	48,550	9,988
Beginning of Year Unexpended Grant Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,988</u>
End of Year Unexpended Grant Funds	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Program To-Date Activity				
Program To-Date Receipts:				
Received from agency	9,994	645	45,000	67,561
Received from local match	<u>-</u>	<u>-</u>	<u>3,550</u>	<u>-</u>
Total program To-Date Receipts	9,994	645	48,550	67,561
Program To-Date Disbursements	<u>9,994</u>	<u>645</u>	<u>48,550</u>	<u>67,561</u>
Program To-Date Unexpended Grant Funds	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See independent accountant's report on agreed-upon procedures.

**TOWN OF EXAMPLE, OKLAHOMA
SCHEDULE OF GRANT ACTIVITY - CASH BASIS
Year Ended June 30, 2025**

	<u>Fire Operational Grant</u>	<u>Fire Grant</u>	<u>2025 REAP Contract #252249</u>	<u>Public Works Safety Equipment Grant</u>
Awarding agency	Oklahoma Department of Agriculture	Southern Oklahoma Development Authority	Association of South-Central Oklahoma Governments	Oklahoma Municipal Assurance Group
ALN	N/A	N/A	N/A	N/A
Award Amount	\$ 10,017	\$ 645	\$ 22,000	\$ 2,000
Program Budget	10,017	645	25,600	3,000
Current Year Activity				
Current Year Receipts:				
Received from agency	10,017	645	22,000	2,000
Received from local match	-	-	3,600	1,000
Total current year receipts	10,017	645	25,600	3,000
Current Year Disbursements	10,017	645	25,600	3,000
Beginning of Year Unexpended Grant Funds	-	-	-	-
End of Year Unexpended Grant Funds	-	-	-	-
Program To-Date Activity				
Program To-Date Receipts:				
Received from agency	10,017	645	22,000	2,000
Received from local match	-	-	3,600	1,000
Total program To-Date Receipts	10,017	645	25,600	3,000
Program To-Date Disbursements	10,017	645	25,600	3,000
Program To-Date Unexpended Grant Funds	\$ -	\$ -	\$ -	\$ -

See independent accountant's report on agreed-upon procedures.



PANEL Q AND A

May 8, 2026

*Presented by Frank Crawford, CPA, Mick Dodson,
Chris Pembroke, CPA and Jacob Winkler, CPA*