GASB and Single Audit Update

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Introduction / Objectives

Recent GASB pronouncements

- What are they?
- How do they affect your financial statements and your audit?
- > Agenda items and research projects at GASB
 - What new possible standards are on the way?
 - What is GASB looking at next?





Introduction / Objectives

- Single Audit Updates
 - When do changes go into effect?
 - What do you need to know?





What Is Changing in the World of GASB?

Ffective Date – June 30, 2015

Statement No. 68 (Pension Reporting)

- Statement No. 71 (Pension Reporting)
- Effective Date June 30, 2016
 - Statement No. 72 (Fair Value Measurement)
 - Statement No. 76 (Hierarchy of GAAP)
- Effective Date June 30, 2017
 - Statement No. 73 (Pension Reporting Update)
 - Statement No. 74 (OPEB Reporting)
- Effective Date June 30, 2018
 - Statement No. 75 (OPEB Reporting)





Statement No. 68 - Overview

- Issued in conjunction with GASB 67
 - GASB 67 Applicable to the pension plan
 - GASB 68 Applicable to the participating employer (government)
- Slightly amended by GASB 71
- Requires restatement of entity-wide financial statements





Statement No. 68 - Effect on Accounting and Reporting

- Requires the following to be reported on the entity-wide financial statements of the government
 - Net pension asset/liability

- Difference between total pension liability and pension plan fiduciary net position
- Deferred pension contributions
 - Contributions made to the plan from date of measurement date and employer's fiscal year end
- Deferred outflows/inflows of resources from pensions
 - Differences between past actuarial estimates and actual performance and/or changes to estimates



Statement No. 68 - Effect on Accounting and Reporting

- All balances should be considered for allocation between:
 - Primary government
 - Component units
 - Other covered entities
- Other covered entities could include a Village library who's employees are included in the Village's IMRF plan but not in the financial statements of the Village





Statement No. 68 - Effect on Accounting and Reporting

- Incorporates most note and RSI disclosure changes implemented with GASB 67
 - If pension funds do not present stand-alone financial statements, most disclosures already included in employer's financial statements
- Past pension disclosures and RSI schedules no longer required





Statement No. 68 – Steps to Prepare for the Audit and What to Expect from Your Auditor

Single employer plans (GASB 67) reminders:

- Communicate expectations to actuary
 - Establish timelines for reports (before audit fieldwork if possible)
 - Confirm inclusion of all required information in valuation report
- Information to be provided to actuary
 - Census data
 - Pension fund financial results
 - Pension investment and funding policies



Statement No. 68 – Steps to Prepare for the Audit and What to Expect from Your Auditor

Single employer plans (GASB 67) reminders:

- Pension plans should consider formalization of the following:
 - Target investment allocation
 - Long-term expected rate of return





Statement No. 68 – Steps to Prepare for the Audit and What to Expect from Your Auditor

- Additional audit procedures required around governments participating in IMRF and single employer plans
- Expect new and/or expanded testing around:
 - Participant information / census data
 - Discount rate
 - Employer contributions and benefit payments





Statement No. 72 - Overview

- Addresses accounting and financial reporting issues related to fair value measurements
- Defines "fair value" as an "exit price"
 - Based on a government's principal or most advantageous market
 - Measured at the "unit of account" level at which an asset/liability is aggregated or disaggregated
 - Ex. Brokerage account investments = individual securities
 - Ex. Mutual fund investments = shares held of the mutual fund





Statement No. 72 - Overview

Establishes valuation techniques to be used

- Market Approach Current prices from market transactions for identical assets/liabilities
- Cost Approach Amount to replace current service capacity of asset
- Income Approach Converts future cash flows into a single current (discount) amount
- Use of a single approach is preferred, but combination of approaches is allowed
 Techniques should be applied consistently from year to year



Statement No. 72 - Overview

- Establishes a hierarchy of inputs to valuation techniques used to measure fair value
 - Level 1 Inputs Quoted prices in active markets for identical assets/liabilities
 - Level 2 Inputs Observable inputs other than quoted prices
 - Ex. Quoted prices for similar assets/liabilities
 - Ex. Quoted prices from inactive markets
 - Level 3 Inputs Unobservable inputs such as management assumptions





Statement No. 72 - Effect on Accounting and Reporting

Investments

- Defined as any security or other asset that:
 - Held primarily for purpose of income or profit
 - Present service capacity based solely on ability to generate cash or be sold to generate cash
- Purpose determined at purchase
 - Classification consistent for financial reporting purposes even if actual purpose changes over time
 - Ex. Asset initially reported as capital asset and later held for resale should not be categorized as an investment





Statement No. 72 - Effect on Accounting and Reporting

- Nonfinancial assets
 - Measured according to "highest and best use"
 - Physically possible
 - Legally permissible
 - Financially feasible
 - Measured from the perspective of market participants, not government's intended use





Statement No. 72 – Effect on Accounting and Reporting

- Liabilities
 - If no observable market, consider observable market for such items held as an asset by other party
 - Utilize highest level of input available





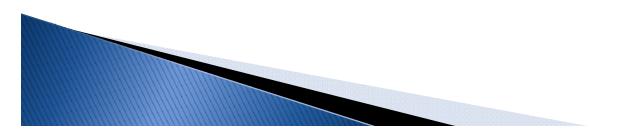
Statement No. 72 - Effect on Accounting and Reporting

- Acquisition value
 - Price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date
 - The following are valued at acquisition value:
 - Donated capital assets
 - Donated works of art, historical treasures, and similar assets
 - Capital assets received in a service concession arrangement



Statement No. 72 - Effect on Accounting and Reporting

- New Report Disclosures
 - For each type of asset/liability measured at fair value:
 - Fair value measurement at end of reporting period
 - Level of fair value hierarchy within which measurements are categorized
 - Description of valuation techniques
 - Change in valuation techniques with significant impact on results
 - Nonrecurring Measurements Only
 - Reason for measurement





Statement No. 72 – Steps to Prepare for the Audit and What to Expect from Your Auditor

- Determine assets/liabilities to be measured at fair value
 - Most municipalities investments only
 - Other items measured at fair value:
 - Property held for resale
 - Mortgage loan receivables
 - Life settlement contracts (pension plans)
 - Life insurance policies on key employees





Statement No. 72 – Steps to Prepare for the Audit and What to Expect from Your Auditor

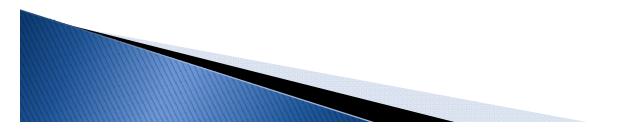
- Auditors will need to know the following:
 - Assets/liabilities other than investments measured at fair value
 - Methodology for determining fair values
 - Level of fair value hierarchy used for valuations
- Additional work will focus on developing required disclosures and identifying measurement changes for unique assets/liabilities





Recently Issued Pronouncements

- In June 2015, GASB issued 4 new pronouncements:
 - Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68
 - Statement No. 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans





Recently Issued Pronouncements

- In June 2015, GASB issued 4 new pronouncements
 - Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
 - Statement No. 76 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments





- Effective Date: June 30, 2017
 - Early application encouraged
 - Amendments to GASB 67 and 68 effective June 30, 2016
- Expands accounting and financial reporting requirements of GASB 68 to all pensions





- Clarifies application of certain provisions of GASB 67 and 68
 - Notes to RSI schedules
 - External investment-related factors affecting trends should not be disclosed (i.e. changes in market value)
 - Separately financed specific liabilities
 - Contributions related to these payables should be excluded from contribution-related schedules and disclosures





- Effective Date: June 30, 2017
 - Early application encouraged
- Establishes accounting and reporting requirements for OPEB plans
 - Covers plans administered through trusts and "pay as you go" plans
 - Defines the measurement of the Net OPEB Liability
- Similar to GASB 67 for Pensions





- Effective Date: June 30, 2018
 - Early application encouraged (only if GASB 74 applied early)
- Establishes accounting and financial reporting requirements for governmental employers participating in an OPEB plan
- Similar to GASB 68 for Pensions

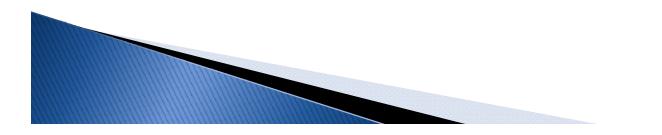




- Types of Plans Addressed
 - Defined Benefit, Administered Through Trust
 - Single Employer/Agent Employers
 - Cost-Sharing Employers
 - Defined Contribution, Administered Through Trust
 - Defined Benefit, Not Administered Through Trust
 - "Pay As You Go"
- Includes option for alternative measurement method for plans with fewer than 100 participants (active and inactive)



 Reporting and disclosure requirements align with requirements for pensions defined by GASB 68





Statement No. 75 – Defined Benefit Plan Administered Through Trust

- Single Employer / Agent Employers Plan
 - Reporting of Net OPEB Liability
 - Reporting of Deferred Inflows/Outflows
 - Employer contributions subsequent to the measurement date of the net OPEB liability
 - Note disclosures required for:
 - Sources of changes in net OPEB liability
 - Significant assumptions (inflation, healthcare trend rate, etc.) and inputs to the discount rate
 - Date of actuarial valuation





Statement No. 75 - Defined Benefit Plan Administered Through Trust

- Required Supplementary Information
 - Two schedules for the 10 most recent fiscal years
 - Sources of changes in the net OPEB liability
 - Components of the net OPEB liability and related ratios
- Cost-sharing employers
 - Must report net OPEB liability = proportionate share of collective net OPEB liability
 - Proportion determined on a basis consistent with manner in which contributions to plan are determined



Statement No. 75 - "Pay As You Go" Plans

- Same reporting requirements as OPEB plan administered through trust
- Certain modifications to note disclosures required to reflect absence of OPEB plan assets
- Exception: Employers provide insured benefits only
 - Premiums are paid to an insurance company for active employees
 - Insurance company undertakes obligation to pay OPEB upon retirement for these employees



Statement Nos. 74 and 75

Future Steps

- Work with actuary to determine information needed for new valuations
- Discuss information needed for expanded audit tests
 - Testing will be similar to expanded pension testing
- Auditors anticipate expanded testing will be required
 - Scope of additional testing yet to be determined





- Effective Date: June 30, 2016
- Identifies the GAAP hierarchy
- Reduces hierarchy to two categories of authoritative GAAP
- Addresses use of authoritative and nonauthoritative literature in the event that accounting treatment for a transaction is not specific within a source of authoritative GAAP

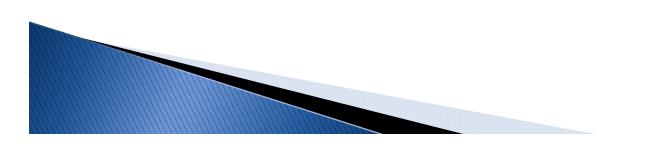


- Two Categories of Authoritative GAAP
 - Officially established accounting principles (GASB Statements)
 - GASB Technical Bulletins, GASB Implementation Guides, and literature of the AICPA cleared by GASB





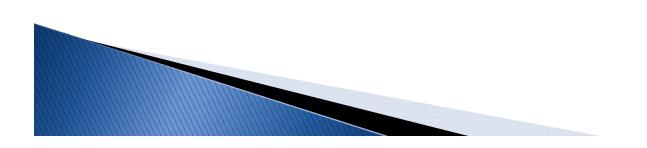
- Accounting treatment not specified in authoritative GAAP
 - Consider accounting principles for similar transactions or other events within a source of authoritative GAAP
 - Consider non-authoritative accounting literature that does not contradict authoritative GAAP
 - GASB Concept Statements, pronouncements/literature of FASB, FASAB, IPSASB, IASB, AICPA literature not cleared by GASB





Agenda Items

- Fiduciary Responsibility
- Leases
- Blending Requirements for Certain Business– Type Activities
- External Investment Pools
- Irrevocable Charitable Trusts
- Tax Abatement Disclosures
- Asset Retirement Obligations





Other Research Projects

- Financial Reporting Model
 - Reexamination of GASB 34
- Debt Disclosures
- Debt Extinguishments
- Going Concern Disclosures





Single Audit Updates

- On December 26, 2013, the OMB issued new guidance for federal grant compliance
 - Referred to as "Uniform Grant Guidance" or the "Super Circular"
 - Consolidated and streamlined previously issued circulars (including A-133) into one comprehensive document
 - Document Link:

https://www.federalregister.gov/articles/2013/12/26/2013-30465/uniform-administrative-requirements-cost-principles-and-auditrequirements-for-federal-awards



Single Audit Updates

- Reform Objectives
 - Reduce administrative burden
 - Improve integrity of financial management and operation of federal programs
 - Strengthen accountability
 - Increase impact and accessibility of programs
 - Reorient recipients toward achieving program objectives
 - Grants awarded based on merit
 - Increased management focus on performance outcomes
 - Streamlined rules governing federal funds
 - Single audit oversight tool is better focused to reduce waste, fraud, and abuse



Single Audit Updates

- Document Organization
 - 6 Subparts (A F)
 - Subparts A D: Reforms to administration requirements
 - Subpart E: Reforms to cost principles
 - Subpart F: Audit requirements
 - 11 Appendices





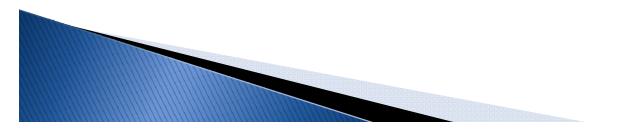
Single Audit Updates – When Does the Uniform Grant Guidance Go Into Effect?

- Two key implementation dates
 - Administrative and cost principle changes are effective for new awards and additional funding to existing awards made after December 26, 2014
 - Single audit changes are effective for years ending December 31, 2015 and after





- Greater focus on performance
 - OMB has the authority to waive certain compliance requirements and approve new strategies to improve cost-effectiveness and encourage collaboration across programs (Section 200.102)
 - Fixed amount awards focused on meeting performance milestones (Section 200.201)
 - Emphasis on performance goals and performances reporting (Section 200.301)





- Subrecipient / Contractor Determination
 - Subrecipient a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program
 - Contractor an entity that receives a contract as defined in 200.22
 - Terminology of "vendor" no longer used
- Nature of relationship trumps terminology in agreements





Subrecipient

- Creates a Federal assistance relationship
- Determines who is eligible to receive what Federal assistance
- Has its performance measured in relation to whether objectives of a Federal program were met
- Has responsibility for programmatic decision making
- Is responsible for adherence to applicable Federal program requirements specified in the Federal award; and
- In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing stature, as opposed to providing goods or services for the benefit for PTE

Contractor

- Purpose is to obtain goods and services for the non-Federal entity's own use and creates a procurement relationship
- Provides the goods and services within normal business operations
- Provides similar goods or services to many different purchasers
- Normally operates in a competitive environment
- Provides goods or services that are ancillary to the operation of the Federal program; and
- Is not subject to compliance requirements of the Federal program as a result of the agreement, though similar requirements may apply for other reasons

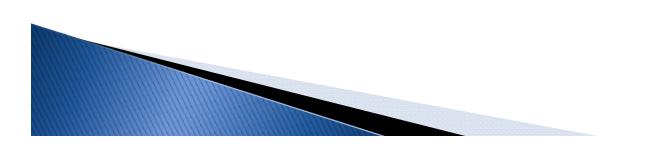




- Heightened focus on subrecipient monitoring
 - Section 200.331 establishes guidelines for monitoring subrecipients and determining necessary action for noncompliance
- Factors to consider in evaluation subrecipient risk:
 - Prior experience
 - Results of previous audits
 - Changes to personnel and systems
 - Extent and results of federal awarding agency monitoring



- Procurement
 - Established general requirements and 5 methods for procurement (Sections 200.318 – 200.326)
 - Identified specific contract requirements (Section 200.326, Appendix II)
 - Grace Period Procurement changes not effective until December 26, 2015





- Procurement General Requirements
 - Documented policies which reflect federal law, standards of UGG, and any state regulations
 - Shared service purchases recommended where practical
 - Written conflict of interest policies required
 - Documentation of procurement activities/steps required





- Procurement General Requirements
 - Full and Open Competition
 - Contractors who draft specifications for RFPs must be excluded from competing for those opportunities
 - Cannot have unreasonable requirements to limit competition
 - Complexities with geographic preference criteria





- 5 Allowable Methods of Procurement
 - Micro Purchase
 - Small Purchase
 - Sealed Bid
 - Competitive Proposals
 - Noncompetitive Proposals (limited allowability)





- Internal Controls
 - Required to establish and maintain effective internal controls over federal programs (Section 200.303)
 - Previously only included in single audit requirements





- Interest earned on federal funds (Section 200.305)
 - Up to \$500/year may be retained by recipient for administrative costs
 - Amounts in excess of that should be paid to one central federal agency





- Technology
 - Computers defined as supplies, not equipment (Section 200.940)
 - Established flexibility in electronic document retention within internal control environment (Section 200.335)





- Stronger Oversight
 - Emphasis on conflict of interest policies and procedures (Sections 200.112 and 200.113)
 - Mandatory disclosure of fraud and/or bribery impacting award
 - Emphasis for federal agencies to build on single audit results (Section 200.503)
 - Less focus on repeating same procedures





- Cost Principle Changes Time and Effort Reporting
 - Focus on high standards for maintaining strong internal controls to justify costs of salaries and wages
 - Flexibility in process used to meet those standards
 - Personnel activity reports not specifically required
 - Focus shifted to internal controls to ensure salaries/wages are based on records that accurately reflect work performed





- Cost Principle Changes Time and Effort Reporting – Best Practices
 - Maintain time distribution records for employees whose salary is:
 - Paid in whole or in part with federal funds
 - Used to meet a match/cost share requirement
 - Cannot be based on budget distribution alone
 - Needs to be supported by actual hours worked
- Governments with systems in place may not require changes



- Cost Principle Changes Indirect/Direct Costs
 - Clarification that administrative costs may be treated as direct costs under certain conditions (Section 200.413)
 - Provision for de minimis indirect rate of 10% of modified total direct costs for those who have never had a negotiated indirect rate (Section 200.414)





- Cost Principle Changes Indirect/Direct Costs
 - For those with negotiated rates, requires federal agencies to accept (Section 200.414)
 - Entities may apply for a negotiated rate at any time
 - Existing negotiated rates may be extended up to 4 years
 - Pass-through entities required to provide indirect cost rate to subrecipients (Section 200.331)





- Cost Principle Changes Other Items
 - List of items requiring prior written approval (Section 200.407)
 - Fringe benefits excessive severance unallowable (Section 200.431)
 - Clarification of conference spending (Section 200.432)
 - Clarification of contingency costs (Section 200.433)
 - Organizational costs generally unallowed (Section 200.455)



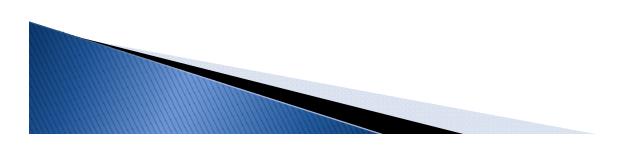


- In addition to changes in administrative and cost principles, major changes were made to single audit requirements
- Changes include increased thresholds, updates to risk assessment criteria, and new reporting requirements for findings and questioned costs





- List of Single Audit Changes
 - Single audit threshold increased from \$500,000 to \$750,000
 - Low risk auditee criteria updated
 - Going concern added
 - Must be GAAP
 - Cognizant/oversight agency may not approve exceptions





- List of Single Audit Changes
 - Type A program thresholds raised from \$300,000 to \$750,000 for municipalities with \$750,000 to \$25 million in federal expenditures
 - Less than \$750,000 in federal awards No Type A programs
 - Between \$25 million and \$250 million Type A program equal to 3% of total federal expenditures
 - Type B floor changed from \$100,000 to 25% of Type A threshold (i.e. \$187,500 in most cases)





- List of Single Audit Changes
 - Criteria for high-risk Type A programs changed
 - Various criteria removed
 - Mixed effect on number of programs considered highrisk
 - Not required to identify more high risk Type B programs than at least 25% of low-risk Type A programs





- List of Single Audit Changes
 - Questioned costs threshold increased from \$10,000 to \$25,000
 - Questioned costs section requires description of how calculated
 - Findings require "perspective" section
 - Isolated, Prevalent, Type of Sampling Used
 - Repeat findings require identification as repeat and the prior finding reference number





- List of Single Audit Changes
 - Coverage requirements for major programs tested decreased
 - From 25% to 20% for low risk auditees
 - From 50% to 40% for non-low risk auditees
 - Online publication of reports through the Clearinghouse
 - Intended as sole point of submission and access going forward



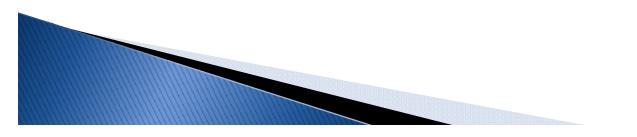


- List of Single Audit Changes
 - "Next business day" due date provision
 - Auditee certification that no protected personally identified information included in reporting package
 - SEFA requires payments to subrecipients
 - Language on "extent practical" removed
 - Federal agencies must indicate in CFDA.gov whether program is subject to single audit





- List of Single Audit Changes
 - Federal due date is still nine months from fiscal year end
 - Select compliance areas were removed but agencies given option to include in special tests
 - Davis-Bacon and real property acquisition
 - Actual testing of major programs should be similar to prior years
 - Any future changes would require a change in federal law (not currently proposed)





- Ensure program administrators are aware of impending changes
- Assess key policies and procedures to ensure compliance with the new guidance, including:
 - Procurement
 - Subrecipient monitoring
 - Internal control procedures around federal programs
 - Procedures around time and effort reporting





- Develop an implementation plan
 - Assign a "champion"
 - Create a team
 - Hold a kickoff meeting
 - Form sub–committees
 - Assign sub-committees
 - Obtain approval
 - Roll out plan
 - Monitor/adjust



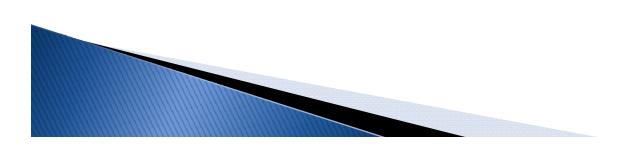


- Implementation Plan Assign a Champion
 - Factors to consider:
 - Who is ultimately responsible for compliance?
 - Who has ability to successfully bring various grant spending departments together?
 - Time, resources, availability





- Implementation Plan Create a Team
 - Identify key stakeholders and other effected personnel
 - Incorporate personnel from programmatic, financial, and budget sides of grant management
 - Include representatives receiving federal direct and pass-through funding





- Implementation Plan Hold a Kickoff Meeting
 - Require advance preparation:
 - Reading all or selected areas of federal register notice
 - COFAR Q&A
 - Industry-specific articles, communications
 - Grantor agency communications
 - Discuss timing, resources, needs
 - Determine areas of change and assign priority based on impact and timing of those changes



- Implementation Plan Form Sub–Committees
 - Determine potential subcommittee membership needs from other departments (procurement, IT, HR, internal audit, etc.)





- Implementation Plan Assign Sub– Committees
 - Research
 - Evaluating impact of change on organization
 - Identifying polices, procedures, communications that need modification
 - Raising questions that need clarification from funding agencies or OMB
 - Creating an education plan for those impacted
 - Monitor assigned area for change



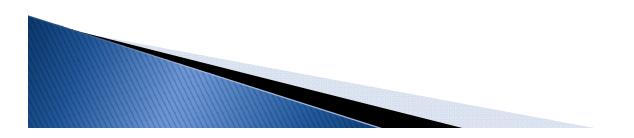


- Implementation Plan Obtain Approval
 - Obtain management and governing body approval of organizational policy changes as needed
- Implementation Plan Roll Out Plan
 - Roll out entity-wide communication and training plan





- Implementation Plan Monitor/Adjust
 - Continue to monitor
 - Assign additional research and sub-committees as needed
 - Adjust plan as necessary





Questions?



