Hot Topics in Auditing
Topics:

• GASB Update
• Single Audit Update
• New COSO Internal Control Framework
• Credit Cards
• Audit Findings
GASB Update

• GASB Statement No. 68, Accounting and Financial Reporting for Pensions
  – Effective for the year ended June 30, 2015
OPEB Exposure Drafts

In May 2014, the GASB approved the issuance of two proposed Statements that are designed to improve the usefulness of information about Other Post-Employment Benefits (OPEB) in the general purpose external financial reports of state and local governmental plans for making decisions and assessing accountability:

- The first Exposure Draft, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, addresses financial reporting by plans that administer OPEB benefits on behalf of governments.


- These proposed Statements include requirements for defined benefit OPEB plans that would replace the requirements of GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.

- It also includes requirements for defined contribution OPEB plans that would replace the requirements of GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, GASB Statement No. 43, and GASB Statement No. 50, Pension Disclosures.
Cost Sharing Multiple Employer Plan (TRA and PERA)

– Current Standards

1. Pension expense is equal to the contractually required contribution

2. Balance sheet only shows outstanding payables of required contribution amounts

3. Unfunded actuarial liability is not reported at all

4. Disclosure information on funding requirements of the plan
Cost Sharing Multiple Employer Plan (TRA and PERA)

- Major Focus Areas in the New Standard
  1. Placing the Employers portion of Net Pension Liability on the Balance Sheet
  2. Decoupling the Expense from Funding
  3. Deferred Inflows/Outflows of Resources
  4. Expanding Disclosure Information (Notes and Required Supplementary Information)
Measurement Dates

- Measurement date – No earlier than the end of the employer’s prior fiscal year
  - TRA and PERA – June 30, 2014
- Contributions from measurement date to employer’s fiscal year-end reported as Deferred Outflows of Resources
Information Needed from TRA and PERA

- Allocation of net pension liability to individuals employers
- Audit opinion on allocation provided by pension plan

Information needed from employer

- Census data submitted to TRA and PERA
- Employer auditor relying on opinion of plan auditor
Allocation of Pension Amounts to Funds/Departments
- GASB Statement No. 68 does not establish specific accounting requirements
- Implementation guides imply allocation to all funds, including enterprise, fiduciary, and internal service funds
Information From TRA and PERA

- TRA and PERA will be providing GASB Statement No. 68 financial reporting disclosures to school districts and charter schools for their financial reporting for the fiscal year ending June 30, 2015. TRA’s projected delivery date of these materials is April 30, 2015. PERA has already published this information.

- TRA and PERA have engaged auditors to provide an opinion on the allocation of the actuarial results calculated under GASB Statement No. 67. They will provide each employer with their calculated share of the actuarial valuation results.
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”
• Changes to Audit Requirements
  – Increases the dollar threshold for requiring a Single Audit to $750,000
  – Changes thresholds and process for determining major programs to be tested
  – Reduction in percentage of expenditures required to be covered by audit
  – Revised criteria for determination of low-risk auditees
  – Increased threshold for reporting questioned costs
  – Reduction in the number of compliance requirements to be tested
Changes to Compliance Requirements

- Time and effort reporting could be based on documented payrolls approved by reasonable supervisory official.
- Periodic certifications for employees working solely on federal programs should be prepared semi-annually and signed by reasonable supervisory official.
- Expanded requirements for monitoring of sub-awards and sub-recipients.
- Required risk assessment of each sub-recipient.
- Updated indirect cost rate calculations and calculation standards.
• Changes to Compliance Requirements
  – COSO Compliant Financial Management System
    • Budget to actual cost oversight procedures
    • Written cash management procedures
    • Written procedures for determining the allowability of costs
    • Written conflict of interest policies for those involved in federal grants
    • Required compliance with the five procurement methods outlined in the new circular
    • Some procurement standards more restrictive than Minnesota Statutes (for example: small purchases, over $3,000, will require quotes)
• Effective Dates
  – New administrative and cost principle requirements are effective for all new awards made after December 26, 2014, and additional funding to existing awards made after that date
  – Audit requirements effective for the year ended June 30, 2016 audits
  – New procurements requirements are effective beginning July 1, 2016. One year grace period is being allowed for these requirements
RESOURCES FOR ADDITIONAL GUIDANCE


- Code of Federal Regulations - [http://www.ecfr.gov/cgi-bin/textidx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl](http://www.ecfr.gov/cgi-bin/textidx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl)
Internal Controls and COSO Information*

*Committee on Sponsoring Organizations of the Treadway Commission (COSO)
• First issued in 1992
• Audit standards for understanding the entity and its environment and assessing the risks of material misstatements are based on the Framework
• Since 1992, dramatic changes in business and operating environments, making entities more complex and technologically-driven
• Financial statement users have called for greater transparency and accountability about an entity’s internal controls
• In May 2013, issued updated Framework
• Audit standards require an understanding of internal controls defined and described in the COSO internal control-integrated Framework. Transition to the new Framework should be complete by December 15, 2014.

• Incorporated into Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance). For most, the Framework will be applicable for the fiscal year July 1, 2015 to June 30, 2016.
Written policies and procedures should include:

• Credit card purchasing requirements incorporated into purchasing policy
• Require written agreements with banks
• Processing procedures
• Security requirements
• Instructions on employee responsibility
• Require written acknowledgements signed by employees
• Spending and transaction limits
Written Policies and Procedures Should Include:

• Recordkeeping requirements, including review and approval processes

• Clear guidelines on the appropriate uses of credit cards and for making purchases over the internet

• Periodic audits of card activity and retention of sales receipts and documentation of purchases

• Timely reconciliation of cardholders and supervisor approval procedures

• Process for handling disputes and unauthorized purchases

• Procedures for card issuance and cancellation, lost or stolen cards, and employee termination

• Segregation of duties for payment approvals, accounting, and reconciliations

• Regular review of spending by vendor and merchant category codes for each card
Common Audit Findings:

• MN Laws and Regulations
  – Electronic Payments
• Internal Controls
• Single Audit of Federal Awards
• Student Activities
Electronic Payments

- All Claimants must sign a declaration “to the effect that such account, claim, or demand is just and correct and that no part of it has been paid.”

- Statutes allow the required declaration to be on the back of checks. If not, on back of check, then the claimant must sign before claim is processed.

- Declaration requirement only required for vendors. Office of the State Auditor has recommended governments develop an electronic payment program where individual vendors sign declarations in advance as part of an agreement that permits them to receive electronic payments.
Journal Entry Finding

- During the performance of our audit engagement procedures, we noted management had not adjusted all account balances to reflect appropriate year-end balances. The unrecorded amounts were, in our judgment, material to the financial statements.
Personal Activity Reports

– One of the elements of the internal controls over the recording of expenditures in the District is that personal activity reports are completed for each employee with time coded to the program in order to verify the services were performed. During our testing, we also noted that no personnel activity reports or time and effort reports were kept on file at the District for individuals that were paid by this grant.
Student Activities

Timely Deposits
• We noted cash receipt transactions we tested that lacked supporting documentation in order to determine if the cash receipt was deposited on a timely basis.

Valid Student Activity Accounts
• We noted financial activities accounted for by the District as a student activity that did not meet the definition of an extracurricular activity as defined by standards of the Manual for Activity Fund Accounting.
Labor Payments

- We noted cash disbursements transactions we tested within the student activity accounts that were for labor payments not allowed to be paid by student activity accounts.

Inactive Accounts

- We noted activities accounted for by the District as student activities, which are inactive and need to be closed.

Deficit Balances

- We noted district student activity accounts that had a deficit balance. Per the *Manual for Activity Fund Accounting*, accounts may not have a deficit balance.