Emerging Issues in Government Accountability

Rutgers Governmental Accounting & Auditing Update Conference

December 5, 2019

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NASACT
National Association of State
Auditors, Comptrollers
and Treasurers

Today's Agenda

- State Fiscal Outlook
- Legislative and Regulatory Issues
- Uniform Guidance Implementation
- Accounting and Auditing Issues
- Other Emerging Issues

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State Fiscal Outlook

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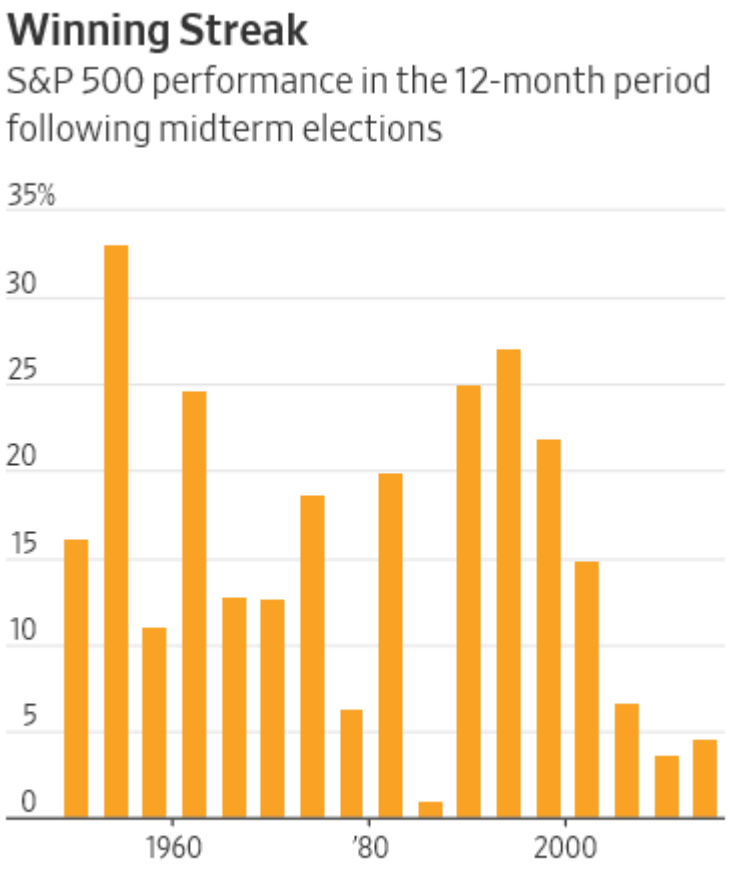
Midterms Are a Boon for Stocks—No Matter Who Wins



Source: Strategas Securities

- The year after the midterms has historically been the best of the four-year cycle for stocks
  - The S&P 500 hasn't declined in the year after midterm elections since the 1946 cycle and has climbed 15% on average regardless of which party won or lost control of Congress
  - In comparison, the average annual gain in every year going back to 1946 is 8.8%, and it has slumped in 20 of those years, according to Dow Jones Market Data.
  - S&P performance as of Nov. 25, 2019
    - 25%!!

NATIONAL OVERVIEW

GDP growth:

2019 – 2.3% forecast (1.9% 3rd qtr.)

2018 – 2.9% (fastest gain since 2015)

2017 – 2.3%

Stock Market:

2019 – DJIA up 18% on 11/4/19; DJIA and S&P 500 hit record highs in November

2018 – DJIA down 5.6%

Recession:

S&P Global predicts 25-30% probability of recession in next 12 months (Nov. 2019); down from 30-35% in Aug. 2019

Unemployment:

3.6% in October 2019

Wage and salary growth:

3% overall annual increase in October 2019

Jobs:

October 2019 – 128,000 (109th straight month of positive job creation)

2018 – 223,000

2017 – 181,000

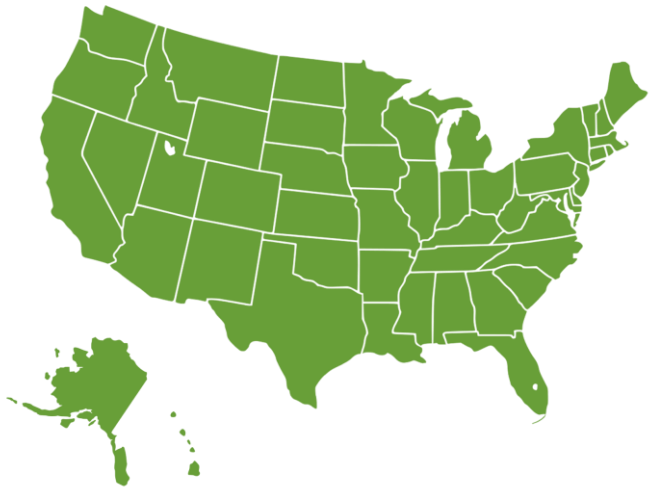
Interest rates:

Fed Reserve lowered rates .25% in July, Sept. and Oct. 2019 (follows nine increases since Great Recession)

Yield curve inverts for first time since 2007 in August 2019; back to normal in November

Source: Wall Street Journal

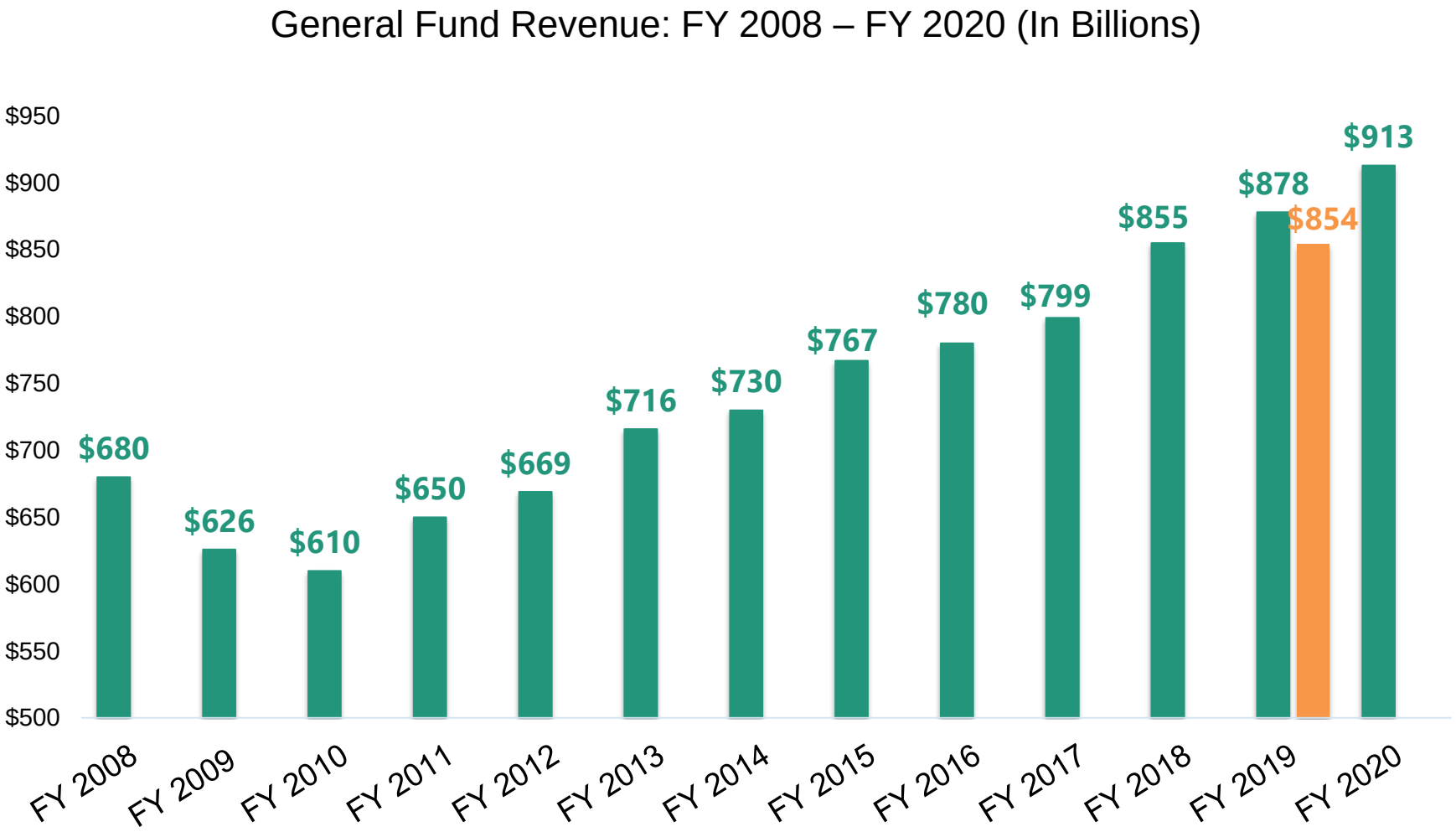
STATE OVERVIEW



What's the current State Fiscal Environment?

- Finished FY 2018 with Revenue Surpluses – some sizeable
- Finishing FY 2019 with Revenue Surpluses – no mid-year budget cuts
- FY 2020 budgets much improved
- The "Education" Budget – FY 2020
- Pensions and retiree health liabilities; infrastructure and transportation demands
- Preparing for the next economic downturn – Rainy Day Funds

GENERAL FUND REVENUE



Total Revenue in Fiscal 2019 Exceeds Inflation-Adjusted Pre-Recession Peak

9 of 11 Midwestern States have exceeded.

29 of 50 States have exceeded.

Source: NASBO Fiscal Survey of States; Fiscal 2020 figure is based on governors' recommended budgets.
Aggregate revenue level needed to total at least $854 billion in fiscal 2019 to be equivalent with or exceed real 2008 spending level.

Fiscal 2019 General Fund Revenue Growth

Forecasts and Actuals Through May/June 2019 for US

Fiscal 2019 revised forecasts

- PIT +3.3%
- Sales +4.9%
- Corporate +7.3%
- TOTAL +3.2%

Fiscal 2019 Actuals (through May or June)

- PIT +6.0%
- Sales +4.5%
- Corporate +21.0%
- TOTAL +6.5%

Source: NASBO Spring 2019 Fiscal Survey of States

Online Sales Tax – States Moving Very Fast

Online Sales Tax

Current Status of State Actions

- 42 of 45 Sales Tax States have statutes or regulations in place to require remote sellers to collect and remit – with small-seller thresholds
- Not Yet: FL, KS, MO
- Many states updated FY 20 revenue estimates with the impact of online sales tax revenues.
- Averaged around 2% of sales tax totals.

–By July 2018: HI, OK, RI, PA, VT

–Sept 2018: MS

–Oct 2018: AL, IL, IN, KY, ME, MD, MA, MI, MN, NV, NJ, ND, WA, WI

–Nov 2018: NC, SC, SD

–Dec 2018: CO, CT

–Jan 2019: GA, IA, NE, UT, WV

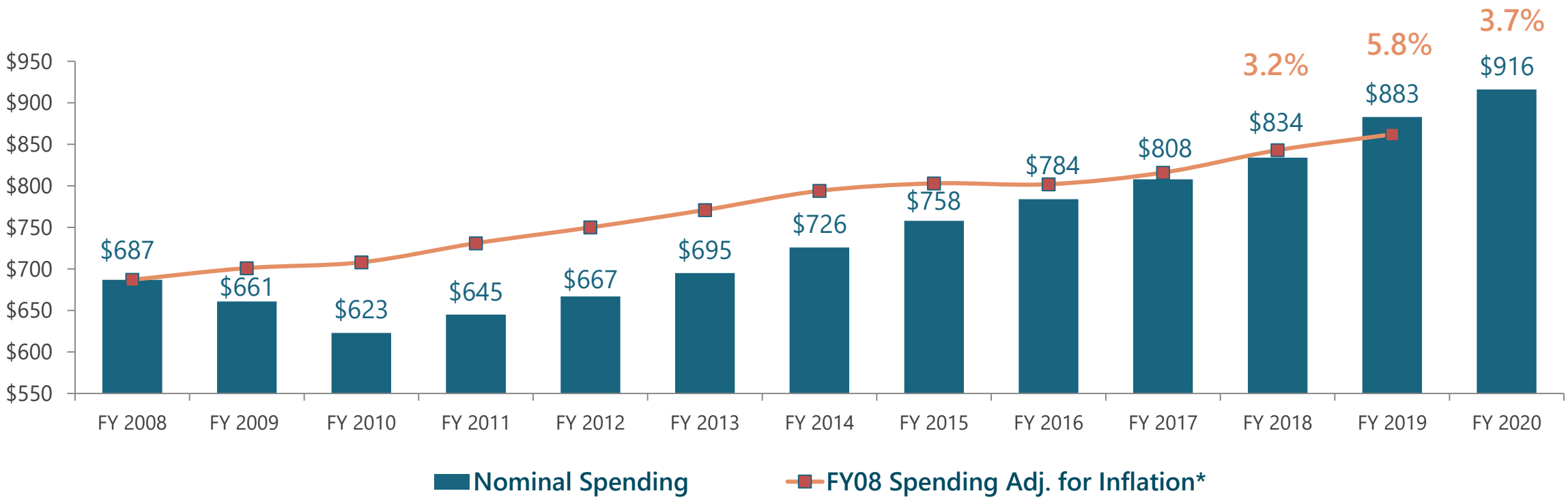
–Feb 2019: WY

–Later 2019: AR, AZ, CA, ID, LA, NM, NY, OH, TN, TX, VA

Source: NASBO Spring 2019 Fiscal Survey of States

General Fund Spending

General Fund Spending – Exceeds FY 2008 Level, Adjusted for Inflation



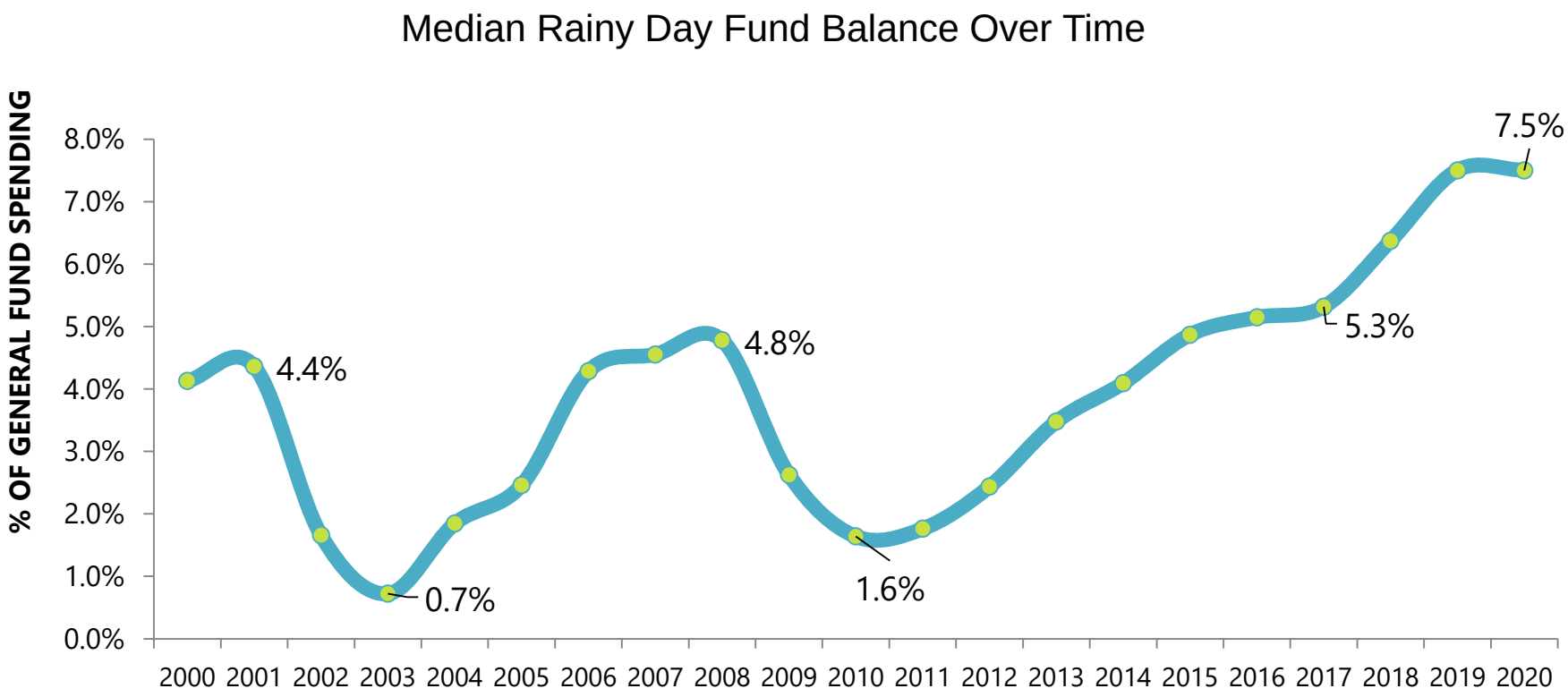
Source: NASBO State Expenditure Report
Fiscal 2020 figure is based on governors' recommended budgets.
Percentages shown represent total annual general fund spending growth. The median projected growth rate for fiscal 2020 is **3.4 percent**.
*Aggregate spending level needed to total at least $862.6 billion in fiscal 2019 to be equivalent with or exceed real 2008 spending level.

Key Themes

Key Themes & Common Budget Items

- Teacher Pay Increases
- Early Education/Pre-K expansions
- One-time Spending from one-time funds – including Deferred Maintenance
- Medicaid Expansion and some supplemental funds for FY 2019
- Full funding of Pension contributions plus some extra for unfunded liabilities
- Children's Service/Child Welfare
- Preparing for Next Recession
- More states starting and expanding last dollar "free" two-year college degrees
- State employee pay increases – many budgets have 2 to 3%. Most states in many years.
- Corrections employees – even more pay and minimum salary increases
- Workforce Development
- Housing in several states

State Rainy Day Funds



Record Level of Rainy Day Funds

37 states report increases in Fiscal 2019; 32 states forecast increases in Fiscal 2020

Western States	**10.7%**
Midwestern States	**9.4%**
Southern States	**6.6%**
Eastern States	**5.3%**

Legislative and Regulatory Issues

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Municipal Disclosures – SEC Proposes and Finalizes Amendments to Rule 15c2-1

- Proposal issued on March 1, 2017
  - Improves investor protection and enhances transparency in municipal securities market
    - Addresses concern about private bank lending
- Adds **two** new event notices under continuing disclosure undertakings
  - Currently there are 14 listed events
  - Requires notice within 10 days of the occurrence
- Final Rule issued on August 31, 2018
- Dates
  - Effective Date: October 30, 2018
  - Compliance Date: February 27, 2019

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Municipal Disclosures –Amendments to Rule 15c2-12

- Two new events are:
  - Incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation, any of which affect security holders, if material
  - Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties

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Municipal Disclosures –Amendments to Rule 15c2-12

- "Financial Obligation" is defined as:
  - A debt obligation (e.g., bank loans, capital leases)
  - Derivative instrument, or a
  - Guarantee of either of the above
- Final Rule does **not** include in the definition of "financial obligations"
  - Operating leases
  - Monetary obligation resulting from a judicial, administrative, or arbitration proceeding
- Materiality also not defined in the Final Rule

Municipal Disclosures –Amendments to Rule 15c2-12

- What should be disclosed?
  - A description of the material terms of the financial obligation, including:
    - Date of incurrence
    - Principal amount
    - Maturity and amortization
    - Interest rate (or method of computation of the interest rate)
    - Default rates

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26 U.S.C. 6050x of Tax Cuts and Jobs Act

- A little-known provision of the TCJA of 2017
  - Places an onerous reporting requirement on federal, state and local governments regarding certain fines, penalties and other amounts
    - Under section 162(f), taxpayers cannot deduct amounts paid or incurred to a government or governmental entity in response to a violation of law or potential violation of law
    - Section 6050X requires governments to report the amount of the nondeductible payment, any amount that constitutes restitution or remediation of property, and any amount paid for coming into compliance with any law that was violated or part of the investigation
  - IRS is currently accepting comments

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26 U.S.C. 6050x of Tax Cuts and Jobs Act

- Concerns:
  - The new provision will require reporting on something that is not a payment, but receipt of payment, making it extremely challenging to obtain tax information (W-9) from individuals who are paying the government
  - It will be very difficult for entities to determine what is and what is not reportable under this requirement and to properly report the information in the applicable 1098-F boxes on the form.
    - Settlement agreements could cover a broad range of payments made to governments (tax audit findings, environmental fines, agreement costs to come into legal compliance, etc.)
  - In most government entities collections and receivables are maintained by the agencies
    - The decentralization of these processes will provide complexities with non-tax staff understanding the proper classification of receivables in regard to 1098-F reporting

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NACHA Rule Change – Supplementing Data Security Requirements

- Rule change will enhance quality and improve risk management within the ACH Network by supplementing the existing account information security requirements for large-volume Originators and Third-Parties
- Requirement is to protect deposit account information by rendering it unreadable when it is stored electronically
- Implementation is in two phases:
  - Phase 1: June 30, 2020 for Originators and TPSPs with ACH volume greater than 6 million in 2019
  - Phase 2: June 30, 2021 for Originators and Third-Parties with ACH volume greater than 2 million in 2020

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NACHA Rule Change – Supplementing Data Security Requirements

- Implementation Concerns:
  - For many large governments (e.g., states), the deposit data resides within several agencies' or their agent/vendors' application systems (a decentralized environment)
  - While each of these systems deploy varying degrees of secured access login protocols, the deposit account information (as it resides electronically at rest within most systems) is not rendered unreadable (compliance concerns)
  - Will be difficult to meet the phase 1 deadline

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Transparency Issues

FFATA, DATA, GREAT Act

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Increasing Transparency: The Continuing Story

- FFATA (2006)
  - Ongoing monthly reporting of Federal awards and contracts at prime/first-tier sub levels
- DATA (2014)
  - Amends FFATA
  - Now fully operational at Federal level
- GREAT (2019)
  - *Grant Reporting Efficiency and Agreements Transparency Act of 2019*
  - Legislation to further DATA

GREAT Act

- Legislative Update
  - 2019 (116th Congress)
    - House (H.R. 150)
      - Passed on January 17, 2019
    - Senate (S. 1829)
      - Homeland Security and Governmental Affairs Committee passed on June 13, 2019
      - H.R. 150 passed Senate (with minor amendment) on unanimous consent on October 21, 2019
    - Now awaits House approval and President's signature
- Effective Date
  - Various

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GREAT Act

- Requirements:
  a. Establish government-wide data standards for information related to federal awards reported by **recipients** of federal awards (within 2 years)
  b. Issue guidance to grant-making agencies on how to utilize new technologies and implement new data standards into existing reporting practices with minimum disruption (within 3 years)
  c. Use data standards for all future information collection requests by federal awarding agencies (within 1 year after guidance on b. or c.)
  d. Amends the Single Audit Act to provide for **grantee audits** to be reported in an electronic format consistent with the data standards (guidance to be issued within 3 years)
  e. Enable the collection, public display and maintenance of Federal award information as a government-wide data set (within 5 years)

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OMB Uniform Guidance Implementaton

Single Audit Issues

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Uniform Guidance Implementation – Current Developments

- OMB issued latest round of FAQs in July 2017
  - 24 new FAQs bringing total to 122
- OMB released M-18-18 in June 2018
  - Micro-Purchase and Simplified Acquisition Thresholds
    - Raised the thresholds for all recipients to $10,000 and $250,000
- President's Management Agenda – March 2018
  - Focus on reporting results and standardized data
- Proposed Rule change expected in Fall 2019 as part of 5-year review
- SF-SAC (Data Collection Form) – March 2019
- 2019 Compliance Supplements

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Implementation Issue: Pension and OPEB Costs Allowability

- Section 200.431(g)(3)
  - "For entities using accrual based accounting, the cost assigned to each fiscal year is determined in accordance with GAAP"
    - GASB 68 calculated pension costs differ from the amounts funded
  - HHS DCA is currently allowing amounts funded in excess of GASB 68 amount (but awaiting OMB guidance)
  - OMB hopes to release a proposed revision in Fall 2019
- Similar issue for OPEB costs

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Implementation Issue: Leases

- Section 200.465(c)(5)
  - "Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount that would be allowed had the non-Federal entity purchased the property on the date the lease agreement was executed."
    - GASB 87 establishes a single model for lease accounting, and eliminates all distinctions between operating and capital leases
  - How will the provisions of UG that specifically reference GAAP capital leases be applied?
  - Will UG's capitalization threshold of $5,000 apply?

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2019 SF-SAC (Data Collection Form)

- Released twice for comments
  - Published for comments in Federal Register on April 3, 2018
  - Published for comments in Federal Register on November 6, 2018
- Final form approved on March 25, 2019
  - Release on Internet Data Entry System (IDES) in May 2019
- May 30, 2019 – 2019 form is available for submission
- New form is to be used for audits covering fiscal periods ending in 2019, 2020, and 2021

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2019 SF-SAC (Data Collection Form)

- New items:
  1. System-generated schedule of Expenditures of Federal Awards (SEFA)
  2. Notes to the SEFA (Part II, item 2)
  3. Text of the audit findings (Part III, item 5)
  4. Corrective action plan (Part IV)
  5. Auditee certification statement (Part V, item 1)
  6. Auditor statement (Part V, item 2)

- Out:
  1. Written communications (management letters) issued to the auditee (was Part III, item 2(f))
  2. Date the audit report was received

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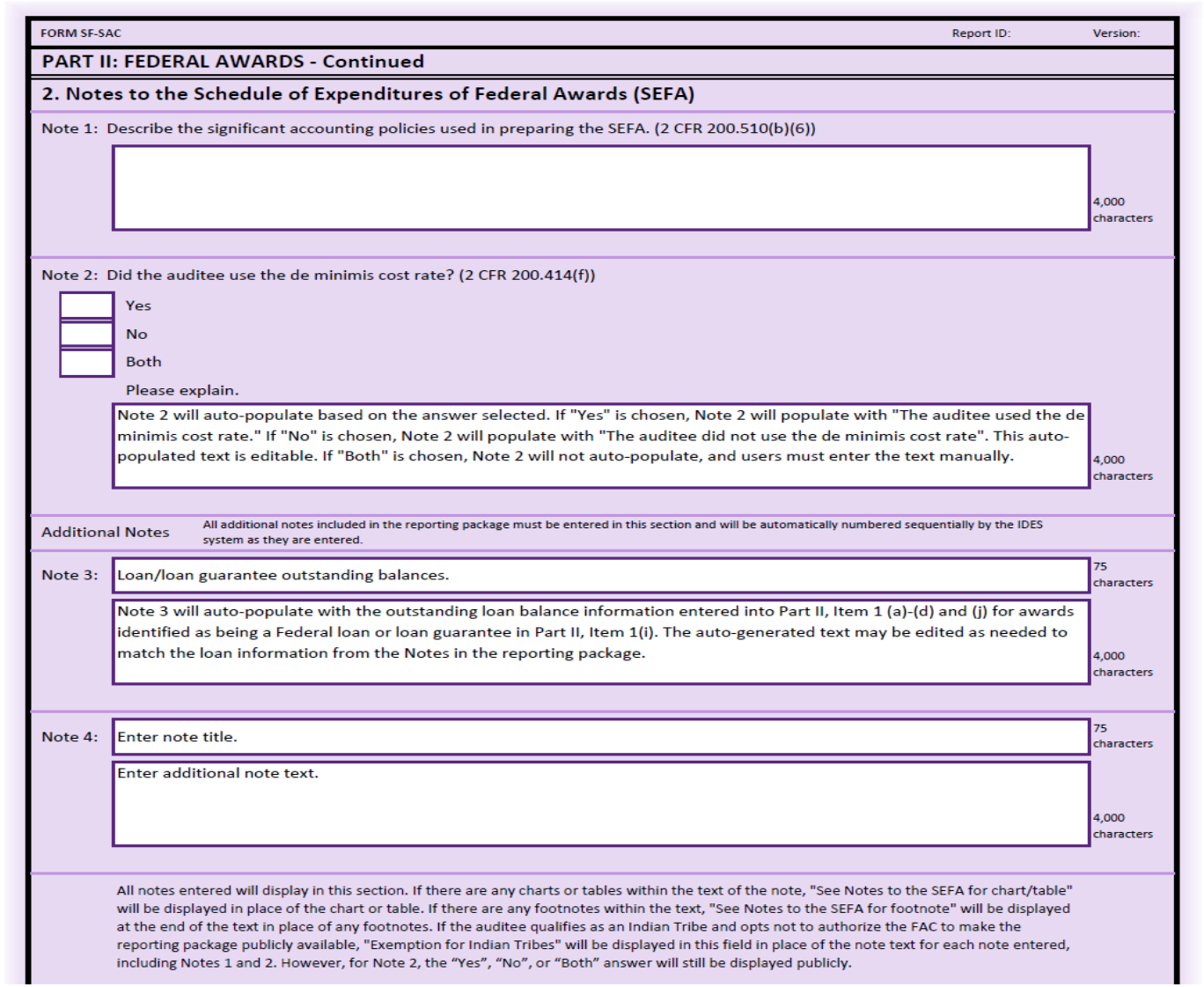
2019 SF-SAC (Data Collection Form)

- System-generated SEFA and Notes
  - Collections system now allows all respondents to enter Federal awards and Notes to the SEFA
    - A customizable SEFA and Notes is generated for inclusion in the reporting package
    - Part of 2016 Section 5 Pilot Program of DATA Act
  - System-generated notes include:
    - Description of significant accounting policies used in preparing the SEFA (2 CFR 200.510(b)(6))
    - Whether the auditee elected to use the de minimis cost rate (2 CFR 200.414(f))
    - Loan/loan guarantee outstanding balances (will auto populate from Part II)
    - Any additional notes included in the reporting package (excluding charts or tables)

2019 SF-SAC: SEFA Notes



FORM SF-SAC Report ID: Version:

PART II: FEDERAL AWARDS - Continued

2. Notes to the Schedule of Expenditures of Federal Awards (SEFA)

Note 1: Describe the significant accounting policies used in preparing the SEFA. (2 CFR 200.510(b)(6))

4,000 characters

Note 2: Did the auditee use the de minimis cost rate? (2 CFR 200.414(f))

- ☐ Yes
- ☐ No
- ☐ Both

Please explain.

Note 2 will auto-populate based on the answer selected. If "Yes" is chosen, Note 2 will populate with "The auditee used the de minimis cost rate." If "No" is chosen, Note 2 will populate with "The auditee did not use the de minimis cost rate". This auto-populated text is editable. If "Both" is chosen, Note 2 will not auto-populate, and users must enter the text manually.

4,000 characters

Additional Notes — All additional notes included in the reporting package must be entered in this section and will be automatically numbered sequentially by the IDES system as they are entered.

Note 3: Loan/loan guarantee outstanding balances. — 75 characters

Note 3 will auto-populate with the outstanding loan balance information entered into Part II, Item 1 (a)-(d) and (j) for awards identified as being a Federal loan or loan guarantee in Part II, Item 1(i). The auto-generated text may be edited as needed to match the loan information from the Notes in the reporting package.

4,000 characters

Note 4: Enter note title. — 75 characters

Enter additional note text.

4,000 characters

All notes entered will display in this section. If there are any charts or tables within the text of the note, "See Notes to the SEFA for chart/table" will be displayed in place of the chart or table. If there are any footnotes within the text, "See Notes to the SEFA for footnote" will be displayed at the end of the text in place of any footnotes. If the auditee qualifies as an Indian Tribe and opts not to authorize the FAC to make the reporting package publicly available, "Exemption for Indian Tribes" will be displayed in this field in place of the note text for each note entered, including Notes 1 and 2. However, for Note 2, the "Yes", "No", or "Both" answer will still be displayed publicly.

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2019 SF-SAC (Data Collection Form)

- Text of Audit Findings (Part III, item 5)
  - Information obtained from Schedule of Findings and Questioned Costs
    - Audit finding reference numbers from Part III, Item 4(e) will be auto-generated in Part III, Item 5(a)
    - For findings related to more than one program, the text must only be entered once by audit finding reference number
    - Enter full, detailed text and the **auditee's response(s)** excluding any charts or tables
      - May copy/paste text from the reporting package or use Excel template for upload
    - If there are any charts or tables, enter
      - See "Schedule of Findings and Questioned Costs for chart/table" in the place of the chart or table within the text
      - Also there is a check box to indicate if findings text contained a chart or table
    - Similar treatment for any footnotes within the text
    - Do not enter "See reporting package" for all other text

2019 SF-SAC: Audit Findings

FORM SF-SAC		Report ID:	Version:
PART III: INFORMATION FROM THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued			
5. Text of the Audit Findings			
a. Audit Finding Reference Number	b. Audit Finding Text		
YYYY-###	Enter the text of the finding exactly as it appears in the Schedule of Findings and Questioned Costs, excluding charts or tables. You may copy and paste this text directly from the reporting package. 30,000 characters		
This column is populated automatically from Part III, Item 4(e). One row is created for each unique reference number. This page cannot be used if no audit findings are reported on Part III, Item 1(c) (if "0" is entered in Part III, Item 1(c) for each award).	This column will display the text of the audit finding. If there are any charts or tables within the text of the audit finding, "See Schedule of Findings and Questioned Costs for chart/table" will be displayed in place of the chart or table. If there are any footnotes within the text, "See Schedule of Findings and Questioned Costs for footnote" will be displayed at the end of the text in place of any footnotes. If the auditee qualifies as an Indian Tribe and opts not to authorize the FAC to make the reporting package publicly available, "Exemption for Indian Tribes" will be displayed in this column in place of the finding text for each Audit Finding Reference Number.		

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2019 SF-SAC (Data Collection Form)

- Corrective Action Plan (Part IV)
  - Information is obtained from the auditee's CAP
    - Audit finding reference numbers from Part III, Item 4(e) will be auto-generated in Part III, Item 5(a)
    - For findings related to more than one program, the text must only be entered once by audit finding reference number
    - Enter full, detailed text of the corrective action plan, including any header information (such as name of contact person and anticipated completion date) and excluding any charts or tables
      - May copy/paste text from the reporting package or use Excel template for upload
    - If there are any charts or tables, enter
      - See "Corrective Action Plan for chart/table" in place of the chart or table within the text
      - Also there is a check box to indicate if corrective action contained a chart or table
    - Similar treatment for any footnotes within the text
    - Do not enter "See reporting package" for all other text

2019 SF-SAC: Corrective Action Plan

FORM SF-SAC	Report ID:	Version:
PART IV: CORRECTIVE ACTION PLAN		
1. Audit Finding Reference Number	2. Text of the Corrective Action Plan	
YYYY-###	Enter the text of the Corrective Action Plan exactly as it appears in the reporting package, excluding charts or tables. You may copy and paste this text directly from the reporting package. 10,000 characters	
This column is populated automatically from Part III, Item 4(e). One row is created for each unique reference number. This page cannot be used if no audit findings are reported on Part III, Item 1(c) (if "0" is entered in Part III, Item 1(c) for each award).	This column will display the text of the corrective action plan. If there are any charts or tables within the text of the CAP, "See Corrective Action Plan for chart/table" will be displayed in place of the chart or table. If the auditee qualifies as an Indian Tribe and opts not to authorize the FAC to make the reporting package publicly available, "Exemption for Indian Tribes" will be displayed in this column in place of the CAP text for each Audit Finding Reference Number.	

2019 SF-SAC (Data Collection Form)

- Who to contact with questions
  - For technical audit questions:
    - Contact the auditee's Federal cognizant or oversight agency for audit
    - "Federal Agency Single Audit Contacts" are listed in Appendix III of CS
  - For questions related to specific Federal programs:
    - Contact Federal awarding agency
    - "Federal Agency Program Contacts" are listed in Appendix III of CS
  - For questions concerning the Form SF-SAC or submission process:
    - Contact FAC at (866) 306-8779 or GOVS.FAC.IDES@Census.gov

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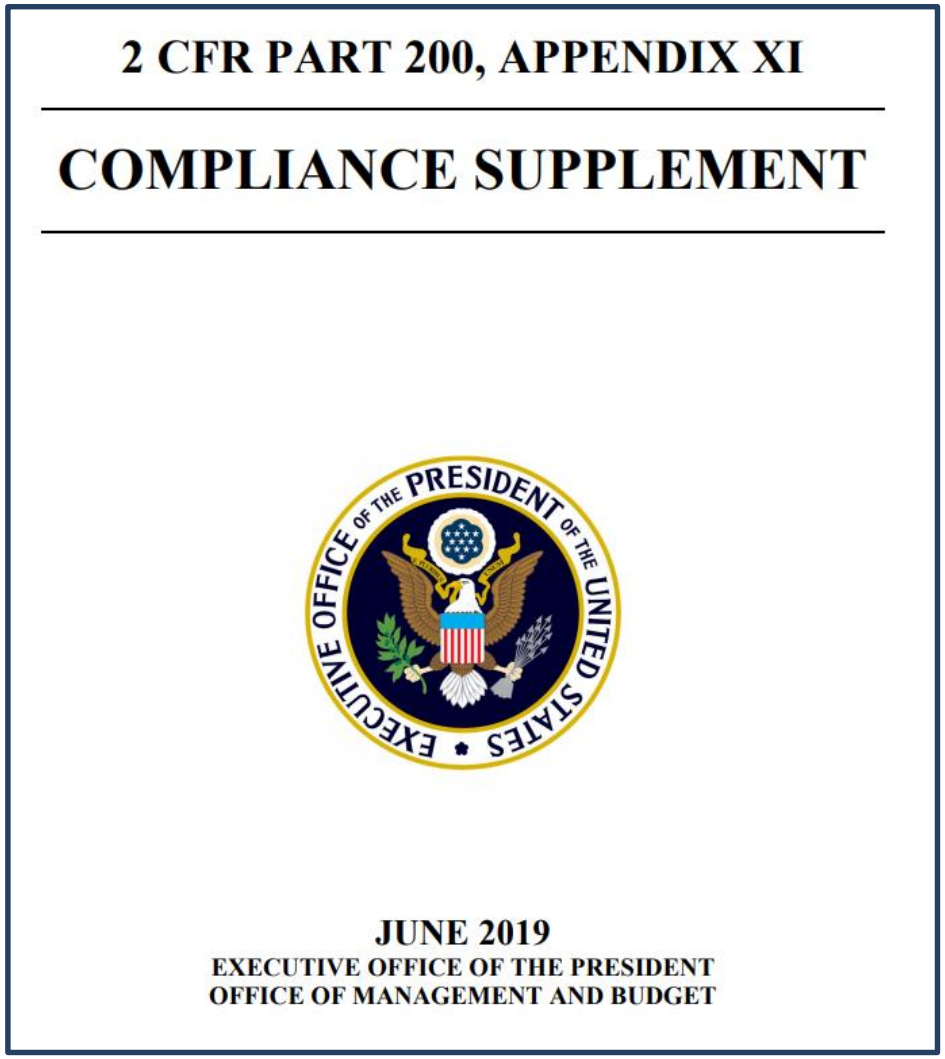
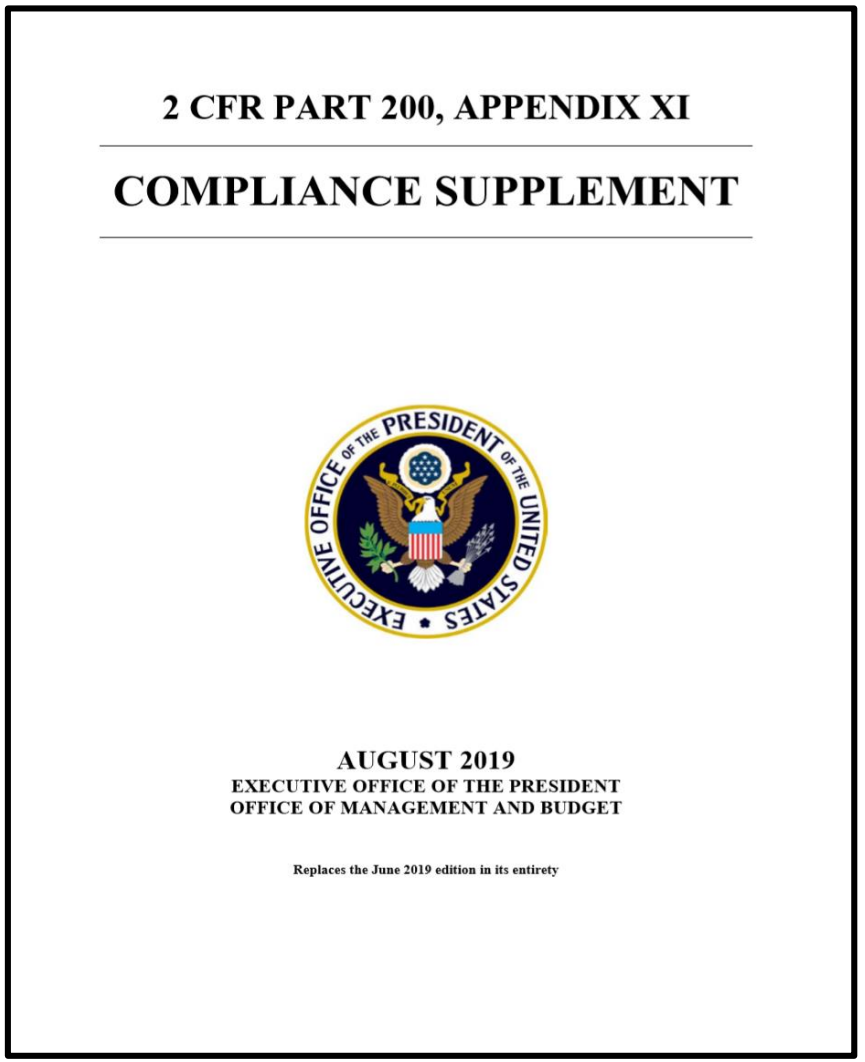
2019 Compliance Supplements





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2019 Compliance Supplement

- Issue Dates
  - Version 1 - Released July 1, 2019 (dated June 2019)
  - Version 2 - Released September 20, 2019 (dated August 2019)
    - Significant number of errors identified in June 2019 edition
    - Replaces June 2019 edition in its entirety
    - “Errata Page” added by OMB to identify corrections and changes
- Practice Issue:
  - What if you started the FY 2019 audit prior to September 20, 2019?

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2019 Compliance Supplement

- Implementation Guidance
  - Notice pushed out by the U.S. Census Bureau
  - For single audits subject to the 2019 Supplement:
    - For reports dated **on or before** October 31, 2019, auditors are permitted to perform the audit using either the June 2019 or August 2019 edition
      - Must document the version used
    - For reports dated **after** October 31, 2019, auditors must use the August 2019 edition
  - Questions should be directed to relevant agency NSAC

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2019 Compliance Supplement

- "Pick Six" Compliance Requirements
  - Compliance review areas limited to 6 compliance areas ("pick six")
    - All 12 compliance areas remain applicable
    - Program specific
    - Rotate on a year to year basis
    - Key practice issue
      - What is the auditor's responsibility for a compliance type marked with an "N," but yet has a direct and material effect on the program?
      - Will the auditor still have to test this type of compliance in order to issue an opinion on the program's compliance?

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2019 Compliance Supplement

- "Pick Six" Compliance Requirements
  - N = No – the type of compliance requirement is **not** subject to audit.
    - When a type of compliance requirement is shown in the matrix as "N", that type of compliance requirement is not subject to audit for the period covered by this supplement.
    - However, the auditee is still responsible for follow-up and corrective action on all audit findings and is required to prepare a summary schedule of prior audit findings as required by 2 CFR 200.511 - Audit findings follow-up.
    - Also, the auditor must follow-up on prior audit findings as required by § 200.514(e) even when the type of compliance requirement shows an "N" for the period covered by this Supplement.

“Pick Six” Compliance Requirements

Focus on critical compliance areas

More money for program mission

June 2019 Matrix of Compliance Requirements

Requirement	A	B	C	E	F	G	H	I	J	L	M	N
Program Number	Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
14.182/ 14.195/14.249/14.856	N	N	Y	Y	N	N	N	N	N	Y	N	Y
14.218/14.225	Y	Y	N	N	Y	N	Y	Y	N	Y	N	Y
14.228	Y	Y	N	N	Y	N	Y	Y	N	Y	N	Y
14.231	N	N	N	N	Y	Y	Y	Y	Y	N	N	Y
14.235	N	N	N	N	Y	Y	Y	Y	Y	N	N	Y
14.238	N	N	N	N	Y	Y	Y	Y	Y	N	N	Y
14.239	Y	Y	N	Y	N	N	N	N	Y	N	Y	Y
14.241	Y	Y	Y	Y	N	N	N	N	N	Y	Y	Y
14.256	Y	Y	N	N	N	N	Y	N	Y	Y	N	N
14.267	N	N	N	N	Y	Y	Y	Y	Y	N	N	Y
14.269/14.272	Y	Y	N	N	N	Y	Y	N	Y	Y	N	Y
14.850	Y	Y	N	Y	N	N	N	Y	N	N	N	Y
14.862	Y	Y	Y	N	Y	N	N	Y	N	Y	N	Y
14.866/14.889	Y	Y	Y	N	N	Y	N	Y	Y	Y	N	N
14.867	Y	Y	N	Y	N	N	N	Y	N	Y	N	Y
14.871/14.879	Y	Y	N	Y	N	N	N	N	N	Y	N	Y
14.872	Y	Y	Y	N	N	N	Y	Y	N	N	N	Y
14.873	Y	Y	N	Y	N	N	N	Y	N	Y	N	Y
14.881	Y	Y	Y	Y	N	N	N	N	N	Y	N	Y
15.000 (No matrix)												
15.021	Y	Y	N	N	N	N	N	N	N	Y	N	Y
15.022	Y	Y	N	N	Y	N	N	Y	N	Y	N	Y
15.025/15.026/15.113/ 15.114/15.130	Y	Y	N	Y	N	N	N	N	N	Y	N	Y
15.030	Y	Y	N	N	N	N	Y	N	N	Y	N	Y
15.042	Y	Y	N	N	Y	N	N	Y	N	Y	N	Y
15.047	Y	Y	N	N	N	Y	Y	N	N	Y	N	N
15.225	Y	Y	N	N	N	N	N	N	N	Y	N	N
15.231	Y	Y	N	N	N	N	N	N	N	Y	N	N
15.236	Y	Y	N	N	N	Y	N	N	N	Y	N	N
15.504	Y	Y	N	N	N	Y	N	N	N	Y	N	N
15.507	Y	Y	N	N	N	Y	N	N	N	Y	N	N
15.605/15.611	Y	Y	N	N	Y	Y	N	N	Y	N	Y	N

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Department of Education

- Section 487(c) of the Higher Education Act of 1965 (HEA) requires that each Title IV participating institution submit a financial and compliance audit "on at least an annual basis"
  - Conflicts with UG when SFA cluster is not selected as a major program
- ED issued guidance on March 29, 2018 regarding FY 2018 single audits (applies to FY 2019 single audits too)
  - Institutions participating in the Title IV programs that submit a Single Audit that does not include the Student Financial Assistance Cluster as a major program *will no longer be required to notify* their respective School Participation Division of the low-risk assessments
  - Impact on year three testing requirements for FY 2020 audits and beyond is still under review
- For FY 2019:
  - ED inserted tables requesting information on the auditor's sample and findings/questioned costs
  - When testing SFA cluster as a major program:
    - Auditors must provide this information directly to Federal Student Aid, Director, Financial Management Group, at FSAPellandDLReporting@ed.gov
    - No later than 60 days after the Data Collection Form and reporting package are submitted to the FAC

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Department of Education

- For Pell funds:

	Sample				Population from which the Sample was drawn	
Sample Description	Related Compliance Requirement	OPEID	Students Receiving Pell (#)	Pell Disbursed ($)	Students Receiving Pell (#)	Pell Disbursed ($)

Department of Education

- For Direct Loans:

			Sample		Population from which the Sample was drawn	
Sample Description	Related Compliance Requirement	OPEID	Students Receiving Direct Loans (#)	Direct Loans Disbursed ($)	Students Receiving Direct Loans (#)	Direct Loans Disbursed ($)

Department of Education

- For each finding related to Pell or Direct Loans:

Finding Number, and Related Sample	Related Compliance Audit Requirement	Student Identifier	OPEID	Pell Dis-bursed ($)	Pell Under-payment ($)	Pell Over-payment ($)	Direct Loan Disbursed ($)	Direct Loan Under-payment ($)	Direct Loan Over-payment ($)

Department of Education

- For findings related to Pell and Direct Loans below $25,000 (optional):

Summary of Non-Compliance and Related Sample	Student Identifier	OPEID	Pell Disbursed ($)	Pell Under-payment ($)	Pell Over-payment ($)	Direct Loan Disbursed ($)	Direct Loan Under-payment ($)	Direct Loan Over-payment ($)

Department of Education

- ED is adding a new special test on *Student Information Security*
  - IHEs are financial institutions under the Gramm-Leach-Bliley Act (GLBA)
  - 2019 Compliance Supplement
    - Audit Objectives
      - Determine whether the IHE designated an individual to coordinate the information security program; performed a risk assessment that addressed the three areas noted in 16 CFR 314.4 (b) and documented safeguards for identified risks.
      - The three areas are (1) Employee training and management, (2) Information systems, including network and software design, as well as information processing, storage, transmission and disposal; and (3) Detecting, preventing and responding to attacks, intrusions, or other systems failures
    - Suggested Audit Procedures
      a. Verify that the IHE has designated an individual to coordinate the information security program
      b. Verify that the institution has performed a risk assessment that addresses the three required areas noted above
      c. Verify that the institution has documented a safeguard for each risk identified in step b

Medicaid

- 2019 Compliance Supplement will require auditors to test eligibility for individuals (**major change**)
  - Eligibility for Medicaid can be broadly grouped into determinations based on Modified Adjusted Gross Income (MAGI-based determination) and non-MAGI determinations (e.g., Aged, Blind and Disabled)
  - Auditors should test eligibility determinations made for fee-for-service and managed care beneficiaries
  - Auditors should re-determine eligibility to ensure beneficiaries qualify for the Medicaid program and are in the appropriate enrollment category
- Access to tax records may be a significant hurdle
  - US Code 6103(d)2 limits access to federal tax information
  - Qualified (disclaimer) opinions may result

Auditing Issues

Government Auditing Standards: 2018 Revision

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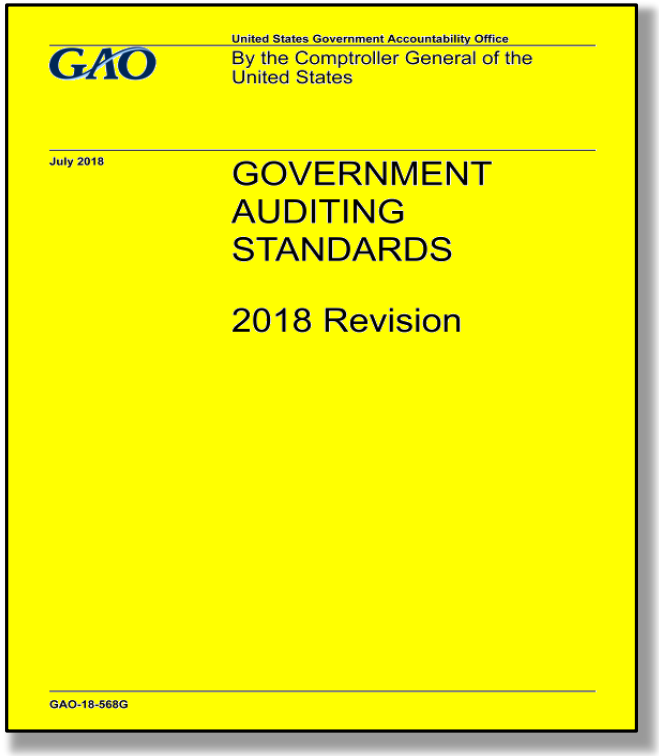
Government Auditing Standards

- 2018 *Government Auditing Standards* Revision (aka Yellow Book or GAGAS)
- Exposure Draft was issued on April 5, 2017
  - 95 comment letters with over 1,700 individual comments received
- Final version issued July 17, 2018
  - First revision since 2011



Summary of Key Changes

- New format and organization
- Common terms and definitions
- **Independence threats related to preparing financial statements**
- **Updates to independence guidance**
- Competence of auditors
- **Guidance for CPE requirements**
- **Competence of specialists**
- **Peer review requirements**

Summary of Key Changes

- Quality control and monitoring of quality
- Internal control: financial audits and examination engagements
- Internal control: performance audits
- New considerations for addressing waste
- Standards for reviews of financial statements
- Criteria for performance audits
- Management assertions

Independence Threats Related to Preparing Financial Statements & Accounting Records

Nonaudit services performed by auditors related to financial statements and accounting records either:

Impair Independence → No change from 2011 Yellow Book (para. 3.87)

Are Significant Threats →

The auditor prepares financial statements in their entirety (para. 3.88).

OR

The auditor determines that a service related to preparing financial statements or accounting records is a significant threat (para. 3.93).

→ Document the threats and safeguards applied to eliminate and reduce threats to an acceptable level (para. 3.33).

OR

Decline to perform the service (para. 3.88).

Are Threats →

- Evaluate threat and document evaluation (para. 3.90).
- Typing, formatting, printing, binding: not likely significant (para. 3.95)

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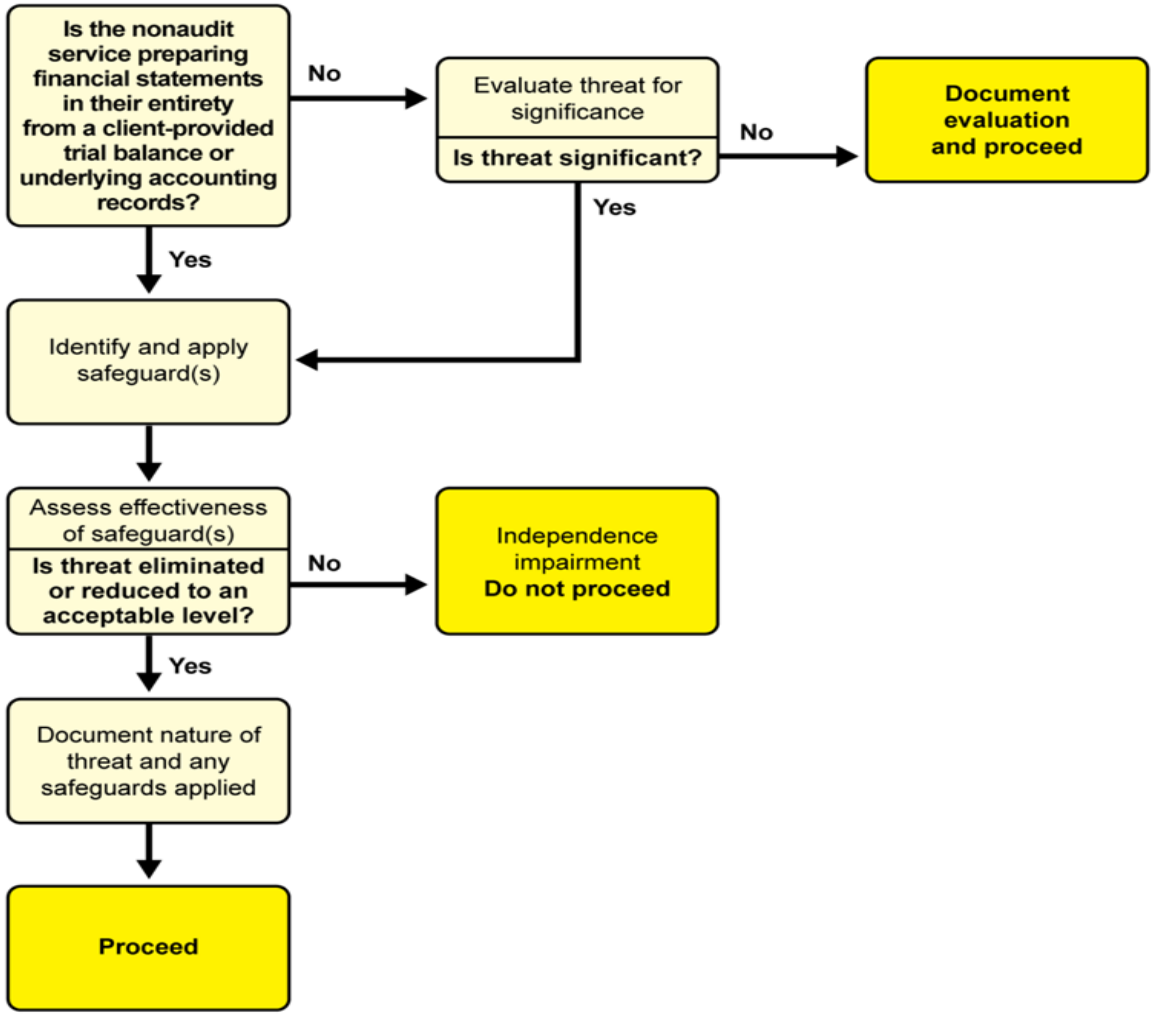
Independence Considerations for Preparing Accounting Records & Financial Statements



Source: GAO. | GAO-18-568G

Waste and Abuse

- Auditor considerations related to waste and abuse are intended to be consistent
- Auditors are **not** required to perform procedures to detect waste or abuse
  - Reporting requirement also dropped
- Evaluating internal control in a government environment may include **consideration of internal control deficiencies** that result in waste or abuse

(paras. 6.20, 7.22, & 8.119)

Effective Date

- 2018 Revision is effective for
  - Financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and
  - Performance audits beginning on or after July 1, 2019
- Early implementation is not permitted

Where to Find the Yellow Book

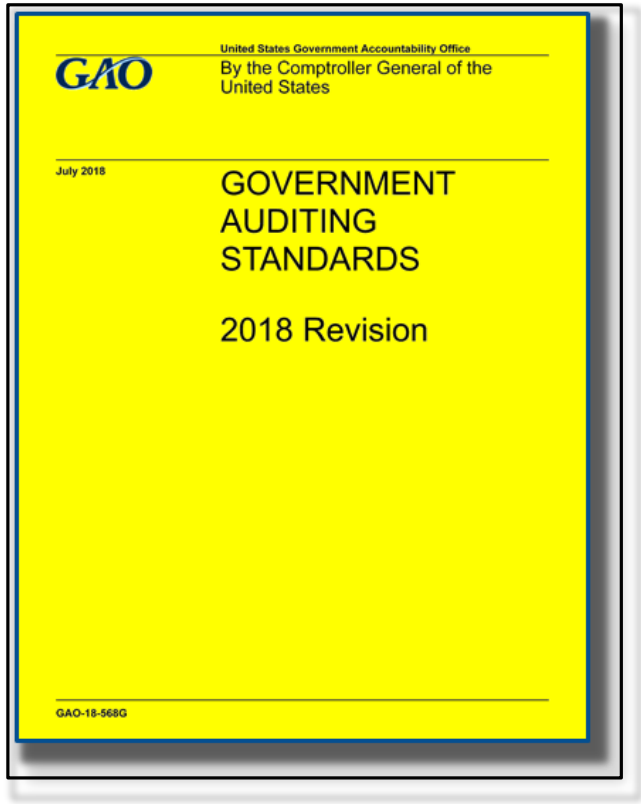
- The Yellow Book is available on GAO's website at:

  www.gao.gov/yellowbook

- For technical assistance, contact us at:

  yellowbook@gao.gov

  or call (202) 512-9535



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AICPA Current Issues

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AICPA Auditing Standards Board – *On a Roll!*

- Recent SASs:
  - SAS No. 134 *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements* (May 2019)
  - SAS No. 135 *Omnibus Statement on Auditing Standards – 2019* (May 2019)
  - SAS No. 136 *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (July 2019)
  - SAS No. 137 *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports* (July 2019)

SAS No. 134 - *Auditor Reporting and Amendments*

- Effective for audits of financial statements for periods ending on or after December 15, 2020
  - Early implementation is not permitted
- Supersedes:
  - AU-C 700, *Forming an Opinion and Reporting on Financial Statements*
  - AU-C 705, *Modifications to the Opinion in the Independent Auditor's Report*
  - AU-C 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*
- New section:
  - AU-C 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

SAS No. 134 - *Auditor Reporting and Amendments*

- Key changes:
  - Moving the opinion to the first paragraph
  - "Basis for Opinion" section is second and includes an affirmative statement about the auditor's independence and compliance with ethical responsibilities
  - Expanded descriptions of the responsibilities of:
    - Management relating to going concern evaluation, when required by the applicable financial reporting framework
    - Auditor relating to:
      - Professional judgment and skepticism
      - Going concern
      - Communications with those charged with governance

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SAS No. 134 - *Auditor Reporting and Amendments*

- New Section
  - AU-C 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
    - Addresses the auditor's responsibility to communicate KAMs in the auditor's report when engaged to do so
      - SAS No. 134 does NOT require the communication of KAMs
  - What are KAMs?
    - Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period
    - "What keeps the auditor up at night"
    - Key audit matters are selected from matters communicated with those charged with governance

AICPA Professional Ethics Division Interpretation: *State and Local Government Client Affiliates*

- Final issued on June 13, 2019
  - Supersedes “Entities included in State and Local Government Financial Statements” at ET 1.224.020
- This interpretation helps members identify the entities related to a state or local government (SLG) (such as component units or funds) that are "affiliates" of the SLG for independence purposes
- You must apply the “Independence Rule” (ET 1.200.001) and related interpretations to affiliates
- Effective for years beginning after December 15, 2020

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Who is an Affiliate?

Par. .03*ai*

- Included in client's financial statements
- No reference to other auditor

(Current guidance)

Par. .03*aii*

- Included in client's financial statements
- Refers to other auditor
- Material to client
- Client has more than minimal influence

(New)

Par. .03*aiii*

- Excluded from client's financial statements
- Material to client
- Client has more than minimal influence

(New)

Par. .03*aiv*

- Investments held by an investor
- Investor has control unless investment is trivial *or* has significant influence and investment is material

(New)

Source: AICPA

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Resources

- Implementation Guide
  - Expected in December 2019
    - Decision trees
    - Examples
- Evaluator tools (electronic)
  - Will provide documentation for workpapers
    - Entity affiliate evaluator
    - Investment affiliate evaluator
    - Interactive matrix

Source: AICPA

Accounting Issues

GASB's Current Projects – The "Big Three"

- In 2019, the GASB continues to work on three related efforts that will help reshape state and local governmental accounting and financial reporting
  1. The financial reporting model reexamination
  2. Revenue and expense recognition, and
  3. Research reexamining most existing note disclosure

What is the Current Timetable?

Timetable	
Financial Reporting Model	Exposure Draft – June 2020
Revenue and Expense Recognition	Preliminary Views – May 2020
Note Disclosures	Exposure Draft – February 2020

What Has the Board Tentatively Decided Would Be the Foundation of the Reporting Model?

- Retaining a shorter time perspective in the governmental fund financial statements is appropriate.
- Governmental fund financial statements should continue to present information that facilitates comparisons with a government's budgetary information.

Next Steps

- Target issuance of Exposure Draft: June 2020
- Additional issues for Exposure Draft
  - Extraordinary and special items
    - Consider alternatives to improve the consistency of application of the guidance for reporting extraordinary and special items
  - Management's discussion and analysis (MD&A)
    - Consider alternatives for enhancing financial statement analysis, eliminating boilerplate components that are no longer necessary for understanding the financial reporting model, and
    - Clarify guidance for presenting currently known facts, decisions, or conditions that are expected to have a significant effect.
  - Debt service funds
    - Consider alternatives for providing additional information about debt service funds (either individually or in aggregate)

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Reporting Model: Overall Timing

- Timing
  - Deliberations began in October 2015
  - December 2016: Invitation to Comment
  - September 2018: Preliminary Views
  - June 2020: Exposure Draft
  - November 2021: Final Statement
  - Implementation dates: sometime in 2022, 2023

Other Emerging Issues

Things on the radar…

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XBRL Developments: State and Local Governments

- XBRL US has formed a state and local government workgroup
  - Developing a taxonomy for a CAFR
    - Comments due on version 0.2 on October 28, 2019
- Florida HB 1073
  - Authorizes the creation of Florida Open Financial Statement System
    - An interactive data repository for government financial statements
    - Requires the Florida CFO to determine whether a suitable XBRL taxonomy has been developed.
    - Effective for FY ending on or after September 1, 2022
- California SB 598
  - Establishes a nine-member commission in the State Treasurer's Office
    - Commission will build test taxonomies for public agency financial filings
    - By January 2020, make recommendations on how and whether state and local agencies should transition to reporting financials in a machine-readable format
  - Governor vetoed Bill in October 2019
- Will other states follow?

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Timeliness of Audited Financial Statements

- SEC chair Jay Clayton calls for improved municipal market disclosure including timelier financial reporting
  - December 6, 2018, speech indicates SEC may be interested in taking additional regulatory action to improve municipal market disclosure
  - SEC's Office of Municipal Securities is working with MSRB to improve transparency and increase timeliness of issuer financial information
    - MSRB filed proposal with SEC on November 13 to more prominently display the timing of annual financial disclosures (a "submission calculator")
    - MSRB anticipates that the new feature would not become visible on EMMA until early 2020.
- State and local government groups monitoring closely

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These continue to be interesting times…

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Questions or Comments

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