

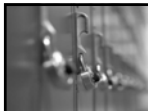


MSBO Business Manager/CPA Conference 2011

Accounting and Auditing Update




Eric Formberg, CPA, CGFM
Partner
Plante & Moran, PLLC



Accounting and Auditing Update

- Current Environment
- Government Accountability Office (GAO)
- AICPA
- Governmental Accounting Standards Board
- Key Accounting Issues
- Single Audit Update
- ARRA Update
- MDE A-133 Specific Issues





Technical Update - Current Environment

- Keep in mind effect of current environment in all aspects of audit work—both for your financial statement audits and your compliance audits
 - ❖ Economic issues
 - ❖ New regulations and standards
 - ❖ Political pressures
- Increased audit risk?

(MI K12 faces continued challenges!)

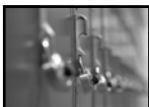


Draft Yellow Book Update



Technical Update - GAO

- Upcoming Yellow Book Revision
 - ❖ Promote the modernization of auditing standards
 - ❖ Streamline with standard setters
 - ❖ Address issues GAO has observed
- Yellow Book Revision Timeline:
 - ❖ August 2010: ED of 2011 Revision of GAGAS
 - ❖ September 2010: Archived GAQC Web Event - What You Need to Know About the 2010 Yellow Book Exposure Draft
 - ❖ November 22, 2010: Comments were due AICPA/GAQC did comment
 - ❖ May 2011: Yellow Book Advisory Council meeting to discuss comments received and GAO staff recommended changes to what had been proposed in the ED
 - ❖ Final Issuance/Effective Date??



Technical Update - GAO - Key Change

Chapter 3 - General Standards: Independence

- The conceptual framework for independence requires that auditors:
 - ❖ Identify threats to independence
 - ❖ Evaluate the significance of the threats identified
 - ❖ Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level
- GAGAS framework proposed would:
 - ❖ Provide consistent results when compared with AICPA and IFAC
 - ❖ Address unique governmental structural issues
- GAO will likely retire current Questions and Answers to Independence Standard Questions guidance



Auditing, Accounting and Reporting

- Audit Standards Update
- Audit Guides
- GASB standards 2011
- GASB Standards 2012 and beyond
- Looking forward
- Resources



Technical Update - AICPA

- Auditing Standards
 - ❖ SAS 117 - compliance audits
 - ❖ Clarity Project
 - ❖ SAS 118 -120 - Supplementary Information
 - All effective for audits of financial statements beginning on or after 12/15/2010 (early application permitted)
 - ❖ SAS 121 - Review of Interim Financial Information (NA for K12)
 - ❖ Service Organizations
 - ❖ SLG and GAS/A-133 Guides



SAS 117 - Compliance Audits

- Updates the framework for doing single audit and compliance audits in general
- Auditors will do some things a bit different as a result
- Review appendix for what audit standards apply



Clarity and Convergence

- Convergence?
 - ❖ IASB, ASB, GAO, PCAOB
- Convergence with ISAs
 - ❖ Harmonize, not adopt
 - ❖ ISA+ is good and ISA - is bad
- Effective date
 - ❖ Delayed one year to periods ending on or after December 15, 2012
 - Allow more time for updating firm methodologies and training



Changes from Extant Standards

- AU Section numbers will change to correspond to ISA numbers
- Primary difference relates to Group Audit Standard
 - ❖ More specific as to what group engagement partner is responsible for
 - ❖ Will affect many governmental audits
- Additional QC guidance
 - ❖ QC responsibilities for the audit more specifically described
 - ❖ Overall QC function remains “firm” responsibility, but responsibilities are engagement partner’s and engagement team’s
- Some changes in audit report to more clearly describe management’s responsibility
 - ❖ New format to use report headings



Technical Update - AICPA

SAS No. 118, *Other Information in Documents Containing Audited Financial Statements*

- Effective Supersedes AU 550 and (along with SAS No. 119) AU 551.
- Other Information (OI) = information that is included in a document containing audited financial statements and the auditor’s report thereon, excluding required supplementary information



Technical Update - AICPA SAS No. 118

- What's New?
 - ❖ Eliminates the distinction between OI that is included in an auditor-submitted document and OI that is in a client-prepared document
 - ❖ Requires that the auditor read the other information of which the auditor is aware in order to identify material inconsistencies, if any, with the audited financial statements
 - ❖ Establishes performance and reporting requirements when the auditor identifies a material inconsistency with other information and the financial statements
 - ❖ Establishes performance requirements auditor becomes aware of an apparent material misstatement of fact in the OI



Technical Update - AICPA

SAS No. 119, *Supplementary Information in Relation to the F S as a Whole*

- Supersedes (along with SAS No. 118) AU 551
- In order to opine on whether Supplementary Information (SI) is fairly stated in relation to the financial statements as a whole, the auditor needs to determine that all of the following conditions are met:
 - ❖ the SI was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements.
 - ❖ the SI relates to the same period as the financial statements.
 - ❖ the financial statements were audited, and the auditor served as the principal auditor on that engagement.




Technical Update - AICPA SAS No. 119

- What's New?
 - ❖ Establishes performance requirements in order to opine on whether SI is fairly stated, in all material respects, in relation to the financial statements as a whole
 - ❖ Establishes reporting requirements when the entity presents the SI with the financial statements and when the audited financial statements are not presented with the SI
 - ❖ Precludes the auditor from expressing an opinion on SI when the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion
 - ❖ Reporting on SI is not dated earlier than when procedures are completed



Technical Update - AICPA SAS No. 120, *Required Supplementary Information*


- Supersedes AU 558
- Required Supplementary Information (RSI): Information that a designated accounting standard setter requires to accompany an entity's basic financial statements
 - ❖ RSI is not part of the basic financial statements
 - ❖ A designated accounting standard setter considers the information to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.
 - ❖ Authoritative guidelines for the methods of measurement and presentation of the information have been established.



Technical Update - AICPA SAS No. 120

- What's New?
 - ❖ Defines required supplementary information and designated accounting standard setter.
 - ❖ Establishes the auditor's objectives when a designated accounting standard setter requires information to accompany an entity's basic financial statements.
 - ❖ Requires auditor to include language in the auditor's report on the financial statements when the auditor is unable to complete the required procedures
 - ❖ Requires the auditor to include an explanatory paragraph in the auditor's report on the financial statements in all circumstances that refers to the RSI
 - ❖ Establishes reporting requirements

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Technical Update - AICPA SAS No. 120

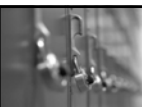
- Additional Consequence of SAS No. 120
 - ❖ RSI definition affects State and Local Government A&A Guide OCBOA presentation guidance (not an issue for K12)
 - ❖ Current paragraph 15.05 states that OCBOA presentations should be accompanied by RSI applicable to the presentation and that auditor reports on the information as RSI
 - ❖ 2011 revision to the State and Local Government A&A Guide being revised to state that OCBOA financial statements may be accompanied by information typically considered RSI but that such information should be considered OI and reported on accordingly

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Audit Resources

- Recovery Act Resource Center
- Omb.gov/circulars
- GAQC Archived Alerts
- AICPA Single Audit Tools
- AICPA Illustrative Auditor Reports
- Peer Review Checklists
- QCR checklist
- Governmental CPE Opportunities - MACPA/AICPA

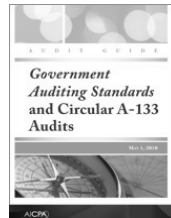


Looking Forward - Audit Implications

- New Yellow Book
- Single audit training requirements? (changes on hold)
- More QCRs and desk reviews
- Findings working group output
- Continued look at how peer review can be enhanced
- Continued effects from Recovery Act?
- Changes to single audit rules?
 - ❖ Threshold
 - ❖ Compliance requirements
 - ❖ Timing

AICPA Audit Resources

- Auditing & Accounting Guides and Audit Risk Alerts
 - ❖ Government Auditing Standards and Circular A-133
 - ❖ State & Local Governments



Technical Update - Status of Guides

- 2011 GAS/A133 Guide
 - ❖ Updates being drafted - expected the end of July
 - ❖ Includes an appendix with information on SAS No. 119 and its effect on the "in relation to" opinion on the SEFA
 - ❖ Compliance audit information is based on the guidance in SAS No. 117
 - ❖ Includes the Sampling chapter and SEFA practice aids




Technical Update - Status of Guides

- State and Local A&A Guide
 - ❖ In production and available in end of June
 - ❖ New GASB standards that become effective this year
 - ❖ Footnotes to identify places where GASB standards issued but not yet effective





Audit Resources- Risk Alerts

- AICPA Audit Risk Alerts
 - ❖ Governmental auditing environment is fluid, use these publications as they will have the latest information available at time of printing:
 - GAS/A-133 ARA
 - SLG ARA




GASB


- Issues for 2011
- Future issues
- Practical Questions for 2011



Accounting and Reporting Issues - In Brief

- GASB 51 - Intangible Assets - (capitalize software)
- GASB 53 - Derivatives - (requires investments, may encounter when there is a bond issue, Key question: Is hedge effective?)
- GASB 42 - Fixed Asset Impairments (closing a building)
- GAAB 49 - Pollution Remediation (any clean up from a closure)
- GASB 47 - ERI Plans (expenditure period based on "wording" of the agreement)
- GASB 45 - OPEB - (Do you have unrecorded OPEB plans? Will you need an actuary?)
- GASB 58 - Chapter 9 Bankruptcy - (see revenue section!)






Technical Update - GASB GASB Standards Effective This Year

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
 - ❖ Effective FYE 6/30/2011
 - ❖ See discussion below re K12 application issues
- GASB Statement No. 59, Financial Instrument Omnibus
 - ❖ Effective FYE 6/30/11



Technical Update - Pensions GASB

- Exposure Draft coming soon
- Auditees may ask auditors about this project as it is a frequent news item
- Activity on Capitol Hill
- Focus Issues for this year's audits:
 - ❖ Use of specialists
 - ❖ Critically evaluating actuarial assumptions
 - ❖ Significant risk if plan is underfunded
 - ❖ Liquidity risk to government
 - ❖ Ability to fund
- Impact for K12 - MPSERS going on the SD books!



Technical Update - GASB May Affect Audits in Future Years

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* - Effective FYE 6/30/12
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* - Effective FYE 12/31/2012
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus— an amendment of Statements No. 14 and No. 34* - Effective FYE 6/30/2013
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
 - ❖ Not intended to have significant impact
 - ❖ Use Preface of 2011 State and Local A&A Guide and Basis for Conclusions of GASB 62 as a resource
 - ❖ Effective FYE 12/31/2012



GASB 54 - Fund Balance and Allowable Funds *Reminder*

Fund Balance

- Redefines the elements of fund balance, not the total
- Effective for 6/30/11 financial statements
- Old definition
 - ❖ Reserved - not available for spending or legally restricted
 - ❖ Designated - board or management "decision"
 - ❖ Undesignated - what is left



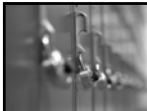
GASB 54 - Fund Balance and Allowable Funds *Reminder*

- New definition
 - ❖ Non spendable- not in spendable form (ex inventory, nonexpendable contribution)
 - ❖ Restricted- use constrained by external party, constitution, enabling legislation (similar to restricted in governmentwide statements)
 - ❖ Committed- constraint by Board of Education action (action should be done before the end of the year, final amount can be determined after year end)



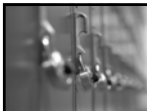
GASB 54 - Fund Balance and Allowable Funds *Reminder*

- New definition
 - ❖ Assigned- intent to be used expressed by Board or other group or person given authority by the board. For other than general fund, residual amounts in fund balance are "assigned"
 - ❖ Unassigned- remaining fund balance, or fund deficit in other than GF. Encumbrances are "unassigned", the factors around the item would determine if the item is falls into one of the other categories
 - ❖ Reason for the classification should be clear to reader




GASB 54 - Allowable Funds *Reminder*

- 1022 Manual follows GAAP
- Key change is treatment of some special revenue funds
- General fund definition - no change
- Capital project funds - no substantive change
 - ❖ Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
 - ❖ Capital projects funds exclude proprietary funds or assets held in trust for individuals, private organizations, or other governments.





GASB 54 - Allowable Funds *Reminder*

- Debt service funds - no substantive change
 - ❖ Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
- Special revenue funds - big change.....




Special Revenue Fund - Big Changes *Reminder*

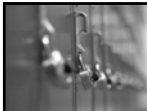
- Report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects
- Restricted or committed specific revenue sources should comprise a substantial portion of fund's resources, but fund also may include other restricted, committed, and assigned resources
- If revenues are initially received in another fund, they should **NOT** be reported as revenues in the fund receiving them; instead, they should be recognized in the special revenue fund where they will be spent.
- The proceeds from these special revenue sources should be expected to continue to comprise a substantial portion of inflows.



Special Revenue fund - Big Changes *Reminder*

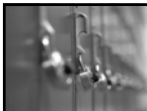
- Governments should **discontinue** reporting a special revenue fund, and instead report the resources and expenditures in the general fund, if the government no longer expects that a substantial portion of revenues will be derived from restricted revenue sources.
- Disclosure: purpose of each **major** special revenue fund and each revenue source or other resources authorized to be reported.
- Final points:
 - ❖ This is a financial reporting standard. It does not require collapsing all these funds in general ledger.
 - ❖ Closing athletics - Beginning FB should be added to beginning GF FB.





Fund Issues - Some Practical Thoughts

- Special Revenue
 - ❖ Budget stabilization - no more (probably gone anyway...)
 - ❖ Athletics - rolled into General Fund (note, could keep separate and roll in at the end of year or record as a "sub fund" within the general fund) - Question re display when athletics is budgeted as a separate fund!
 - ❖ Food service - no change, even with GF subsidy
- Capital Projects
 - ❖ Bond issue/sinking fund - no change
 - ❖ Capital projects by board resolution (transfer of funds) - still allowable (committed resources) - idea: use instead of GF set aside
- Budgeting
 - ❖ What needs to change - primarily athletics, budget based on accounting option chosen
 - ❖ Communicate change - and determine best way to highlight "subsidy"



Fund Balance Components

- Non-spendable
 - ❖ Inventory
 - ❖ Pre-paids
 - ❖ Long term portion of AR (not offset in deferred revenue) - generally between funds and rare in schools



Fund Balance Components

■ Restricted for...

- ❖ Capital projects (bond or sinking fund)
- ❖ Debt Service (bonded debt or contractually separate funds)
- ❖ Special Education (legal restriction - generally center program)
- ❖ Food Service (legal restriction)
- ❖ Community Service (if revenues are legally restricted)
- ❖ Grant Programs (if not in deferred revenue and legally restricted)
- ❖ Consortium programs (if contractually/legally restricted)



Fund Balance Components

■ Committed to...


- ❖ Community Service (if NOT legally restricted and there IS board action/commitment stating specific purpose for revenue use)
- ❖ Capital Projects (board authorized use committed, generally the case)
- ❖ Contractual obligations (obligations for employee benefits and other obligations are allowable, must be clear on specific purpose - board action committed)
- ❖ Building operating budgets (board action - if not already appropriated)
- ❖ Fund balance that cannot be spent (reasonable to assume will not be spent routinely, then this could be a commitment or assignment - expected to be rare)



Fund Balance Components

Assigned to...

- ❖ Cover cash shortfall during XX/XX period (specific set aside used in a specific period - delegated authority to determine)
- ❖ Building carry over (with current administrative authority to change next year's budget, and next year uses FB)
- ❖ Capital projects (board intention or delegated use)
- ❖ Encumbrances (amounts are at least assigned, assumes encumbrance accounting is used and amounts not listed elsewhere)
- ❖ Contractual obligations (obligations for employee benefits and other obligations are allowable, must be clear on specific purpose - specifically delegated action)
- ❖ Budgeted use of fund balance in subsequent year (from budget put in place, do not to double count resources)



Fund Balance - Some Practical Thoughts

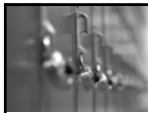
- Some things every District should know:
- Is it in next year's budget? If yes, then it is most likely Unassigned
- Committed - The Board MUST take formal action before the end of the year
- Be Specific - must be clear regarding intent
- Cash Flow - Should be based on a real cash flow deficiency (aka what is your lowest point?)
- Encumbrances - can't double count
- Budgeted use of fund balance in following year - assigned



Deficits


Auditor focused concerns

- Need footnote disclosure and plan to eliminate deficit if General fund
- Need comments in MDA
- Likely a financial statement level finding for failure to comply with state law
- Likely emphasis of matter paragraph in auditor's opinion
- See separate section on deficit issues and EM



Build America Bonds - Reminder

- Interest subsidy provided by federal government
- Report "gross" - subsidy as revenue and interest expense
- NOT subject to single audit
- Need to craft new disclosures
- Other "new" bonding options




Other "Fun" Standards

- 1022 manual - check your updates...addresses GASB 54
- School Audit Manual was updated this year, on MDE website
- MDE Audit Risk Alert issued - a must read
- Federal Compliance Supplement to be issued in mid May (not exactly)





Key Issues for 2011

- "Structure" of the accounts focus on ARRA continues
- "New" issues for 2011
 - ❖ GASB 54 implementation - see above
 - ❖ Impairment - building closures...coming to a SD near you
 - ❖ ERI - period of recognition
 - ❖ Stabilization - show as unrestricted federal revenue (Major Class 412, with 0230 suffix), expenditure state code is 641
 - ❖ Stabilization/Ed Jobs considered local support for MOE
 - ❖ Reporting deficits, including budgeted for deficits
 - ❖ \$170 Proration - allocation on income statement
 - ❖ Unusual borrowings for capital projects (ex BAB's)
 - Accounting and federal program treatment




Key Issues for 2011

- Financial statement presentation issues include:
 - ❖ This year and beyond:
 - OPEB Disclosures - MPSERS (GASB 45) watch for non MPSERS plans (might need an actuary)
 - Pollution Remediation Obligations (GASB 49)- closed buildings?
 - Intangibles (GASB 51)- exist? Software purchased or constructed?
 - Derivatives (GASB 53)- exist? Effective hedge?
 - Tax tribunals (GASB 33) - treatment/timing?



Key Issues for 2011

- Financial statement presentation/accounting issues - 1022 manual updates:
 - ❖ GASB 54 acct numbers set for Fund Equity display
 - ❖ Ed Jobs accounting (suffix 0240)
 - ❖ Charging federal funds for unemployment
 - ❖ Cooperative activity funds use fund #27
 - ❖ Recovery of indirect suffix 9990
 - ❖ Categorical aid = restricted aid = likely deferred revenue if not spent!
 - ❖ Others
 - ❖ See 1022 manual





Single Audit Topics

- OMB and the Compliance Supplement
- ARRA Issues
- Audit Quality
- Audit Guide Changes and Impact
- School Audit Manual “Issues”



OMB - 2011 Compliance Supplement

- Draft issued for review and comment
- Very few changes expected to the American Recovery and Reinvestment Act of 2009 (Recovery Act) information
 - ❖ There is an expected addition to clarify 1512 reporting issue
 - ❖ Auditor identification of Recovery Act findings



OMB - 2011 Compliance Supplement

- Changes expected
 - ❖ Federal Funding Accountability and Transparency Act (FFATA) addition to Part 3 (L, "Reporting")
 - ❖ 19 new programs (some Recovery Act specific), 2 deleted programs, 5 new programs added to clusters (some Recovery Act specific)
 - ❖ Numerous changes to existing programs in Part 4, including Student Financial Assistance (SFA)



OMB - 2011 Compliance Supplement

- Changes expected
 - ❖ Transitional guidance for moving from reporting on SF 269, Financial Status Report, and SF 272, Federal Cash Transactions Report, to use of SF-425 Federal Financial Report
 - ❖ Updated, I, "Procurement and Suspension and Debarment" to include additional information on international agreements and the Buy-American Act
 - ❖ Appendix 7, Other OMB Circular A-133 Advisories, updated to include:
 - List of Recovery Act programs not covered by Parts 4 or 5 but that could be subject to a single audit
 - List of Recovery Act programs not subject to single audit



OMB - 2011 Compliance Supplement

- Agency contacts updated in Appendix 3, Federal Agency Contacts for A-133 Audits
 - ❖ New table added to provide contact information by federal program
 - ❖ Up-to-date contact information for each agency Single Audit Coordinator also available at Federal Audit Clearinghouse Web site at:
<https://harvester.census.gov/fac/imagemgmt/NSACCcontactList.pdf>
- Appendix 5, List of Changes for the 2011 Compliance Supplement, is a useful tool that should be used to identify all changes



OMB - A Few More Words on FFATA

- New required federal award reporting process (similar to Recovery Act 1512 reporting) - www.USASpending.gov
- Extends to all non-Recovery Act federal awards (including grants and sub-grants) and federal contracts
 - ❖ Beginning 10/1/2010 prime grant awardees of federal grants of \$25K or more must report "first-tier" subgrants of \$25K or more by end of month following the month subaward or obligation made
 - ❖ Likely NA for K12 unless receive direct funding

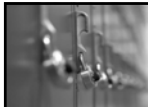
OMB A Few Reminders From Last Year

- Late Filings and Low-Risk Auditee Status
 - ❖ Agencies were instructed last year not to grant any extension requests from grantees
 - ❖ Late filings of Circular A-133 audits in either of the prior two years will preclude low-risk auditee status in the current year
 - ❖ Relates to all Circular A-133 audits
 - ❖ Compliance Supplement explains how auditor determines when Circular A-133 audits filed for previous years
- “Should be” NA for K12

OMB and ARRA

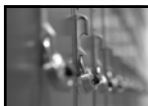

- The Recovery Act (Pub. L. No. 111-5) and the related OMB Guidance continue to have significant implications for audits performed under OMB Circular A-133
- Continuing significant impact expected for 2011 single audits
- However, the good news is that most guidance from previous year is remaining static
- ARRA will continue to raise number of programs tested and level of testing in K12






OMB and ARRA


- Items of importance to auditors and auditees:
 - ❖ Recovery Act Transparency Board (RATB), monitoring activity and looking for fraud, waste, and abuse
 - ❖ Auditees should expect more audit follow-up on audit findings by federal agencies
 - ❖ MDE monitoring is increased due to ARRA
 - ❖ Sampling ARRA in a cluster
 - Must identify ARRA sample items selected
 - Consider segregating the population
 - Segregated tests should consider expenditures, cash management and reporting



OMB and ARRA

- Appendix VII
 - ❖ Major program determination, elimination of extensions and related effect on low-risk auditee status, loan program safe harbor for computing major program threshold
 - ❖ Major program determination guidance requires many Type A programs with Recovery Act expenditures to be audited as major
 - ❖ However, there will be exceptions provided - limited







OMB and ARRA

Effect of Recovery Act Awards on Major Program Determination


- Clusters of programs specifically listed in the Supplement with a new Recovery Act CFDA number added during the current year that also has current year expenditures, should be considered a new program and would not qualify as a low-risk Type A program
 - ❖ Would fail the two year look-back rule
 - ❖ The Research and Development (R&D) and the SFA clusters are not subject to this guidance



OMB and ARRA

Effect of Recovery Act Awards on Major Program Determination

- Even though a Type A program otherwise meets the Circular A-133 criteria as low-risk, any program or cluster (excluding those clusters referred to on previous slide) with expenditures of Recovery Act awards would not qualify as a low-risk Type A
 - ❖ Even a de minimus amount of Recovery Act expenditures would not support identifying the program as low risk.
 - ❖ See next slide for exception.
 - ❖ However, SFA is also excluded from this guidance



OMB and ARRA

Effect of Recovery Act Awards on Major Program Determination


However, the auditor may consider a Type A program or cluster to be low-risk if all of the following conditions are met:

- (1) Program or cluster had ARRA expenditures in the prior audit period;
- (2) Program or cluster was audited as a major program in the prior audit period;
- (3) ARRA expenditures in the current audit period are less than 20% of the total program or cluster expenditures; and
- (4) Auditor has followed Section 520(c) and 525 of OMB Circular A-133 and determined that the program or cluster is otherwise low-risk.

OMB and ARRA



Effect of Recovery Act Awards on Major Program Determination

- All Type B programs and clusters with Recovery Act expenditures to be considered higher risk
- However, not precluded from selecting Type B programs with no Recovery Act expenditures in lieu of a Type B program or cluster with Recovery Act expenditures
 - ❖ Presume a type B program with ARRA funds IS a High Risk B!




OMB and the Supplement

- *Compliance Supplement* - Practice Tips
 - ❖ Compliance Supplement
 - <http://www.omb/circulars>
 - Understand your School District to make the proper modifications to the generic steps presented within the CS
 - ❖ Refrain from using the CS (or the School audit Manual) as a checklist
 - ❖ Use Part 2, Matrix of Compliance Requirements, appropriately
 - ❖ If something is NA - must explain WHY!
 - ❖ Understand the various federal programs to determine whether modifications to the audit approach are necessary
 - ❖ Part 4 cannot be used without Parts 2 and 3 and should not be your defacto audit program
 - ❖ Become familiar with the changes to Part 6 on Internal Control
 - ❖ Read and understand Recovery Act guidance!



OMB and the Supplement

- *Compliance Supplement* - K12 Practice Tips
 - ❖ K12 Focus Areas
 - Crosscutting ARRA testing requirements - built into programs?
 - ARRA substantive requirements:
 - A, "Activities Allowed or Unallowed" limitations on activities funded with ARRA funds.
 - D, "Davis-Bacon Act," coverage under ARRA.
 - I, "Procurement and Suspension and Debarment," ARRA Buy American requirements.
 - N, "Special Tests and Provisions," three special tests for ARRA-funded expenditures.
 - Build America Bonds - not subject to single audit!!!!
 - CFDA 10.553, 10.555, 10.556, and 10.559 - donated commodities now donated foods
 - Consider in major program selection, impacts size of cluster





OMB and the Supplement

- *Compliance Supplement* - Practice Tips
 - ❖ Programs issues/changes impacting K12
 - CFDA 84.010
 - carryover limitation may be waived due to ARRA funding.
 - SD'd pushed to spend ARRA before this September!
 - CFDA 84.394 - Stabilization program, still have to test if Type A, likely tested if type B, and you have low risk A's
 - EdJobs - new program this year. Not Stabilization, and has different requirements. Have to create an audit program! Not in school audit manual!
 - ❖ Double check MP selection at end of job, expenditures may have changed
 - ❖ Programs most likely to be selected for testing:
 - IDEA
 - Title I
 - Ed Jobs (new this year!)
 - Stabilization
 - CNC - if up in rotation!



OMB and the Supplement

- *Compliance Supplement* - Practice Tips
 - ❖ Lesson plans no longer acceptable as replacement for PAR
 - ❖ No more 3 day cash rule, must request after cash is disbursed
 - ❖ Education Jobs program
 - Use funds only for compensation, benefits and other expenses, such as support services, necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary, or secondary educational and related services.
 - Prohibits using for support services or general administrative expenditures (Focus is on services in school buildings)
 - Can't be used for contractual services by individuals if not employees
 - Charter schools will meet exception where they meet common law agency test. Staff will be treated as if they are employees
 - School needs an "opinion" on this



OMB and the Supplement

- *Compliance Supplement* - Practice Tips
 - ❖ School Improvement Grant
 - New Program - Only impact a handful of our districts
 - 28 Schools received award (18 Districts)
 - Funding is for 2011-2013 fiscal years
 - 4 School Improvement Models from which schools had to select which one they would implement
 - Transformation
 - Turnaround
 - Restart
 - Close/Consolidate



OMB and Data Collection Form

- Data Collection Form updated for 2010 - 2012 audits
- 2011 Form SF-SAC will be used for audit periods ending in 2011 and 2012
- New data element on Part III of the SF-SAC Form to identify ARRA expenditures (don't miss this!)
 - ❖ Implication, MUST get ARRA identification right and if ARRA not tested, be ready for a "letter".
- The 2010 Form will allow FAC to collect and store "Y" or "N" to identify ARRA awards to allow for direct searching
- Must still type in "ARRA" in prefix of description



Single Audit Quality

Address federal study findings/recommendations

Work Completed

- SAS No. 117
- New sampling guidance for single audits
- Practice Aids
 - Schedule Of Expenditures Federal Awards
 - Internal Control/Compliance Responsibilities in single audit

Still Active

- Reporting audit findings in a single audit
- Single audit training needs
- Peer review




Single Audit Quality Sampling

- Sampling chapter added to GAS/A-133 Audit Guide in 2009
- Look at your own sampling policies to ensure they comply with chapter requirements
- Make sure dual-purpose samples are actually dual-purpose and documented as such
- Revisit the controls tested for effectiveness,
 - ❖ were they the right controls?
 - ❖ Did you actually test a control or just compliance?
 - ❖ Did you document if you achieved a low level of control risk, since you planned your audit assuming you would?




Single Audit Quality SEFA Tools & Aids

- See chapter 7 of the GAS/A133 Guide
- SEFA Practice Aids (both for the auditor and auditee) issued and available on the GAQC Web site:
 - ❖ Audit Program and Disclosure Checklist for Auditors
 - ❖ Document for auditees to accumulate important information on federal awards and a Disclosure Checklist for Auditees
- SEFA Audit Program will need to be updated for SAS No. 119 in the upcoming year
 - ❖ See 2011 edition of the GAS/A133 Guide for appendix identifying key changes that are expected as a result of SAS No. 119



Single Audit Quality Peer Review

- Peer review has changed - keep in mind:
 - ❖ Interpretation 63-1a issued to ensure A-133 engagement selection (effective for peer reviews commencing on or after September 1, 2009)
 - ❖ Peer review checklists modified to focus peer reviews of single audits on areas known to be problematic
 - ❖ Practice Monitoring Task Force continues to look at ways to further enhance peer review process to enhance single audit quality
 - ❖ Peer review letter has changed - no comment letter and one page "opinion"




Single Audit Quality Peer Review

- Learn more!
 - ❖ Review both Parts A and B of the peer review checklists
 - ❖ Use the peer review checklists as a quality control tool (before, during, and at the completion of your engagements)





New OCR and Desk Review Checklists

- Quality control reviews (OCR) and desk reviews by Inspectors General (IG) are on the rise
- The IG community has recently issued the following checklists for use by federal agencies
 - ❖ Guide for Quality Control Reviews of OMB Circular A-133 Audits
 - ❖ Guide for Desk Reviews of OMB Circular A-133 Audit Reports
- Both can be found at:
<http://www.ignet.gov/pande/audit1.html#reports>
(look under Single Audit Guides)
- Consider using these checklists as an additional QC tool



Other Cautions


- Using the Catalog of Federal Domestic Assistance
 - ❖ Certain problems have been noted with CFDA.gov (e.g., erroneous notations regarding applicability of single audit)
 - ❖ If you have a question about the reliability of CFDA.gov:
 - Check the *Compliance Supplement*
 - Contact the federal agency single audit coordinator



Risk Alert and Audit Manual “Issues”

MDE Updated School Audit Manual!!!!

- Electronic submission - single submission for MDE and Treasury
- Effort Reporting - lesson plans no longer acceptable, will your SD's have findings since PAR's required at least monthly?
- Material violations of budget act=FS finding
- SEFA - do beginning Bals=prior year SEFA?
- State aid reduction replaced by Stabilization should be applied against discretionary payment or other categorical if conditions met
- Stabilization can only be requested after funds were paid out
- EdJobs similar to Stabilization...but not the same! Needs a unique audit program
- Deferred revenue - does a cash management finding exist?
- Consider getting access to MEGS to assist in reviewing documents





Risk Alert and Audit Manual “Issues”

Federal Program issues


- CNC
 - ❖ Some districts received school lunch construction funds is not part of CNC!
 - ❖ Commodities part of program related to (ex the lunch program)
 - ❖ PAL reports still treated the same//get from provider
 - ❖ Food service transfers limited to CY unrestricted indirect costs



Risk Alert and Audit Manual Issues

Federal Program issues



- Spec Ed
 - ❖ MOE calculation - 50% rule, assess 2011 results
 - ❖ Coordinate review SD planning information
 - ❖ Made an assessment last year, compare to final calculation
 - ❖ May need additional computation for 2011
 - ❖ Excess cost requirement - MDE has not provided guidance. If no “exemption” is issued for 2011, might have a finding
- Title I
 - ❖ Supplement vs supplant the key audit issue
 - ❖ Pressure to spend prior to 9/2011. Concern about allowable cost
 - ❖ Auditor review comparability annually!



Risk Alert and Audit Manual Issues

Federal Program issues


- WIA
 - ❖ Look for ARRA funds
 - ❖ Potential type A or high risk type B
- Headstart
 - ❖ Look for ARRA funds
 - ❖ Potential type A or high risk type B




Risk Alert and Audit Manual Issues

Written Procedures

- School districts must have written procedures for the following:
 - ❖ Financial management systems
 - ❖ Payments
 - ❖ Allowable costs
 - ❖ Period of availability
 - ❖ Matching or cost sharing (if applicable)
 - ❖ Program income (if applicable)
 - ❖ Procurement
 - ❖ Equipment and real property (if applicable)
 - ❖ Supplies
 - ❖ Copyrights (if applicable)







Risk Alert and Audit Manual Issues

Written Procedures


- School districts must have written procedures for the following:
 - ❖ Subawards to debarred and suspended parties
 - ❖ Monitoring and reporting program performance
 - ❖ Financial reporting
 - ❖ Retention and access requirements for records
 - ❖ Cash management
 - ❖ Conflict of interest
 - ❖ Payroll
 - ❖ Federal timekeeping
- Policies do not take the place of procedures.
- Auditors should report the lack of applicable written procedures.



Risk Alert and Audit Manual Issues

Other Issues

- Low risk auditee designation, waiver option for lack of knowledge to prepare FS still available
- ARRA monitoring by MDE, if reviewed, review monitoring report
- Program Fiscal Reviews - MDE now focusing on fiscal reviews. SD should look at checklist as a self check of processes in place.



MDE and A-133 Issues

To Do Items

- Review school audit manual - 2 years worth of updates
- Identify federal supplement changes and update audit programs//will be "" shortly"
- Create audit program for EdJobs (not in manual)
- Reconsider ARRA requirements
- Review Audit Risk Alert and make changes to audit programs
- Double check major program selection - mistakes here are potential audit failures
- Document your decisions
- THINK ARRA - IT IMPACTS EVERYTHING!!

