

Basic Training for Financial Managers



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Your Presenter

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The Opinions expressed during this presentation are my own. They do not necessarily represent the views of the Comptroller, his representatives, or the Department of Audit.

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GASB Standards

- **Effective for FYE 6/30/14:**
 - GASB 65, Items Previously Reported as Assets and Liabilities
 - GASB 66, Technical Corrections
 - GASB 67, Financial Reporting for Pension Plans
 - GASB 70, Accounting and Reporting for Nonexchange Financial Guarantees
- **Effective for FYE 6/30/15:**
 - GASB 68, Accounting and Financial Reporting for Pensions
 - GASB 69, Government Combinations and Disposals of Government Operations
 - GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date

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Today's Presentation

- **Everything you never wanted to know about Pension Accounting and Auditing and never intended to ask but are forced to listen to again because of the serious reality of GASB's new Pension Standards, and**
- **to get CPE.**

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NO. 327-B | JUNE 2012
Governmental Accounting Standards Series

Statement No. 67 of the
Governmental Accounting
Standards Board

Financial Reporting for Pension Plans

an amendment of GASB Statement No. 25



Statement 67
Financial Reporting for Pension
Plans

NO. 327-C | JUNE 2012
Governmental Accounting Standards Series

Statement No. 68 of the
Governmental Accounting
Standards Board

Accounting and Financial Reporting
for Pensions

an amendment of GASB Statement No. 27



Statement 68
Accounting and Financial Reporting
for Pensions

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Statement 67
Financial Reporting for Pension Plans

Statement 68
Accounting and Financial Reporting for Pensions

Statement 71 (not pictured)
Pension transition for contributions made subsequent to the measurement date

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The New GASB Pension Standards

- **GASB's Pensions Project**
 - March 2009: GASB issues "Invitation to Comment"
 - June 2010: GASB issues "Preliminary Views" (PV)
 - July 2011: GASB issues two Exposure Drafts
 - Summer 2012: GASB Releases two final standards
- **Effective dates**
 - For plan reporting: plan years beginning after June 15, 2013 (i.e. July 1, 2013 to June 30, 2014 for fiscal year plans, or 2014 for calendar year)
 - For employer reporting: fiscal years beginning after June 15, 2014 (i.e. July 1, 2014 to June 30, 2015)

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GASB Opening Thoughts

- Financial statement recognition and disclosures don't create pension obligations; instead, they simply make existing obligations more transparent.
- Collectively, the changes in Statements 67, 68, and 71, represent major improvements in public pension reporting, and will make pensions more understandable and comparable.

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Some Basic Definitions

- **GASB 67 and 68 only apply to pensions provided through "Trusts" that meet the following criteria:**
 - Contributions are irrevocable
 - Plan assets are dedicated to providing pensions
 - Plan assets are legally protected from creditors
- **Another standard is planned for non 68 plans (Technical Agenda later).**

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Some Basic Definitions

- **Definition of a Liability under GASB Concept Statement # 4.**

- Assets are resources with present service capacity that the government presently controls.
- Liabilities are present obligations to sacrifice resources that the government has little or no discretion to avoid.
- A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period.
- A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period.

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Some Basic Definitions of Defined Benefit Plans

- **Single Employer Plan**
 - A plan that is only open to one employer or multiple departments /functions within one employer
- **Agent Multiple – Employer Plan**
 - A plan that includes more than one employer
 - Assets pooled for investment purposes
 - Separate account exists for *each* employer
 - Employer's assets can *only be used to pay for that employer's benefits* (and no others)
- **Cost Sharing Multiple – Employer Plan**
 - A plan that includes more than one employer
 - Assets and liabilities are pooled
 - All assets are available to pay for all benefits

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GASB Objectives and Goals

Focus on FINANCIAL REPORTING not operations

- GASB establishes accounting and financial reporting standards, not funding policies
- Focus on pension obligation, changes in obligation, and attribution of expense (Gauthier, mortgage example)

Assume Governments Last Longer than 1 year

Unlike Businesses

- Cost of services to long-term operation (interest rates)
- “**Interperiod equity**” (Concept Statement 1), matches current period resources and costs

Use Federal Guidance (US DOL / SSA) on Who is an Employee and Who they Work For

- Employer incurs an obligation to its employees for pension benefits
- Transaction is in context of a career-long relationship

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GASB’S Main Issues

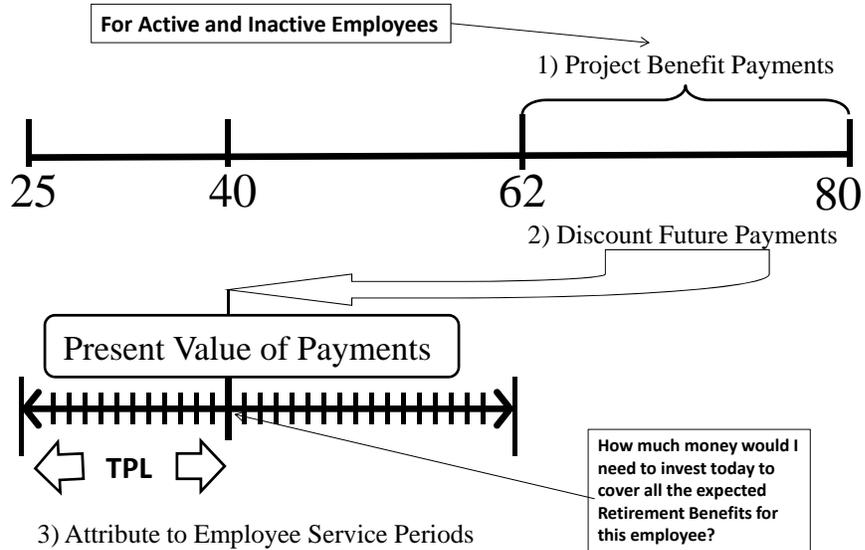
Five Main Issues in the new standards

1. Placing the Net Pension Liability on the Balance Sheet
2. Decoupling Expense from Funding
3. Accounting for Cost-Sharing Plans
4. Expanding Disclosure Information (Notes & RSI)
5. Timing of Measurements, Effective Dates

Implementation Guides and AICPA Audit Guidelines

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The Basic Three-Step Approach for Defined Benefit Pensions



Five Important Issues

Issue #1

Net Pension Liability Reported on Statement of Net Position

- Net Pension Liability (NPL)
 - Total pension liability (TPL) minus plan assets at market value (“plan net position”)
 - TPL uses new “blended” discount rate and “Entry age” cost method (**change for TCRS**)
 - Similar to Unfunded Actuarial Accrued Liability (UAAL) but using market assets, not “smoothed” assets
 - Note 5-year asset smoothing still allowed (in determining pension expense), but reported separately
 - NPL must be reported on the employer’s balance sheet
 - Currently, UAAL is reported in the Required Supplementary Information (RSI)
 - Currently, only the Net Pension Obligation (NPO) is reported on the balance sheet
 - Cumulative difference between annual required contribution (ARC) and actual contributions

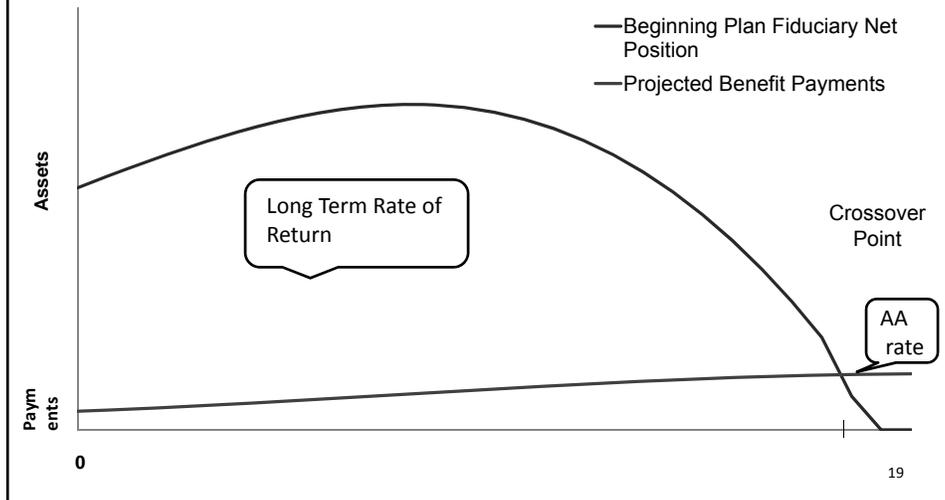
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The New “Blended” Discount Rate

- Discount rate is based on projected benefits, current assets, and projected assets for current members
 - Projected assets include future contributions that fund benefits for current members
 - Projected assets do not include employer or employee contributions that fund service cost for future employees
 - For projected benefits that are covered by projected assets
 - Discount using long-term “expected” rate of return on assets
 - For projected benefits that are not covered by projected assets (i.e., after the “cross-over date”)
 - Discount using yield on 20-year AA/Aa tax-exempt municipal bond index
 - Solve for a single rate that gives the same total present value
 - Use that single equivalent rate to calculate the total pension liability (TPL)

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What is this thing called the Crossover Point?



So What?

- Simple- the lower the interest rate, the higher the liability
 - Private Sector uses “risk free rate of return” – (high quality corporate bond rate), **what’s yours?**
 - It’s what changed most private sector pensions to defined contribution (401k plans) by 1990
 - Equation is what took an extra year of GASB deliberation and meetings with public sector employer groups to hammer out

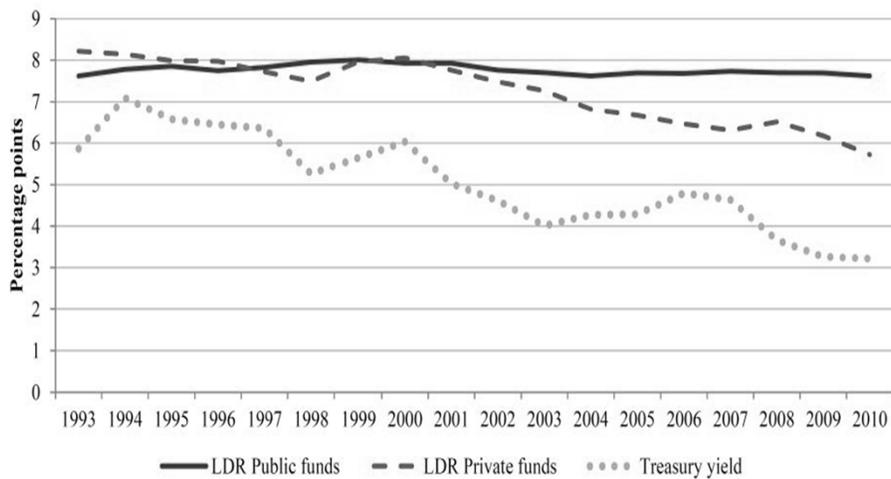
So What?

- **Some snide comments:**
- **Satire**
- **Not far enough!**
- **Ratings Co.**

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U.S. Discount Rates

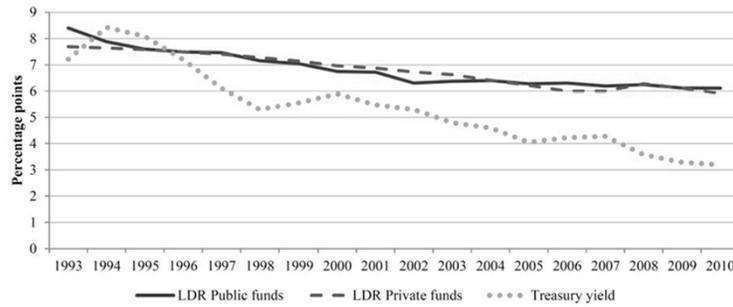
Panel A: U.S. funds - Liability discount rates (LDR) and 10-year Treasury yield



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Canadian Discount Rates

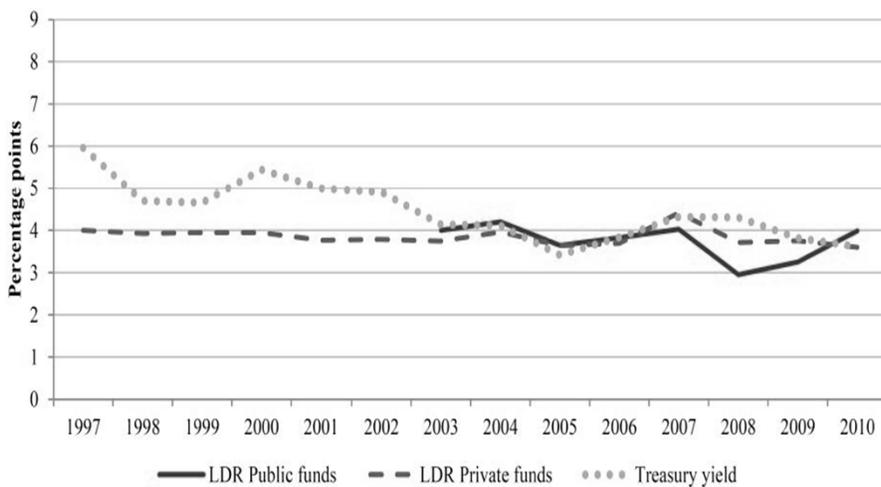
Panel B: Canadian funds - Liability discount rates (LDR) and 10-year Treasury yield



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European Discount Rates

Panel C: European funds - Liability discount rates (LDR) and 10-year Treasury yield



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Issue # 2

Expense vs. Funding

- Currently, pension expense is based explicitly on an actuarially determined funding requirement
 - The ARC, which is the “annual required contribution”
 - Even though is not required to be contributed!
 - Based on established practices for managing contribution volatility
 - Asset smoothing and UAAL amortization
 - The ARC served as a de facto funding standard
- New GASB pension expense is the change in NPL each year, with deferred recognition of only certain elements
 - ARC Specifically not intended to be a funding target or standard

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New Pension Expense Components

- Changes in Total Pension Liability that are recognized (i.e., expensed) immediately—no deferrals allowed
 - Service cost – pensionable compensation x rate
 - + Annual interest on the TPL
 - - Projected investment returns over the year
 - + / - All plan amendments
- Immediate recognition of all plan amendments, whether for actives or retirees
 - Probably different from funding

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New Pension Expense Components

- Changes in Total Pension Liability where some deferrals are allowed (i.e., expensed over multiple periods)
 - Changes in actuarial assumptions
 - Actuarial gains and losses
- Changes are recognized in expense over average expected remaining service lives of active and inactive members (including retirees)
 - Resulting amortization periods will still be very short
 - 5 to 10 years
 - Shorter than for funding (currently ranges from 15 to 30 years)

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New Pension Expense Components

- Changes where some deferrals are allowed (i.e., expensed over multiple periods)
 - Differences between actual and projected earnings over the year (i.e., investment gain/loss)
 - Recognized in expense over closed 5-year period
 - Most systems use either 5- or 7-year asset smoothing for funding
 - So the NPL on balance sheet will be “market volatile”, but effect on expense and on employer net position will still reflect asset smoothing
 - Effect on expense will be different from funding (and current ARC), where investment gain/loss is:
 - Smoothed over 5 or 7 years and
 - Also amortized as part of the UAAL

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Summary of New Pensions Expense Components

- Changes in the employer's Net Pension Liability will be recognized in pension expense more quickly

Source of Change in the Net Pension Liability	Current Standards		New Standards	
	Expense	Deferral	Expense	Deferral
Service Cost	Immediate	None	Immediate	None
Interest on the TPL	Immediate	None	Immediate	None
Projected Investment Earnings	Immediate	None	Immediate	None
Changes in Benefit Terms			Immediate	None
Changes in Assumptions				
Differences between Assumed and Actual Economic and Demographic Factors	Initial period amount	Amortization over a period up to 30 years (closed or open)	Initial period amount	Expense over average remaining service period of actives and inactives
Differences between Projected and Actual Earnings				Expense over 5-year closed period
Other Changes in the NPL			Immediate	None

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Expense vs. Funding

- The faster — often immediate — recognition of net pension liability changes will introduce much greater volatility in the reported pension expense.
 - This volatility will be reflected directly on the income statements of plan sponsors.
- This volatility is what disqualifies this new expense as a basis for determining a funding policy.
- Plans will want to review or adopt funding policies, now that GASB expense no longer provides funding guidance.
 - Funding policy also needed for discount rate calculation — and for disclosures

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Practical Application?

- Fiscal officers in the room will have some explaining to do to decision – makers
 - Decision – makers are used to “Noah’s ARC” or the letter from the plan
 - Decision – makers are used to compensation x rate OR rate per employee
 - Budget and funding only a component of expense
 - **May want to address this change in MD&A**

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A Possible Way to Translate for Decision-makers

Annual Contributions as determined by Actuary	\$x,xxx,xxx
Adjustments for annual amortizations of:	
Differences between actual and expected experience	
Changes in assumptions	
Differences between projected and actual earnings on plan investments	
(COST SHARING ONLY) Changes in proportion and differences between contributions and proportionate share of contributions	
Contributions subsequent to measurement date recognized as deferred outflows of resources (GASB-71)	
Other	
Pension Expense	\$x,xxx,xxx

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Issue # 3

Accounting for Cost-Sharing Plans

- Current standards are simple
 - Employer’s Pension Expense is equal to the “contractually required contribution”
 - Not necessarily the same as the “ARC”
 - Employer’s Balance Sheet only presents the sum of the difference (if any) between the “contractually required contribution” and the actual contribution (i.e. only if they don’t make payments)
 - Employer’s Unfunded Actuarial Accrued Liability (UAAL) is not reported at all

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Accounting for Cost-Sharing Plans

- Current standards are simple (cont’d)
 - Do not require actuarial information to be presented for individual employers
 - However, the information is required to be presented in the cost sharing pension plan’s own financial statements

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Accounting for Cost-Sharing Plans

- Under new standards cost sharing reporting is the same as a single – employer
 - A net pension liability based on its proportion of the collective net pension liability of **all the governments participating** (HUGE CHANGE)
 - The proportion should be consistent with the method used to assess contributions (e.g. percentage of payroll)
 - Use of the government's long-term expected contribution effort to the plan divided by those of all governments in the plan, is encouraged.

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Accounting for Cost-Sharing Plans

- Under new standards cost sharing reporting is the same as a single – employer
 - Recognize proportionate share of *the plan's* total
 - Net Pension Liability
 - Pension Expense
 - Deferred PositionsNONE of these are to be reported on the plan financial statements

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Example Schedule of Cost Sharing Proportion

EXAMPLE COST SHARING PENSION PLAN		
Schedule of Employer Allocations		
June 30, 2015		
Employer/ Nonemployer (special funding situation)	2015 Actual Employer Contributions	Employer Allocation Percentage
State of Example	\$ 2,143,842	38.9 %
Employer 1	268,425	4.9
Employer 2	322,142	5.8
Employer 3	483,255	8.8
Employer 4	633,125	11.5
Employer 5	144,288	2.6
Employer 6	95,365	1.7
Employer 7	94,238	1.7
Employer 8	795,365	14.4
Employer 9	267,468	4.9
Employer 10	267,128	4.8
Total	\$ 5,514,641	100.0

Final Design might be 5 years and average to comply with GASB-67

White Papers give guidance about auditing actuarial census data

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Cost Sharing Example

Example of Cost Sharing						
30-Jun-12 Source – A Statewide CAFR 2012, Statistical Section						
Contributions						
Participating Government	2012		2003		Average	
Teachers	\$ 470,263	50.81%	\$ 203,847	49.38%	50.10%	
State Employees	311,349	33.64%	141,595	34.30%	33.97%	
Higher Education Employees	143,920	15.55%	67,371	16.32%	15.94%	
	<u>\$ 925,532</u>	100.00%	<u>\$ 412,813</u>	100.00%	100.00%	
Floating Variance of .0001%						
Theoretical Net Pension Liability						
Total Present Assets	30,118,178,556					
Total Liability	<u>36,723,638,901</u>					
Theoretical NPL						
	(6,605,460,345)					
Teachers	(3,309,005,360)		50.10% Further allocation needed			
State Employees	(2,243,874,879)		33.97% Further allocation needed			
Higher Education Employees	<u>(1,052,580,106)</u>		15.94% Further allocation needed			
	(6,605,460,345)		Floating Variance of .0001%			

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Cost Sharing Example

- Numbers will be different under New Standards due to
 - Actuarial value vs. fair value of assets
 - Roll-forward of beginning liabilities
- Other information needed to give to employers
 - Annual expense
 - Deferred Inflows of Resources
 - Deferred Outflows of Resources
- Further allocation in multiple levels necessary to
 - Proprietary Funds
 - Higher Education funds / campuses
 - School districts

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Example Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan

EXAMPLE COST SHARING PENSION PLAN											
Schedule of Pension Amounts											
June 30, 2015											
Employer/ Nonemployer (special funding situation)	Net Pension Liability	Deferred Outflow of Resources			Deferred Inflows of Resources				Pension Expense		
		Differences Between Expected and Actual Economic Experience	Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Differences Between Expected and Actual Economic Experience	Differences Between Actual and Projected Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Proportionate Share of Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportionate Share of Pension Expense
State of Example	\$ 38,389,155	4,28,768	2,058,088	1,500,690	782,265	380,371	1,063,285	–	584,865	1,878,717	12,375
Employer 1	4,831,647	53,685	257,688	187,898	96,833	47,625	133,131	–	125,325	235,229	(1,799)
Employer 2	5,798,553	64,438	339,256	225,499	115,971	57,156	159,773	–	245,386	282,303	(8,088)
Employer 3	8,698,585	96,651	465,925	338,279	173,972	85,742	239,691	–	125,632	423,492	3,021
Employer 4	11,996,244	126,625	607,800	443,188	227,925	112,332	314,012	–	386,325	554,828	(9,900)
Employer 5	2,597,133	28,838	138,316	101,002	51,944	25,600	71,563	–	42,338	126,444	599
Employer 6	1,716,569	19,073	91,550	66,756	34,531	16,920	47,298	–	24,325	83,571	625
Employer 7	1,696,283	18,948	90,468	65,967	33,926	16,720	46,739	–	125,325	82,584	(5,712)
Employer 8	14,316,562	159,073	763,550	556,756	286,486	141,118	394,478	–	152,005	697,004	8,405
Employer 9	4,814,421	53,494	256,769	187,228	68,325	47,456	132,657	–	87,325	234,391	(1,188)
Employer 10	4,808,301	53,426	256,443	186,990	67,328	47,395	132,488	–	41,035	234,093	1,656
Total	\$ 99,263,485	1,102,928	5,294,055	3,860,249	1,999,406	978,435	2,735,105	–	1,999,406	4,832,655	–

White Papers give guidance about Auditing Actuarial Census Data

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Issue # 4 More Disclosures!

- Includes both Notes and Required Supplementary Information (RSI)
- **Greatly** expanded plan and employer disclosures, including:
 - Description of the plan and assumptions
 - Policy for determining contributions
 - Sensitivity analysis of the impact on NPL of a one percentage point increase and decrease in the discount rate
 - Changes in the NPL for the past 10 years
 - Development of long-term earnings assumption
 - Annual rates of investment return for past 10 years (plan only)

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Sensitivity Analysis

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the County, calculated using the discount rate of 7.75 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
County's net pension liability	\$826,928	\$751,753	\$661,543

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More Disclosures!

- More new disclosure information
 - “Actuarially determined (employer) contribution” (aka the ARC)
 - Basis and amount – if determined!
 - Comparison to amount actually contributed
 - May encourage review (or creation) of actuarial funding policy
- Expanded disclosures greatly increase the pension information needed for plan and employer’s financial statements
 - New and challenging questions for employer’s financials:
 - **Which actuary/auditor develops this information?**
 - **Who pays for it?**

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Issue # 5

Actuarial Timing and Frequency

- Actuarial valuations must be at least every two years
- Recognition of significant changes between the actuarial valuation date and the measurement date:
 - Changes to benefit provisions
 - Size or composition of the membership
 - Change in municipal bond rate component of the discount rate
 - Other factors or assumptions that affect the valuation results

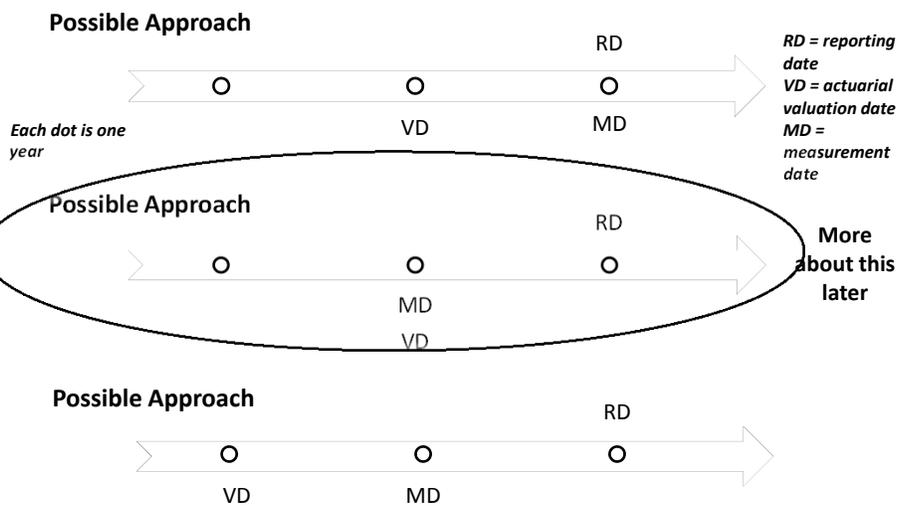
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Actuarial Timing and Frequency

- The new pension standards have **tremendous flexibility** in which plan financial statement / actuarial information to use
 - Liability is determined as of *either*
 - Actuarial valuation date
 - The plan's reporting date *or*
 - An actuarial valuation date no more than 24 months before the plan's reporting date, rolled forward
 - Assets are as of the *plan's* most recent fiscal year end

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Timing and Frequency—GASB 68 (Employer)



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GASB 68 Single or Agent Employers

Note Disclosures and Required
Supplementary Information

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SINGLE/AGENT EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

- Significant Assumptions/Inputs used to calculate Total Pension Liability (TPL)
- Date of the Actuarial Valuation used to determine TPL
- Details regarding changes in assumptions for benefit terms, basis for determining employer contributions to the pension plan, purchase of allocated insurance contracts
- Number of employees covered of Active and Inactive Members (receiving and not receiving benefits)
- Current Year Sources of Changes in Net Pension Liability

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**SINGLE/ AGENT EMPLOYERS REQUIRED
SUPPLEMENTARY INFORMATION (RSI)**

- 1. 10 Years** - Sources of changes in the Net Pension Liability (NPL)
- 2. 10 Years** - Components of TPL, FNP, NPL and Related Ratios
 - Plans Fiduciary Net Position (FNP) as a % of TPL
 - NPL as % of Covered-Employee Payroll
- 3. 10 Years (if applicable)** - If contributions are actuarially determined, schedule covering 10 most recent fiscal years including information on actuarially determined contributions, contributions to the pension plan, and related ratios.
- 4. 10 Years (if applicable)** - If contributions established by statute, 10 most recent years of statutorily required contributions, contributions to the pension plan and related ratios.

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**SINGLE AGENT EMPLOYERS REQUIRED SUPPLEMENTARY
INFORMATION (RSI) - FOOTNOTES**

- Notes to RSI – Significant assumptions used to calculate actuarially determined contributions (if applicable) – Single/Agent Employers Only
- Notes to RSI - Factors that affect the trends in the amounts reported in the schedules (i.e. changes in benefit terms, size and composition of the population, use of different assumptions) – All Employers

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Required Supplementary Information

	20X9	20X8	20X7	20X6	20X5
Total pension liability					
Service cost		\$ 100,317	\$ 103,471	\$ 98,685	\$ 81,657
Interest		19,193	200,491	185,434	171,179
Benefit changes		-	-	-	-
Differences between expected and actual experience	(69,638)	(41,374)	(9,387)	17,438	29,183
Changes of assumptions	-	-	63,375	-	-
Benefit payments	(124,083)	(118,311)	(109,281)	(99,654)	(91,568)
Refunds of contributions	(2,780)	(2,764)	(2,927)	(2,684)	(2,251)
Net change in total pension liability	136,335	157,061	245,742	199,219	188,210
Total pension liability—beginning	3,045,893	2,888,832	2,643,090	2,443,871	2,255,661
Total pension liability—ending (a)	<u>\$3,182,228</u>	<u>\$3,045,893</u>	<u>\$2,888,832</u>	<u>\$2,643,090</u>	<u>\$2,443,871</u>
Plan net position					
Contributions—employer	\$ 109,544	\$ 107,028	\$ 105,755	\$ 103,089	\$ 89,054
Contributions—member	51,119	50,344	54,949	51,926	41,411
Net investment income	199,273	83,235	(30,957)	131,629	236,486
Benefit payments	(124,083)	(118,311)	(109,281)	(99,654)	(91,568)
Administrative expense	(3,427)	(3,333)	(3,046)	(2,684)	(2,349)
Refunds of contributions	(2,780)	(2,764)	(2,927)	(2,684)	(2,251)
Other	8	(34)	37	9	(88)
Net change in plan net position	229,654	116,165	14,530	181,631	270,705
Plan net position—beginning	2,283,333	2,167,168	2,152,638	1,971,007	1,700,302
Plan net position—ending (b)	<u>\$2,512,987</u>	<u>\$2,283,333</u>	<u>\$2,167,168</u>	<u>\$2,152,638</u>	<u>\$1,971,007</u>
Net pension liability—ending (a) – (b)	<u>\$ 669,241</u>	<u>\$ 762,560</u>	<u>\$ 721,664</u>	<u>\$ 490,452</u>	<u>\$ 472,864</u>

Note: Only 5 years are presented here;
10 years of information would be required

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Required Supplementary Information

Net Pension Liability	20X9	20X8	20X7	20X6	20X5
Total pension liability	\$ 3,182,228	\$ 3,045,893	\$ 2,888,832	\$ 2,643,090	\$ 2,443,871
Plan net position	(2,512,987)	(2,283,333)	(2,167,168)	(2,152,638)	(1,971,007)
Net pension liability	<u>\$ 669,241</u>	<u>\$ 762,560</u>	<u>\$ 721,664</u>	<u>\$ 490,452</u>	<u>\$ 472,864</u>
Ratio of plan net position to total pension liability	78.97%	74.96%	75.02%	81.44%	80.65%
Covered-employee payroll	\$ 435,373	\$ 432,256	\$ 426,939	\$ 412,280	\$ 387,055
Net pension liability as a percentage of covered-employee payroll	153.72%	176.41%	169.03%	118.96%	122.17%

Note: Only 5 years are presented here;
10 years of information would be required

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Required Supplementary Information

Employer Contributions

	20X9	20X8	20X7	20X6	20X5
Actuarially calculated employer contribution	\$ 109,544	\$ 107,028	\$ 105,755	\$ 103,089	\$ 89,054
Actual employer contributions	<u>(109,544)</u>	<u>(107,028)</u>	<u>(105,755)</u>	<u>(103,089)</u>	<u>(89,054)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 435,373	\$ 432,256	\$ 426,939	\$ 412,280	\$ 387,055
Actual contributions as a percentage of covered-employee payroll	25.16%	24.76%	24.77%	25.00%	23.01%

Note: Only 5 years are presented here;
10 years of information would be required

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Plan Required Supplementary Information

SCHEDULE OF INVESTMENT RETURNS

Last 10 Fiscal Years

	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0	20W9
Annual money-weighted rate of return, net of investment expense	8.19%	11.23%	9.28%	13.50%	4.09%	(4.28%)	(3.82%)	12.63%	11.01%	12.91%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

54

GASB 68 Cost Sharing Employers

Note Disclosures and Required
Supplementary Information

55

COST SHARING EMPLOYERS

- Recognize only a proportionate share of the “Collective NPL”, Pension Expenses and Deferred Outflows and Inflows.
- Based on annual assessed contributions by employer.
- Proportionate share could change from year to year.

56

COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

- Include all Single/Agent Employer Information

+

- Descriptive information about the pension plan
- Additional Discount Rate Disclosures
- Assumptions made in measuring employer's proportionate shares of net pension liabilities, basis of proportion, and changes in proportion from year to year

57

COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

- Descriptive Plan Information
 - Name of the Pension Plan
 - Identification as Single Employer/Agent Plan/Cost Sharing Plan and the Plan Administrator
 - Benefit Terms (classes of employees covered, types of benefits, key elements of the pension formula, automatic COLAs, authority under which benefit terms are established)
 - Number of employees covered allocated by inactive employees (receiving benefits), inactive members (entitled to but not receiving benefits, and active members)
 - Brief description of Contribution Requirements
 - Whether the pension plan issues a standalone financial report or included part of another government entity.

58

COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

- Discount Rate Disclosures
 - Discount Rate applied and change from last measurement date.
 - Assumptions about projected cash flows related to the pension plan including contributions from employers, non-employers and employees.
 - Long-term expected rate of return and how it was determined.
 - Municipal bond rate used and source of that rate.
 - Breakdown of how projected benefit payments are allocated between those applied to the long-term expected rate of return and municipal bond rate to arrive at the discount rate.
 - Assumed Asset Allocation and long-term expected rate of return applied to each asset class.
 - NPL calculated using a discount rate that is +/-1% than stated Discount Rate

59

COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

Significant Assumptions

- Inflation
- Salary Changes
- Ad Hoc post-employment benefit changes (COLA)
- Mortality Assumptions/Source of Assumptions (i.e. published mortality table/experience study)
- Dates of the Experience Study

60

REQUIRED SUPPLEMENTARY INFORMATION (RSI) FOR COST SHARING FINANCIAL STATEMENTS

- **10 Year** – Employer’s Proportionate Share (% , Amount) of Collective NPL, Covered Employee Payroll, Net Pension Liability as a % of Employee Covered Payroll, Pension Plans Net Position as % of TPL
- **10 Year** – Schedule of Changes in NPL
- **10 Year** - FNP/TPL/Funded Status/Covered Payroll/NPL as % of Payroll
- **10 Year** - Actuarially Determined Employer Contribution (ADEC) to Actual Contributions (If necessary)
- **10 Year** - Statutory/Contractual Contributions to Actual Contributions and Payroll (If necessary)

10 Year Schedules not required in year of implementation other than the ADEC schedule which is presented in full.

61

10 YEAR SCHEDULE OF CONTRIBUTIONS

If contributions to the plan are actuarially determined: the employers actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered-employee payroll.

62

Special Funding Situations (aka most school districts nationwide)

Note Disclosures and Required
Supplementary Information

63

SPECIAL FUNDING SITUATIONS DEFINED

Where non-employer (example – a state) is “**legally**” **responsible** for making contributions to the pension plan (contribution cannot be paid directly to employer).

Requirements:

Either:

1. The amount of contributions is not dependent on one or more events “unrelated” to the pension (e.g. a requirement to contribute a certain percentage of the employer government’s covered payroll); **OR**

64

SPECIAL FUNDING SITUATIONS DEFINED

Requirements (cont'd):

Either:

2. The non-employer is the only entity with a legal obligation to make a contribution directly to the plan (e.g. a State Government that is legally bound to make contributions to the teacher's pension plans for local school districts).

65

SPECIAL FUNDING SITUATIONS

- Effect on Employer (example – State and Local School District):
 - **State Employer has essentially taken a portion of the pension obligation of the Local Employer as its OWN.**
 - **The State Employer would report its proportionate share of the Local Employer's net pension liability, pension deferrals, and pension expense.**

66

SPECIAL FUNDING SITUATIONS

- Effect on Employer (example – School District):
 - Single/Agent Employer - would recognize only its proportionate share of the net pension liability and the ENTIRE pension deferrals, pension expense, and revenue equal to its portion of the State Government’s pension expense.
 - Cost Sharing Employer – would recognize its proportionate share of the net pension liability, pension deferrals, pension expense, and revenue equal to its portion of the State Government’s pension expense.

67

SPECIAL FUNDING SITUATIONS

- Effect on Employer (example – School District):
 - Employer must recognize the pension liability plus an adjustment for the involvement of the non-employer entities (e.g. 100% less 100%)
 - Recognize ***proportionate share*** of Deferred Outflows and Inflows of resources
 - Employer is required to recognize the ***proportionate share*** of the collective pension expense/revenue of both employer and non-employer contributions.
 - **Proportionate share of expense may not equal proportionate share of revenue**

68

The GASB Fix (aka GASB 71)

69

Again – the problem in Implementation

- GASB 68 requires employer to recognize NPL as of **the measurement date** no earlier than the prior fiscal year end
- Contributions made during the period *after measurement date but before reporting date* is required to be deferred
- Transition to new standards
 - If not practical to determine *all* deferred positions at transition, then start at zero.
 - BUT – contributions deferred!
 - Contradiction??...

70

Updated transition guidance

- Recognize a deferred amount for pension contributions made after actuarial report but before fiscal year end
- Recognize no other beginning balance for deferred positions **unless known at transition**
- Effective date – same as GASB-68

71

Defined Contribution Plan Changes – GASB-67

72

New Pension Standards do apply to DC Plans if:

- Pensions are provided to employees or volunteers (ex: volunteer firefighters) that meet 3 requirements
 - Contributions from all sources and earnings remain in trust until benefits are paid (irrevocable)
 - Assets are solely to pay for benefits per terms, and
 - Assets are legally protected from creditors of all entities (even administrator)
- If yes to all 3, then new GASB applies

73

New Pension Standards - DC Plans

- Reporting for the plan is similar to DB plans
 - Similar financial statements
 - Assets (cash, investments, receivables)
 - Liabilities (benefits payable, administrative)
 - Net Position
 - Inflows and outflows similar to today
 - Notes need to include descriptive information about
 - The plan
 - Classes of employees and retirees
 - Number of plan members and employers (if multiple)
 - Authority under which plan was established or may be amended

74

New Pension Standards DC Employers

- Financial statement amounts are dependent on whether or not there is a special funding situation (see previous)
- If no special funding situation
 - Pension expense is declared in funds and entity wide

75

New Pension Standards DC Employers – Pension Expense Calculation

NO SPECIAL FUNDING SITUATION	Entity Wide Statements	Proprietary Funds	Governmental Funds
Contributions or <i>credits</i> to employee's accounts attributable to current period service	Yes	Yes	No – Pension Expenditures = total amount paid adjusted to change in balances between beginning and ending amounts expected to use current resources
<i>Less:</i> Forfeited amounts that are removed from employees accounts and NOT given to other employees	Yes	Yes	
	= Pension Expense	=Pension Expense	See above
Difference in pension expense and amounts paid to plan	= Increase / Decrease in Liability or Asset		Liability = amounts expected to be paid out of current resources

76

Employer Reporting of DC Plans

- Liabilities associated with different DC plans may be aggregated as long as assets are not netted with them
- If Special Funding Situation
 - Non-employer contributor would effectively report a grant to the employer
 - Employer receiving the contribution reports a subsidy inflow

77

Other SFS Disclosures in DC Plans

Item	If NonEmployer contributes a "substantial" portion of total contributions	If less than a "substantial" portion of total contributions	Contributing Entity not in an SFS
Name of plan, basic descriptions	Yes	Yes	Yes
Benefit terms	Yes	NO	No
Contributions	Yes	Yes	No
Annual expense	Yes	Yes	Yes
End of year liability	Yes	Yes	No

78

How do we get this done?

Best Practices for Implementation

79

States' Pension Shortfalls

The money owed to state pension systems keeps rising, and many states owe an amount equal to or above their annual revenue.

States with the most unfunded pension liability, compared with revenue

	2012 SHORTFALL	AS PCT. OF ANNUAL REVENUE	
Illinois	\$187 billion	318 %	
Connecticut	57	243	
Kentucky	41	211	
Hawaii	16	199	
Louisiana	46	184	
Maryland	49	169	
Massachusetts	63	140	
Maine	10	138	
Texas	132	136	
Kansas	17	134	
New Jersey	58	126	
Colorado	22	123	
Pennsylvania	66	114	
West Virginia	11	100	
Delaware	6	99	
Montana	5	99	

By HAEYOUN PARK

Source: Moody's Investor Service

Tennessee Funded at about 90%+

80

Effective Dates

- **Plans – GASB 67** - Fiscal years *beginning after* June 15, 2013 (i.e. June 30, 2014)
- **Employers – GASB 68** - Fiscal years *beginning after* June 15, 2014 (i.e. June 30, 2015)

81

GASB Opening Thoughts

- Financial statement recognition and disclosures don't create pension obligations; instead, they simply make existing obligations more transparent.
- Collectively, the changes in Statements 67, 68, and 71, represent major improvements in public pension reporting , and will make pensions more understandable and comparable.
- The new standards are not about "Funding" they are about "Accounting".

82

Pension and Retirement Plan Changes

- 44 states enacted significant revisions to at least one retirement plan since 2009.
- 28 states enacted increases in employee contributions from 2009-2011.
- 28 states increased retirement age and service requirements.
- 18 states reduced post-retirement benefit increases.

83

Tennessee's Hybrid Plan

- State, Higher Education and K-12 employees hired on or after June 30, 2014 are eligible
- Combination of DB and DC plans
- Benefit formula is 1% of average final compensation over last 5 years (legacy is sliding percentage over last year)
- Rule of 90 instead of rule of 80 (age + service)
- 5 year vesting
- Local Governments can participate.

84

Four Implementation Issues

- The Issues for local governments and their auditors boil down to one question?
- Where....
- do we get the information?

85

Implementation Issues

- AICPA Whitepapers
- TCRS
- Actuary
- State Audit
- Local Government Audit
- Contract CPA Firms

86

AICPA Pension White Papers

- Cost-sharing
- Cost-sharing census data
- Agent – Defined Benefit
- Interpretations for Both Cost-sharing and Agent – Defined Benefit Plans

87

Single / Agent Plan Issues

- AICPA whitepapers and Interpretations are posted at:

<http://www.aicpa.org/interestareas/governmental/auditquality/resources/gasbmatters/pages/gasbpensionsissues.aspx>

88

AICPA Pension White Papers

- In cooperation with TCRS, its Actuary, the Division of State Audit, Division of Local Government Audit and CPA Firms, we have developed a plan.
- Local Government Letter

89

Issue # 1

90

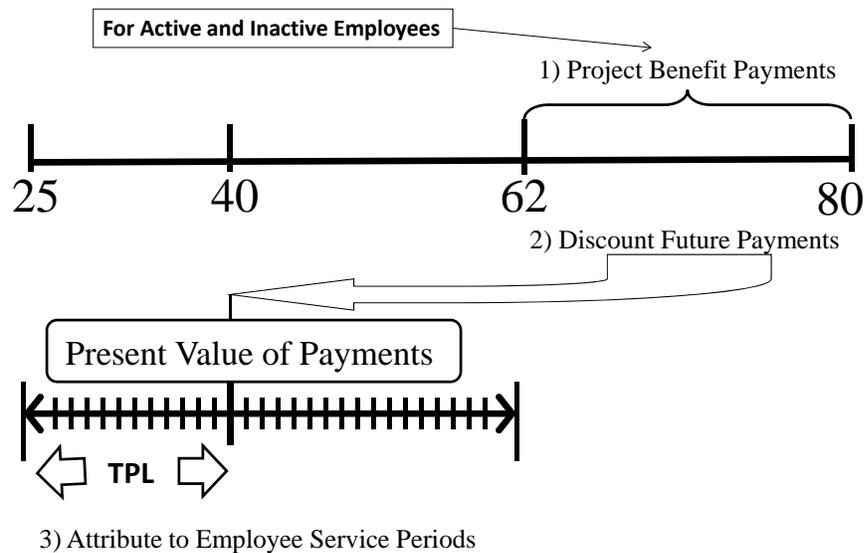
Issue #1 – The Main Issue

Net Pension Liability Reported on the Statement of Net Position (Balance Sheet)

- Net Pension Liability (NPL)
 - Total pension liability (TPL) minus plan assets at market value (“plan net position”)
 - TPL uses new “blended” discount rate and “Entry age” cost method
 - Similar to Unfunded Actuarial Accrued Liability (UAAL) but using market assets, not “smoothed” assets
- NPL must be reported on the employer’s statement of net position
 - Currently, UAAL is reported in the Required Supplementary Information (RSI)
 - Currently, only the Net Pension Obligation (NPO) is reported on the balance sheet
 - Cumulative difference between annual required contribution (ARC) and actual contributions

91

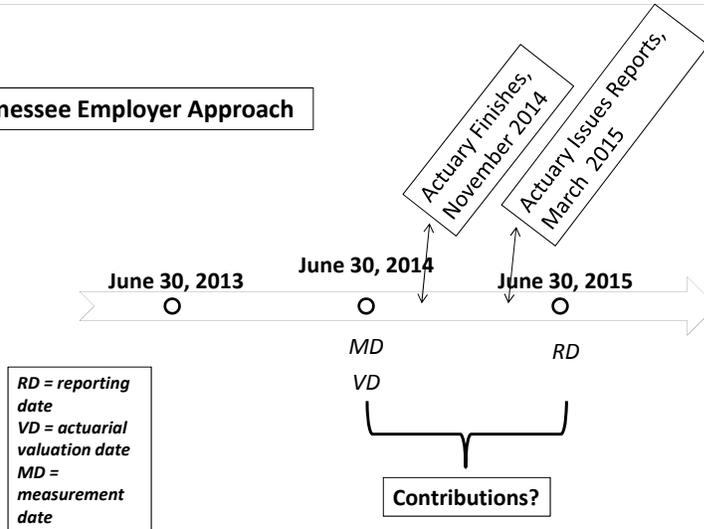
The Basic Three-Step Approach for Defined Benefit Pensions



92

Timing and Frequency—GASB 68

Tennessee Employer Approach



93

Issue #1

Prior Period Adjustment & Journal Entry

- Your Government will Receive:
 - Certification Letter from Actuary
 - Actuarial Valuation Report as of Measurement Date
 - Template Notes to Financial Statements for each Pension Plan, RSI, and Notes to the RSI
 - Amortization Schedules for Deferred Outflows and Inflows
 - Census Data used in the Actuarial Valuations
 - All journal entries necessary for recording Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows.

94

Issue #1

Prior Period Adjustment & Journal Entry

- Your Government will Receive:
 - For Cost Sharing Plans - Teachers
 - Schedule of Employer Allocations
 - Schedule of Pension Amounts

95

Issue #1

Cost-Sharing Employers – Huge Change

- A government participating in a cost-sharing plan would report a liability in its own financial statements that is equivalent to its proportionate share of the net pension liability of all the employers in the cost-sharing plan.
- Approach uses as a basis for allocation, the proportionate share of the total based on the employer's contribution effort relative to that of all contributors.

96

Issue #1 Journal Entry

- Example that follows is for TCRS Plans.
- The entries would be made at the Government-Wide level for Governmental Activities, and at the Fund Level for Enterprise Funds.
- These Summary Entries would need to be further allocated to Departments/Functions and/or Enterprise Operations.
- The information for these entries comes directly from the actuarial report and TCRS.

97

Issue #1 Journal Entry

- Your Government will need to make adjustments for:
 - Net Pension Liability (PPA)
 - Contribution Deferrals (GASB 71) (Current)
 - Pension Expense (Current)
 - Other Deferrals (Current)
- P.S. Who is going to maintain all these deferral amortization schedules??? Hundreds!

98

Issue # 1 - PPA

Summary Prior Period Restatement			DR.	CR.
Prior Period Restatement – Net Position	\$		11,405,647	
Net Pension Liability (NPL)				11,405,647
To adjust net position for the effects of unrecorded pension liability – (GASB 68).				
Deferred Outflows - Beg. Contributions			375,000	
Prior Period Restatement - Net Position				375,000
To record beginning deferred contributions 6/30/13.				

99

Issue # 1 - Journal Entry

Summary Journal Entry			DR.	CR.
Pension Expense	\$		972,839	
Deferred Outflows - Contributions			25,000	
Deferred Inflows – Experience Gains (1)				47,190
Deferred Inflows – Assumption Changes (2)				244,694
Deferred Inflows – Plan Investment Gain (3)				265,433
Pension Expense - Contributions				400,000
Net Pension Liability (NPL)				40,522
The record pension expense and ending deferrals (GASB 68 and 71)				
<i>(1) Amort. Over Avg. Remaining Service Life</i>				
<i>(2) Amort. Over Avg. Remaining Service Life</i>				
<i>(3) Amort. Over 5 years</i>				

100

Issue # 1 - GASB 68

- **EFFECTIVE DATE AND TRANSITION**
- 137. To the extent practical, in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods (generic use), and financial statements presented for the periods affected should be restated.

101

Restating Beginning Balances

- **The only charges or credits that should directly change fund balance are as follows:**
 - Excess of revenue over (under) expenditures (expenses).
 - Prior period adjustments: Corrections of an error. Example: Correction to an estimate used in a prior period.
 - The Cumulative Effect of a Change in Accounting Principle: Changing from one approved GAAP Method to another approved and preferable GAAP Method. Example: Changing from one inventory method to another or one depreciation method to another.

102

Restating Beginning Balances

- The only charges or credits that should directly change fund balance are as follows (cont'd):
 - **Restatements: Changes in accounting principles that result from the implementation of a new Accounting Standard which is required to be applied retroactively. Example: Debt Issuance Costs under GASB 65.**
 - Changes in governmental funds inventories that are accounted for using the purchases method. This is only applicable when “**significant**” amounts of inventory exists and must be recorded as an increase or decrease of an asset on the governmental fund balance sheet.
 - What if it is not significant (i.e. Material)

103

Restating Beginning Balances

- Restatements should not be shown or described as a “prior period adjustment”. Technically speaking, a restatement that results from implementation of a new accounting standard would not be a “cumulative effect of a change in accounting principle” either.

104

Issue # 1 - Allocations

- Must allocate net pension liability, pension expense, and deferrals to Enterprise Funds and Departments or Functions as applicable.
- Recommend using “contributions” as a allocation measure but GASB does not specify how to do the allocation so you can use any logical method (e.g. covered payroll).

105

Issue #1 Journal Entry

- What about a 9/30 Year End?
 - For example - Utilities
- What about Component Units?

106

Issue # 1 - Implementation Issue

- GASB 68 requires employer to recognize NPL as of **the measurement date** no earlier than the prior fiscal year end
- Contributions made during the period after measurement date but before reporting date are required to be deferred
- Transition to new standards
 - If not practical to determine *all* deferred positions at transition, then start at zero.
 - BUT – contributions deferred!
 - Contradiction??...

107

Issue #1 - Updated transition guidance - GASB 71

- Recognize a deferred amount for pension contributions made after actuarial report but before fiscal year end
- Recognize no other beginning balance for deferred positions **unless known at transition**
- TCRS has stated that there will be not beginning deferrals.
- Effective date – same as GASB-68

108

Issue # 1 - Cost-Sharing Employers – Huge Change

- State contributions to Schools to pay for Retirement benefits do not constitute a “Special Funding Situation”.

109

Issue # 2 - Auditing

110

Issue # 2 Auditing

- Whitepaper Implementation:
 - Cost Sharing Plans (Done this year)
 - Agent Plans
 - Tentative Decisions by TCRS, Division of State Audit and Division of Local Government Audit

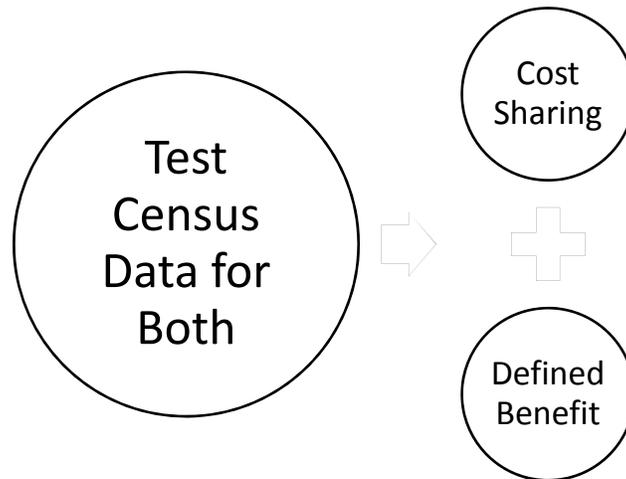
111

Issue # 2 Testing Census Data

- If you have a Pension Plan, your auditors will be testing Census Data.
- Why have we not done this before?
 - **Funding 100%**
 - **Knew the Value of Assets**
 - **Knew the Amount of Contributions**
 - **Not reported on Statement of Net Position**
 - **Reported in RSI, No Opinion Required.**

112

Issue # 2 Testing Census Data



113

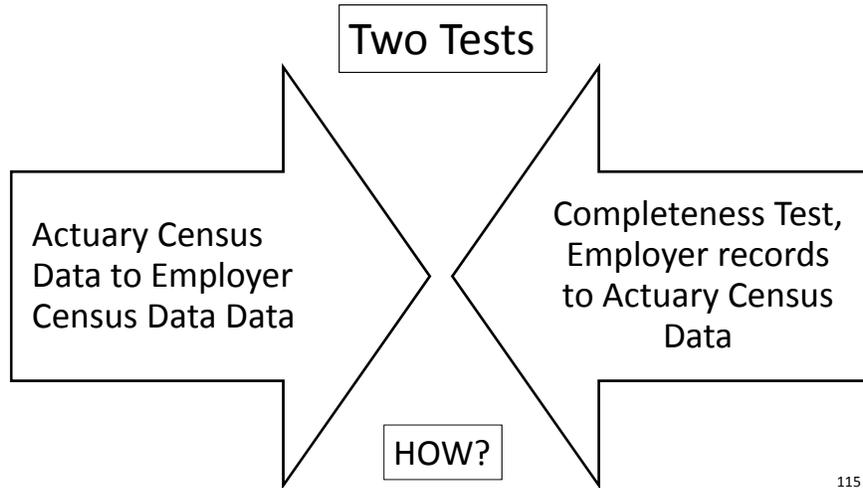
Issue # 2 - Census Data

- Key census data
 - Date of birth
 - Gender (male or female)
 - Date of hire or years of service/service credits
 - Date of termination or retirement
 - City/County Code
 - Department Code
 - Marital status
 - Spouse date of birth
 - *Eligible* compensation
 - Employment status

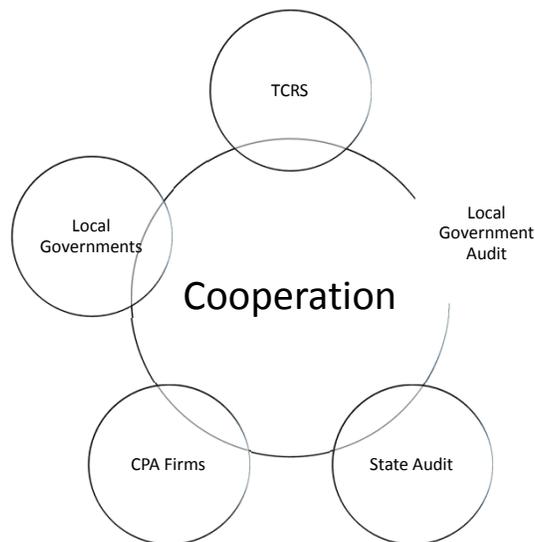
The auditor must test the reliability and completeness of the census data provided to the actuary.

114

Issue # 2 Testing Census Data



Issue # 2 Testing Census Data



Issue # 2

Testing Census Data

- Information in Employee Files:
 - Internal Controls over Census Data
 - Social Security Number
 - Government Issue ID (DOB, Sex)
 - Department Code
 - City/County Code
 - Service Credits Calculation
 - Salary/Wages Reported
 - DOB
 - M or F
 - Print Screen of Input Data?

117

Issue # 2

Testing Census Data

- What will happen if your auditor cannot test your Census Data??
- **Could mean a Qualified or Adverse Opinion!!!**

118

Issue # 3

119

Issue # 3 Funding vs. Expense

- “Funding” does not equate to Expense
- Budgeting Issues
- TCRS Board has a new Funding Policy

120

Issue # 4

121

Issue # 4 Notes to Financial Statements

- Extensive Revisions to Notes
- Numerous Schedules
- Will be Provided by TCRS and its Actuary

- Need notes for each plan!
- Need to consider the use of Specialist.

122

Other Issues

123

Other Issues

- Actuarially Determined Contribution (ADC) replaces Annual Required Contribution (ARC). They are similar but they are not the same.
- Net Pension Liability (NPL) replaces Unfunded Actuarial Accrued Liability (UAAL). They are similar but they are not the same.
- Ratings Agencies, Comptroller in NY.

124

Other

- GASB Pensions Implementation Guide
- OPEB is coming!!!!!! The liabilities will be much larger than the Pension Liabilities.

125

Solutions and Conclusions

- TCRS is going to supply the information we need as governments and auditors to implement GASB 68 for employers. Thanks to TCRS!!!!
- State Audit will audit certain high level pension data. Thanks to State Audit!!!!
- We will need to make journal entries based on the Actuarial Report and TCRS Entries.
- Governments and Auditors will need to cooperate in testing census data.

126

Solutions and Conclusions

- More work for everyone, but much better reporting.
- Be preparing for OPEB! Discussion should begin now.
- Together, we will make it through this implementation process, and in a few years this will no longer seem as difficult or painful.

127

Questions?



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128

**State of Montana
Department of Administration
OPEB Update
May 27, 2015**



129

Exposure Draft No. 1

**Accounting and Financial Reporting for
Postemployment Benefits
Other than Pensions**

130

Exposure Draft No. 2

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

131

Exposure Draft No. 3

Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered through Trusts That Meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68

132

OPEB Plans – Exposure Draft

- Addresses both OPEB Plans Administered through trust & not administered through trust
 - Same trust criteria
- Requires reporting of liability in the F.S.
 - Trust: Total Opeb Liability – FNP= NPL
 - Not trust: Total OPEB liability = Liability
- Discount Rate –
 - Trust – Single Discount rate = LTeRoR as projected sufficient
 - Not trust – 20-year, tax-exempt general obligation municipal bonds (AA/Aa or higher)



133

OPEB Plans – Exposure Draft

- Accounting for assets accumulated for OPEB that does not meet the trust criteria:
 - Single employer – continue to be reported as assets of the employer
 - Multiple-employer – report the assets in an Agency Fund
 - Exception – employer is a member of the opeb plan (agency fund should exclude the employer amounts)



134

GASB Due Process

- **Post Employment Benefits (cont'd):**
 - Will supersede GASB Statements 45 and 57 (employers) and 45, 57, 50, and some of 25.
 - The Gist of the Employer Standard is to require recording of the Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows.
 - Currently only a Net OPEB Obligation is recorded.
 - Increased Notes Disclosures and RSI.
 - In essence, just like 67 and 68.
 - Except, the numbers will be much bigger!

135

GASB Due Process

- **Defined Benefit Pensions that do not fall within the scope of GASB 68:**
 - Exposure Draft Issued June 2014
 - Final Standards Expected 2nd Q 2015
 - Tentative Effective Date – Fiscal years beginning after June 15, 2016 (i.e. July 1, 2016 to June 30, 2017)

 - Certain Amendments to GASB 67 and 68 within the ED would be effective for fiscal years beginning after June 15, 2015.

136

GASB Due Process

- **Defined Benefit Pensions that do not fall within the scope of GASB 68 (cont'd):**
 - The requirements of the proposed statement would apply the approach to accounting and financial reporting established in Statements 67 and 68 to all pensions, with modifications for accumulated assets that are not in a trust fund. These are not “Plan” assets.
 - Also, similar note disclosures and RSI.

137

Exposure Draft No. 1, Employers

Defined Benefit Plans

138

Exposure Draft No. 1

- This proposed Statement would be effective for fiscal years beginning after December 15, 2016. Earlier application would be encouraged.
- July 1, 2017 to June 30, 2018

139

Exposure Draft No. 1

- **Will supersede the requirements of GASB Statements No. 45 and 57**
- **For OPEB provided by State and Local Government Employers**
- Addresses Defined OPEB Plans administered through a Trust
- Addresses Defined Contribution Plans
- Addresses Legal Requirements to make OPEB contributions to an OPEB Plan

140

Exposure Draft No. 1

- OPEB Administered through a Trust:
 - Contributions are Irrevocable
 - Plan Assets are dedicated to providing OPEB to employees
 - OPEB Assets are legally protected from creditors.

141

Exposure Draft No. 1

- Types of Defined Benefit OPEB Plans:
 - Single Employer
 - Agent Employer
 - Cost-sharing Employer

142

Exposure Draft No. 1

- OPEB Administered through a Trust:
 - Contributions are Irrevocable
 - Plan Assets are dedicated to providing OPEB to employees
 - OPEB Assets are legally protected from creditors.

143

Exposure Draft No. 1

- Measurement of OPEB Liability:
 - This proposed Statement would require the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

144

Exposure Draft No. 1

- Measurement of OPEB Liability:
 - The total OPEB liability would be required to be determined through an actuarial valuation.
 - However, if fewer than 100 employees (active and inactive) are provided with OPEB through the plan, use of a specified alternative measurement method in place of an actuarial valuation would be permitted.
 - Actuarial valuations, or calculations using the specified alternative measurement method, of the total OPEB liability would be required to be performed at least every two years, with more frequent valuations encouraged.

145

Exposure Draft No. 1

- Measurement of OPEB Liability:
 - If a valuation or calculation is not performed as of the measurement date, the total OPEB liability would be required to be based on update procedures to roll forward amounts from an earlier actuarial valuation or alternative measurement method calculation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent fiscal year-end).
 - All Calculations and Assumptions should be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

146

Exposure Draft No. 1

- Measurement of OPEB Liability:
 - Projections of benefit payments would be required to be based on claims costs, or age-adjusted premiums approximating claims costs, and the benefit terms and legal agreements existing at the measurement date.
 - For purposes of evaluating the benefit terms, consideration would be required to be given to the written plan document, as well as other information, including other communications between the employer and employees and an established pattern of practice with regard to the sharing of benefit-related costs with inactive employees.
 - Certain legal or contractual caps on benefit payments to be provided would be considered in projections of benefit payments.

147

Exposure Draft No. 1

- Measurement of OPEB Liability:
 - This proposed Statement would require that projections of benefit payments incorporate the effects of projected salary changes (if the OPEB formula incorporates future compensation levels) and service credits (if the OPEB formula incorporates periods of service), as well as projected automatic postemployment benefit changes, including automatic cost-of-living-adjustments (COLAs).
 - The effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic, also would be required to be included in the projections.
 - This proposed Statement also would require that projections of benefit payments include certain taxes or other assessments expected to be imposed on the benefit payments and specifies that projected benefit payments would not be reduced by subsidies expected to be received for making benefit payments other than those received for providing Medicare benefits.

148

Exposure Draft No. 1

- Measurement of OPEB Liability:
 - Projected benefit payments would be required to be discounted to their actuarial present value using the single rate that reflects
 - (1) a long-term expected rate of return on OPEB plan investments to the extent that the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and OPEB plan assets are expected to be invested using a strategy to achieve that return and
 - (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

149

Exposure Draft No. 1

- Measurement of OPEB Liability:
 - This proposed Statement would require that the actuarial present value of projected benefit payments be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay.
 - The actuarial present value would be required to be attributed for each employee individually, from the period when the employee first accrues OPEB through the period when the employee retires.

150

Exposure Draft No. 1

- Measurement of OPEB Liability:
 - The net OPEB liability would be required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.
 - This proposed Statement would require that most changes in the net OPEB liability be included in OPEB expense in the period of the change.
 - For example, changes in the total OPEB liability resulting from current-period service cost, interest on the total OPEB liability, and changes of benefit terms would be required to be included in OPEB expense immediately.
 - Projected earnings on the OPEB plan's investments also would be required to be included in the determination of OPEB expense immediately.

151

Exposure Draft No. 1

- Measurement of OPEB Liability:
 - The effects of certain other changes in the net OPEB liability would be required to be included in OPEB expense over the current and future periods.
 - The effects on the total OPEB liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience would be required to be included in OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning with the current period.
 - The effect on the net OPEB liability of differences between the projected earnings on OPEB plan investments and actual experience with regard to those earnings would be required to be included in OPEB expense in a systematic and rational manner over a closed period of five years, beginning with the current period.
 - Changes in the net OPEB liability that have not been included in OPEB expense would be required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB.

152

Exposure Draft No. 1

- Measurement of OPEB Liability:
 - Employer contributions subsequent to the measurement date of the net OPEB liability, including amounts paid directly by the employer for OPEB as the benefits come due, would be required to be reported as deferred outflows of resources.

153

Exposure Draft No. 1

- Notes to the Financial Statements:

154

Exposure Draft No. 1, Employers

• Cost-Sharing Plans

155

Exposure Draft No. 1, Employers

- Measurement of OPEB Liability
 - A cost-sharing employer that does not have a special funding situation would be required to recognize a liability for its proportionate share of the net OPEB liability (of all employers for benefits provided through the OPEB plan)—the collective net OPEB liability.
 - An employer's proportion would be required to be determined on a basis that is consistent with the manner in which contributions to the OPEB plan (including amounts paid directly by the employer for OPEB as the benefits come due) are determined, and consideration would be required to be given to separate rates, if any, related to separate portions of the collective net OPEB liability.
 - The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion would be encouraged.

156

Exposure Draft No. 1, Employers

Defined Benefits not Provided through a Trust

157

Exposure Draft No. 1, Employers

- Expenditure/Expense
 - For employers that provide insured benefits—defined benefit OPEB through an arrangement whereby premiums are paid to an insurance company while employees are in active service, in return for which the insurance company unconditionally undertakes an obligation to pay the OPEB of those employees—this proposed Statement would require recognition of OPEB expense/expenditures equal to the annual contributions or premiums required in accordance with their agreement with the insurance company.

158

Exposure Draft No. 1, Employers

- Measurement of OPEB Liability
 - For defined benefit OPEB other than insured benefits that are provided through OPEB plans that are not administered through trusts that meet the specified criteria, this proposed Statement would require an approach to measurement of OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB parallel to that which would be required for OPEB provided through OPEB plans that are administered through trusts that meet the specified criteria.
 - Essentially similar note disclosures and required supplementary information would be required to be presented. However, the requirements would incorporate modifications to reflect the absence of OPEB plan assets for financial reporting purposes.

159

Exposure Draft No. 1, Employers

Defined Contribution OPEB

160

Exposure Draft No. 1, Employers

- Measurement of OPEB Liability
 - This proposed Statement would require an employer whose employees are provided with defined contribution OPEB to recognize OPEB expense for the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts.
 - A change in the OPEB liability would be required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer to (or benefit payments through) a defined contribution OPEB plan.

161

Exposure Draft No. 1, Employers

Special Funding Situations

162

Exposure Draft No. 1, Employers

- Measurement of OPEB Liability
 - In this proposed Statement, special funding situations are defined as circumstances in which a nonemployer entity is legally responsible for providing certain forms of financial support for OPEB of the employees of another entity.
 - Relevant forms of financial support would be contributions directly to an OPEB plan that is administered through a trust that meets the specified criteria, including benefit payments as OPEB comes due for OPEB provided through such a plan, and benefit payments as OPEB comes due, whether directly or through the use of nonemployer contributing entity assets held by others for purposes of providing OPEB through an OPEB plan that is not administered through a trust that meets the specified criteria.
 - Such support would be a special funding situation if either (1) the amount of contributions or benefit payments, as applicable, for which the nonemployer entity legally is responsible is not dependent upon one or more events unrelated to the OPEB or (2) the nonemployer is the only entity with a legal obligation to make contributions directly to an OPEB plan or to make benefit payments as OPEB comes due, as applicable.

163

Exposure Draft No. 1, Employers

- Measurement of OPEB Liability
 - This proposed Statement would require that an employer that has a special funding situation for defined benefit OPEB to recognize an OPEB liability and deferred outflows of resources and deferred inflows of resources related to OPEB with adjustments for the involvement of nonemployer contributing entities.
 - The employer would be required to recognize its proportionate share of the collective OPEB expense, as well as additional OPEB expense and revenue for the OPEB support of the nonemployer contributing entities.
 - This proposed Statement would require that the employer disclose in notes to financial statements information about the amount of support provided by nonemployer contributing entities and present similar information about the involvement of those entities in 10-year schedules of required supplementary information.

164

Exposure Draft No. 1, Employers

- Measurement of OPEB Liability
 - The information that would be required to be disclosed in notes to financial statements and presented in required supplementary information of a governmental nonemployer contributing entity in a special funding situation would depend on the proportion of the collective net OPEB liability that it recognizes.
 - If the governmental nonemployer contributing entity recognizes a **substantial proportion** of the collective net OPEB liability, it would be required to disclose in notes to financial statements a description of the OPEB, including the types of benefits provided and the employees covered, and the discount rate and assumptions made in the measurement of the net OPEB liability.
 - The governmental nonemployer contributing entity also would be required to present schedules of required supplementary information similar to those required of a cost-sharing employer.

165

Exposure Draft No. 1, Employers

- Measurement of OPEB Liability
 - Reduced note disclosures and required supplementary information would be required for governmental nonemployer contributing entities that recognize a less-than-substantial portion of the collective net OPEB liability.
 - This proposed Statement also would establish requirements related to special funding situations for defined contribution OPEB.

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Questions!



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Gasb 72 **Fair Value Measurement and** **Application**

State of Montana
Department of Administration
May 27, 2015

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GASB Statement No. 72

- Objective: Improve Financial Reporting and clarify the definition of fair value.
- Definition of Fair Value :
 - The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. – An exit price – Based on the principal or the government’s most advantageous market

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Scope

- Est. general principles for measuring fair value & standards of accounting and financial reporting for assets and liabilities measured at fair value.
- Markets – fair value measurement assumes that a transaction to sell an asset or transfer a liability takes place in either a principal market or the most advantageous market.

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Valuation Techniques/Approaches

- Valuation technique used to measure fair value should be appropriate to the circumstances and should maximize the use of relevant observable inputs (assumptions that market participants would use in pricing an asset or liability)
- Three basic approaches –
 - Market approach – Uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or group of assets and liabilities –
 - Cost approach – Amount that would be required currently to replace the service capacity of an asset –
 - Income approach – Converts expected future amounts (for example, cash flows) to a single current amount (that is, discounted)

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Fair Value Hierarchy

- Consist of three levels:
 - Level 1: quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date
 - Level 2: Inputs, other than quoted prices included in Level 1, that are observable for an asset or liability (either directly or indirectly)
 - – Market quotes for similar assets
 - – Yield curves that are observable at commonly quoted intervals
 - Level 3: Unobservable inputs for an asset or liability – Midmarket consensus price for a swap that uses data that are not directly observable and cannot be corroborated by the observable market data

172

Application to Investments

- Investments – should be measured at fair value.
- Investments are:
 - Security or other asset held for the primary purpose of income or profit & has a present service capacity
 - “Present Service Capacity – government’s mission to provide services
 - “Primarily for Income or Profit” – acquired investment with expectation of future income or profit.

Of Course there are exceptions!!!

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Application to Investments

- Determination of purpose; based on actions of management at acquisition date.
 - Is this asset held for purpose of income and profit??
 - Does it have present service capacity?
- ▶ Once the determination is made (investment or other type of asset) classification is retained for financial reporting purposes
 - ▶ Even if usage changes (ex. Item reported as a capital asset is later held for sale)

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Investments – Exceptions

- Exceptions to Fair Value
 - Investments in nonparticipating interest-earning investment contracts
 - Investments in unallocated insurance contracts
 - Money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less and are held by governments other than external investment pools
 - Investments held by 2a7-like external investment pools
 - Synthetic guaranteed investment contracts that are fully benefit-responsive
 - Investments in life insurance contracts (not life settlement contracts)

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Investments – Net Asset Value Per Share

- Investments in a nongovt entity that does not have a readily determinable fair value
 - Calculate FV consistent with FASB measurement principles for investment companies at the govt's measurement date.
 - NAV provided is not as of measurement date – consider if an adjustment is necessary
 - If becomes probable the investment will be sold guidance above should not be followed.

176

Acquisition Value (AV)

- (AV)
 - Price paid to acquire an asset with equivalent service potential in an orderly market transaction or amount a liability could be liquidated with a counterparty at the acquisition date
- Assets that should be measured using AV:
 - Donated Capital Assets
 - Donated works of art, historical treasures, etc
 - Capital Assets received in a SCA

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Disclosures

- The following information for each class or type of assets and/or liabilities measured at fair value should be disclosed:
 - The fair value measurement at the end of the reporting period and for nonrecurring fair value measurements, the reasons for the measurement
 - The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)
 - A description of the valuation technique(s)
- For fair value measurements categorized within Level 3 of the fair value hierarchy
 - The effect of those investments on investment income for the reporting period

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Disclosures

- Investments - calculated NAV per share
- Required disclosures
 - Fair value measurement of the investment type at measurement date and description of investment strategy
 - Each type of investment the estimate of the period in which assets are expected to be liquidated
 - Amount of any unfunded commitments
 - Description of terms upon which a govt may redeem investments in the type
 - Redeemable Invts – estimate of when restriction might lapse; no estimate the how long restriction has been in effect
 - Any significant restriction on ability to sell investments

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{ Questions? }



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Montana
Department of
Administration
GASB's Wish List

181

Due Process
And
Technical Agenda

182

GASB Potential Projects

- Potential Projects

183

- **Terminology:**
 - **PV = Preliminary Views Document**
 - **ITC = Invitation to Comment**
 - **ED = Exposure Draft**
 - **T/C = Teleconference**

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Pre-Agenda Research

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GASB Pre-Agenda Research

- **Debt Disclosures, including Direct Borrowing:**
 - Research approved April 2015.
- **Debt Extinguishments:**
 - Research approved April 2014.

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GASB Pre-Agenda Research

- **Financial Reporting Model Reexamination:**
 - Research approved August 2013.
 - Reexamine Statements 34, 35, 37, 41, and 46 and Interpretation 6.
 - Rank #1 Priority for Research by Governmental Accounting Standards Advisory Council (GASAC)
- **Going Concern Disclosures**
 - Research approved April 2015
 - Reexamination of Statement 56
 - Inconsistencies in Practice and Expectation GAP

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Monitoring Activities

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GASB Monitoring Activities

- **Electronic Financial Reporting:**
 - Monitoring Activities approved July 2000.
 - Extensible Business Reporting Language (XBRL)
 - Reporting Financial Information by electronic media in absence of standard format like XBRL.

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GASB Due Process

1. Conceptual Framework – Measurement
2. Economic Condition Reporting (No Longer on Agenda)

Major Projects:

1. Asset Retirement Obligations
2. Fiduciary Responsibilities
3. Leases
4. Post Employment Benefits (Three Projects)

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GASB Due Process

Practice Issues:

1. Blending Requirements of Certain Business-Type Activities
2. External Investment Pools
3. GAAP Hierarchy
4. Irrevocable Trusts
5. Tax Abatement Disclosures

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GASB Due Process

• **Conceptual Framework – Measurement:**

- PV issued June 2011
- Eventually will be a GASB Concepts Statement.
- Current Project is on hold effective December 2012 pending the financial reporting model reexamination.
- Whether information should be reported and when that information should be reported.
- What are the financial statements supposed to convey?
- Concepts Statements already issued! Near Term Reporting.

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GASB Due Process

- **Economic Condition Reporting:**
 - **No Longer on the Technical Agenda!!!!**
 - PV Issued November 2011
 - Project Placed on Hold January 2013
 - Follow up to Statement 44, Economic Condition Reporting : The Statistical Section
 - Current project relates to Fiscal Sustainability.
 - Definition
 - Required Information (projections?)
 - Show as RSI

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GASB Due Process

- **Economic Condition Reporting (cont'd)**
 - Required Sustainability Projections.
 - Cautionary Notice
 - Cash Inflows and Outflows (Governmental Activities)
 - Cash Inflows and Outflows (Business-Type Activities)
 - Cash Inflows and Outflows by Object (GA)
 - Cash Inflows and Outflows by Object (BTA)
 - Financial Obligations
 - Notes to RSI
 - Intergovernmental Dependencies

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Major Projects

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GASB Due Process

- **Asset Retirement Obligations (ARO):**
 - Exposure Draft Expected 4th Q 2015
 - Final Standard Expected 4th Q 2016
- FASB Statement 143, Accounting for Asset Retirement Obligations (2001) has been followed.
- ARO - Obligations related to retiring Nuclear Power Plants, Coal fired power Plants, or Sewage Treatment Facilities, or similar assets (not the pollution they cause – GASB 49, Pollution Remediation Obligations).
- Does not include Municipal Solid Waste Landfill Closure and Postclosure Care Costs (GASB 18)
- Should costs be capitalized, what should be disclosed?

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GASB Due Process

- **Fiduciary Responsibilities:**
 - PV issued November 2014.
 - Comment Period Ended March 6, 2015.
 - Exposure Draft expected 4th Q 2015.
 - Final Standard expected 3rd Q 2016.
- **Definition - When is a government in a Fiduciary Relationship?**
 - Controls Assets
 - Can make decisions about the assets
 - Legal Structure (i.e. legal trust)

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GASB Due Process

- **Fiduciary Responsibilities (cont'd):**
 - Continue to use Fiduciary Funds.
 - Trust Funds would require a Trust Agreement or Equivalent Arrangement
 - Assets are dedicated to providing benefits to recipients in accordance with benefit terms
 - Assets are legally protected from Creditors of the Government
 - A new type of fund would be established – “Custodial Fund” – Formerly Agency Fund

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GASB Due Process

- **Fiduciary Responsibilities (cont'd):**
 - A new type of fund would be established –
“Custodial Fund” – Formerly Agency Fund (cont'd)
 - Used to report any fiduciary activity not administered through a trust agreement or equivalent arrangement
 - The **Statement of Changes in Fiduciary Net Position** would report additions and deductions in more detail (i.e. by source , investment income, investment costs, and deductions by type including administrative costs.)

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GASB Due Process

- **Fiduciary Responsibilities (cont'd):**
 - **Fiduciary Fund Financial Statements of a Primary Government should include Fiduciary Component Units.**
 - **Stand-alone business-type activities also engaged in fiduciary activities should present fiduciary fund financial statements within its basic financial statements.**

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GASB Due Process

- **Leases:**
 - PV issued November 2014
 - Comment period ended March 6, 2015
 - Exposure Draft expected 1st Q 2016
 - Final Standard Expected 4th Q 2016
- **Foundational Principle – All leases are financings of the right to use an underlying asset**
- **Definition of a lease – A contract that conveys the right to use a nonfinancial asset for a period of time in an exchange or exchange-like transaction**

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GASB Due Process

- **Leases (cont'd):**
 - **The definitions are intended to include “Operating” leases. (Remember the Gauthier Example of a Mortgage, now leases are similar)**
 - **“Capitalized” Leases (current guidance) will not be accounted for under leases guidance but would be considered a purchase that was financed.**
 - **Operating leases would be recorded as a liability and an “intangible” asset except for Short-term leases.**
 - **In governmental funds, also record an other financing source and capital outlay expenditure.**

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GASB Due Process

- **Leases (cont'd):**
 - Short-term operating leases would be defined as a lease that, at the beginning of the lease, has a maximum possible term, including any options to extend, of 12 months or less. Payments would be recognized as expenses or expenditures.

203

GASB Due Process

- **Post Employment Benefits:**
 - Includes three standards
 - Exposure Drafts Issued June 2014
 - Final Standards Expected 2nd Q 2015
 - Tentative Effective Date – Fiscal years beginning after December 15, 2016 (i.e. July 1, 2017 to June 30, 2018)
- **Three Standards**
 - OPEB - Accounting for the Employer (212 pages)
 - OPEB - Accounting for the Plan (89 pages)
 - Pensions – Not administered through Trusts and Amendments to 67 and 68 (92 pages)

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Practice Issues

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GASB Technical Agenda

- **Practice Issue - Blending Requirements for Certain Business-type Activities (BTAs):**
 - Exposure Draft Expected 2nd Q 2015
 - Final Standard Expected 1st Q 2016

- **Certain financial reporting entities such as the Healthcare Industry desire to be able to present all component units in either a single column or by a multi-column approach.**

206

GASB Due Process

- **Practice Issue - External Investment Pools:**

- Exposure Draft Expected 2nd Q 2015
- Final Standard Expected 4th Q 2015

– Because of a change in SEC rules relative to money market funds, many external investment pools may face interest rate risks that create fair value losses. This standard will address appropriate measurement and disclosure requirements.

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GASB Due Process

- **Practice Issue - GAAP Hierarchy:**

- Exposure Draft issued January 2014.
- Final Standard Expected 2nd Q 2015.
- Proposed Effective Date, periods beginning after June 15, 2015 (i.e. July 1, 2015 to June 30, 2016. Earlier Application is permitted.)

– The proposed Standard would supersede GASB Statement 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (2009)*.

– Prior to Statement 55, Guidance was found in Auditing Standard No. 69 (1992).

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GASB Due Process

- **Practice Issue - GAAP Hierarchy:**

- Previous four categories:

- A. Officially established accounting principles— Governmental Accounting Standards Board (GASB) Statements and Interpretations. GASB Statements and Interpretations are periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards
- B. GASB Technical Bulletins and, if specifically made applicable to state and local governmental entities by the American Institute of Certified Public Accountants (AICPA) and cleared by the GASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position.

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GASB Due Process

- **Practice Issue - GAAP Hierarchy:**

- Previous four categories (cont'd):

- C. AICPA Practice Bulletins if specifically made applicable to state and local governmental entities and cleared by the GASB, as well as consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to state and local governmental entities.
- D. Implementation guides (Q&As) published by the GASB staff, as well as practices that are widely recognized and prevalent in state and local government.

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GASB Due Process

- **Practice Issue - GAAP Hierarchy:**

- The Hierarchy will be reduced from four categories to two categories:

- A. Officially established accounting principles – Governmental Accounting Standards Board (GASB) Statements.
- B. GASB Technical Bulletins; GASB Implementation Guides; and literature of the American Institute of Certified Public Accountants (AICPA) if specifically cleared by the GASB. The AICPA literature will contain a statement that indicates it has been cleared (i.e. the majority of the Board Members did not object to its issuance) by the GASB.
 - Such as Industry Audit Guides

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GASB Due Process

- **Practice Issue - GAAP Hierarchy:**

- After the two categories of authoritative literature, accountants will utilize nonauthoritative guidance:

- Sources of nonauthoritative accounting literature include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, International Accounting Standards Board, and AICPA (other than AICPA literature cleared by the GASB); practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

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GASB Technical Agenda

- **Practice Issue - Irrevocable Charitable Trusts:**

- Exposure Draft Expected 2nd Q 2015
- Final Standard Expected 1st Q 2016

– **FASB Statement 136 *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, requires the resources held in an irrevocable trust as assets and contributions into the trust to be recorded as assets and the contributions into the trust as revenues of the beneficiary government (Para 15).**

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GASB Technical Agenda

- **Practice Issue - Irrevocable Charitable Trusts:**

– **GASB is researching whether similar guidance is necessary for Governments.**

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GASB Due Process

- **Practice Issue -Tax Abatement Disclosures:**

- Exposure Draft Issued October 2014.
- Final Standard Expected 3rd Q 2015.
- Comment period ended January 30, 2015.
- Proposed Effective Date, fiscal years beginning after December 15, 2015 (i.e. July 1, 2016 to June 30, 2017).

- **Defines tax abatement**

- Results when an agreement is executed between a government and a taxpayer in which the government promises to forgo tax revenues and the taxpayer promises to take a specific action that contributes to the economic development or otherwise benefits the government or its citizens.

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GASB Due Process

- **Practice Issue -Tax Abatement Disclosures (cont'd):**

- Many governments offer tax abatements, but little information is publicly available regarding the provisions of the tax abatement agreements or the magnitude of the effect those agreements have on the government's ability to raise resources in the future.
- Requires the following Disclosures:

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GASB Due Process

- **Practice Issue -Tax Abatement Disclosures (cont'd):**
 - General descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
 - The number of tax abatement agreements entered into during the reporting period and the total number in effect as of the end of the period
 - The dollar amount of taxes abated during the period
 - Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

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GASB Due Process

- **Practice Issue -Tax Abatement Disclosures (cont'd):**
 - The disclosures may be aggregated by major tax abatement programs.

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Questions?



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State of Montana
Department of Administration
Auditing Standards Update
May 27, 2015

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Your Presenter

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*The Opinions expressed during
this presentation are my own.
They do not necessarily represent
the views of the Comptroller, his
representatives, or the
Department of Audit.*

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Auditing Standards

- Effective for FYE 6/30/14:
 - None
- Effective for 12/15/14:
 - Amendment to Statement on Auditing Standards No. 122 Section 920, Letters for Underwriters and Certain Other Requesting Parties, as Amended
- Effective for FYE 6/30/16:
 - SAS 128, Using the work of Internal Auditors

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Auditing Standards

- **Two different types of Standards:**
 - GASB Accounting Standards = GAAP
 - How do I report numbers on the Financial Statements
 - Law vs. GAAP
 - ASB/Yellow Book Auditing Standards
 - How do I perform the audit of the numbers

224

Auditing Standards

- **Auditing Standard Setters:**

- How many?

- 1
- 2
- 3
- 4
- 5

Answer =

225

Auditing Standards

- **Standards Setters:**

- AICPA/ASB = Generally Accepted Auditing Standards = GAAS
- GAO = Government Auditing Standards = Yellow Book = GAGAS
- OMB = Single Audit Standards = A-133/New SuperCircular Standards

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Auditing Standards

- **Standards Setters (cont'd):**
 - IFAC/IAASB = International Audit Standards = ISAs??
 - PCAOB/SEC = Standards for Publicly Traded Companies = AS??
 - States may prescribe additional standards.

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Auditing Standards

- **Why have Standards?**
 - What about light bulbs?
 - What about cell phone chargers?
 - What if auditors could perform audits any way they wanted to?
 - Many auditing standards are driven by audit failures.
 - Following standards can become a crutch that causes auditors not to think.

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Auditing Standards

- **History:**
 - Prior to 1917, Verification Audits of the Balance Sheet without standards.
 - 1917-18, First Standards for Balance Sheet Audits (FTC and FRB) *“Approved Methods for the Preparation of Balance-Sheet Statements”* by AIA.

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Auditing Standards

- **History:**
 - 1972, Statement on Auditing Standards *“(SAS) No. 1, Codification of Auditing Standards and Procedures”*.
 - 1978, Auditing Standards Board was created.
 - 2002-2004, Sarbanes-Oxley Act was passed and the AICPA officially recognized PCAOB’s authority for publicly traded companies.

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Auditing Standards

- **History:**
 - 2011, the ASB issued SAS No. 122, Statements on Auditing Standards: Clarification and Recodification (already amended)
 - More to come, already up to SAS 129.

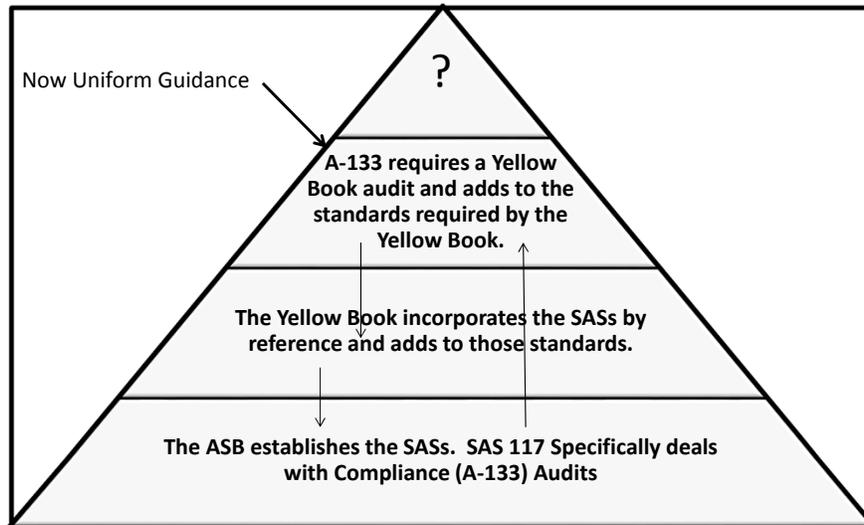
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Auditing Standards

- **Just an Opinion:**
 - XXXX XXXXX, former XXXXX City Auditor and Mayor, now Director of XXXXXX Institute said, auditors know how to audit, just do what you know is right (paraphrased)
 - My question? Do you think the standards hinder us from doing that?
 - His answer was,
 - YES.

232

Auditing Standards



233

Yellow Book



234

Yellow Book

- **Generally Accepted Government Auditing Standards (GAGAS)** incorporates by reference the AICPA Statements on Auditing Standards (SAS).
- GAGAS includes additional standards for Financial Audits and Attestation Engagements. GAGAS establishes Performance Audit Standards for Governments.

235

128

Using the Work of Internal Auditors

236

SAS 128

- This SAS defines the conditions necessary for an external auditor to be able to use the work of internal auditors (**IA**)
- It also defines the amount of effort required by the external auditor to demonstrate that sufficient appropriate audit evidence has been obtained from using the work of the **IA**
- The standard was designed to prevent over or undue use of the **IA's** work

237

SAS 128

- Does not apply if the entity does not have an internal audit (**IA**) function
- Does not apply if the **ia** function responsibilities and activities are not relevant to the audit
- Do not apply if, as a result of the risk assessment process, the external auditor does not expect to use the work of the **ia** function
- Nothing in the standard requires the external auditor to use the work of the **ia** (whether Direct or indirect – already performed)
- Nothing in the standard requires the external auditor to use the work of the **ia** to perform “direct Testing Procedures

238

SAS 128

- External auditor may be able to use the internal audit function (**IA**) depending On:
 - Level of Competence of **IA**
 - Whether the **IA's** organizational status and relevant policies and procedures adequately support the objectivity of the **IA**
 - Whether the **IA** function applies a systematic and disciplined approach, including quality control

239

SAS 128

- Two ways to use the **IA** Function:
 - To obtain audit evidence from procedures already performed by the **IA** that modifies the Nature, timing, or extent of normal audit procedures (i.e. indirect)
 - To obtain audit evidence by providing direct assistance under the direction, supervision, and review of the external auditors
- Under either approach, the **external auditor** is solely responsible for the audit opinion expressed
- The external auditor should communicate to those charged with governance how the External auditor plans to use the work of the **IA** (Direct assistance or indirect procedures)

240

SAS 128

- The External Auditor should use less of the IA's work:
 - When more judgement is involved in the procedure or evaluating the results of the procedure performed by **IA**
 - The higher the assessed risk of material misstatements or when "significant" Risks are involved (Define)
 - When the organizational status of the **IA** Function presents evidence of a lack of objectivity
 - The lower the level of competence of the **IA** function
- The external auditor should evaluate whether, in aggregate, the external auditor has been sufficiently involved with the work of the **IA** to form an opinion

241

SAS 128

- The planned use of the **IA's** work should be discussed with the **IA**
- The external auditor should read the reports and findings of the **IA**
- The external auditor should reperform some of the body of work of the **ia** function
 - Examine items already examined by **ia** or sufficient new items
 - Not necessary to test some of all work but reperformance is required on the **ia's** body of work as a whole

242

SAS 128

- Before the conclusion of the audit, the external auditor should evaluate whether the external auditor's conclusions regarding the **IA** function remain appropriate
 - Making inquiries of appropriate **IA** personnel
 - Observing procedures performed by **IA**
 - Reviewing **IA's** work program and working papers

243

SAS 128

- If using **IA's** for **Direct** Assistance:
 - Any threats to objectivity. Any safeguards?
 - Should not use **IA** for direct assistance if:
 - Lack of **IA** objectivity
 - Lack of necessary competence
 - The external auditor should direct, supervise, and review the direct assistance performed by the **IA** function
 - Prior to using the **IA** to perform direct assistance, the external auditor should obtain written acknowledgement from management or those charged with governance, as appropriate, that **IA** will be allowed to follow the external auditor's instructions and will not intervene in the work

244

SAS 128

- If using *ia's* for **Direct** Assistance (cont'd):
 - Direction, supervision, and review should be responsive to the external auditor's initial risk assessment (i.e. objectivity, risk of material misstatement, amount of judgement involved)
 - The external auditor should instruct the *ias* to bring accounting and auditing issues identified during the audit to the attention of the external auditor
 - The external auditor should test some of the work performed by the *ia*
 - Remain alert for indications that the auditor's evaluations are no longer appropriate

245

SAS 128

- Documentation:
 - Results of evaluation of *IA*
 - The work used and basis for decisions
 - Evaluation procedures including Reperformance procedures
 - How the external auditor decided he/she was sufficiently involved in the audit
 - For direct assistance:
 - All The above, plus
 - Threats to objectivity and safeguards
 - Include The working papers prepared by the *ia*

246

SAS 128

- Quiz
- Under sas 128, auditors:
 - 1. Should use the work of the internal audit function
 - 2. Are required to use the work of the internal audit function
 - 3. None of the above

247

SAS 128

- Quiz
- Under sas 128, auditors may:
 - 1. obtain audit evidence from **IA** indirect procedures
 - 2. obtain audit evidence from **IA** direct assistance
 - 3. treat **IA** as an audit specialist
 - 4. 1 and 2 above

248

SAS 128

- Quiz
- The external auditor should:
 - 1. reperform at least 20% of the body of work of the *ia* function
 - 2. Examine items already examined by *ia* or sufficient new items
 - 3. Reperform sufficient work on the *ia's* body of work as a whole
 - 4. All of the above.
 - 5. 2 and 3 above.

249

SAS 128

- Quiz
- Before the conclusion of the audit, the external auditor should:
 - 1. Make inquiries of appropriate *IA* personnel
 - 2. Observe procedures performed by *ia*
 - 3. Review *ia's* work program and working papers
 - 4. Obtain written representations from the *IA*
 - 5. All of the above
 - 6. All but Number 1
 - 7. All but Number 4

250

Questions?

Smart or Stupid!

251

SAS 129

*Amendment to Statement on
Auditing Standards No. 122 Section
920, Letters for Underwriters and
Certain Other Requesting Parties, as
Amended*

252

SAS 129

- Issued July 2014
- Effective for comfort letters issued on or after December 15, 2014. Early implementation is encouraged.
- Objective was to address unintended changes to previous practice as a result of the ASB's Clarity Project

253

SAS 129

- AU-C section 920 addresses the auditor's responsibilities when engaged to issue letters (commonly referred to as *comfort letters*) to requesting parties in connection with a nonissuer entity's financial statements included in a registration statement or other securities offerings. This amendment
 - amends the requirement to inform the requesting party that the auditor cannot provide any assurance regarding the sufficiency of the procedures for the requesting party's purposes by changing "state in any discussion" to "communicate" so as to provide the auditor with more flexibility in making this required communication.

254

SAS 129

- AU-C section 920 addresses (cont'd)
 - clarifies that the requirement for the auditor to read the comfort letter issued by component auditors whose report is included in the securities offering applies to each component auditor, not only those comfort letters related to significant components.
 - amends the requirement to attach the review report when the auditor states in the comfort letter that the auditor has performed a review of unaudited interim financial information to a requirement to attach the review report when the auditor states in the comfort letter that the auditor has issued a review report on unaudited interim financial information.

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SAS 129

- amends application material to indicate that attaching the review report on unaudited interim financial information is required when the auditor states in the comfort letter that the auditor has issued a review report on unaudited interim financial information.
- amends example D to change the concluding paragraph from referring to the pro forma bases described in the notes to the pro forma financial statements to referring to the applicable accounting requirements of Rule 11-02 of Regulation S-X and rennumbers example D as example D-1.

256

SAS 129

- adds example D-2 to address providing negative assurance on pro forma financial information as to compliance with pro forma bases as described in the pro forma financial information.
- amends example O to include wording to address procedures performed with regard to pro forma information and subsequent change period not previously carried forward from AU section 634, *Letters for Underwriters and Certain Other Requesting Parties*.
- makes additional editorial changes for clarity and consistency.

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Questions!



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2015 Auditing Standards Board Update

Session Objectives

- Discuss current issues with respect to:
 - **Auditing/ASB activities**
 - **Performing attestation engagements**
 - **Other audit quality activities**

Proposed Changes to Attestation Standards

Reminder: Three Types of Attestation Engagements

Level of Assurance	Historical Financial information	Other Information	Report
Reasonable	Audit (SAS)	Examination (SSAE)	Opinion
Limited	Review (SSARS)	Review (SSAE)	Conclusion
Other	Agreed-Upon Procedures (SSAE)	Agreed-Upon Procedures (SSAE)	Statement of procedures and findings

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Clarified Attestation Standards

- New structure; objective is to eliminate repetition
 - Common Concepts, Levels of Service, Subject-Specific
 - Chapter 1: Concepts common to **all attestation engagements**
 - Chapter 2: Examinations
 - Chapter 3: Reviews
 - Chapter 4: Agreed-upon Procedures
- Each level-of-service chapter addresses a specific level of service and builds on the common concepts chapter

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Clarified Attestation Standards

- Subject-specific chapters:
 - Chapter 5: Forecasts and Projections
 - Chapter 6: Pro Forma Financial Information
 - Chapter 7: Compliance Attestation
 - Chapter 8: Reports on Controls at Service Organizations
- **Each chapter builds on common concepts and level of service chapters**

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Key Changes

- Requires a written assertion from responsible party.
- Requires a representation letter for examinations and reviews.
- Expands need to obtain understanding of the development of subject matter to assess risks.
- Expands requirements to obtain an engagement letter.
- Moves guidance for reporting on internal control in an integrated audit to SASs.
- Retains guidance for MDA examinations “as is”.

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Effective Dates



- All chapters to be issued as a single SSAE
- One effective date - not yet determined.

266

Proposed SAS, *An Audit of ICFR That is Integrated with an Audit of Financial Statements*

- Moves AT 501 into GAAS
- Required to examine and report directly on the effectiveness of ICFR, no longer on management's assertion.
- Framework neutral – options include 2013 COSO framework or, if government, the Green Book, which integrates COSO for governmental entities
- Issued for exposure September 2014; final standard expected by fall 2015.

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Applicability of U.S. Auditing Standards (U.S. GAAS vs. PCAOB Standards)

Applicability of U.S. Auditing Standards (U.S. GAAS vs. PCAOB Standards)

- PCAOB establishes standards for entities within the scope of the Sarbanes-Oxley Act (SOX). Note, SOX was amended by Dodd-Frank legislation to include certain Broker Dealers.
- Audits of all other entities are to be performed in accordance with U.S. GAAS.
- Auditor required to follow both sets of auditing standards if PCAOB auditing standards are required but audit is not within the scope of Sarbanes-Oxley Act.

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Auditor Reporting, Including Going Concern and Other Information

Auditor Reporting

- **GOAL:**
 - **Enhancing the communicative value and relevance of the auditor's report**
- **IAASB Auditor Reporting Project**
 - **New section:**
 - **ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report***
 - **Amendments to other auditor reporting sections:**
 - ISA 700
 - ISA 705
 - ISA 706
 - ISA 260
 - ISA 570

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IAASB Auditor Reporting Standards

- **Opinion section mandated first**
- **New sections:**
 - **Key Audit Matters**
 - **Applicable to audits of listed entities**
 - **"What keeps the auditor up at night"**
 - **Going Concern**
 - **Other Information**
 - **When presented with the audited financial statements**
 - **Separate project to revise ISA 720**
- **Other proposed improvements to enhance transparency and clarify responsibilities**

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Illustrative Report

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (or *of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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Illustrative Report

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Illustrative Report

Key Audit Matters [Not Required for a Non-Listed Company – May be Included at the Auditor’s Discretion]

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA 701.]

275

Illustrative Report

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

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Illustrative Report

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial is located at [Organization's] website at: [website link]. This description forms part of our auditor's report.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

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Additional Information

- Additional information is available on the IFAC website at:

<https://www.ifac.org/auditing-assurance/new-auditors-report#node-32410>

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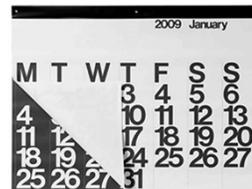
Going Concern – Current Status

- U.S. GAAP Requirements:
 - An evaluation for the period of one year after the date the financial statements are issued (or available to be issued)
 - An evaluation every reporting period – including interims
 - Certain disclosures with respect to “close calls”
 - An explicit statement in the notes when there is substantial doubt and additional disclosures when substantial doubt is not alleviated
 - Effective for calendar 2016 engagements – earlier application is permitted.

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Going Concern – Differences between GAAP and GAAS

- **Period of time related to the going concern assessment**
 - **GAAP – one year from date of financial statements issuance**
 - **GAAS – “reasonable period of time”: not to exceed one year from date of financial statements.**



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Going Concern Interpretations

- **Use applicable financial reporting framework - if GAAP, then FASB or GASB**
 - Definition of *substantial doubt*
 - Definition of *reasonable period of time*
 - Interim financial statements
 - Disclosures & management's plan
- ASB looking to amend AU-C 570 after PCAOB direction is clearer.

281

Other Information

- Proposed revision to AU-C 720, *Other Information in Documents Containing Audited Financial Statements*, to converge with ISA 720 revisions:
 - Clarify the scope of other information by linking it to the concept of an "annual report";
 - Enhance the auditor's work effort with respect to other information; and
 - Provide transparency by requiring reporting on the auditor's work relating to other information.

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Other Current and Upcoming Projects

Current and Upcoming Projects

- Non-Registered Securities Filings
 - Municipal and other exempt securities
- Direct Engagements Standards – New Attestation section that would not require an assertion from the responsible party.
- Sustainability Reporting
- Disclosures
- Related Parties
- Generic Internal Control Attestation Standard
- Revised Quality Control Standard

Auditing Interpretations: GASB

- Relate to GASB No. 67/68 – based on White Papers issued by SLGEP
- Focus is on making members aware that when they audit an employer's financial statement and that employer participates in an agency or cost sharing pension plan, the auditor must get sufficient appropriate audit evidence from the plan and the plan's auditor.
- Also addresses controls over census data.

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Related Assurance Services

- Data Analytics
 - New auditing guide to replace Analytical Procedures Guide
 - Address use of data analytics and other analytical procedures
- Cyber Security
 - What's the effect on the audit of historical financial statements?
 - What types of attestation engagements could be performed?

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Audit Quality Initiative

DOL Audit Quality Study

- Statistical sample of 400 ERISA audits in 2011
 - Nearly half the audits selected for review performed by firms with very few ERISA audits
- Findings
 - Firms with large EBP practices have fewer deficiencies
 - Firms with limited EBP practices have a higher rate of deficiencies
- AICPA actions to enhance audit quality
 - Enhanced monitoring
 - Best practices tools
 - EBP certification
 - Communications

ERISA Audit Quality “Ingredients”

- **Qualifications**
 - Licensed and independent (ERISA requirements)
 - Code of Professional Conduct (AICPA)
- **Standards**
 - AICPA Firm Quality Control Standards
 - GAAS/AICPA EBP Audit and Accounting Guide
- **Monitoring**
 - Peer review (ERISA audits are “must select”)
 - DOL reviews (PCAOB for Form 11-k’s)
- **Enforcement**
 - AICPA Professional Ethics investigations
 - State Boards of Accountancy (license)
- **Commitment**
 - EBPAQC

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Enhancing Audit Quality

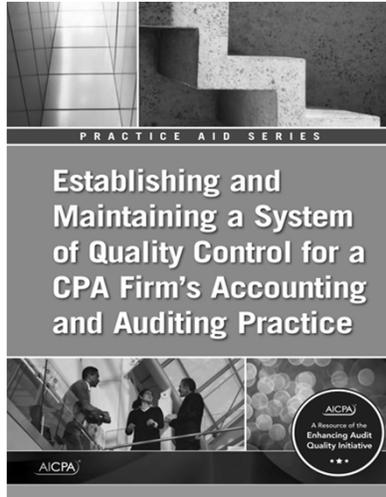
LONG TERM
Transform Practice Monitoring

NEAR TERM
Strengthen Existing Peer Review Process
Revisit Professional Standards
Create Additional Guidance, Tools, Learning and Resources
Reinforce Professional Ethics



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QC Practice Aid – Now Free!



Versions for

- Multi-office firms
 - Single-office firms
 - Sole practitioners
- All include SQCS No. 8.

<http://www.aicpa.org/InterestAreas/FRC/Pages/EnhancingAuditQualityPracticeAid.aspx>

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Current Initiatives

- Competence & due care
 - Peer review changes address low volume auditors
- Audit & quality control standards
 - SQCS 8 practice aid now free on aicpa.org
 - EQCR guidance added to A&A guides
 - Financial reporting
- Guidance, tools, learning and resources
 - Mandatory AQC membership
- Practice monitoring & enforcement
 - Reviewer performance exposure draft
 - Considering revisions to peer review report
 - Engagement and firm tracking
 - Technical expert pool

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Helpful Information and Resources

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Helpful Information and Resources

- Authoritative standards for non-issuers (SASs, SSARSs, SSAEs, SQCSs) as of June 1 are available at

<http://www.aicpa.org/RESEARCH/STANDARDS/Pages/default.aspx>

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Helpful Information and Resources

- AICPA Accounting and Auditing Technical Hotline
 - (877) 242-7212
 - techinquiry@aicpa.org
 - <http://www.aicpa.org/Research/TechnicalHotline/Pages/TechnicalHotline.aspx>

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Center for Plain English Accounting

AICPA PCPS national A&A resource center for firms

aicpa.org/CPEA

Services:

Written responses to written technical inquiries

Monthly “how-to” A&A reports

Webcasts

Alerts

Content for firm newsletters



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Questions?

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Professional Ethics for CPAs and Montana Employees

Montana Department of Administration

May 27, 2015



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Objectives

To achieve familiarity with ethics requirements for employees of the State of Montana and for Certified Public Accountants under the AICPA Code of Professional Conduct.

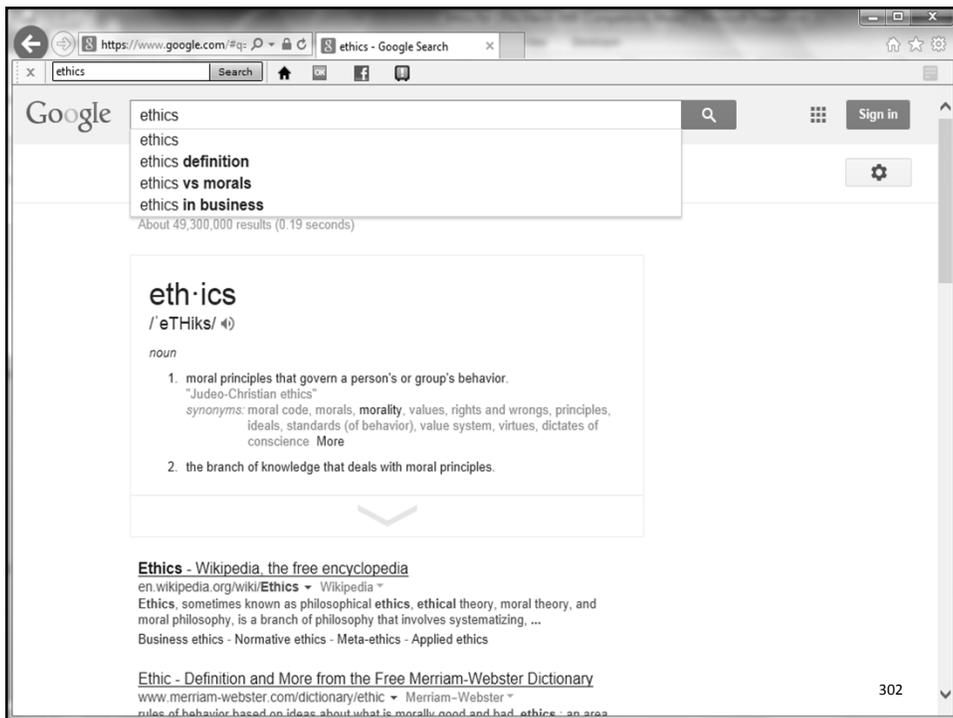


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Other Organizations

- Remember most other professional organizations have Codes of Professional Conduct as well:
 - AGA
 - GFOA
 - ACFE
 - IIA
 - Other

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Thought Questions??

303

Thought Questions??

304

Objective Above

305

Are you Cynical?

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Mission Statement

- Mission:
 - To improve the quality of life for all Tennesseans by making government work better.
- Core Values
 - Honesty and Integrity. We must be honest in all we do and say in order to reflect the highest degree of integrity.
- Accuracy and Reliability
 - The work we produce must be relevant, correct, professional and objective. Decision makers and their publics must be able to depend on our work.
- Accountability
 - We must accept personal responsibility for the work we each perform and the office must take organizational responsibility for the work we collectively perform.

307

Honesty Test

308

Honesty Test?

309

- Montana Code Annotated (MCA)

– http://leg.mt.gov/bills/mca_toc/2_2_1.htm

310

- Employee Handbook

– <https://archive.org/details/5A68AA9E-D1D4-4E90-84D9-C4B914C3C323>

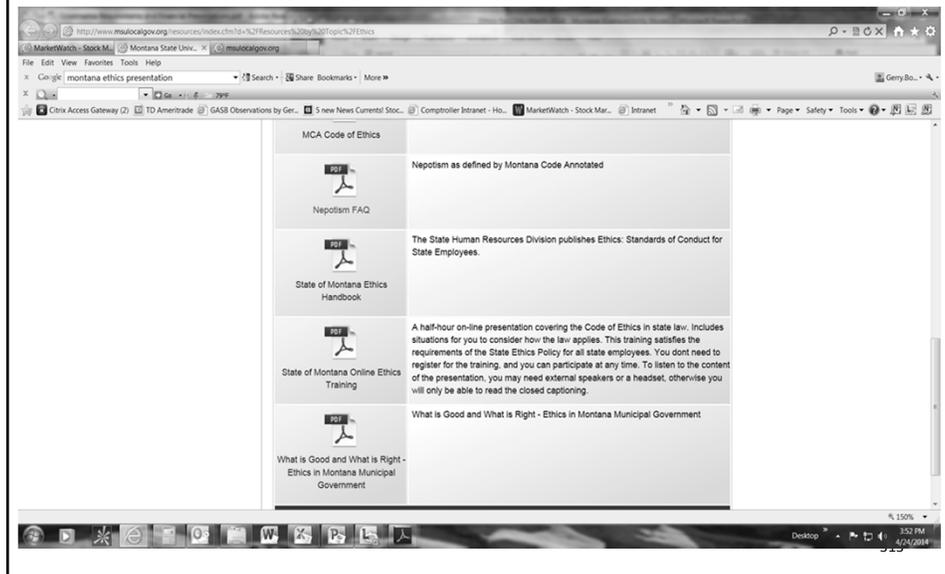
311

- Online Ethics Training

– <https://pdc.mt.gov/onlinetraining>

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MSU Local Government Center



MT Board of Public Accounts

- 7 members are appointed by the governor with Senate confirmation
- Meeting dates posted on website:

Board Members

**JACK MEYER, CPA, BOARD CHAIR
CERTIFIED PUBLIC ACCOUNTANT**

**WAYNE HINTZ, CPA, SECRETARY
CERTIFIED PUBLIC ACCOUNTANT**

**BEATRICE ROSENLEAF
PUBLIC MEMBER**

**KATHLEEN VANDYKE
CERTIFIED PUBLIC ACCOUNTANT**

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Board Members

**MICHAEL HOUTTE, CPA
CERTIFIED PUBLIC ACCOUNTANT**

**LINDA HARRIS, CPA
CERTIFIED PUBLIC ACCOUNTANT**

**DAN VUCKOVICH, CPA
CERTIFIED PUBLIC ACCOUNTANT**

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State of Montana Ethics Handbook Standards of Conduct for State Employees

- Published by the State Human Resources Division Ethics
- Table of Contents
 - Introduction
 - Why have standards of conduct?
 - What can guide my conduct?
 - Standards of Conduct
 - Disclosure Requirements of the Law
 - Enforcement of the Standards of Conduct
 - Closing
 - Resources

317

State Code of Ethics On-line Presentation

- Cost: none
- This training satisfies the requirements of the State Ethics Policy for all state employees. You don't need to register for the training, and you can participate at any time. To listen to the content of the presentation, you may need external speakers or a headset, otherwise you will only be able to read the closed captioning.

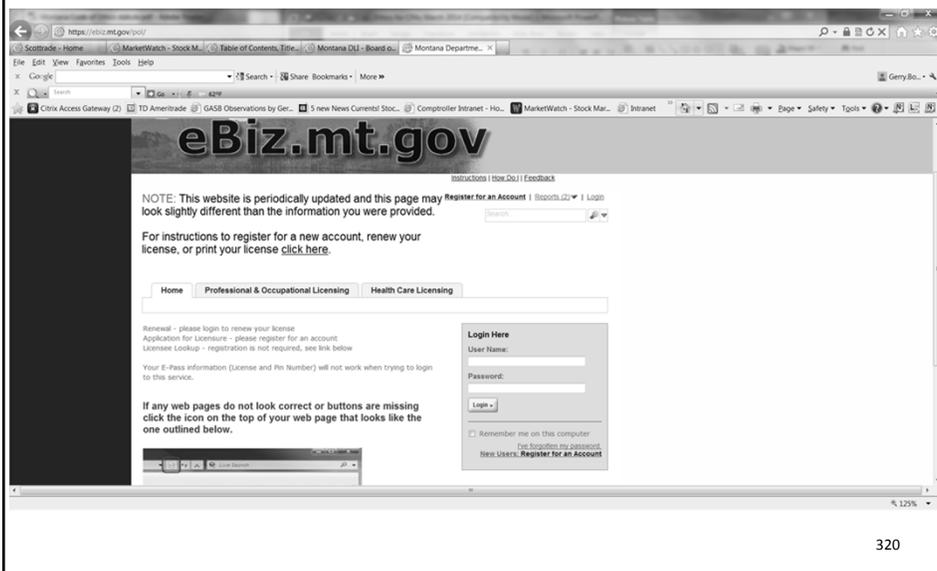
318

Licensure

- Individuals must have a permit to practice (active status) to practice public accounting in Montana. See below for the definition of the practice of public accounting according to 37-50-101(10), MCA.
- "Practice of public accounting" means performing or offering to perform, by a person certified under 37-50-302, MCA; licensed under 37-50-303, MCA; or holding a practice privilege under 37-50-325, MCA for a client or potential client one or more types of services involving the use of accounting or auditing skills, including:
 - the issuance of reports or financial statements on which the public may rely;
 - one or more types of management advisory or consulting services;
 - the preparation of tax returns; or
 - furnishing advice on tax matters.

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Renewal Instructions



The screenshot shows the eBiz.mt.gov website. At the top, there is a navigation bar with links for Home, Professional & Occupational Licensing, and Health Care Licensing. Below this, a note states: "NOTE: This website is periodically updated and this page may look slightly different than the information you were provided." There are links for "Register for an Account", "Reports", and "Login". A search bar is also present. The main content area includes instructions for registration and renewal, and a "Login Here" section with fields for "User Name" and "Password", a "Login" button, and a "Remember me on this computer" checkbox. A link for "Forgot my password" is also visible.

320

MT CPE GENERAL REQUIREMENTS

- During the **three-year period**, ending the June 30th immediately preceding the permit year of January 1 through December 31, applicants for a permit to practice must complete **120 hours** of acceptable continuing education credit, except as otherwise provided.
- At least two hours of the 120 hours of acceptable continuing education credit must consist of knowledge and the application of ethics or the codes of professional conduct of certified public accountants and licensed public accountants.

321

CPE Reporting Requirements

As we continue moving through the transition of CPE reporting changing from a fiscal year to a calendar year, there have been some questions about the date parameter for this year's reporting period.

All active permit holders are required to maintain 120 hours of CPE to maintain an active license. For the 2014 renewal, the 3-year basic CPE requirement of 120 hours, with a subset of 2 hours of ethics, must be completed between July 1, 2011 and December 31, 2014. On January 1, 2015, the CPE hours obtained between July 1, 2011 and December 31, 2012 will "roll off" and you will be required to replace those hours (include any ethics hours that roll off) by December 31, 2015. After 2014, CPE will be completely on a calendar schedule.

What does this look like?

Period Ending:	Start Date:	End Date
December 31, 2014	July 1, 2011	December 31, 2014
December 31, 2015	January 1, 2013	December 31, 2015

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MT CPE GENERAL REQUIREMENTS (cont.)

- Applicants who have already met the full basic requirement by the end of any June 30th reporting period may elect to have excess continuing education hours taken during the immediately preceding months of May and June apply to the subsequent reporting period.
- Applicants who have not completed their full basic requirements by the end of any June 30th reporting period may elect to have qualified continuing education hours taken during the immediately following months of July and August apply to the previous reporting period.

323

MCA Code of Ethics Title 2 Part 1

- Standards of conduct
 - 2-2-101. Statement of purpose
 - 2-2-102. Definitions
 - 2-2-103. Public trust -- public duty
 - 2-2-104. Rules of conduct for public officers, legislators, and public employees
 - 2-2-105. Ethical requirements for public officers and public employees
 - 2-2-106. Disclosure
 - 2-2-121. Rules of conduct for public officers and public employees
 - 2-2-131. Disclosure
 - 2-2-144. Enforcement for local government

324

Unprofessional Conduct

- Doing something you shouldn't
- Not doing something you should (failure to act)

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AICPA Ethics Codification Project

As of January 24, 2014

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Project Objective

- Create user friendly, intuitively arranged Code
- Revise without making significant changes to existing requirements and restrictions
 - Clarity through better drafting conventions
 - Substantive changes will follow due process
- Incorporate conceptual framework approach
 - Incorporate threats and safeguards
 - Conceptual framework only applies when no guidance in Code exists
 - Cannot be used to override existing requirements

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Project Objective cont.

- Incorporate references to division's nonauthoritative guidance
- Physically different – Separate parts
 - Part 1: Members in public practice
 - Part 2: Members in business
 - Part 3: All Other Members
- On-line Codification with enhanced functionality
- Project Page on aicpa.org. Contains information such as:
 - Mapping Documents
 - Informational Video and articles
 - Project Timeline
 - Drafting Guidelines

www.aicpa.org/InterestAreas/ProfessionalEthics/Community/Pages/aicpa-ethics-codification-project.aspx

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Parts 1, 2 and 3

- Part 1, Members in Public Practice
- Part 2, Members in Business
- Part 3, All other members, Retired
- Which one applies to Government?
 - Government auditors within a government audit organization who audit federal, state, or local governments or component units thereof, that are structurally located within the government audit organization, are considered in public practice with respect to those entities provided the head of the audit organization meets one of the organizational structures described in paragraph .07b(i-iii) of the “Client” definition [0.400.07]. [No prior reference: new content]

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Substantive Changes

AICPA Ethics Codification

Incorporate Conceptual Frameworks

- Two New Frameworks
 - Conceptual Framework for Members in the Practice of Public Accounting
 - Conceptual Framework for Members in Business
- Applied when no guidance on a particular relationship or circumstance
- Violation of applicable *Rule*
 - If the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level

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Other Substantive Changes

- Ethical Conflicts
- Definition of Attest Client
- Loans and Lending Institutions
- Blind Trusts
- Expanded Application
 - Self-Review Treat
 - Director Positions
 - False, Misleading or Deceptive Acts
 - Billing for a Subcontractor's Services
 - Attest Engagement Performed with Former Partner
 - Use of AICPA Awarded Designation

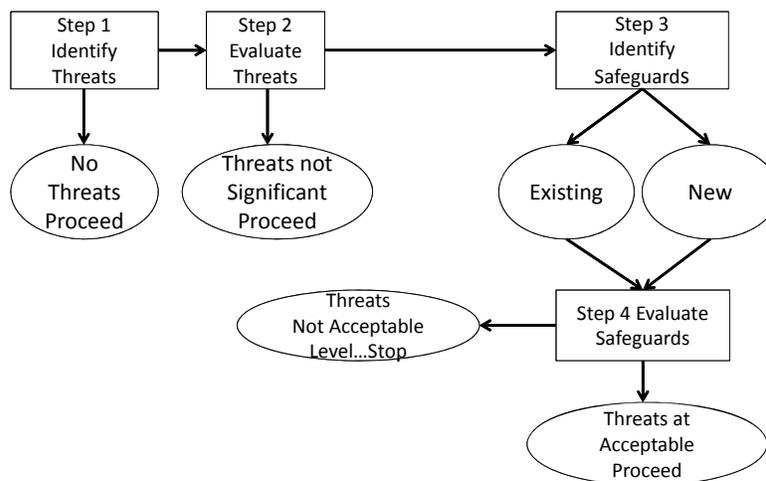
332

What is a Conceptual Framework

- Nothing on Point in the Code
 - Old Thinking
 - ✓ Relationship or circumstance must be permitted
 - Revised Thinking
 - ✓ Apply the conceptual framework
- Requires professional judgment
 - Reasonable Third Party
 - For example, if the situation involves a staff person often an effective safeguard is:
 - The staff's removal from the engagement
 - Additional review of the staff's work

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Steps of the Conceptual Framework



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Conceptual Framework - Case Study

- Characters
 - Anthony “Auto” – Owner of Used Car Dealership
 - Evan – Owner of a CPA Firm (and Thomas’ brother)
 - Robert – Owner of Auto Supply Store and über mechanic (childhood friend of Auto and Evan)
- Situation
 - Can Evan perform reviews for Robert’s store?

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Polling Question: Conceptual Framework

When using the conceptual framework, if a threat is significant you should:

- A. Not perform the attest engagement
- B. Discuss the threat with those charged with governance
- C. Apply safeguards that eliminate or reduce the threat to an acceptable level
- D. Adopt policies and procedures that are designed to monitor the quality control of the attest engagement

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Polling Question: Safeguards

If Evan implemented the same safeguards, could he perform an annual review for Auto's used-car dealership?

- A. Yes
- B. No



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Nonauthoritative Guidance

AICPA Ethics Codification

Nonauthoritative Guidance References

Appears in boxed text at the end of the applicable topic, sub-topic or section. For example:

Appraisal, Valuations, and Actuarial Services for Nonfinancial Statement Purposes

.06 Threats would be at an acceptable level, if a member provided appraisal, valuation, or actuarial services solely for nonfinancial statement purposes, such as appraisal, valuation, and actuarial services performed for tax planning or tax compliance, estate and gift taxation, and divorce proceedings. Accordingly, independence would not be impaired. [Prior reference: paragraph .05 of ET section 101]

Nonauthoritative answers to FAQs regarding appraisal, valuation, and actuarial services are available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.pdf

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Visual Example

AICPA Ethics Codification

Four Parts

Preface

- 0.100.000 **Overview of the Code of Professional Conduct**
- 0.200.000 **Structure and Application of the AICPA Code**
- 0.300.000 **Principles of Professional Conduct**
- 0.400.000 **Definitions**
- 0.500.000 **Nonauthoritative Guidance**
- 0.600.000 **New, Revised, and Pending Interpretations and Other Guidance**
- 0.700.000 **Deleted Interpretations and Other Guidance**

Part 1

Part 2

Part 3

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Part 1

Members In Public Practice - Topics

- 1.000 INTRODUCTION
- 1.100 INTEGRITY AND OBJECTIVITY
- 1.200 INDEPENDENCE
- 1.300 GENERAL STANDARDS
- 1.310 COMPLIANCE WITH STANDARDS
- 1.320 ACCOUNTING PRINCIPLES
- 1.400 ACTS DISCREDITABLE
- 1.500 FEES AND OTHER TYPES OF REMUNERATION
- 1.510 CONTINGENT FEES
- 1.520 COMMISSIONS AND REFERRAL FEES
- 1.600 ADVERTISING AND OTHER FORMS OF SOLICITATION
- 1.700 CONFIDENTIAL INFORMATION
- 1.800 FORM OF ORGANIZATION AND NAME

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Independence Sub-Topics

- | | |
|---|--|
| 1.210 Conceptual Framework Approach | 1.265 Business Relationships |
| 1.220 Accounting Firms | 1.270 Family Relationships with Attest Clients |
| 1.224 Affiliates, including Governmental Units | 1.275 Current Employment or Association with an Attest Client |
| 1.226 Reissued Reports | 1.277 Former Employment or Association with Attest Client |
| 1.228 Engagement Contractual Terms | 1.279 Considering or Subsequent Employment or Association with Attest Client |
| 1.230 Fees | 1.280 Memberships |
| 1.240 Financial Interests | 1.285 Gifts and Entertainment |
| 1.245 Trusts and Estates | 1.290 Actual or Threatened Litigation |
| 1.250 Participation in Employee Benefit Plans | 1.295 Nonattest Services |
| 1.255 Depository, Brokerage and Other Accounts | 1.297 Independence Standards for Engagements Performed in Accordance with SSAEs |
| 1.257 Insurance Products | |
| 1.260 Loans, Leases, and Guarantees | |

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Financial Interest

- 1.240.010 – Overview of Financial Interests
- 1.240.020 – Unsolicited Financial Interests
- 1.240.030 – Mutual Funds
- 1.240.040 – Retirement, Savings, Compensation, or Similar Plans
- 1.240.050 – Partnerships
- 1.240.060 – Limited Liability Companies
- 1.240.070 - Section 529 Plans

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Loans, Leases and Guarantees

1.260.010 - Loans

1.260.020 – Loans and Leases with Lending
Institutions

1.260.030 – Servicing of a Loan

1.260.040 – Leases

1.260.050 – Association With an Entity That Has
a Loan to or From an Attest
Client

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Mapping Content and Citations

AICPA Ethics Codification

Mapping Document...excerpt

AICPA Ethics Codificaiton Mapping As of December 31, 2013			
Extant Code Citations	Title In Code	New Citation In Code	Title In Codification
New		0.100	Overview of the Code of Professional Conduct
Introduction	Composition, Applicability, and Compliance	0.100.010	Principles and Rules of Conduct
Introduction	Other Guidance	0.100.020	Interpretations and Other Guidance
New		0.200.010	Structure of the AICPA Code
New		0.200.020.01	Application of the AICPA Code
ET section 91	Applicability	0.200.020.02-.05	Application of the AICPA Code
New		0.200.030	Citations
New		0.200.040	Transition Provisions
New		0.200.050	Drafting Conventions
ET section 51	Preamble	0.300.010	Preamble
ET section 52	Article I - Responsibilities	0.300.020	Responsibilities
ET section 53	Article II - The Public Interest	0.300.030	The Public Interest
ET section 54	Article III - Integrity	0.300.040	Integrity

<http://www.aicpa.org/InterestAreas/ProfessionalEthics/Community/DownloadableDocuments/Mapping.xlsx>

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Prior Citations in Exposure Draft

1.400.210 Removing Client Files or Proprietary Information From a Firm

.01 A *member* whose employment relationship is terminated would be considered in violation of the Acts Discreditable rule if the *member* takes or retains (a) originals or copies (in any format) from the *firm's client* files or (b) proprietary information without the *firm's* permission, unless the *member* has a contractual arrangement with the *firm* allowing such action. [Prior reference: paragraphs .381–.382 of ET section 591]

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Framework Document...excerpt

Part 1: Members in Public Practice

000 INTRODUCTION (New Content)

- 000.010 Conceptual Framework for Members in Public Practice (New Content)
- 000.020 Ethical Conflicts (New Content)

100 INTEGRITY AND OBJECTIVITY

100.001 "Rule 102" Integrity and Objectivity (ET§102.01)

- 100.005 Application of the Conceptual Framework for Members in Public Practice and the Ethical Conflicts Interpretation (New Content)

110 Conflicts of Interest

- 110.010 Conflicts of Interest (ET§102.03, ER93, ET§191.186-.187, ER 99, ET§191.198-.199, ER110, ET§191.220-.221)
- 110.020 Director Positions (ER 85, ET§191.170-.171, Substantive Change Made)

<http://www.aicpa.org/InterestAreas/ProfessionalEthics/Community/DownloadableDocuments/Preliminary%20Framework%20for%20Codification.pdf>

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Questions



Slide 350

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Concluding Thoughts

- 73% percent of US workforce said they had witnessed unethical conduct.
- The unethical conduct contributed to an uninviting less productive workplace. Many workers were distracted by the conduct and told around 5 to 8 other people about the situation.
- It pays for a business to promote ethical behavior.
- Corporate ethics affects an employee's productivity.

By Pomeroy, Ann, HRMagazine, Sunday, July 1 2007



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Thought Question?

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Resources on the Web!!

- AICPA Code of Professional Conduct
<http://www.aicpa.org/Research/Standards/CodeofConduct/Pages/default.aspx/>
- Montana Board of Public Accounts
http://bsd.dli.mt.gov/license/bsd_boards/pac_board/board_page.asp
- Renewal Instructions
http://bsd.dli.mt.gov/Accela/generic_instructions.pdf
- Renewal Link
<https://ebiz.mt.gov/pol/>

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Questions?



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State of Montana Department of Administration Single Audit Update

May 19, 2015



Jerry E. Durham, CPA, CGFM, CFE
Assistant Director, Research and Compliance
Division of Local Government Audit

Tennessee Comptroller of the Treasury

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Jerry E. Durham, CPA, CGFM, CFE

- *Jerry is an Assistant Director for the State of Tennessee, Comptroller of the Treasury, Division of Local Government Audit. The division has statutory responsibility for audits of local governments in Tennessee. A 30-year veteran of the division, Jerry has served as an auditor, audit supervisor, training instructor, technical manager, and assistant director. Jerry is a Certified Public Accountant (CPA), Certified Government Financial Manager (CGFM), and a Certified Fraud Examiner (CFE). In his role as assistant director, he is responsible for developing professional compliance procedures and monitoring the division's quality performance under GASB, AICPA, OMB, and GAO accounting and auditing standards. Jerry also has responsibility for the supervising the contract review process within the division. Most recently, Jerry assisted the division in implementing the new GASB Pension standards. In addition, Jerry teaches training classes for the Tennessee Department of Audit (Yellow Book and Audit Findings) and has made training presentations for several other professional organizations including the Tennessee Society of Certified Public Accountants; Tennessee Government Finance Officers Association; National Association of State Auditors, Comptrollers and Treasurers; Association of Government Accountants; County Technical Assistance Service; Southeastern Intergovernmental Audit Forums, and various county officials' associations. He has served the National State Auditors Association External Peer Review program as a reviewer, team leader, and concurring reviewer and serves on the Special Review Committee for GFOA's Certificate of Achievement for Excellence in Financial Reporting program. Jerry has also provided training for the New York City Comptroller's Office and state auditors in Arkansas, Kentucky, Minnesota, Montana, North Dakota, Idaho, North Carolina, and West Virginia. In addition to these duties, Jerry currently serves on the state's Interagency Cash Flow Committee which operates under the authority of the Tennessee State Funding Board.*

- *Jerry was a partner in the accounting firm of Crosthwaite Durham and Associates. He also served as controller for Rural Healthcare of America, Inc., and taught accounting as a member of the adjunct faculty for Columbia State Community College and Austin Peay State University.*

- *Jerry received his accounting degree from the University of Tennessee at Martin. He is a member of the American Institute of Certified Public Accountants (AICPA); the Association of Government Accountants (AGA) where he served as chair of the CGFM committee for the Nashville chapter; the Tennessee Government Finance Officers Association (TGFOA) where he serves as state liaison to the Board of Directors; and the Association of Certified Fraud Examiners (ACFE). Jerry is also a graduate from the Tennessee Government Executive Institute (TGEI) which is a training program for government leaders through the University of Tennessee.*

- *Jerry is married and has three children and two grandchildren.*

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The Opinions expressed during this presentation are my own. They do not necessarily represent the views of the Comptroller, his representatives, or the Department of Audit.

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ARRA Guidance

- **ARRA Reporting is Over**
- **Recovery.Gov is not longer accepting data**
- **2015 compliance supplement still has some arra funding**

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ARRA Compliance

- Separately reported on SeFA
- Separately identified in accounting records
- Comply with Buy American Act award requirements
- No casinos, golf courses, swimming Pools, zoos, Aquariums, etc.
- Subrecipient has a registration with SAM (System for Award Management (SAM)) (<http://sam.gov>)

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FFAtA

- FFATA Still is active for grant recipients

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Data Act

- **Passed Congress, May 2014**
- **Awaiting Data Elements decisions and final Implementation**
- **?? eventually affect states and local government**

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Single Audit Update

**Code of Federal Regulations
Title 2, Subtitle a, Chapter II,
Part 200**

**Uniform Administrative Requirements,
Cost principles, and audit requirements
for federal awards**

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Single Audit Update

the New Uniform Grant Guidance or “UGG”

“Super Circular?”

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Council on Financial Assistance Reform (COFAR)

www.cfo.gov/cofar

http://www.whitehouse.gov/omb/grants_docs/

Changes to guidance

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Agencies

<u>Agency for International Development</u>	<u>Corporation for National and Community Service</u>	<u>Department of Agriculture</u>	Department of Commerce*
<u>Department Of Defense</u>	<u>Department Of Education</u>	<u>Department Of Energy</u>	Department of Homeland Security*
<u>Department Of Justice</u>	<u>Department Of Labor</u>	<u>Department of State</u>	<u>Department of The Interior</u>
<u>Department Of Transportation</u>	<u>Department of Treasury</u>	<u>Environmental Protection Agency</u>	Gulf Coast Restoration Council*
<u>Health and Human Services</u>	Housing and Urban Development*	Institute of Museum and Library Services*	<u>National Aeronautics and Space Administration</u>
<u>National Archives and Records Administration</u>	National Endowment for Arts*	National Endowment for Humanities*	<u>National Science Foundation</u>
Office of the National Drug Control Policy*	<u>Small Business Administration</u>	Social Security Administration*	Veterans Affairs*

*These agencies do not have exceptions relating to 2 CFR 200

Changes to guidance

- **Reform of Federal Policies Relating to Grants and Cooperative Agreements; Cost Principles and Administrative Requirements**
- Result of over a year of work by federal / state / local / IG task force ordered by 11/23/2009 - E.O. 13520 "Reducing improper payments and Eliminating waste in Federal programs"; 2/28/2011 - Presidential memorandum "Administrative Flexibility, Lower costs, & Better results for state, Local and tribal governments"; and 7/26/2013 - OMB memorandum m-13-17, "Next step in the evidence and innovation agenda"
 - Goals :
 - Reduce fraud, waste and abuse
 - Increase cross-collaboration
 - Streamline reporting and adjudication of findings
 - Cut rules that are burdensome, ineffective etc.

Comment Letter to OMB

- Asked for \$5,000,000 single audit threshold 🤔
- Asked for Risk based awards 🤔
- Asked for simpler method of determining major programs 🤔
- Asked for Federal Agencies involvement in correcting findings 🤔
- Asked for Seven Compliance Features instead of 14 🤔

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- How many counties were affected by the single audit threshold change in Tennessee? There are 95 counties?
- How many cities were affected by the single audit threshold change in Tennessee? There are about 350 Cities in Tennessee.

368

OMB Grant Reform

- *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”)*
 - Final Rule issued on December 26, 2013
 - Contained in 2 CFR Part 200
 - Effective dates:
 - Federal agencies on December 26, 2014
 - Subpart F audit requirements are applicable to fiscal years beginning on or after December 26, 2014

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OMB Grant Reform

- Effective Dates:
- Indirect Cost Rates - Q&A, 110-1, 110-2, 110-3, 110-4
 - Existing Rates
 - Proposals
 - Applications submitted before December 26, 2014
 - IHEs – Q&A, 110-3
 - IHES – Q&A, 110-5, Applications Inconsistent with DS-2 Statements

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OMB Grant Reform

- Effective Dates:
- Q&A 110.7, Incremental Funding
- Q&A 110.11, Subawards
- Q&A 110.13, Entity-Wide System Changes

371

Compliance Supplement Transition

- Part Three - compliance Requirements
 - Divided into two sections
 - 3.1 for a-133, A-87, a-21, and A-122
 - 3.2 for new Uniform Guidance
 - Davis Bacon Act and Real Property acquisition and relocation have been removed from the Compliance Requirement matrix – columns have been reserved.
 - These two provisions may be included in special provisions

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Index – Part 200 cfr

- **Subpart a – Acronyms and definitions**
- **Subpart b – General Provisions**
- **Subpart c – Pre-award requirements and contents of Federal Awards**
- **Subpart d - Post federal award requirements**
- **Subpart e – Cost principles**
- **Subpart f – audit requirements**

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Documentation!!!!

- **Please notice the number of times the words Documentation or written documentation occur in the guidance**
- **Not a problem for states**
- **Large problem for Local governments**
- **Large problem for state governments who must monitor pass-through grants to local governments, or**
- **Local governments who pass through grants to other governments or nonprofits**

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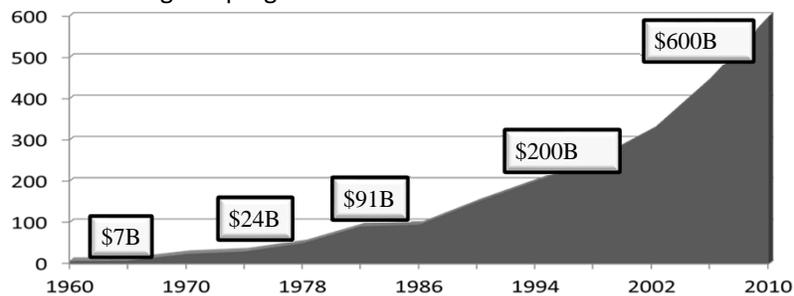
Federal agencies follow-up

- Expect a more robust follow-up process for findings
- Four entities in tennessee have received notices about corrective action plans for all gagas findings
- Oklahoma has the same situation according to frank Crawford
- What about arkansas??

375

Why done? - Increase in Federal Grants Activity

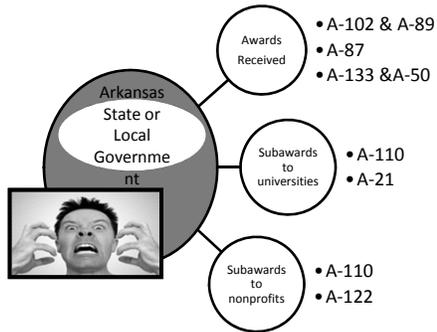
The Catalog of Federal Domestic Assistance lists over **2,000** Federal grant programs



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Eliminated Duplicative and Conflicting Guidance

Then:



Now: All OMB guidance streamlined in 2 CFR 200.

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Audit Requirements

SUBPART F

REFORMS TO CIRCULARS A-133 AND A-50

378

Audit Requirements

This Section highlights the major policy changes to the government-wide requirements for audit of Federal awards under the Single Audit Act Amendments of 1996. These audit requirements are currently found in OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations and will be replaced by Subpart F-Audit Requirements in 2 CFR Part 200 which was published in the Federal Register on December 26, 2013.

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Targeting Audit Requirements on Risk of Waste, Fraud, and Abuse

The final guidance right-sizes the footprint of oversight and Single Audit requirements to strengthen oversight and focus audits where there is greatest risk of waste, fraud, and abuse of taxpayer dollars.

It improves transparency and accountability by making single audit reports available to the public online, and encourages Federal agencies to take a more cooperative approach to audit resolution in order to more conclusively resolve underlying weaknesses in internal controls.

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Revisions Focus Audit On Risk

- Increases audit threshold.
- Strengthens risk-based approach to determine Major Programs.
- Provides for greater transparency of audit results.
- Strengthens agency use of the single audit process.
- Provides for public outreach to focus Compliance Supplement on requirements of highest risk.

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Basic Structure of Single Audit Process Unchanged

- **Audit threshold (200.501).**
- **Subrecipient vs. Contractor (200.501(f) & 200.330).**
- **Biennial (200.504) & Program-specific (200.507) audits.**
- **Non-Federal entity selects auditor (200.509).**
- **Auditee prepares financial statements & SEFA(200.510).**
- **Audit follow-up & corrective action(200.511 & 200.521).**
- **9 month due date (set in law) (200.512(a)).**
- **Reporting to Federal Audit Clearinghouse (200.512).**
- **Major programs determined based on risk (200.518).**
- **Compliance Supplement overall format.**

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Audit Threshold (200.501)

- The COFAR considered that raising the threshold would allow Federal agencies to focus their audit resolution resources on the findings that put higher amounts of taxpayer dollars at risk, thus better mitigating overall risks of waste, fraud, and abuse across the government.
- Further, the COFAR notes that provisions throughout the guidance, including pre-award review of risks, standards for financial and program management, subrecipient monitoring and management, and remedies for noncompliance provide a strengthened level of oversight for non-Federal entities that would fall below the new threshold.

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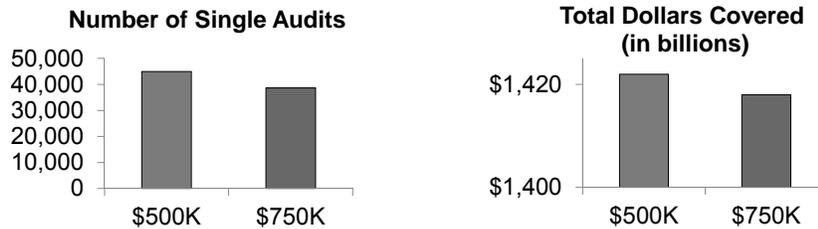
Audit Threshold

- Increases audit threshold from \$500,000 to \$750,000.
- Maintains oversight over 99.7% of the dollars currently subject Single Audit and reduces audit burden for approximately 6,300 entities.
- Increase of \$250,000 is in line with previous threshold increase in 2003.
- Reduces about 80 pages (25%) of guidance compared to the 8 Circulars the uniform guidance replaces.
- Suppose to save the federal government \$250 million each year.

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Single Audit Threshold Change

- Increase audit threshold from \$500,000 to \$750,000
- Based on single audits submitted to the FAC for 2011, there would be approximately 6,300 fewer entities subject to a single audit, but there would only be a reduction in dollars covered of approximately \$3.9 billion, or less than 1%



OMB's goal is to concentrate audit resolution and oversight resources on higher dollar and higher risk awards.

Major Program Determination

200.518 Major Program Determination focuses audits on the areas with internal control deficiencies that have been identified as material weaknesses. Future updates to the Compliance Supplement will reflect this focus as well.

Type A/B Threshold – Step 1

- Programs are grouped based on dollars.
 - Type A programs are those above the threshold.
 - Type B are those below the threshold.

- Type A/B threshold is a sliding scale with minimum.
 - Minimum increases from **\$300,000 to \$750,000**.
 - Threshold presented in table to be more easily understood.

- Audit threshold and Type A/B minimum threshold will be the same at \$750,000.

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Type A/B Threshold – Table (200.518(b)(1))

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

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Type A Threshold Change

- Groupings are based on dollars — Type A programs are those above the dollar threshold, Type B are those below
 - The minimum threshold For type a programs is increased from \$300,000 to \$500,000.

If total federal awards expended is:	Then Type A programs are those with federal awards expended of the greater of
\$1 million to \$100 million	\$500,000 or 3% (.03) of total awards expended
\$100 million to \$10 billion	\$3 million or .3% (.003) of total awards expended
\$10 billion or more	\$30 million or .15% (.0015) of total awards expended

High-Risk Type A Programs Changes

OLD default criteria:

- Not audited as a major program in 1 of 2 most recent audit periods
- In most recent period, had any of the following for program:
 - Significant deficiency in internal control
 - Material weakness in internal control
 - Material noncompliance Finding
- Has ARRA expenditures in current year
- Written request by federal awarding agency to audit as major (180 days notice)

NEW default criteria:

- Not audited as a major program in 1 of 2 most recent audit periods
- In most recent period, had any of the following for program:
 - Other than an unqualified opinion
 - Material weakness in internal control
 - Known or likely questioned costs that exceed 5% of the total expenditures of the program
 - N/A
- Written request by federal awarding agency to audit as major (180 days notice)

This change puts the focus of risk assessment on whether the program received a qualified opinion or material weakness over internal control, as opposed to whether the program received less significant findings that are not essential to the financial integrity of the program.

High-Risk Type B Program (200.518(d)) (Step 3)

Current A-133 criteria:

- Currently there are two Type B risk assessment options:
 - Option 1 – Perform risk assessments on ALL Type B programs and select at least 50% of Type B programs* identified as high risk up to number of low-risk Type A programs
 - Option 2 – Perform risk assessments on all Type B programs* until as many high-risk Type B programs have been identified as there are low-risk Type A programs •
 - *subject to de minimus threshold

NEW CRITERIA:

- **PERFORM RISK ASSESSMENTS ON TYPE B PROGRAMS UNTIL HIGH-RISK TYPE B PROGRAMS HAVE BEEN IDENTIFIED UP TO AT LEAST 25% OF NUMBER OF LOW-RISK TYPE A PROGRAMS**
- **ARE YOU STILL HOLDING THAT THOUGHT??**

- *subject to de minimus threshold

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Percentage of Coverage Rule (200.518(f)) (Step 4)

- Guidance reduces the minimum coverage as follows:

Type of Auditee	Current	New
Not low-risk	50%	40%
Low-risk	25%	20%

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Effect of Large Loan Programs

- Circular incorporates the guidance on the inclusion or exclusion of large loan or loan guarantee programs in determining the Type A threshold that is currently in the Compliance Supplement
- Circular modifies the guidance related to a cluster of programs
 - Rule – Large loan program exceeds four (4) times the largest non-loan program. exclude all large loan programs when determining type a major programs. (200.518)
 - A cluster of programs is treated as one program in determining Type A programs. For the purposes of excluding large loan programs in the determination of other Type A programs, a cluster of programs is not considered to be a loan program if the individual loan programs within the cluster comprise less than 50% of the expenditures of the cluster (200.518, 200.502)

Low-Risk Auditee

200.520 Criteria for a Low-Risk Auditee

- Members of the audit community and states commented on the criteria for a low-risk auditee that includes whether the financial statements were prepared in accordance with GAAP. Members of the audit community note that GAAP is the preferred method, and states note that state law sometimes provides for other methods of preparation. The COFAR considered this and recommended revised language to allow for exceptions where state law **requires** otherwise.
- If the state law **permits** but does not require other methods, then the auditee cannot be considered a low-risk auditee.

Low-Risk Auditee (200.520)

Current (2 prior years)

- Annual single audits
- Unmodified opinion on financial statements in accordance with GAAP
- Unmodified SEFA in relation to opinion.
- No GAGAS material weaknesses
- In either of preceding two years, none of Type A programs had:
 - Material Weakness.
 - Material noncompliance.
 - Questioned costs that exceed 5%.
- Timely filing with FAC.
- Auditor reporting going concern not preclude low-risk.
- Waivers.

NEW (2 PRIOR YEARS)

- SAME.
- Unmodified opinions on statements in accordance with GAAP or basis of accounting required by state law.
- SAME.
- SAME.
- SAME.
- SAME.
- NO AUDIT REPORTING OF GOING CONCERN.
- NO WAIVERS.

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Audit Requirements – Single Audits

- Streamlining Types of Compliance (cont.)
 - Tentative “keepers” (7)
 - Activities Allowed or Unallowed
 - Including “matching” and “period of availability” to verify allowability
 - Allowable costs/ Cost Principles
 - Cash Management
 - Eligibility
 - Reporting
 - Subrecipient Monitoring
 - Special Tests and Provisions

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Audit Requirements – Single Audits

- Streamlining Types of Compliance (cont.)
 - Tentative eliminations (7)
 - **Davis Bacon**
 - Equipment and Real Property Management
 - Matching, Level of Effort, and Earmarking
 - Period of Availability of Federal Funds (except where tested to verify allowable/unallowable costs)
 - Procurement and Suspension and Debarment
 - Program Income
 - **Real Property Acquisition & Relocation Assistance**

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Tentative 2015 Compliance Supplement Matrix

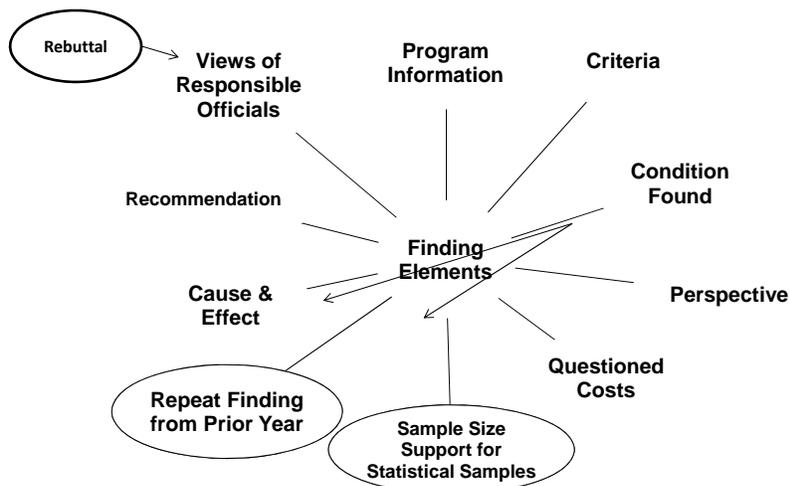
March 2015

Matrix of Compliance Requirements

CFDA	Types of Compliance Requirements													
	A	B	C	D	E	F	G	H	I	J	K	L	M	N**
	Activities Allowed or Unallowed	Allowable Cost/ Cost Principles	Cash Management	Residual	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability of Federal Funds	Procurement and Suspension and Debarment	Program Income	Residual	Reporting	Subrecipient Monitoring	Special Audit Provisions
10 – United States Department of Agriculture (USDA)														
10.000*	Y	Y	Y			Y		Y	Y	Y		Y		Y
10.500	Y	Y	Y			Y	Y	Y	Y	Y		Y	Y	
10.551 10.561	Y	Y	Y		See Part 4	Y	Y	Y	Y			Y	Y	Y

398

Finding Elements – carried also to new DCF (200.516)



Single Audit Report Submission

200.512 Report Submission

requires publication of Single Audit Reports online with safeguards for protected personally identifiable information and an exception for Indian tribes in order to reduce the administrative burden on non-Federal entities associated with transmitting these reports to all interested parties.

Single Audit Report Submission (Cont'd)

- All auditees must submit the reporting package and the data collection form electronically to the Federal Audit Clearinghouse (FAC) (200.512(d)).
- FAC submission process will be changed to require that submissions be in text-based PDF and unlocked to improve accessibility.
- FAC responsible to make the reports available on a Web site (200.512(g)).
 - Exception for Indian tribes will be discussed later.

401

Single Audit Reports on the Web - PPII

- Auditors and auditees must ensure reports do not include protected personally identifiable information (PPII) (200.82 & 200.512(a)(2)).
- Auditee must sign statement that (200.512(b)(1)):
 - Reports do not include PPII.
 - Authorizes FAC to make reports publically available on a Web site.
 - Exception for Indian tribes as defined in 200.54.
 - No exception for tribal organization not meeting the 200.54 definition.

402

Exception for Indian Tribes (200.512(b)(2))

- Tribal reports may include confidential business information that would be redacted under the Freedom of Information Act.
- May elect to not authorize the FAC to make reporting package publically available on the a Web site.
- If elected, Indian tribe must:
 - Submit reporting package directly to pass-through entities.
 - Make reporting package available for public inspection as required by the Single Audit Act.
- Q&A 54-1, 54-2, and 54-3

403

Revised Data Collection Form (SF-SAC)

- New SF-SAC
 - Final form released November 19, 2013
 - http://www.whitehouse.gov/omb/grants_forms/
 - New form replaces the current form for audit periods ending 2013, 2014 and 2015
- Revises some existing data elements and adds other data elements
 - Purpose is to allow federal agencies to identify the types of audit findings reported
- Does anyone know what **SF** stands for?? Standard Form!

404

Form SF-SAC (2010 Version)

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							10. AUDIT FINDINGS			
Federal Agency Prefix (a)	Extension (b)	Research and development (c)	ARRA (d)	Name of Federal program (e)	Amount expended (f)	Direct award (g)	Major program (h)	If yes, type of audit report # (i)	Type(s) of compliance requirement(s) ⁵ (j)	Audit finding reference number(s) ⁶ (k)
03	123	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	HHS PROGRAM NAME	\$ 500,000 .00	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	A	ABCDEFG H	12-1, 12-2, 12-3
08	456	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	ED PROGRAM NAME	\$ 1,000,000 .00	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	D	ABCDEF	2012-1, 2012-2
10	789	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	ARRA - AGRICULTURE PROGRAM NAME	\$ 2,525,252 .00	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	Q	AB	2012-3, 2012-4
08	012	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	ENERGY PROGRAM NAME	\$ 363,636,363 .00	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	Q	ABC	12-1

- Which compliance requirement is related to which finding?
- Which finding caused the modified opinion?
- Non-standard audit finding reference numbers

405

Form SF-SAC (2013 -2015 Version)

Federal Agency Prefix	Extension	Name of Federal Program	Amount Expended	R&D	Loan/Loan Guarantee	ARRA	Direct Award	Major Program	If MP, type of audit report	Number of Findings
10	789	ARRA - AGRICULTURE PROGRAM NAME	\$2,525,252	N	N	Y	Y	Y	Q	0
08	456	ED PROGRAM NAME	\$1,000,000	N	N	N	Y	Y	D	0
01	012	ENERGY PROGRAM NAME	\$363,636,363	N	N	N	Y	Y	Q	0
03	123	HHS PROGRAM NAME	\$500,000	N	N	N	Y	Y	A	3

"Federal Awards Findings" Page

Federal Agency Prefix	Extension	Name of Federal Program	Finding Reference No.	Type(s) of Compliance Requirement	Modified Opinion	Other NonCompliance	Material Weakness	Significant Deficiency	Other	Questioned Costs
03	123	HHS PROGRAM NAME	2013-001	ABCE	Y	N	Y	N	N	N
03	123	HHS PROGRAM NAME	2013-002	FGH	N	Y	N	N	N	N
03	123	HHS PROGRAM NAME	2013-003	AC	N	N	N	Y	N	N

Automatically filled from "Federal Awards" Page for each Federal award with findings

- Identifies the compliance requirements that correspond to each finding
- Gives detail of how each finding affected each Federal award

406

Illustration of New Items in Part III: Federal Programs

FORM SF-SAC		PART III: FEDERAL PROGRAMS - Continued										REPORT ID:	VERSION:
6. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR													
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)		
	CFDA Number		Name of Federal program	Amount expended (\$)	Research & Development (Y/N)	Loan/Loan Guarantee (Y/N)	ARRA ³ (Y/N)	Direct award (Y/N)	MAJOR PROGRAM		Number of Audit Findings		
Row Number	Federal Agency/Prefix ¹	CFDA Extension ²							Major program (Y/N)	Major Program ⁴ (Y/N)			

407

Illustration of Part III, Item 7

FORM SF-SAC		PART III: FEDERAL PROGRAMS - Continued										REPORT ID:	VERSION:
7. FEDERAL AWARD FINDINGS													
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)		
	Page 3 Row Number	Federal Agency/Prefix	CFDA Extension	Name of Federal program	Audit Finding Reference Number (YYY-###)	Type(s) of Compliance Requirement(s) ²	Compliance Findings ¹	Internal Control Findings ²	Material Weakness	Significant Deficiency	Other Findings ³	Questioned Costs	
							Modified Opinion (Y/N)	Other Matters (Y/N)					(Y/N)
These columns are populated automatically from Part III, Item 6, columns a, b, and c on rows with findings. For each award with findings, one row is created for each finding reported on Part III, Item 6k. This page is not required if no findings are reported on Part III, Item 6k.													

408

Submission to FAC – PDF Requirements

- AY 2014 audits must be:
 - Unlocked
 - Unencrypted to allow copying and pasting
 - 85% of pages must be text-searchable (i.e., don't scan!)
- Will allow Federal agencies to analyze findings electronically

409

Reporting Package Changes

- NO MORE SCAN AND SEND STARTING WITH 2014 submissions
 - Files must be text searchable, accessible, not password protected PDFs
 - DO NOT send CAFRs with pictures – file may be rejected
 - Audit signatures will need to be considered = *leap of faith...*

410

Reporting Package Changes

- Q&A 110-15, Reporting SEFA and Auditor's Summary in with Data Collection Form

411

CASH or Accrual Financial statements

- Q&A 54-2, May use both
- 200.403 (e)??

412

FAC Repository of Record for Reporting Packages
(200.36 & 200.512(b))

- Federal agencies, pass-through entities, and others obtain copies by accessing FAC website.
- Subrecipient only required to submit report to FAC and no longer required to submit to pass-through entity.
 - Does this prevent access to audits that are required to be submitted for other reasons?
- Pass-through entity no longer required to retain copy of subrecipient report as available on the Web.

413

Single Audit Accountable Official (200.513(c)(5))

- Ensure agency effectively uses the single audit process.
- Develop a baseline, metrics, and targets to track, over time, the effectiveness of:
 - The agency's process to follow-up on audit findings.
 - Single Audits in:
 - Improving non-Federal entity accountability for Federal awards.
 - Use by the agency in making award decisions.
- Designate the agency's Key Management Single Audit Liaison.

414

Agency Key Management Single Audit Liaison
(200.513(c)(6))

- Agency management's point of contact for single audit.
- Promote interagency coordination.
- Oversee training for agency's program management personnel related to the single audit process.
- Promote use of cooperative audit resolution.
- Coordinate agency's audit follow-up to ensure timely corrective action on audit findings.
- Organize cognizant agency for audit follow-up.
- Ensure agency provides annual updates to the Compliance Supplement.
- Support the Senior Audit Accountable Official.

415

Cooperative Audit Resolution

200.513(c)(3)(iii) Responsibilities encourages Federal awarding agencies to make effective use of cooperative audit resolution practices in order to reduce repeat audit findings.

416

Cooperative Audit Resolution (200.25)

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

- (a) A strong commitment by Federal agency and non-Federal entity leadership to program integrity;
- (b) Federal agencies strengthening partnerships and working cooperatively with non-Federal entities and their auditors; and non-Federal entities and their auditors working cooperatively with Federal agencies;
- (c) A focus on current conditions and corrective action going forward;
- (d) Federal agencies offering appropriate relief for past noncompliance when audits show prompt corrective action has occurred; and
- (e) Federal agency leadership sending a clear message that continued failure to correct conditions identified by audits which are likely to cause improper payments, fraud, waste, or abuse is unacceptable and will result in sanctions.

417

Appendix XI - Compliance Supplement

While most commenters were in favor of the proposed reduction of the number of types of compliance requirements, many voiced concern about the process to implement such changes. Comments questioned whether Federal agencies adding back provisions under special tests and provisions would result in increased administrative burden.

Since the Supplement is published as part of a separate process, the COFAR recommended that any future changes to its structure be based on available evidence of impact on past findings and include further public outreach to mitigate potential risks of an inadvertent increase in administrative burden.

418

Compliance Supplement

- Supplement is published as separate process so the final changes are not included in the Guidance.
- Future changes will be based on available evidence of past audit findings & potential impact of non-compliance.
- Further public outreach will be conducted prior to making structural changes to Supplement format.
 - Changes will not be effective until the 2015 Supplement

419

Audit Findings (200.516)

- Increases the threshold for reporting known and likely questioned costs from \$10,000 to \$25,000 (200.516(a)(3) & (4)).
- Requires that questioned costs be identified by CFDA number and applicable award number (200.516(b)(6)).
- Requires Identification of whether audit finding is a repeat from the immediately prior audit and if so the prior year audit finding number (200.516(b)(8)).
- Provides that audit finding numbers be in the format prescribed by the data collection form (200.516(c)).

420

Additional Audit Requirements

- List of program specific audit guides will be provided beginning with the 2014 Supplement including (200.517(a)):
 - Agency contact information.
 - Web site where copy of guide is available.
- Clarified that if report due date is on a Saturday, Sunday, or Federal legal holiday, report submission is due the next business day (200.512(a)).
- Provides for a government-wide audit quality project once every 6 years beginning in 2018 (200.513(a)(3)(ii)).
- Made technical edits to align with current auditing standards.

421

Additional Audit Requirements – Future Changes

- Included language to allow for future combining of the audit reporting and the data collection form if permitted under auditing standards and the approved FAC data collection (200.515(e)).
- Single Audit resolution project currently under supervision of COFAR is aimed at improving coordination for cross-cutting findings and improving transparency of management decisions.

422

Effective Date for Audit Requirements
(200.110(b))

- Subpart F will be effective for non-Federal entity Fiscal Years (FY) or biennial periods beginning on or after December 26, 2014.
- First year examples:
 - FY beginning January 1, 2015 and ending December 31, 2015, or
 - July 1, 2015 to June 30, 2016.
 - Biennial period beginning January 1, 2015 and ending December 31, 2017.
- Early implementation of Subpart F is **not** permitted.

423

Audit Requirements

Questions??

424

Administrative Requirements

REFORMS TO A-102,
CIRCULAR A-110, AND
CIRCULAR A-89

425

REFORMS TO ADMINISTRATIVE REQUIREMENTS (THE COMMON RULE IMPLEMENTING CIRCULAR A-102); CIRCULAR A-110; AND CIRCULAR A-89

- The section highlights changes to the governmentwide common rule implementing Circular A-102 on Grants and Cooperative Agreements with State and Local Governments; Circular A-110 on Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations (2 CFR part 215); and Circular A-89 on Catalog of Federal Domestic Assistance
- The following are major changes included in the final guidance

426

Subpart A: Acronyms & Definitions

- 200.0, Acronyms
- Acronyms are at the beginning

- 200.1 – 200.99, Definitions
- The 99 definitions are in separate sections (and therefore are listed in the index)
- Terms are broad to encompass all requirements (administrative, cost principles, audit) and all types of entities receiving Federal awards

427

Definitions of fraud, waste, and abuse

(Not in Guidance)

- Fraud
 - An intentional deception that violates a law or the public trust for personal benefit or the benefit of others.
- Waste
 - Behavior involving the extravagant, careless, or needless use of government funds or property. (usually intentional)
- Abuse
 - Behavior involving the use of government funds or property that a prudent person would not consider reasonable and necessary business practice given the facts and circumstances. (may or may not be intentional)
- County – Travel, Bridge, Homeland Security Grants

428

Key Definitions

- 200.38, **Federal award** (depending on the context, means the \$ or the document)
- 200.40, **Federal financial assistance** (no change in meaning from previous definitions for administrative requirements, cost principles, and audit requirements)
- 200.69, **Non-Federal entity** (state, local government, Indian tribe, institution of higher education, or nonprofit that is the recipient or subrecipient)
- 200.74, **Pass-through entity** (non-Federal entity that subawards to a subrecipient)
- 200.90, **State** no longer includes **Indian tribe** (200.54)
 - No effect on funding because eligible applicants are based on the Federal program, not Part 200

429

Definitions – Subrecipient and Contractor

- 200.93, **Subrecipient**
- *Subrecipient* means a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program
- 200.23, **Contractor** is used rather than “vendor” (used in A-133)
- *Contractor* means an entity that receives a contract as defined in 200.22 Contract
- Look at the nature of the relationship rather than what the agreement is called; See 200.330

430

Definitions – Subrecipient and Contractor

- Q & A 23-1, 23-2
- Can a state still use the word contract for subrecipient awards?

431

Interesting Definitions

- **200.34 Cash vs. Accrual expenditures**
- **200.90 State (used to include indian tribes)**

432

Subpart B: General Provisions

- 200.100, Purpose: 2 CFR Part 200 establishes uniform administrative requirements, cost principles, and audit requirements for all types of non-Federal entities
- Federal awarding agencies must not impose additional or inconsistent requirements, unless
 - Requirement based on Federal statute, regulation, or Executive Order,
 - OMB permits an exception in accordance with 200.102, or
 - OMB approves information in the Federal award in accordance with 200.210

433

“Should” vs “Must”

- Throughout, both “should” and “must” are used
- “Must” means “required”
- “Should” indicates best practices or recommended approach

434

Conflict of Interest & Mandatory Disclosures

- **Two new requirements that strengthen oversight:**
 - 200.112, Conflict of interest (Q&A 112-1)
The Federal awarding agency must establish conflict of interest policies for their Federal awards
The non-Federal entity must disclose in writing any potential conflict of interest to the Federal awarding agency (or pass-through entity) in accordance with applicable Federal awarding agency policy
 - 200.113, Mandatory disclosures
Non-Federal entities (and applicants) must disclose all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award

435

Subpart C: Pre-Federal Award Requirements and Contents of Federal Awards

Sections Highlighted:

- 200.201, Use of Grant agreements, Cooperative agreements & contracts
- 200.203, notices of funding opportunities
- 200.204, federal agency review of merit
- 200.205, Federal agency review of risk
- 200.206, standard application requirements
- 200.210, information contained in a federal award

436

Notices of Funding Opportunities

- 200.203, Notices of funding opportunities:
 - Notice of the Funding Opportunity (Q&A Unnumbered, P12)
 - For **competitive** grants and cooperative agreements, Federal awarding agencies must announce specific funding opportunities by posting a public notice on the OMB-designated government-wide Web site
 - Specifies a set of six data elements that must be included in the public notice

437

Federal Agency Review of Risk

- 200.205, Federal awarding agency review of risk posed by applicants:
 - In addition to use of the OMB-designated repositories of government-wide eligibility information, Federal awarding agencies **must have a framework for evaluating the risks posed by applicants prior to receipt of a federal award**
 - Items that MAY BE considered by Federal awarding agencies include:
 - Financial stability
 - Quality of management systems
 - History of performance
 - Reports and findings from audits performed under Subpart F
 - Applicant's ability to effectively implement statutory, regulatory or other requirements

438

Federal Agency Review of Risk

- 200.205, Federal awarding agency review of risk posed by applicants:
 - Q&A 205-1, What about auditors evaluation of Risks posed by Applicants?

439

Federal Agency Review of Risk (Cont'd)

- Special conditions that correspond to the degree of risk may be applied, if appropriate (See **200.207**, Special Conditions.)

440

Information Contained in a Federal Award

- 200.210, Information contained in a Federal award:
 - Provides a standard set of **15 data elements which must be provided** in all Federal awards
 - Identifies coverage which must be included in the general terms and conditions
 - Provides guidance on Federal Awarding Agency, Program, or Award Specific Terms and Conditions
 - Requires Federal awarding agencies to include an indication of the timing and scope of expected performance as related to the outcomes intended to be achieved
 - In some instances, (e.g., discretionary research awards) this may be limited to submission of technical performance reports

441

Subpart D: Post Federal Award Requirements Standards for Financial and Program Management

Sections highlighted:

- 200.301, Performance management**
- 200.303, Internal controls**
- 200.305, payments**
- 200.306, cost sharing or matching**
- 200.309, period of performance**
- 200.313, Equipment**
- 200.314, supplies**
- 200.315, intangible property**

442

Subpart D:
Post Federal Award Requirements
Standards for Financial and Program Management

Sections highlighted (cont'd):

- 200.317-326** procurement standards
- 200.327,** financial reporting
- 200.328,** monitoring and reporting program performance
- 200.329,** reporting on real property
- 200.330-332** subrecipient monitoring & management
- 200.333,** Retention requirements for records
- 200.335,** Methods for collection, transmission and storage of information
- 200.338-342** remedies for noncompliance
- 200.343** closeout

443

Performance Management

- 200.301, Performance Management:
 - **Provides more robust guidance to Federal agencies to measure performance** in a way that will help the Federal awarding agency and other non-Federal entities to improve program outcomes, share lessons learned, and spread the adoption of promising practices.
 - Federal awarding agencies must require recipients to use OMB-approved standard government-wide information collections to provide financial and performance information.
 - **Recipients must be required to relate financial data to performance accomplishments, and must also provide cost information (when applicable) to demonstrate cost effective practices. Documentation**

444

Internal Controls

200.303, Internal Controls. For Federal awards, Non-Federal entities must:

- Moved from OMB Circular A-133
 - **Establish and maintain effective internal controls (in compliance with COSO and GAO Greenbook)**
 - Comply with Federal statutes, regulations, & terms and conditions
 - Evaluate and monitor compliance
 - Take prompt action on audit findings
 - **Safeguard protected personally identifiable information**

445

Internal Controls

200.303, Internal Controls. For Federal awards, Non-Federal entities must:

- Q&A 303-1, 303-2, 303-3, Should vs Must and Internal controls

446

Property Standards & Equipment

- Coverage in Property Standards (Sections 200.310-200.316) largely derived from existing coverage in A-110
- **Major exception is 200.313, Equipment**
 - States must use, manage, and dispose of equipment acquired under a Federal award in accordance with state laws and procedures
 - Other non-Federal entities must follow the requirements specified

447

Property Standards & Equipment

- Coverage in Property Standards (Sections 200.310-200.316) largely derived from existing coverage in A-110
- **Major exception is 200.313**
 - Q&A 313-2, Two Changes for Higher Education and Hospitals that followed A-110
 - “Percentage of federal participation in the project costs” (UG), vs. “information from which one can calculate the percentage of federal participation in the cost of the equipment” (A-133), And
 - “The location, use and condition of the property” (UG) vs. “location and condition of the equipment and the date the information was reported” (a-133)

448

Supplies & Intangible Property

- 200.314, Supplies:
 - The definition of supplies in existing guidance includes all tangible personal property that fall below the threshold for equipment. Since, as technology improves, **computing devices** (inclusive of accessories) increasingly fall below this threshold, the guidance makes explicit that when they do, they **shall be treated consistently with all other items below this level. See 200.94, Definition of “Supplies”. (Less than \$5,000 or capitalization threshold regardless of useful life)**
- 200.315, Intangible Property:
 - Content of 200.315 is largely from OMB Circular A-110, however, the section has been reorganized for readability and clarity

449

Procurement Standards

- The procurement standards (in sections 200.317 through 200.326) are generally based on the requirements in A-102 for states, local governments and Indian tribes, with modifications
- Q&A – 110.6, Procurement Grace Period, One Year
- **States use their own policies and procedures**
- **All other non-Federal entities, including subrecipients of a state, must have and follow written procurement procedures that reflect the procurement standards**

450

Procurement Standards

- The procurement standards (in sections 200.317 through 200.326) are generally based on the requirements in A-102 for states, local governments and Indian tribes, with modifications
- Q&A 313-1, conditional Title vesting with the Non-federal entity
- Q&A 313-2, Changes to Equipment inventory systems for non-federal entities that previously followed Circular A-110

451

General Procurement Requirements

- The non-Federal entity must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of the contract or purchase order
- The non-Federal entity is not required to maintain a contract administration system
- How the non-Federal entity maintains oversight is a matter of judgment for the non-Federal entity

452

Procurement: Standards of conduct

- 200.318(c)(1) **The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, and administration of contracts**
Documentation
- 200.318(c)(2) new provision that covers organizational conflict of interest
- If the non-Federal entity has a parent, affiliate, or subsidiary organization (that is not a state, local government, or Indian tribe), the non-Federal entity must also maintain written standards of conduct covering organizational conflicts of interest

453

Procurement: Standards of conduct (Cont'd)

- 200.318(d) The non-Federal entity's procedures must avoid acquisition of unnecessary or duplicative items
- 200.318(e) To foster greater economy and efficiency and to promote cost-effective use of shared services, the non-Federal entity is encouraged to enter into state and local intergovernmental agreements or inter-entity agreements where appropriate for procurement or use of common or shared goods and services
- 200.318(f) The non-Federal entity is encouraged to use Federal excess and surplus property in lieu of purchasing new equipment and property when this is feasible and reduces project costs

454

Methods of Procurement

- 200.320, Methods of procurement to be followed
- **The non-Federal entity must use one of the 5 methods:**
 - (1) Micro-purchases for acquisition of supplies or services if aggregate amount does not exceed \$3,000
[New method]
 - **A Micro-purchase may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable**
 - (2) Small purchase procedures (simplified acquisition threshold of \$150,000, 200.88) = must obtain Price or rate quotes.
 - (3) Sealed bids (formal advertising)
 - (4) Competitive proposals

455

Methods of Procurement (Cont'd)

- (5) **Noncompetitive proposals – revised to clarify that solicitation of a proposal from only one source may be used only when one or more of the following apply:**
 - The item is available only from a single source
 - The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation
 - The Federal awarding agency (or pass-through entity) expressly authorizes this method in response to a written request from the non-Federal entity
 - After solicitation of a number of sources, competition is determined inadequate

456



457

Methods of Procurement (Cont'd)

- 200.317 Procurements by states
 - States must follow the same policies and procedures it uses for its non-federal funds
 - Contracts must contain contract provisions listed in Appendix II to Part 200
- 200.318 Procurements by all other non-federal entities
 - Non-federal entities must use its own **documented** procurement procedures which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in this section.

458

Methods of Procurement (Cont'd)

- Q&A 318-1, Avoiding Acquisition of Duplicative and unnecessary items
 - Consideration should be given to consolidating or breaking out procurements to obtain a more economical purchase
 - Where appropriate, an analysis will be made of lease versus purchase alternatives, and any other appropriate analysis to determine the most economical approach.
 - The language does not require any specific equipment screening procedures

459

Methods of Procurement (Cont'd)

- Q&A 320.1 Methods of procurement Summarized
 - Purchase complies with non-federal entities **documented** procedures
 - Purchases are necessary
 - Open to competition (to the extent required)
 - **Written** conflict of interest policy
 - Proper **documentation** for the purchase
 - Q&a 318-1, Avoid duplication

460

Reporting Abuse

- **Government Auditing Standards and OMB Circular A-133** provide guidance as follows: **Potential Abuse** that meets the criteria for reporting (ie. significant abuse has occurred or is likely to have occurred) would be reported as a finding in the report on internal control and compliance.
- Abuse involves behavior that is deficient or improper when compared with behavior a prudent person would consider reasonable and necessary business practice given the facts and circumstances.
- Because abuse is often based on qualitative factors rather than quantitative factors, findings of abuse generally would be material or at least inconsequential.

461

Reporting Abuse - Yellow Book Guidance

- Auditors should be alert to situations or transactions that could be indicative of abuse. If information comes to the auditor's attention, auditors should consider whether the abuse could significantly affect financial statements or financial data.
- If indications of possible abuse exist that could materially affect the financial statement amounts or other financial data, auditors should extend audit procedures to (1) determine whether or not the abuse occurred and, if so, (2) determine its effect on the financial statements or other financial data.
- Because the determination of abuse is subjective, auditors are not expected to provide *reasonable assurance of detecting abuse*.

462

Reporting Abuse

- **The Yellow Book notes that abuse is distinct from fraud, illegal acts, and violations of provisions of contracts or grant agreements. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement.**

463

Reporting Abuse

- **However, OMB cost principles circulars require that costs charged to federal awards be reasonable and necessary. If not, noncompliance exists.**
- **By definition, instances of noncompliance are not abuse.**
- **Therefore, situations or transactions involving federal awards that otherwise might appear to be abuse are generally instances of noncompliance.**

464

Pre-Procurement Review of Technical Specifications

- 200.324, Federal awarding agency or pass-through entity review
- Upon request of the Federal awarding agency (or pass-through entity), the non-Federal entity must make available:
 - The technical specifications on proposed procurements where the Federal awarding agency (or pass-through entity) believes the review is needed to ensure that the item or service specified is the one being proposed for acquisition

465

Pre-Procurement Review

- Upon request of the Federal awarding agency (or pass-through entity), the non-Federal entity must make the **procurement documents** (e.g., requests for proposals, invitations for bids, or independent cost estimates) available for pre-procurement review when:
 - The non-Federal entity's procurement procedures or operations fail to comply with the procurement standards in Part 200
 - The procurement is expected to exceed the Simplified Acquisition Threshold [currently \$150,000] and
 - **The procurement is to be awarded without competition or only one bid/offer is received in response to a solicitation**
 - **The procurement specifies a "brand name" product**
 - **The proposed contract is to be awarded to other than the apparent low bidder under a sealed bid procurement**
 - **A proposed contract modification changes the scope of a contract or increases the contract amount by more than the Simplified Acquisition Threshold.**

466

Pre-Procurement Review (Cont'd)

- The non-Federal entity is exempt from the pre-procurement review:
 - If the Federal awarding agency (or pass-through entity) determines that its procurement systems comply with the standards of Part 200
 - The non-Federal entity self certifies its procurement system (but the self-certification does not limit the Federal awarding agency's right to survey the system)

467

Procurement Contract Provisions

- 200.326, Contract provisions
- Refers to Appendix II for provisions that must be included in contracts of non-Federal entities
- The Appendix provides a description of each provision (and generally gives the legal basis of the provision) so that the non-Federal entity can determine whether the provision is applicable to a contract

468

Subrecipient Monitoring and Management

- Section 200.330 explains the roles of subrecipients and contractors so that the non-Federal entity can determine the relationship and the applicable requirements
- **A non-Federal entity provides a subaward to a subrecipient for the purpose of carrying out a portion of a Federal award and creates a Federal assistance relationship between the non-Federal entity and the subrecipient**
- **A non-Federal entity provides a contract to a contractor for the purpose of obtaining goods and services for the non-Federal entity's own use and creates a procurement relationship between the non-Federal entity and the contractor**
- **What the document is called does not matter; the relationship is the basis for determining which requirements are applicable**

469

Subrecipients Monitoring and Oversight Requirements for Pass-through Entities

- 200.331, Requirements for pass-through entities
- Includes audit responsibilities that were in A-133
- **The pass-through entity must:**
 - **Put specific information in the subaward, including indirect cost rate**
 - **Do a risk assessment to determine appropriate subrecipient monitoring AND must monitor subrecipients**
 - **Consider if specific subaward conditions are needed**
 - **Verify subrecipients have audits in accordance with Subpart F**
 - **Make any necessary adjustment to the pass-through entity's records based on reviews and audits of subrecipients**
 - **Consider actions to address subrecipient noncompliance**

470

Information Contained in a Subaward

- **Following information must be identified to subrecipient at time of award and put in the subaward (and when changes are made to the subaward) (200.331(a)):**
 - Federal award identification, e.g., DUNS number, etc.
 - Indirect cost rate for the Federal Award (including if the de minimus rate is charge per 200.414 Indirect (F&A) costs) Requirements imposed by the pass-through entity
 - Requirement to provide access to records for audit

471

Evaluating Subrecipient Risk to Determine Appropriate Monitoring

- **The pass-through entity must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for the purpose of determining appropriate subrecipient monitoring, which may include consideration of factors such as (200.331(b)):**
 - Prior experience with same or similar subawards
 - Results of previous audits
 - Whether new or substantially changed personnel or systems
 - Extent and results of Federal awarding agency monitoring

472

Required Subrecipients Monitoring Procedures

- **When monitoring of subrecipients, the pass-through entity must (200.331(d)):**
 - Review reports required by the pass-through entity
 - Follow-up to ensure subrecipient takes appropriate action on all deficiencies pertaining to the subaward from the pass-through entity identified through audits, on-site reviews, and other means
 - Issue a management decision for audit findings pertaining to subawards made by the pass-through entity
- Not new requirement – taken from A-133

473

Additional Subrecipient Monitoring Tools

- Following tools may be useful, depending upon the risk assessment (200.331(e))
 - Providing subrecipient training and technical assistance
 - Performing on-site reviews
 - Arranging for agreed-upon-procedures engagements under 200.425, Audit services [in Cost Principles]
- No listed tool is required nor is the list of tools all inclusive
- Determination on which tools is a matter of judgment for the pass-through entity based upon its assessment of risk

474

Retention Requirements for Records

- **200.333, Retention requirements for records:**
 - **Retains the record retention period of three years from the date of submission of the final expenditure report**
 - For Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report
 - Supplements to the listing of exceptions from standard record retention:
 - When the non-Federal entity is notified in writing by the Federal awarding agency, cognizant agency for audit, cognizant agency for indirect costs, or pass-through entity; and
 - Records for program income transactions after the period of performance

475

Methods for collection, transmission and storage of information

- **200.335, Methods for collection, transmission and storage of information:**
 - In lieu of addressing the issue throughout the document, a new section was added to clearly articulate the treatment of electronic records
 - **Federal awarding agencies and the non-Federal entities should, whenever practicable, collect, transmit, and store Federal award-related information in open and machine readable formats**
 - **Federal awarding agencies or pass-through entities must always provide or accept paper versions of Federal award-related information to and from the non-Federal entity upon request**

476

Methods for collection, transmission and storage of information (Cont'd)

- **When original records are electronic and cannot be altered, there is no need to create and retain paper copies.**
- When original records are paper, electronic versions may be substituted through the use of duplication or other forms of electronic media provided that they are subject to periodic quality control reviews, provide reasonable safeguards against alteration, and remain readable.

477

Administrative Requirements

Questions??

478

Cost Principles

REFORMS TO CIRCULARS A-21, A-87, AND A-122

479

OMB Cost Principles – Consolidation

- Consolidate cost principles into single document with:
 - OMB Circular A-21 – Educational Institutions
 - OMB Circular A-87 – Governments
 - OMB Circular A-122 – Nonprofit Organizations
- **Health and Human Services at 45 CFR Part 74 Appendix E – Hospitals was not incorporated in the proposal**
 - OMB will conduct further review of the cost principles for hospitals and make a future determination about the extent to which they should be added to this guidance

These reforms above are aimed at providing uniformity in documentation requirements across different types of entities.

Cost Principles

- Question we hear frequently -
 - Q&A 110.14
 - Should we continue using 2 CFR 220, 225, and 230 until December 2014, even though these regulations have now been removed from the CFR?
 - More guidance to come (i.e. Compliance supplement)

481

Significant changes in the Cost Principles

- Indirect Cost Rates
- Compensation – Personal Services (time & attendance)
- Family Friendly Policies
- Support for Shared Services

482

Cost Principles

- 200.414 - Indirect Facilities and Administration (F&A) Costs
 - Federal acceptance of approved IDC rate(s)
 - New de minimis rate
 - One time extension of up to 4 years

483

Cost Principles

- 200.414 - Indirect (F&A) Costs *(continued)*
 - **Federal awarding agencies must accept approved negotiated indirect cost rates under 200.414 (c)(1)** unless a different rate is required by Federal statute or regulation, or when approved by a Federal awarding agency head or delegate based on documented justification as described in paragraph (c)(3) of this section.

484

Cost Principles

- 200.414 - Indirect (F&A) Costs (continued)

A 10% de minimis IDC rate available is now available under §200.414 (f) – It says, “ any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-Federal entities described in Appendix VII to Part 200 . . . may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. Importantly, if chosen, the non-Federal entity must use the 10% rate on all federal awards until the entity negotiates an approved rate with their cognizant agency.

485

Cost Principles

- 200.414 - Indirect (F&A) Costs (continued)
- **(g) Any non-Federal entity that has a federally negotiated indirect cost rate may apply for a one-time extension of a current negotiated indirect cost rates for a period of up to four years. This extension will be subject to the review and approval of the cognizant agency for indirect costs. If an extension is granted the non-Federal entity may not request a rate review until the extension period ends.**

486

Cost Principles

- Question:

“Can non-federal entities extend for 4 years?
What about 3 years or 2 years?”

Answer - **Yes**. Up to 4 years. (200.414)

487

2 CFR Part 200 Subpart E

General Provisions for Selected Items of Cost

488

Selected Items of Cost

- 200.421 - Advertising and public relations
 - Allowability of advertising and public relations costs (no change)

489

Selected Items of Cost

- 200.428 Collections of Improper Payments (new)
The costs incurred by a non-Federal entity to recover improper payments are allowable as either direct or indirect costs, as appropriate.

490

Selected Items of Cost

- 200.430 – Compensation – Personal Services
 - **Strengthen Internal Controls (rules loosened for time and attendance records. 100% Rule still in effect.)**
 - Removed Examples
 - Federal Agencies may approve methods for blended/braided funds
 - Use of institutional base salary for IHE

491

Selected Items of Cost

- 200.431 – Compensation – Fringe Benefits
 - **GAAP for accrual based accounting**
 - **Mass severance (no accruals)**
 - **Excessive severance pay**
 - **Family friendly leave**

492

Selected Items of Cost

- 200.432 – Conferences
 - Requires conference hosts/sponsors to exercise discretion and judgment in ensuring that conference costs are appropriate, necessary and managed in a manner that minimizes costs to the Federal award.
 - **Allows costs of “finding” local dependent care**

493

Selected Items of Cost

- 200.446 - Idle Facilities and Idle Capacity
 - **Allows for the costs of idle facilities when they are necessary to fluctuations in workload, such as those which may be typical of developing shared service arrangements.**

494

Selected Items of Cost

- 200.474 – Travel Costs
 - **Provides that temporary dependent care costs that result directly from travel to conferences and meet specified standards are allowable.**

495

Selected Items of Cost

- 200.434 - Contributions and Donations
 - No major changes – language is strengthened to align with Cost Sharing Section 200.306

496

Selected Items of Cost

- 200.435 -Defense and Prosecution of Criminal and Civil Proceedings, Claims, Appeals and Patent Infringements.
 - Language has been streamlined for consistency purposes and now specifically mentions Whistleblower Protection Act.

497

Selected Items of Cost

- 200.436 – Depreciation
 - Shift from GASBS # 51 to GAAP
 - Donated assets valued at time of donation
 - Donated assets may be depreciated or claimed as matching but not both.

498

Cost Principles

- 200.437 – Employee Health and Welfare costs
“Costs incurred in accordance with the non-Federal entity's **documented policies** for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable.”

499

Selected Items of Cost

- 200.438 – Entertainment Costs
 - Unallowable unless
 1. Those costs have a programmatic purpose and are authorized in the approved budget for the federal award, or
 2. Those costs have prior written approval from the federal awarding agency

500

Selected Items of Cost

- 200.439 Equipment and Other Capital Expenditures
 - Definitions in Subpart A
 - Property Standards in Subpart D

501

Selected Items of Cost

- 200.441 – Fines, Penalties, Damages and Other Settlements
 - Includes Tribal law violations
 - Includes “alleged violations” and not just “violations” are unallowable except when they result directly from complying with the terms of a Federal award or are approved in advance by the Federal awarding agency.

502

Selected Items of Cost

- 200.449 – Interest
 - Paragraph (b)(2) establishes the date of January 1, 2016, as the date that non-federal entities whose fiscal year starts on or thereafter may be reimbursed for financing costs associated with patents and computer software .

503

Selected Items of Cost

- 200.453 – Materials and Supplies Costs, Including Costs of Computing Devices
 - Paragraph (c) May be charged direct
 - Definition of Computing Devices 200.20
 - Definition of Supplies 200.94

504

Selected Items of Cost

- 200.463 – Recruiting Costs
- Paragraph (b) of Section 200.463 – Recruiting Costs, makes clear that “special emoluments, fringe benefits, and salary allowances” that do not meet the test of reasonableness or do not conform with established practices of the entity are unallowable.

505

Selected Items of Cost

- 200.463 – Recruiting Costs
- Paragraph (c) provides that when relocation costs are incurred with the recruitment of a new employee and have been funded in whole or in as a direct cost to the federal award, and the newly hired employee resigns for reasons within the employee’s control within 12 months after hire, the non-Federal entity will be required to refund or credit only the Federal share of such relocation costs to the Federal government.

506

Selected Items of Cost

- 200.463 – Recruiting Costs
 - To meet the needs associated with obtaining critical foreign research skills, new language and standards for short term travel visa costs have been added under paragraph (d).

507

Selected Items of Cost

- 200.464 – Relocation Costs of Employees
 - Limits the previously unlimited amount of time for which a Federal award may be charged for the costs of an employee's vacant home to up to six months.

508

Selected Items of Cost

- 200.465 – Rental Costs of Real Property and Equipment
 - rental costs under “sale and lease back”
 - rental costs under “less-than-arm's length”
 - home office space

509

Cost Principles

Questions??

510

Summary

511

Impact of New Uniform Guidance

- Eliminates Duplicative and Conflicting Guidance
- Focus on Performance and Internal Controls over Directive Compliance for Accountability
- Provides Framework for Standard Business Processes & Data Definitions
- Promotes Efficient Use of IT and Shared Services
- Requires Consistent and Transparent Treatment of Costs
- Encourages Family-Friendly Policies
- Stronger Oversight & Target Audits on Risk of Waste, Fraud, and Abuse
- Increased Accountability for Effective Resolution of Weaknesses

512

Administrative Requirements for Recipients

- Consolidation of administrative requirements of OMB Circulars A-102 and A-110 into a uniform set of administrative requirements for all grant recipients
 - Basis appears to be A-110 except for procurement which aligns with A-102
- Clarification federal expectations for pass-through entities
 - Consolidates and clarifies subrecipient monitoring
 - Indicates that all subawards shall include a provision for indirect costs
 - Either negotiated or a de minimis rate of 10%

Federal Agency Requirements

- Use standard format to announce funding opportunities, including:
 - Eligibility or qualification information
 - Clear description of all criteria used in agency review of applications
 - Disclosure of special terms and conditions
- Make all solicitations available for application for at least 30 days unless required by statute or unless exigent circumstances dictate otherwise
- Consider risk (financial stability, management systems and history of performance) associated with each applicant prior to making award
 - Risk assessment may impact terms and conditions
- Designate “single audit accountable official” to oversee single audit process
 - Separate from single audit coordinator

Performance Over Compliance for Accountability

- Emphasis on strong internal controls and reduction in specific compliance requirements
 - Example: Specific examples of justification for salaries and wages eliminated for more flexibility in implementing a strong system of internal controls
- Alignment with M-13-17 encouraging innovative program design based on evidence
- Performance measurement aimed at developing lessons learned
- Fixed amount awards aimed at performance milestones

515

Consistent and Transparent Treatment of Costs

- Voluntary Committed Cost Sharing is not expected under research awards
- Pass-through entities must provide an indirect cost rate for subawards
- Standards for treating admin costs as direct
- High bar for circumstances where agencies may deviate from Federally negotiated rates
- Option to extend rate for up to 4 years
- De minimis rate of 10% of MTDC for entities without a Federally negotiated rate

516

Standard Business Processes & Data Definitions

- Sets framework for standardizing data definitions in all grants-related forms government-wide
- Standardizes format for notices of funding opportunities w/60 days to apply
- Standardizes Information to be provided in all Federal Awards and Subawards
- Highlights areas where specific agency approval is needed

517

Family-Friendly Policies

- Where consistent with non-Federal entity policy:
 - Allows costs of conference hosts to identify locally available child care
 - Allows temporary dependent care costs that meet specified standards for travel
 - Allows family leave as a fringe benefit

518

Stronger Oversight

- Requires mandatory disclosures for conflict of interest and criminal violations
- Requires pre-award review of merit of proposal and risk of applicant
- Federal agencies may assign specific conditions for awards based on risk
- Strong focus on internal controls

519

Targeting Waste, Fraud, and Abuse

- Single Audit Threshold raised from \$500,000 to \$750,000 – reducing burden for 6,300 entities while maintaining coverage for 99% of current dollars covered.
- Publication of single audit reports online with safeguards for PII and optional exception for Indian tribes
- Senior Accountable Official to implement metrics and encourage cooperative resolution
- Strong requirement to rely on existing audits first

520

Questions

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The Opinions expressed during this presentation were my own. They do not necessarily represent the views of the Comptroller, his representatives, or the Department of Audit.



521

COSO, Green Book, & TN Financial Integrity Act

Montana

Department of Administration

May 27, 2015

522

Internal Control–Integrated Framework

May 2013

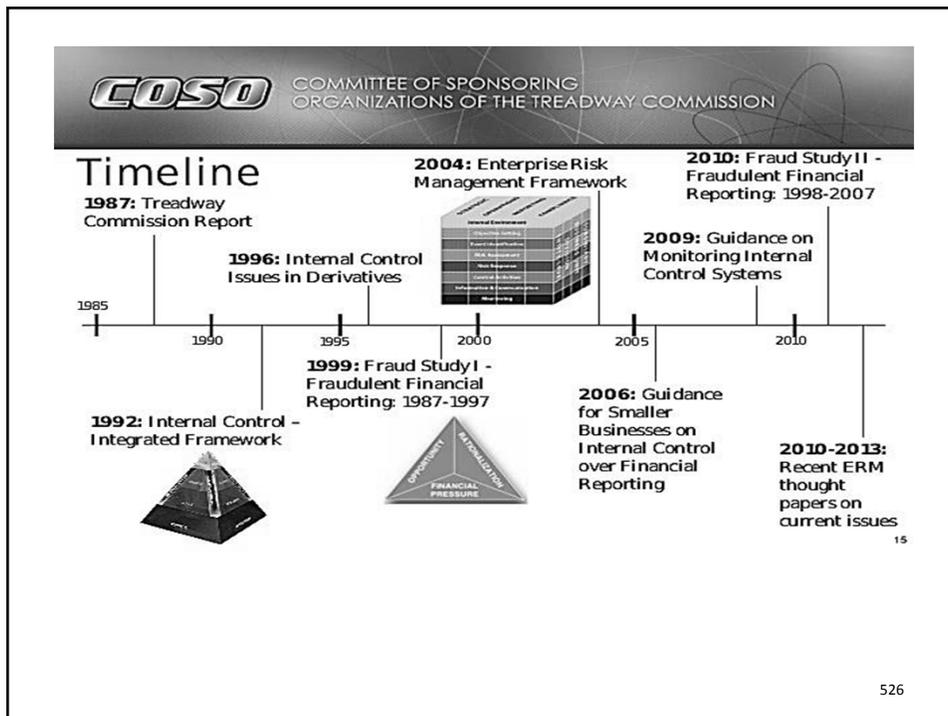
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Table of Contents

- **COSO & Project Overview**
- **Internal Control-Integrated Framework**
- **Illustrative Documents**
 - Illustrative Tools for Assessing Effectiveness of a System of Internal Control
 - Internal Control over External Financial Reporting: A Compendium of Approaches and examples
- **Transition & Impact**
- **Recommended Actions**
- **Questions & Comments**

524

COSO & Project Overview



COSO Overview – Internal Control Publications



1992

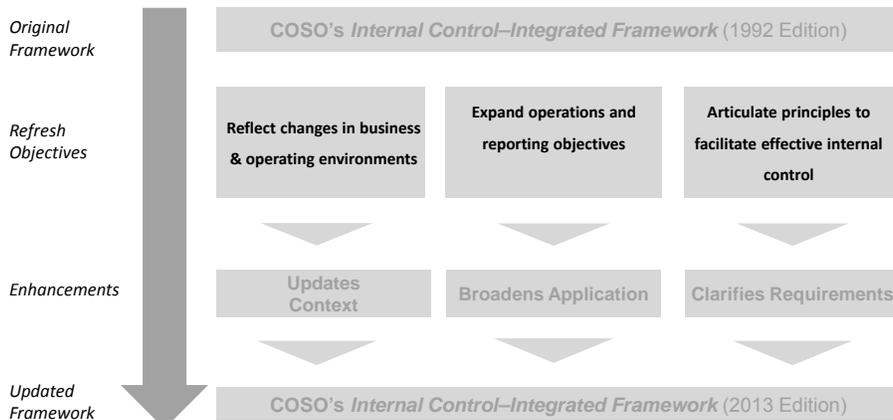
2006

2009

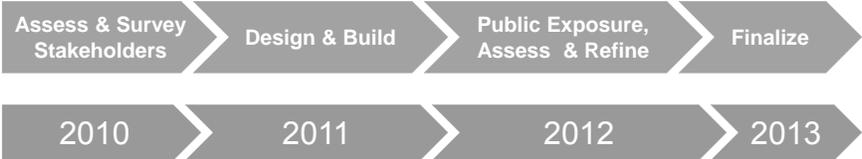
2013

527

Why update what works – The Framework has become the most widely adopted control framework worldwide.

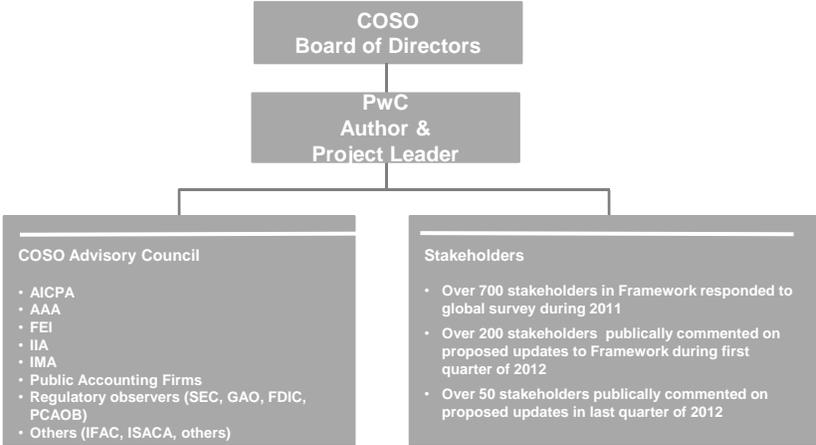


Project timetable



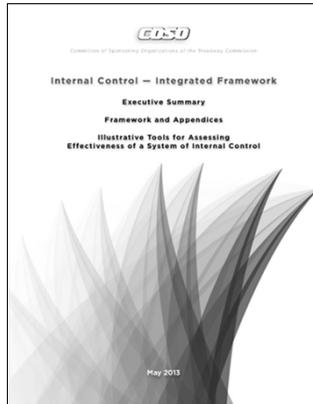
529

Project participants



530

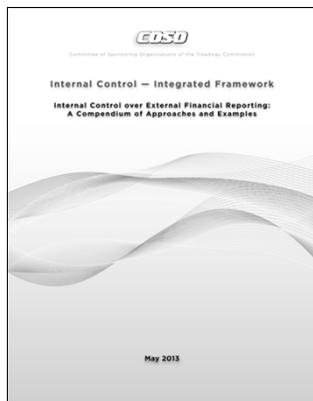
Project deliverable #1 – Internal Control-Integrated Framework (2013 Edition)



- Consists of three volumes:
 - Executive Summary
 - Framework and Appendices
 - Illustrative Tools for Assessing Effectiveness of a System of Internal Control
- Sets out:
 - Definition of internal control
 - Categories of objectives
 - Components and principles of internal control
 - Requirements for effectiveness

531

Project deliverable #2 – Internal Control over External Financial Reporting: A Compendium....



- Illustrates approaches and examples of how principles are applied in preparing financial statements
- Considers changes in business and operating environments during past two decades
- Provides examples from a variety of entities – public, private, not-for-profit, and government
- Aligns with the updated Framework

532

com·pen·di·um
kəm'pendēəm/

noun: **compendium**; plural noun: **compendia**; plural noun: **compendiums**

1.a collection of concise but detailed information about a particular subject,

2.especially in a book or other publication.

•a collection of things, especially one systematically gathered.

"the program is a compendium of outtakes from our archives"

synonyms:

collection, compilation, anthology, treasury,
digest; Moresummary, synopsis, précis, outline
"a compendium of Civil War narratives"

533

Internal Control–Integrated Framework

Broken System?

- If it ain't broke, don't fix it!
- So was the 1992 framework broken? NO!!
- Sometimes that old adage don't fit the situation.
- Most things at least require maintenance.
- Overtime due to changes in processes, most things can be improved.
- COSO's decision to update the framework was driven by the extent of change over the past two decades.
- For example, the concept of transparency and accountability of Government.
- Complexity, Technology, Size, Outsourcing, Laws, Reporting, Historic Frauds, Historic Government Bankruptcies, (in a word, Everything) has changed..

535

Update expected to increase ease of use and broaden application

What is *not* changing...

- Core definition of internal control
- Three categories of objectives and five components of internal control
- Each of the five components of internal control are required for effective internal control
- Important role of judgment in designing, implementing and conducting internal control, and in assessing its effectiveness

What is changing...

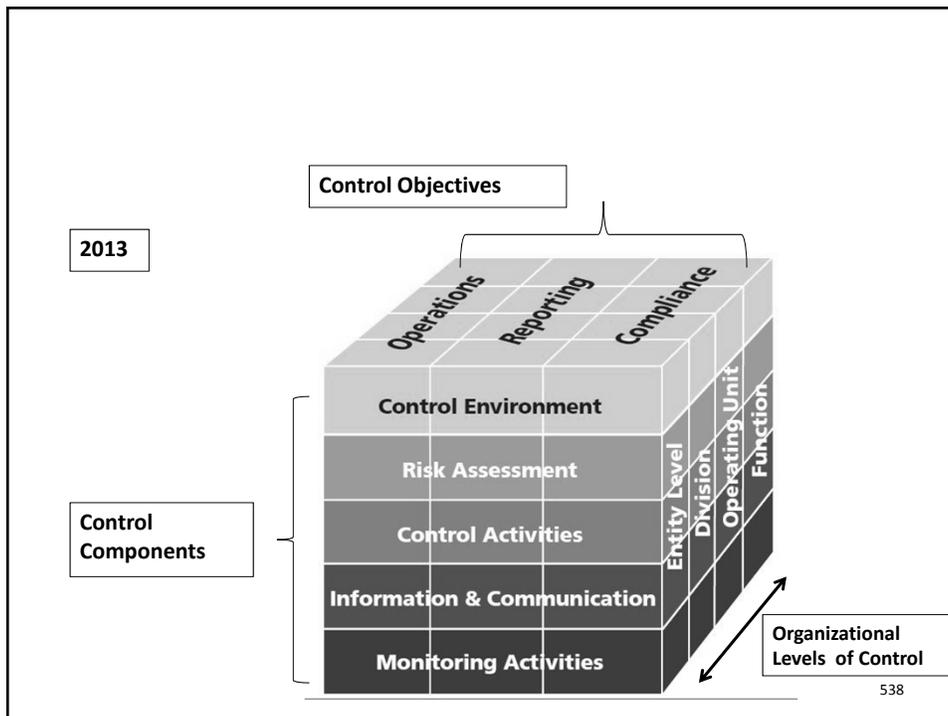
- Changes in business and operating environments considered
- Operations and reporting objectives expanded
- Fundamental concepts underlying five components articulated as principles
- Additional approaches and examples relevant to operations, compliance, and non-financial reporting objectives added

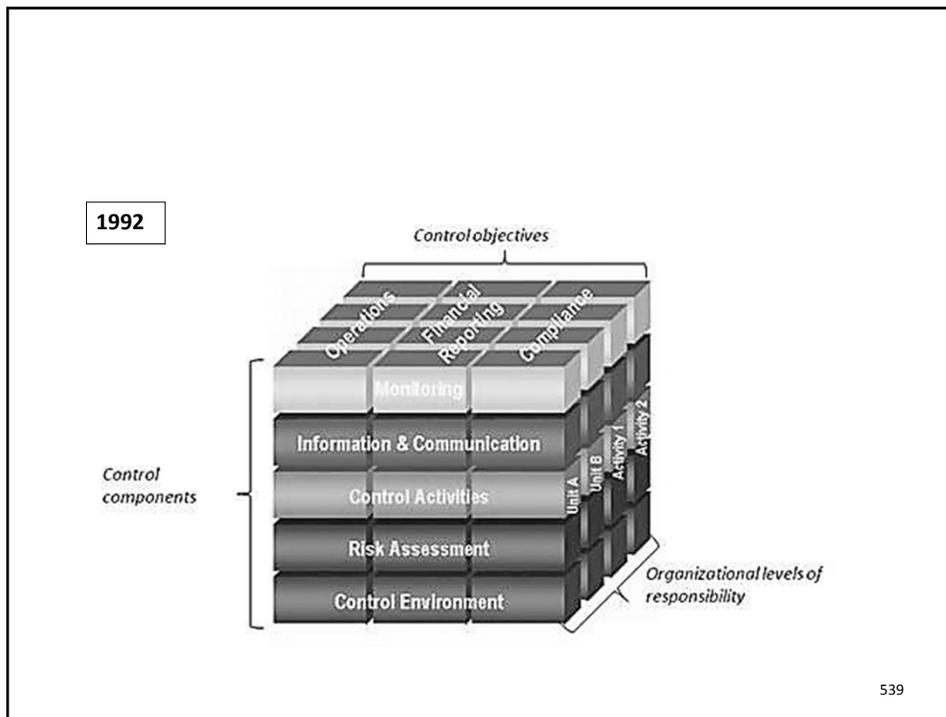
536

Update considers changes in business and operating environments

<i>Environments changes...</i>	<i>...have driven Framework updates</i>
Expectations for governance oversight	 <p>COSO Cube (2013 Edition)</p>
Globalization of markets and operations	
Changes and greater complexity in business	
Demands and complexities in laws, rules, regulations, and standards	
Expectations for competencies and accountabilities	
Use of, and reliance on, evolving technologies	
Expectations relating to preventing and detecting fraud	

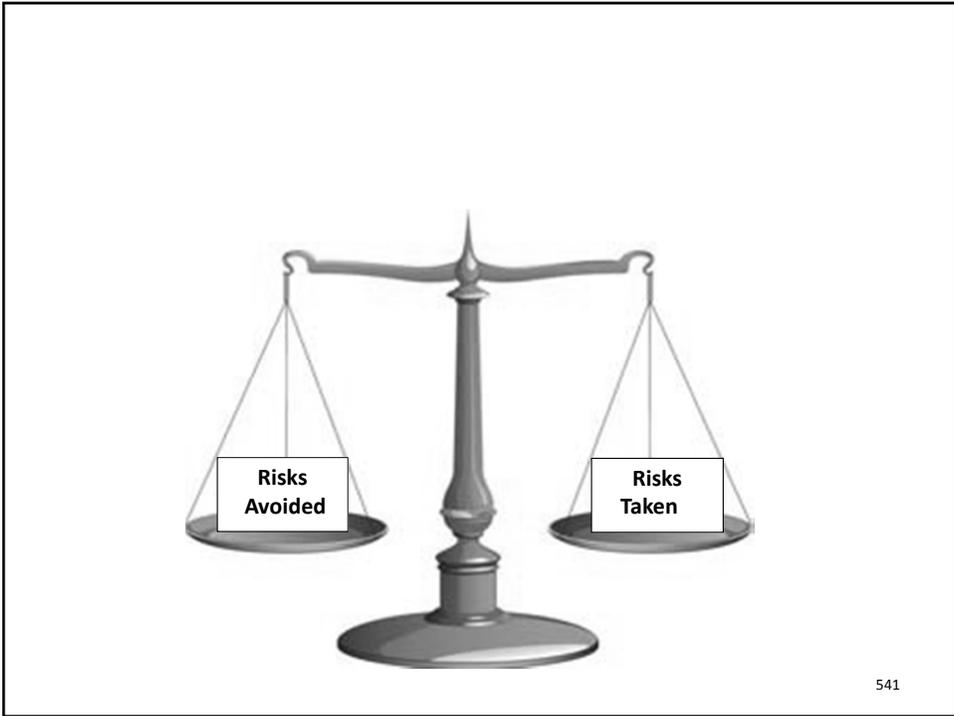
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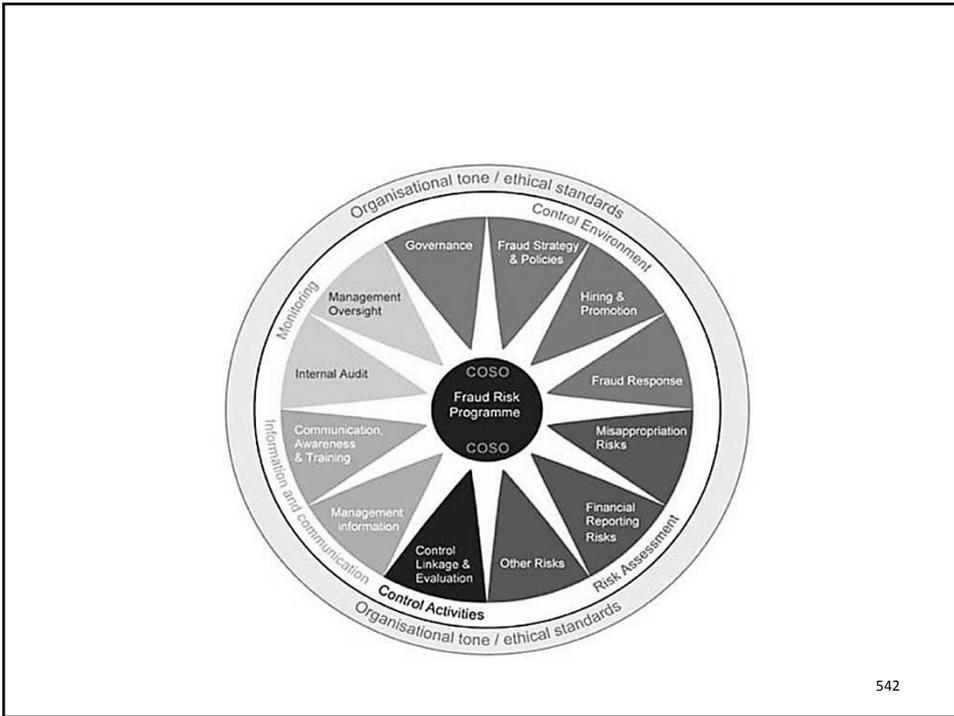


Core Definition Unchanged

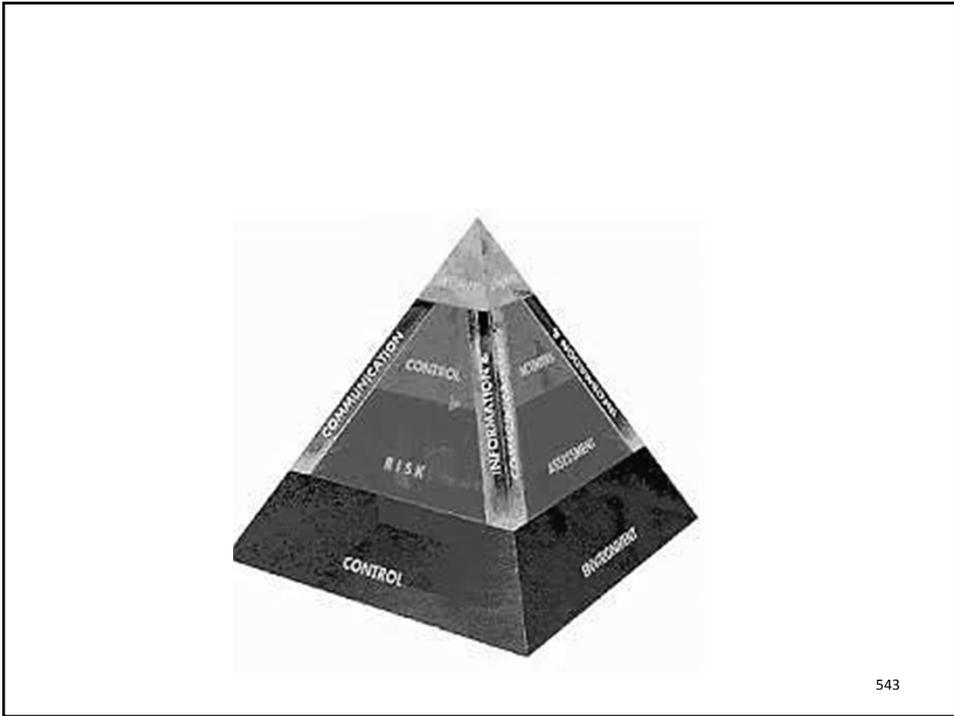
- **Internal Control:**
 - Your definition?
 - Is a process,
 - effected by an entity's board of directors, management, and other personnel,
 - designed to provide reasonable assurance regarding the achievement of objectives
 - related to operations,
 - reporting,
 - and compliance.



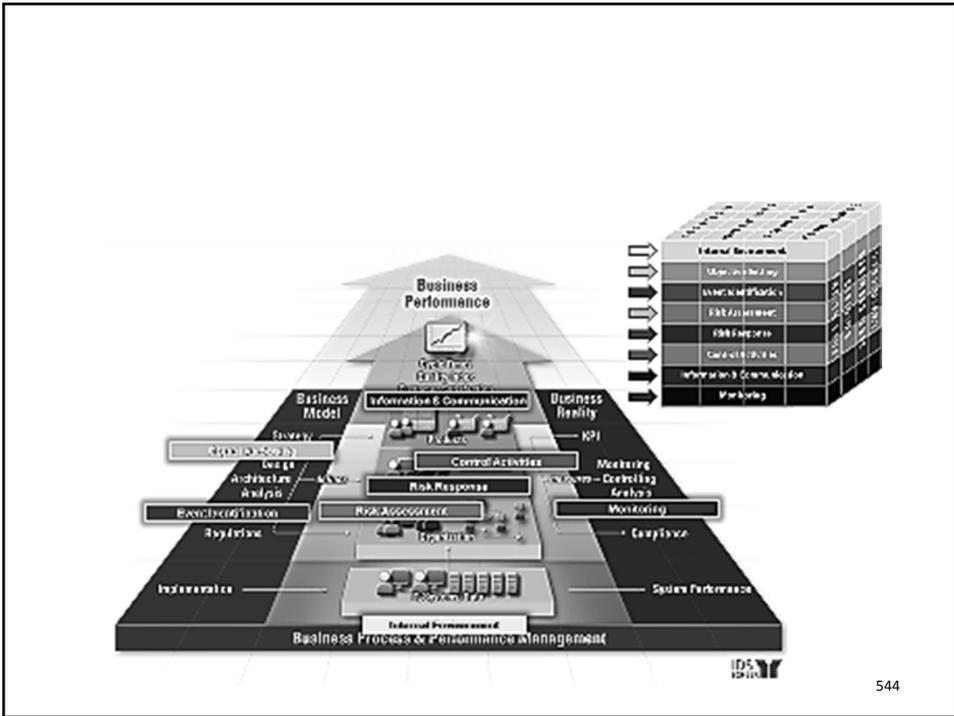
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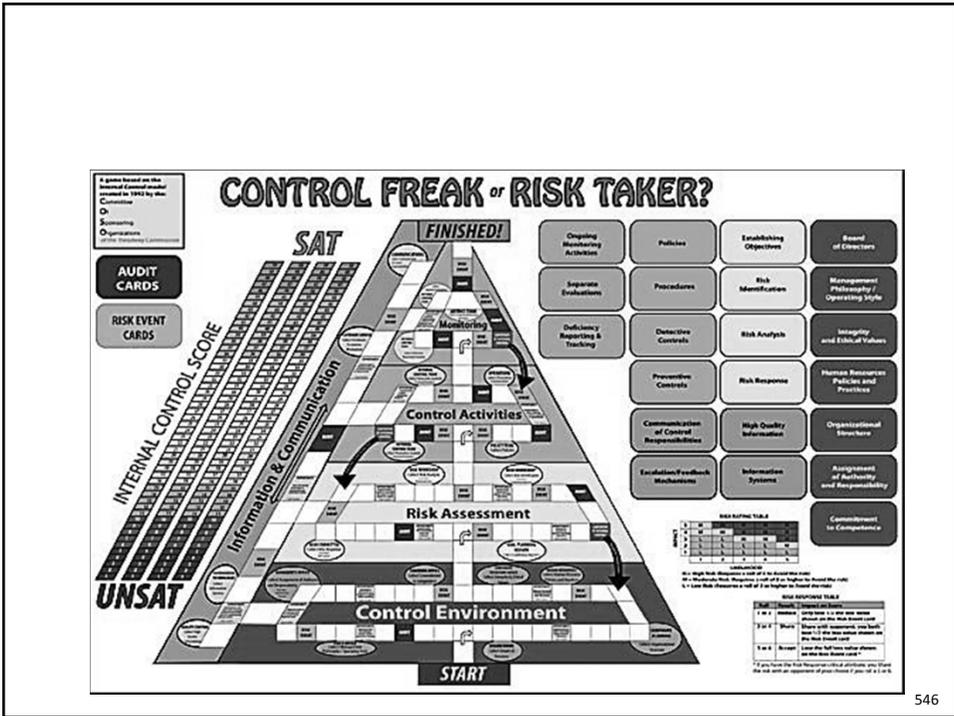
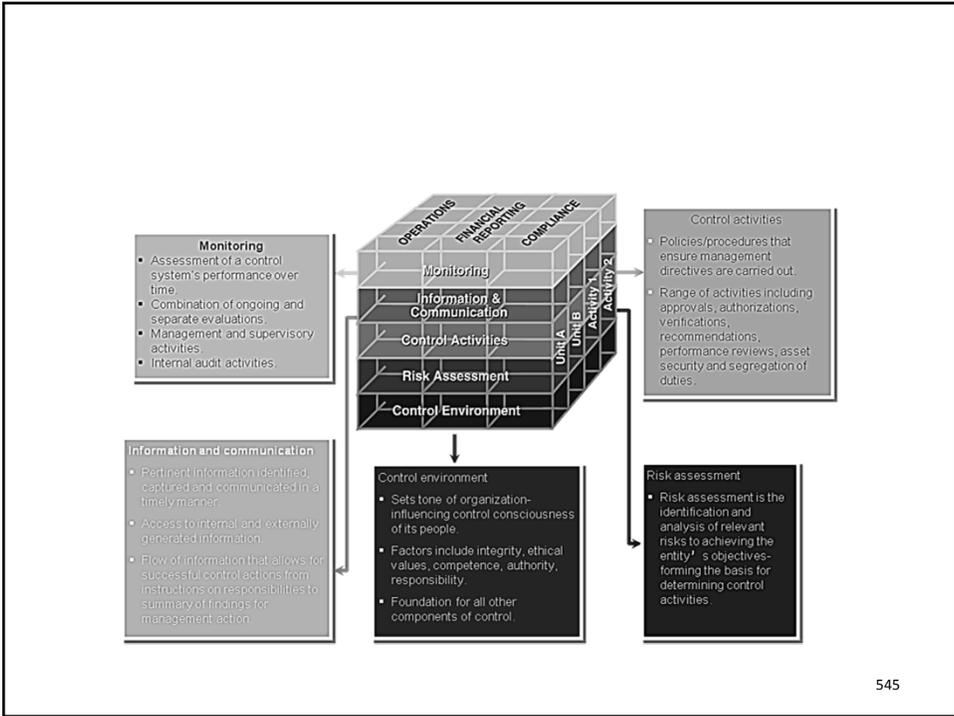
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543



544



17 Principles Codified

- The new framework codifies 17 Core Principles that undergird the 5 components of internal control. The new framework also introduces points of focus to help implement the principles.
- The Core Principles were implicit but not stated in the 1992 framework.

547

Update articulates principles of effective internal control

Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

Information & Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

548

Update articulates principles of effective internal control (continued)

Control Environment

1. The organization demonstrates a commitment to integrity and ethical values.
2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

549

Update articulates principles of effective internal control (continued)

Risk Assessment

6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
9. The organization identifies and assesses changes that could significantly impact the system of internal control.

550

Update articulates principles of effective internal control (continued)

Control Activities

10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
11. The organization selects and develops general control activities over technology to support the achievement of objectives.
12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into place.

551

Update articulates principles of effective internal control (continued)

Information & Communication

13. The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
15. The organization communicates with external parties regarding matters affecting the functioning of internal control.

552

Update articulates principles of effective internal control (continued)

Monitoring Activities

16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

553

Update clarifies requirements for effective internal control

- Effective internal control provides reasonable assurance regarding the achievement of objectives and requires that:
 - Each component and each relevant principle is present and functioning
 - The five components are operating together in an integrated manner
- Each principle is suitable to all entities; all principles are presumed relevant except in rare situations where management determines that a principle is not relevant to a component (e.g., governance, technology)
- Components operate together when all components are present and functioning and internal control deficiencies aggregated across components do not result in one or more major deficiencies
- A major deficiency represents an internal control deficiency or combination thereof that severely reduces the likelihood that an entity can achieve its objectives

554

Update describes important characteristics of principles, e.g.,

Control Environment

1. The organization demonstrates a commitment to integrity and ethical values.

Points of Focus:

- Sets the Tone at the Top
- Establishes Standards of Conduct
- Evaluates Adherence to Standards of Conduct
- Addresses Deviations in a Timely Manner

- Points of focus may not be suitable or relevant, and others may be identified
- Points of focus may facilitate designing, implementing, and conducting internal control
- There is no requirement to separately assess whether points of focus are in place

555

Update describes the role of controls to effect principles

- The Framework does not prescribe controls to be selected, developed, and deployed for effective internal control
- An organization's selection of controls to effect relevant principles and associated components is a function of management judgment based on factors unique to the entity
- A major deficiency in a component or principle cannot be mitigated to an acceptable level by the presence and functioning of other components and principles
- However, understanding and considering how controls effect multiple principles can provide persuasive evidence supporting management's assessment of whether components and relevant principles are present and functioning

556

Update describes how various controls effect principles, e.g.,

Component	Control Environment		
Principle	1. The organization demonstrates a commitment to integrity and ethical values.		
Controls embedded in other components may effect this principle	Human Resources review employees' confirmations to assess whether standards of conduct are understood and adhered to by staff across the entity <i>Control Environment</i>	Management obtains and reviews data and information underlying potential deviations captured in whistleblower hotline to assess quality of information <i>Information & Communication</i>	Internal Audit separately evaluates Control Environment, considering employee behaviors and whistleblower hotline results and reports thereon <i>Monitoring Activities</i>

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Summary of public exposure of proposed update

- Interest across geographic regions – approximately 50% of respondents from North America and 50% from international regions
- Proposed updates to Framework released for public comments:
 - December 20, 2011 to March 31, 2012
 - September 18, 2012 to December 4, 2012
- COSO sought comments from the general public on proposed updates, including whether the:
 - Requirements of effective internal control are clearly set forth
 - Roles of components, principles, and points of focus are clearly set forth
 - Framework remains sound, logical, and useful to management of entities of all types and sizes
- Public comment letters available at www.ic.coso.org until Dec. 31, 2013

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Updates are responsive to public comments

- **Principles**
 - Provide clarity regarding the role of principles in designing, implementing, and conducting internal control, and assessing its effectiveness
 - Clarify descriptions of some principles, but no additional principles
- **Effectiveness**
 - Recognize effective internal control can provide reasonable assurance of achieving effective and efficient operations objectives (as noted before)
 - Clarify requirement that each of the components and relevant principles must be present and functioning and components must operating together
 - Remove presumption that points of focus are present and functioning, and clarify that no separate assessment of points of focus is required
 - Standardize classification of internal control deficiencies, and clarify use of only relevant criteria established in laws, rules, regulations and standards

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Updates are responsive to public comments (continued)

- **Objective Setting**
 - Retain five components of internal control
 - Retain specification of objectives as a principle of effective internal control, but objective setting may be driven by laws, rules, regulations ,or external standards that are outside a system of internal control
- **Objectives**
 - Retain view that safeguarding of assets primarily relates to operations objectives, and recognize its consideration within reporting and compliance
 - Acknowledge some laws rules, regulations and standards establish safeguarding of assets as a separate category of objectives
 - Retain view that strategic objectives is not part of internal control
 - Retain operations, reporting, and compliance objective categories, and expand descriptions

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Updates are responsive to public comments (continued)

- Enterprise Risk Management (ERM)
 - Retain distinction between ERM and internal control, and acknowledge these frameworks are complementary
 - Retain view that strategy-setting, strategic objectives, and risk appetite are aspects of ERM, not Internal Control-Integrated Framework
 - Retain discussion of risk appetite and application of risk tolerance
- Smaller Entities and Governments – Provide additional guidance specific to smaller entities and governments (Appendix C)
- Technology
 - Expand discussion in the points of focus and in several chapters
 - Decline suggestion to address risk associated with specific technologies because of the rapid pace of change

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Updates are responsive to public comments (continued)

- Structure and Layout – Retain view that all chapters 1-10 comprise the Framework
- Due Process – COSO believes there has been a substantive due process effort to capture views on proposed update
 - Surveyed stakeholders to ascertain preferences concerning nature and extent of needed updates; 700 responses (December 2010 to September 2011)
 - Conducted eleven meetings with COSO Advisory Council
 - Provided exposure drafts of proposed updates for public comments (December 2011 to March 2012, and September to December 2012)
 - Participated in many conferences, webinars, and seminars with membership of COSO to seek views of stakeholders (January 2011 to January 2013)

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Illustrative Documents:

- **Illustrative Tools for Assessing Effectiveness of a System of Internal Control**
- **Internal Control over External Financial Reporting: A Compendium of Approaches and Examples**

Illustrative Tools for Assessing Effectiveness of a System of Internal Control

- Assist users when assessing effectiveness of internal control based on the requirements set forth in the Framework
 - Templates illustrate a possible summary of assessment results
 - Scenarios illustrate practical examples of how the templates can be used to support an assessment and important considerations in performing an assessment
- Focus on evaluating components and relevant principles, not the underlying controls that affect relevant principles
- Cannot satisfy criteria established through laws, rules, regulations, or external standards for evaluating the severity of internal control deficiencies
- Can customize level and amount of detail included in the templates as management may deem necessary

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Internal Control over External Financial Reporting (ICEFR): A Compendium of Approaches and Examples

- Approaches and Examples illustrate how various characteristics of principles may be present and functioning within a system of internal control relating to external financial reporting
 - Approaches are designed to give a summary-level description of activities that management may consider as they apply the Framework
 - Examples illustrate one or more points of focus of a particular principle. They are not designed to provide a comprehensive, end-to-end example of how a principle may be fully applied in practice.
 - Selected approaches and examples do not illustrate all aspects of components and relevant principles that would be necessary for effective internal control
- Stakeholders should refer to the Framework for the requirements of effective internal control
 - Compendium supplements and can be used in concert

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Summary of public exposure of the Illustrative Documents

- Proposed *Internal Control over External Financial Reporting: Compendium of Approaches and Examples* was released for public comment from September 18, 2012 to December 4, 2012
- In conjunction with the public exposure of ICEFR Compendium, COSO made available revised versions of the previously exposed *Framework and Appendices* and *Executive Summary*
- COSO made available the proposed *Illustrative Tools for Assessing Effectiveness of a System of Internal Control*
- COSO sought comments from the general public on relevant topics
- Public comment letters available at www.ic.coso.org until Dec. 31, 2013

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Illustrative documents are responsive to public comments

- ICEFR: A Compendium of Approaches and Examples
 - Add or clarify specific examples, including:
 - Establishing responsibilities for reviewing financial statements
 - Monitoring investigation and reporting of whistleblower allegations
 - Monitoring identification and protection of sensitive financial information
 - Monitoring identification and analysis of risk of material misstatement due to fraud
 - Address a risk-based approach for achieving external financial reporting objectives
 - Specify suitable objectives for external financial reporting
 - Risks to achieving suitable objectives
 - Responses to risks

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Transition & Impact

Transition & Impact

- Users are encouraged to transition applications and related documentation to the updated Framework as soon as feasible
- Updated Framework will supersede original Framework at the end of the transition period (i.e., December 15, 2014)
- During the transition period, external reporting should disclose whether the original or updated version of the Framework was used
- Impact of adopting the updated Framework will vary by organization
 - Does your system of internal control need to address changes in business?
 - Does your system of internal control need to be updated to address all principles?
 - Does your organization apply and interpret the original framework in the same manner as COSO?
 - Is your organization considering new opportunities to apply internal control to cover additional objectives?

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Transition & Impact (continued)

- The principles-based approach provides flexibility in applying the Framework to multiple, overlapping objectives across the entity
 - Easier to see what is covered and what is missing
 - Focus on principles may reduce likelihood of considering something that's irrelevant
- Understanding the importance of specifying suitable objectives focuses on those risks and controls most important to achieving these objectives.
- Focusing on areas of risk that exceed acceptance levels or need to be managed across the entity may reduce efforts spent mitigating risks in areas of lesser significance.
- Coordinating efforts for identifying and assessing risks across multiple, overlapping objectives may reduce the number of discrete risks assessed and mitigated.

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Transition & Impact (continued)

- Selecting, developing, and deploying controls to effect multiple principles may also reduce the number of discrete, layered-on controls.
- Applying an integrated approach to internal control - encompassing operations, reporting, and compliance – may lessen complexity.
- In assessing severity of internal control deficiencies, use only the relevant classification criteria as set out in the Framework or by regulators, standard-setting bodies, and other relevant third parties, as appropriate.

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Recommended Actions

- Read COSO's updated Framework and illustrative documents
- Educate the audit committee, C-suite, operating unit and functional management
- Establish a process for identifying, assessing, and implementing necessary changes in controls and related documentation
- Develop and implement a transition plan timely to meet key objectives – e.g., apply updated Framework by December 31, 2014 for external reporting

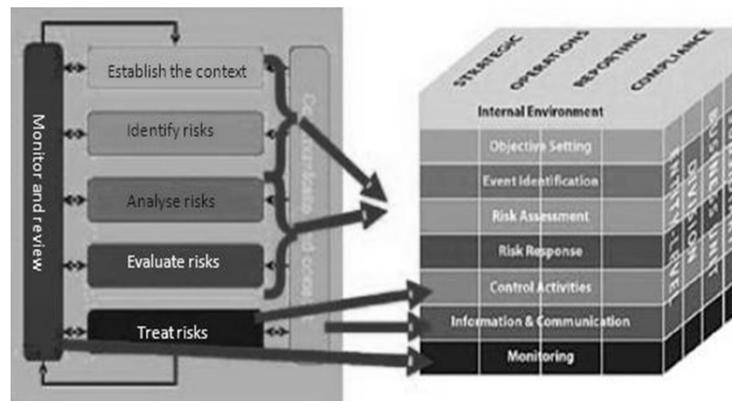
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Getting COSO's Publications

The updated Framework and related Illustrative documents are available in 3 layouts

1. E-book – This layout is ideally suited for those wanting access in electronic format for tablet use. An e-book reader from the AICPA is required to view this layout. Printing is restricted in this layout.
 - Purchase through www.cpa2biz.com
2. Paper-bound – This layout is ideally suited for those wanting a hard copy.
 - Purchase through www.cpa2biz.com
3. PDF – This layout is ideally suited for organizations interested in licensing multiple copies.
 - Contact the AICPA at copyright@aicpa.org

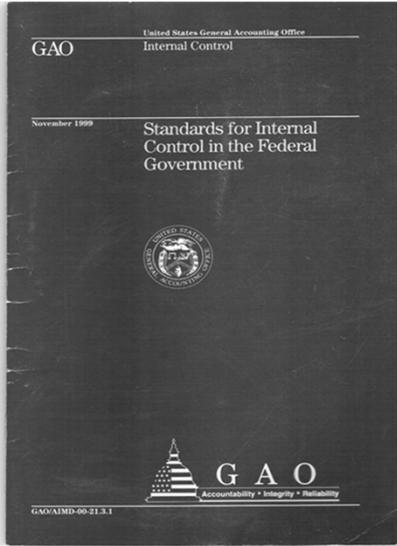
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Questions & Comments

Standards for Internal Control in the Government



Going Green

What's in Green Book for the Federal Government?

- Reflects federal internal control standards required per Federal Managers' Financial Integrity Act (FMFIA)
- Serves as a base for OMB Circular A-123 (Not A-133)
- Written for government
 - Leverages the COSO Framework
 - Uses government terms

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What's in Green Book for State and Local Governments?

- **May be an acceptable framework for internal control on the state and local government level under OMB Uniform Guidance for Federal Awards Section 200.303 (see later)**
- Written for government
 - Leverages the COSO Framework
 - Uses government terms

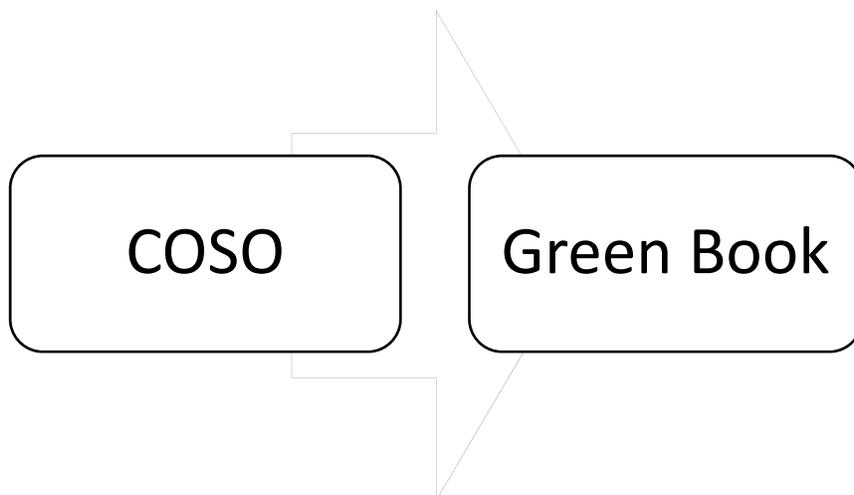
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What's in Green Book for Management and Auditors?

- Provides a framework for management
- Provides criteria for auditors
- Can be used in conjunction with other standards, e.g. Yellow Book

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From COSO to Green Book: Harmonization



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Standards: COSO vs. Green Book

Component	COSO	Green Book
Control Environment	5 Principles 20 Points of Focus	5 Principles 14 Attributes
Risk Assessment	4 Principles 27 Points of Focus	4 Principles 10 Attributes
Control Activities	3 Principles 16 Points of Focus	3 Principles 11 Attributes
Information & Communication	3 Principles 14 Points of Focus	3 Principles 7 Attributes
Monitoring	2 Principles 10 Points of Focus	2 Principles 6 Attributes

Overview

Standards

Note: GAO combined COSO's points of focus into attributes

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Standards: Harmonization from COSO to Green Book

Overview

Standards

Commercial Concepts

- Board of Directors
- Investors

Government Concepts

- Oversight Body
- Stakeholders

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Standards: Harmonization

Example

Overview

Standards

COSO (Principle 2)

The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.

Green Book (Principle 2)

The oversight body should oversee the entity's internal control system.

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Other Key Differences

- Criteria vs. Framework
- Documentation Requirements
 - 04.08 lists the five documentation requirements found in the Green Book which represent the minimum level of documentation necessary for an effective internal control system.
- Evaluation includes the attribute level
 - 03.09 discusses how management considers the design, implementation, and operating effectiveness of the attributes for each principle

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Documentation Requirements

- Control Environment
 - 3.12: Management should develop and maintain documentation of its internal control system.
- Control Activities
 - 12.03: Management should document in policies the internal control responsibilities of the organization.

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Documentation Requirements (cont.)

- Monitoring
 - 16.12: Management should evaluate and document the results of ongoing monitoring and separate evaluations to identify internal control issues.
 - 17.07: Management should evaluate and document internal control issues and determine appropriate corrective actions for internal control deficiencies on a timely basis.
 - 17.09: Management should complete and document corrective actions to remediate internal control deficiencies on a timely basis.

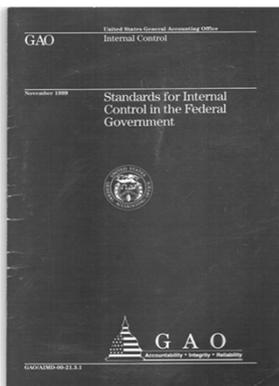
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The Green Book in Action

- Relationship between the Green Book and Yellow Book
- An internal control case study illustrating how the Green Book could help managers and auditors address identified issues

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Green Book and Yellow Book



- Can be used by management to understand requirements
- Can be used by auditors to understand criteria



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The Yellow Book: Framework for Audits

- Findings are composed of
 - Condition (What is)
 - **Criteria (What should be)**
 - Cause
 - Effect (Result)
 - Recommendation (as applicable)



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Linkage Between Criteria (Yellow Book) and Internal Control (Green Book)

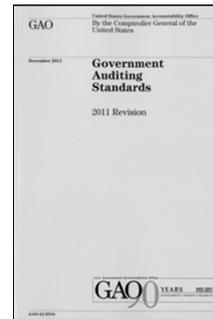


- Green Book provides criteria for the design, implementation, and operating effectiveness of an effective internal control system

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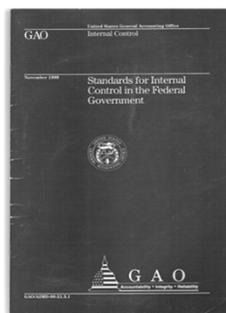
The Yellow Book: Framework for Audits

- Findings are composed of
 - Condition (What is)
 - Criteria (What should be)
 - **Cause**
 - Effect (Result)
 - Recommendation (as applicable)



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Linkage Between Findings (Yellow Book) and Internal Control (Green Book)



- Findings may have causes that relate to internal control deficiencies

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TN Financial Integrity Act of 1983

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FIA

9-18-102. Internal controls -- Management assessment of risk.

(a) Each agency of state government and institution of higher education shall establish and maintain internal controls, which shall provide reasonable assurance that:

- (1)** Obligations and costs are in compliance with applicable law;
- (2)** Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
- (3)** Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

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FIA

9-18-102. Internal controls -- Management assessment of risk. (cont.)

(b) To document compliance with the requirements set forth in subsection (a), each agency of state government and institution of higher education shall annually perform a management assessment of risk. The internal controls discussed in subsection (a) should be incorporated into this assessment.

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FIA

9-18-102. Internal controls -- Management assessment of risk. (cont.)

The objectives of the annual risk assessment are to provide reasonable assurance of the following:

- (1)** Accountability for meeting program objectives;
- (2)** Promoting operational efficiency and effectiveness;
- (3)** Improving reliability of financial statements;
- (4)** Strengthening compliance with laws, regulations, rules, and contracts and grant agreements; and
- (5)** Reducing the risk of financial or other asset losses due to fraud, waste and abuse.

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FIA

- **9-18-103. Guidelines for assessment of compliance.**

The commissioner of finance and administration, in consultation with the comptroller of the treasury, shall establish guidelines for the assessment, by management of state agencies and higher education institutions, of the risks and systems of internal control to determine compliance with the requirements of § 9-18-102. The commissioner, in consultation with the comptroller of the treasury, may modify the guidelines from time to time as deemed necessary.

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FIA

- **9-18-104. Report by head of executive agency.**

(a) By December 31, 2008, initially, and then by December 31 of every year thereafter, the head of each state agency and higher education institution shall, on the basis of the evaluations conducted in accordance with guidelines prescribed under § 9-18-103, prepare and transmit to the commissioner of finance and administration and the comptroller of the treasury a report that states that:

- (1)** The agency or institution acknowledges its management's responsibility for establishing, implementing and maintaining an adequate system of internal control; and
- (2)** A management assessment of risk performed by the agency or institution provides or does not provide reasonable assurance of compliance with the objectives of the assessment as specified in this chapter.

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FIA

- **9-18-104. Report by head of executive agency. (cont.)**
 - (b)** In the event that the agency's or institution's assessment does not provide reasonable assurance of compliance with the objectives of the assessment as stated in this chapter, the report shall include a corrective action plan that identifies:
 - (1)** Any significant deficiencies or material weaknesses in the agency's or institution's system of internal control and/or lack of risk mitigating control activity; and
 - (2)** The plans and the schedule for correcting the weaknesses.

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State of Tennessee Green Book and COSO Guidance

- Management's Guide to Risk Management and Internal Control
 - Introduction
 - Instructions
 - Sections
 - Internal Control
 - Objective Setting
 - Event Identification
 - Risk Assessment
 - Risk Response

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- Control Activities
 - Part 1: Strategic, Operations, and Reporting Objectives
 - Part 2: Compliance
 - Part 3: Fraud
- Information and Communication
- Monitoring
- Report Requirements
 - Management Report
 - Report Checklist

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Questions?



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