MASBO Conference

Audit Trends and Changes

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Single Audit Update
Single Audit Update

• U.S. Office of Management and Budget (OMB) issued “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Audits”
  • Supersedes All or Parts of Eight Circulars
  • Consolidates Federal Cost Principles, Administrative Principles, and Audit Requirements
  • “Super or Omni Circular”

Single Audit Update

• Effective Dates
  • New administrative and cost principle requirements were effective for all new awards made after December 26, 2014, and additional funding to existing awards made after that date
  • New procurements requirements are effective beginning July 1, 2017. Two year grace period is being allowed for these requirements
Focus on controls - Internal Control Clarification

- The governmental entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the governmental entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

- OMB has stated that the should is meant to be a “best practice” and not a presumptively mandatory requirement.

Financial Management System Must include:

- Identification, in its accounts, of all federal awards received and expended and the federal programs under which they were received. Information should include:
  - Catalog of Federal Domestic Assistance (CFDA) number and title
  - Federal award identification number and year
  - Federal awarding agency
  - Pass-through entity, if applicable

- Accurate, current, and complete disclosure of the financial results of each federal award or program
Financial Management System Must Include:

- Records that identify the source and application of funds for federally-funded activities
- Effective control over, and accountability for all funds, property, and other assets.
- Written procedures for comparison of expenditures with budget amounts for each federal award
- Written procedures to implement the requirements of cash management
- Written procedures for determining the allowability of costs in accordance with Cost Principles

Payment (Cash Management):

- Payment methods must minimize the time elapsing between the transfer of funds from the US Treasury or Pass-through entity and the disbursements by the governmental entity regardless of how funds are being transferred.
- Payments must be in advance when the non-federal entity:
  - Has written procedures to implement the requirements of cash management, and
  - Has a compliant financial management system
- If the above requirements are not met, reimbursement method is used
- If reimbursement method cannot be used because non-federal entity lacks sufficient working capital, working capital may be provided
Procurement:

• States will follow the same policies and procedures they use for procurements from non-federal funds (i.e., state procurement statutes).

• Other non-federal entities will follow the five procurement methods outlined in the Uniform Guidance including small purchase procedures which are subject to the Simplified Acquisition Threshold, micro-purchases, sealed bids, competitive proposals, and noncompetitive proposals.

• All auditees should review these changes carefully to determine the impact on their procurement procedures, in particular those relating to procurement card programs.
Procurement

- Micro purchases
  - $3,500 aggregate ($3,000 prior to 10/1/15)
  - There does not need to be quotations
  - Equitable distribution among qualified vendors

- Small purchases
  - Simple and informal procurement methods
  - Not more than the simplified acquisition threshold - currently $150,000
  - Price and rate quotations must be obtained from adequate number of qualified sources
    - Conflicts with MN Bid Laws — must follow more restrictive

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Procurement

- Sealed bids
  - Above simplified threshold – greater than $150,000
  - Preferred for construction projects
  - Must be publicly advertised

- Competitive proposals
  - Above simplified threshold – currently $150,000
  - More than one source for proposal
  - Usually used for fixed fee or cost reimbursement
  - A written method of evaluation and selection
  - Award must go to “most advantageous” proposal
Single Audit Update

Procurement

• Sole source – must meet at least one of the criteria
  • Single source availability
  • Public emergency
  • Written request has been made and approved by federal or pass-through entity
  • Competition is determined to be inadequate
• Must have conflict of interest policy
• Written documented procurement procedures which reflect applicable State and local laws, provided they conform to applicable Federal law.
• Must disclose in writing any potential conflict of interest to the federal awarding agency or pass-through entity

Procurement

• Effective date and grace period for procurement
  • For compliance with the new procurement standards only, the federal government is providing a grace period of two full fiscal years after the effective date of the Uniform Guidance for Federal Awards. (Fiscal years 2015–2016 and 2016-2017.)
  • Must document in writing which procurement standards you will be following beginning July 1, 2015.
  • Districts have to comply with the new procurement standards by July 1, 2017.
Subrecipient Monitoring and Management

- Guidance on subrecipient versus contractor determination expanded and relocated
  - Criteria for determination basically unchanged
- New subaward requirements
- New requirements for Pass-through entities with regard to monitoring activities
  - Includes a required risk assessment of subrecipients
- Any subrecipients
  - consider title programs, cooperative agreements, and fiscal hosts of grants
    - If so, ask them to provide:
      - Written subrecipient monitoring policies and procedures
      - Written risk assessment of each subrecipient
      - Documentation of their monitoring

Action Items

- Obtain an understanding of the new requirements
- Ensure an appropriate understanding of effective dates
- Required written policies – cash management, procurement, subrecipient monitoring, conflicts of interest, and time and effort reporting
- Keep an “inventory” of all federal awards and identify expenditures by UG and pre-UG awards
- Identify sub-recipients and perform written risk assessment
- Review existing procurement policies and document in writing which procurement standards you will follow for fiscal years 2015-2016 and 2016-2017.
GASB #73

Pension Plans not Covered by GASB Statement #68

- Effective Date – Year ended June 30, 2017
- Covers Pensions plans not covered by other GASB’s
- Previously covered by the provisions of GASB #27
- Types of plans included here are severance payouts not based on sick leave balances or provide any health related benefit
- Plans here are usually severance payouts that are based on some form of years of service based calculation
- Extends the approach used in GASB #68 to these types of plans
- Requires information similar to that required in GASB Statement #68 be included in the notes to the financial statements and required supplementary information (RSI)
GASB #74

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)

- Effective Date – Year ended June 30, 2017
- Replaces GASB Statement #43
- Statement includes OPEB Plans administered through trusts that are Irrevocable Trusts
- Currently reported as a Fiduciary Fund in Minnesota School Financial Reports
- Financial information is included within the annual financial statements of the school district
- Expands footnote disclosures requirements
- Adds additional Required Supplementary Information (RSI)
GASB Statement #74 – OPEB Trusts

• Changes the Measurement of OPEB Liabilities
• Extends the approach used in GASB #68 to these types of plans
• Total Liability less the amount of Irrevocable OPEB plan fiduciary net position
• Actually calculations will need to be updated or determined using the provisions of this standard
• Substantial changes to methods and assumptions used to determine actuarial information for reporting purposes
• Based on actuarial valuation obtained at least biannually dated no more than 30 months prior to the fiscal year end of the school

GASB #75

Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions (OPEB)
GASB Statement #75 – OPEB Plans

- Effective Date – Year ended June 30, 2018
- Replaces GASB Statement #45 and #57
- Statement includes all OPEB Liabilities
- Currently reported on a funding liability basis
- Extends the approach used in GASB #68 to OPEB plans
- Total Liability less the amount of OPEB plan fiduciary net position
- Established revised standards for recognizing and measuring OPEB
- Outlines methods and assumptions required to be used in the calculations of the benefits and projected liabilities
- Confirmed the use of “Implicit Rate Subsidy”

GASB Statement #75 – OPEB Plans

- OPEB includes:
  - Postemployment health care benefits (medical, dental, etc.)
  - Other forms of postemployment benefits (death, life, insurance, disability, long-term care)
  - Unused sick leave converted to health care benefit payments
- Actually calculations will need to be updated or determined using the provisions of this standard
- Based on actuarial valuation obtained at least biannually dated no more than 30 months prior to the fiscal year end of the school
- Net OPEB Liabilities and related deferred inflows and outflows of resources are now presented on the Statement of Net Position
- No significant changes to accounting for OPEB in fund based financial statements
- Significant new disclosures regarding methodologies for determining Net OPEB Liabilities
- Adds additional Required Supplementary Information (RSI)
Investments at Fair Value
GASB #72

GASB 72 defines an investment and requires all investments to be measures at fair value

Fair value is an “exit price” not an “entry price”

Investments NOT measured at Fair Value

• Investments in nonparticipating interest earning investment contracts
  ➢ Non-negotiable certificates of deposit (CD's)
  ➢ Considered a Deposit in the financial statement
  ➢ Cost based measure per GASB 31

• Investments in participating interest earning investment contracts with a remaining maturity of one year or less from the time of purchase (if more than one year = fair value)
  ➢ Negotiable certificates of deposit (CD's)
  ➢ Fair Value disclosure would be N/A
  ➢ Considered an investment for financial reporting purposes
  ➢ Amortized Cost based measurement per GASB 31
Investments NOT measured at Fair Value

- Investments in participating interest earning investment contracts with a remaining maturity of one year or less from the time of purchase (if more than one year = fair value)
  - Commercial paper
  - US Treasuries
  - US Agency Securities
  - Repurchase agreements
    - Disclose underlying security
  - Guaranteed investment contracts (GIC’s)
  - Considered an investment for financial reporting purposes
  - Amortized Cost based measurement per GASB 31
  - Banker’s Acceptances

- Investments in Money Market Savings Accounts
  - Considered an Deposit for financial reporting purposes
  - Differs from Money Market Mutual Fund
  - Amortized Cost based measurement per GASB 31

- Investment held by qualifying external investment pools
  - Considered an investment for financial reporting purposes
  - Amortized Cost based measurement per GASB 79
  - State of Minnesota operating an investment pool
  - Footnote Disclosure
    - Presence of any limitations or restrictions on withdrawals
      - Redemption notice period
      - Maximum transaction amounts
      - Authority to impose liquidity fees
      - Unfunded Commitments
Investments at Fair Value - GASB #72

Investments NOT measured at Fair Value

- Investment held in a qualifying external investment pools
  - Considered an investment for financial reporting purposes
  - Amortized Cost based measurement per GASB 79
    - The pool must meet the criteria to measure investments at amortized cost
      - Transact at $1.00 per share
      - SEC rule 2a7 criteria revised – no longer affects investment pools
  - City investing in a investment pool (4M Fund)
- Footnote Disclosure
  - Presence of any limitations or restrictions on withdrawals
    - Redemption notice period
    - Maximum transaction amounts
    - Authority to impose liquidity fees
    - Unfunded Commitments

Investments Reported at Fair Value

- Investments held in Common Stock and Mutual Funds
  - Considered an investment for financial reporting purposes
  - Valued at Fair Value per GASB #72
  - Use Market Approach
    - Typically Level 1 technique as they are typically actively traded
- Investments held in Bonds
  - Considered an investment for financial reporting purposes
  - Valued at fair value per GASB #72
  - Fair value determined using Level 1, 2, or 3 techniques
  - Municipal bonds, corporate bonds, and mortgage-backed securities
  - Use Market Approach for Bonds
    - Typically Level 2 technique
    - Typically not Level 1 technique unless exact investment on sale
    - Relies on securities relationship to other benchmark quoted securities
Investments at Fair Value - GASB #72

Investments Reported at Fair Value

• Investments held in Money Market Mutual Fund
  ➢ Considered an investment for financial reporting purposes
  ➢ Valued at fair value per GASB #72
  ➢ Use Market Approach
    o Typically Level 1 technique as they are typically actively traded
    o Typically $1 per share

• Investments in participating interest earning investment contracts with a remaining maturity of one year or more from the time of purchase
  ➢ Commercial paper
  ➢ Negotiable Certificates of Deposit
  ➢ Repurchase agreements
    ➢ Disclose underlying security
  ➢ Guaranteed Investment Contracts (GIC’s)
  ➢ Banker’s acceptance’s
  ➢ Considered an investment for financial reporting purposes
  ➢ Fair Value based measurement per GASB 72
  ➢ Fair value determined using Market Approach using Level 1, 2, or 3 techniques
    ➢ Level 1 – Quoted prices in active markets
    ➢ Level 2 – Inputs other than quoted prices that are observable compared and / or similar to the investment
  ➢ Fair value determined using Income Approach
    o Detail of expected cash flows of investment
Investments Reported at Fair Value

- **Donated Capital Assets**
  - Reported at “Estimated Acquisition Value at the Date of Donation”

- **Land Held for Resale**
  - Reported at lower of cost or fair value
  - Fair Value based on “Highest or Best Use”
  - Typically use County Assessment Valuation