



2016 Audit Hot Topics




November 9th & 10th 2016



Overview

- FY 2016 Engagement Topics
- Future Engagement Topics
- Client Satisfaction Surveys



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FY 2016 Engagement Topics

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FY2016 Engagement Topics

- Updated Financial Statement Templates
- Implementation of GASB 72
- Uniform Guidance

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Updated Financial Statement Templates

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Notes Template

- Changes from Previous Year
- Broadband/Spectrum Leases
 - Send lease agreements to Tracy Branch
 - Add a note describing the agreement
 - Example to be provided shortly

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Schedule of Expenditures of Federal Awards (SEFA)

- Presentation and Formatting Changes
 - New Column –
“Passed-Through to Subrecipients”
 - Pass-Through Entity ID Number Required
 - Expenditures must be included for
each program
 - Limited Notes to the SEFA

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GASB 72 - Fair Value Measurement

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What you need to know

- Focus is on whether assets are recorded at Fair Value and how Fair Value is determined
- Catch up to FASB guidance
- Applicable to Investments, including capital assets held as investments
- Investments are categorized by levels – which describe what goes into the calculation of fair value
 - Level 1 – Investments actively traded; valued at what investment is traded for
 - Level 2 – Investments not actively traded; using date of last trade, FMV is calculated using assumptions
 - Level 3 – No Market

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What you need to do

- No impact for investments classified as Cash & Cash Equivalents (Deposits)
 - CDs
 - LGIP – may need to tweak the note
- Note Disclosure required for others
 - You will need to gather appropriate information
 - Contact bank and request “Leveling Information”

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What we will do:

- DOAA will:
 - Update the notes template provided on our website
 - Update our investment inquiry form and make it available to you in our toolkit
 - Assist with questions related to this standard
- You will not lose your “Certificate of Excellence” if you haven’t finalized this note

Uniform Guidance

Uniform Guidance (UG) - Be Sure to Understand Who Follows What Rule!



Use of "should" and "must"

Should = best practices or recommended approach

Must = required procedure, action, characteristics, etc.

Confirmed with COFAR FAQ 303-1, 303-2, and 303-3

Auditees

Old awards:

Old OMB cost principles and administrative requirements
(e.g., OMB Circulars A-87, A-110, A-122, etc.)

New awards and incremental funding:

Subpart D and E of the Uniform Guidance

Certain sections of Subpart F

(e.g., §200.508 through .512)
Subawards
SEFA

Auditors

For testing compliance:

Auditors audit against the criteria that the auditee is required to follow (see auditee section)

For performing the audit:

Subpart F of the Uniform Guidance

UG Threshold Increases

- Audit threshold = \$750K
- Minimum Type A/B Threshold = \$750K
 - Dependent on total federal expenditures - look to table in the Uniform Guidance

EMPHASIS POINT: Change to Type A/B threshold may result in fewer Type A programs than in prior years (or no Type A programs). However, in the transition years "Smoothing" allows auditors to audit as major programs additional programs/clusters to prevent burdensome audit effort in the 3rd year auditing under the UG.

§200.520

UG Low-Risk Auditee Status

- Key Changes:
 - To be considered a low-risk auditee, in each of two preceding periods must have:
 - unmodified opinion(s) on financial statements in accordance with generally accepted accounting principles (GAAP) or basis of accounting required by state law
 - no auditor reporting of going concern
 - If **state law permits but does not require** the non-GAAP basis of accounting, **auditee cannot be considered low-risk auditee**
 - If **auditee voluntarily prepares** financial statements on a non-GAAP basis of accounting, **auditee cannot be considered low-risk auditee**

UG Major Program Determination and Risk Assessment

§200.518

- Step 1 • Identify Type A programs
- Step 2 • Identify low-risk Type A programs
- Step 3 • Identify high-risk Type B programs
- Step 4 • Determine major programs to audit

Hurdle Criteria for Low-Risk Type A Programs Have Changed

- Must have been audited as a major program in at least one of the two most recent audit periods; and
- In the most recent audit period, the program must not have had a:
 - Modified opinion
 - **Material weakness in internal control over compliance**
 - Known or likely questioned costs exceeding 5% of total program expenditures

EMPHASIS POINT: An entity with strong internal controls and few audit findings will likely have fewer high-risk Type A programs

Identifying Low-Risk Type A Programs

- Audit teams can no longer consider inherent risk or complexity of Type A programs in their risk assessments
- Only criteria where professional judgment permitted are:
 - Federal and pass-through entity (PTE) oversight
 - Results of audit follow-up
 - Changes in personnel or systems

Rules for Identifying High-Risk Type B Programs Have Changed

- Perform risk assessments on Type B programs until high-risk Type B programs have been identified up to at least 1/4 of the number of low-risk A programs
 - Only required to risk assess Type B programs that exceed 25% of Type A threshold
 - If Type A threshold is \$750,000 no risk assessments on Type B programs of \$187,500 or less required

Emphasis Point #1: If auditor risk assesses and find more high-risk Type B programs than needed, auditor will have to audit them. Careful planning is needed!

Emphasis Point #2: Risk assessment of Type B programs is not required if there are no low-risk Type A programs

Criteria for Type B Risk Assessment Differs from that for Type A Risk Assessment

- **Criteria -Type B Risk Assessment**
 - Current and prior audit experience
 - Oversight exercised by federal agencies and PTEs
 - Inherent risk of the federal program
 - Nature and complexity of the program
 - Phase of program in life cycle at federal agency
 - Phase of program in life cycle at the auditee
 - Type B programs with larger federal awards expended would be of higher risk than programs with substantially smaller federal awards expended



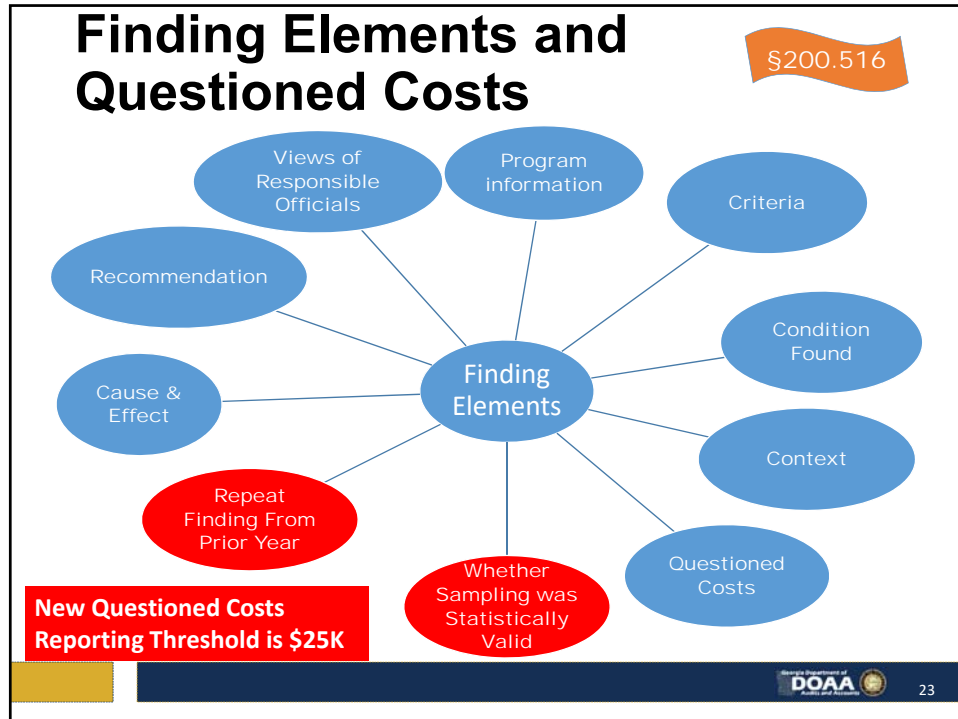
\$200.519

Determine Major Programs to Audit

- All Type A programs except those identified as low-risk in Step 2 (i.e., high-risk Type A programs)
- All Type B programs identified as high-risk in Step 3 (be careful of this step...see previous slide)
- Such additional programs necessary to comply with percentage of coverage rule
 - If considered a low-risk auditee, then...
 - Minimum = 20.0% of federal awards expended
 - If not considered a low-risk auditee, then...
 - Minimum = 40.0% of federal awards expended
- Any additional programs being addressed in response to the new “smoothing” guidance added to the 2016 *Compliance Supplement* (see next slide)

New Transitional “Smoothing” Option

- Guidance intended to address transition issue
 - The potential increase in the number of low-risk Type A programs in the first and second year of implementing the Uniform Guidance audit requirements may significantly increase the number of major programs in the third year
- Auditors may audit some low-risk Type A programs as additional major programs in the first and second years of implementation
 - However, a low-risk Type A program would not be permitted to be audited more than once in the first three years of implementing the Uniform Guidance audit requirements.
- No change to the application of any steps in the major program determination process
- All programs selected using this guidance would be “in addition” to those required to be tested using 4-step approach



Prior Audit Findings and Corrective Action Plan

\$200.511

- Summary Schedule of Prior Audit Findings (SSPAF) must include reasons for a finding's recurrence and the planned corrective action when a finding has not been corrected or fully corrected
- Auditee's corrective action plan must be a separate document from the schedule of findings and questioned costs
- Both must include findings related to the financial statements (*Government Auditing Standards* findings)
- Both SSPAF and CAP are prepared by auditee

Florida Department of
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Upcoming Standards

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GASB 77 – Tax Abatement

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GASB 77 – Tax Abatement

- Effective for periods beginning after December 15, 2015
- Note disclosure only
- Issued to increase information about revenues that governments forgo is essential to understanding financial position and economic condition, interperiod equity, sources and uses of financial resources, and compliance with finance related legal or contractual requirements

GASB 77 – Tax Abatement

- Definition:
 - A reduction in tax revenues that results from an **agreement** between one or more governments and an individual or entity in which:
 - (a) one or more governments **promise to forgo tax revenues** to which they are otherwise entitled and
 - (b) the individual or entity **promises to take a specific action after the agreement has been entered into** that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

GASB 77 – Tax Abatement

- What about reduction of exchange revenues?
- The **substance** of the transaction, not its form or title, is key in determining if a transaction meets the definition.

GASB 77 – Tax Abatement

- Examples:
 - Sample County agrees with grocery store chain to purchase an empty building and open store, County will abate 40% of property taxes for 5 years.
 - Sample City enters agreement with hardware store to relocate store, City will abate 70% of sales taxes for 10 years.
 - Sample County agrees with a major car manufacturer to relocate corporate offices to the County, legal restriction on disclosing the details of the abatement.

GASB 77 – Tax Abatement

- Does not include:
 - Exclusion of income earned on municipal bonds from income taxes.
 - Full or partial exemption of senior citizens and military veterans from property taxes.
 - Certain items from their tax liabilities or from the amount that is being taxed.
 - Charitable giving.
 - Cost of installing energy-efficient features.
 - Sales tax holidays.

GASB 77 – Tax Abatement

- **GASB's view:**

Users of governmental financial statements need information about limitations on the ability of governments to raise revenues, some of which are the product of tax abatements

GASB 77 – Tax Abatement

- Statement No. 77 requires disclosure of information about tax abatement agreements regardless of whether the reporting government was involved in the agreement
- Statement No. 77 requires that information about a government's own tax abatement agreements be disclosed separately from information about tax abatements resulting from agreements entered into by other governments

GASB 77 – Tax Abatement

- School District's view:
 - Establish quantitative threshold for disclosure.
 - Board Policy.

GASB 77 – Tax Abatement

- **School District's view:**

How do I obtain information?

- Property tax
 - Tax Commissioner
 - City/County Board of Commissioners
- Sales Tax
 - Georgia Department of Revenue

GASB 77 – Tax Abatement

- **Auditor's view:**

- Is the quantitative threshold established by the School District reasonable?
 - Percentage of taxes abated.
 - Specific dollar amount.
 - Board policy.

GASB 77 – Tax Abatement

- **Auditor's view:**

- Are the disclosures adequately supported?
 - Disclosures are subject to third party confirmations.
- Reasonableness and Completeness of disclosures.

Disclosure Summary

- Distinguish between
 - Agreements that are entered into by the reporting government.
 - Agreements that are entered into by other governments and that reduce the reporting government's tax revenues.

Disclosure Summary

Brief Descriptive Information	Government's Own Abatements	Other Government's Abatements
Name of program	✓	
Purpose of program	✓	
Name of government		✓
Tax being abated	✓	✓
Authority to abate taxes	✓	
Eligibility criteria	✓	
Abatement mechanism	✓	
Recapture provisions	✓	
Types of recipient commitments	✓	

Disclosures for Other Information Summary

Other Disclosures	Government's Own Abatements	Other Government's Abatements
Dollar amount of taxes abated	✓	✓
Amounts received or receivable from other governments associated with abated taxes	✓	✓
Other commitments by the government	✓	
Quantitative threshold for individual disclosure	✓	✓
Information omitted due to legal prohibitions	✓	✓

Reporting P-card Transactions

11/14/2016



PCard Transaction Reporting

Goals

Beginning with the FY 2017 reporting cycle:

- Begin reporting PCard data providing level 2 detail
- Increase transparency
- Provide more relevant data to our stakeholders



PCard Transaction Reporting

File Layout

FIELD NAME	SIZE / FORMAT	REQUIRED
Vendor Name	TEXT 100	Y
MCC Description	TEXT 150	Y
Transaction Date	DATE (MM/DD/YYYY)	Y
Amount	NUMBER (999999999.99)	Y

File Type: CSV, (comma delimited file)

PCard Transaction Reporting

• Timeline – Submission Years

- **2017 – Report FY 16/17 PCard data**
 - State Agencies, Authorities and Commissions
 - University System of Georgia
 - Technical College System of Georgia
- **2018 – Report FY 17/18 PCard data**
 - Local Education Boards
 - RESAs

Client Satisfaction Surveys

11/14/2016



Client Satisfaction Surveys

- Improvement noted between 2014 & 2015
- Continued focus
 - Timeliness
 - Communication
 - Training
- Surveys sent after report release



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Client expectations

- An engagement conducted in accordance with applicable standards
- Clear explanation of the scope and objectives of the engagement
- Open and frequent communication throughout the engagement
- Secure and careful treatment of confidential information
- A chance to respond to potential findings and recommendations



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