

MSBO Business Manager/CPA Workshop

June 9, 2022

Governmental Audit And Accounting Update

Presented by
Eric Formberg, Retired Partner
Plante Moran

Objectives

- Provide information to help plan 2022 school audits
- Briefing on activities of standard-setting bodies and regulators
- Provide other updates, best practices, and tips
- Increase awareness of the resources for audit quality
- Summary of K12 related issues for 2022

Effect of Current Environment on Governmental Audits

Current Environment - Setting the Stage – School District F/S Audits

COVID-19 impact continues including both accounting and auditing challenges

- Massive infusions of federal funding for many districts
- Increased fraud risks
- School internal control considerations
- Noncompliance with laws/regulations

Revenue recognition considerations related to grant funds

Impact of future funding – state, federal

Accounting estimates

Remote auditing considerations continue



Current Environment - Setting the Stage - Single Audits

Historic federal funding in response to pandemic

- Many new programs – most tested this year!
- Impact on existing programs receiving additional funding
- “Higher risk” classification by OMB impacts major program determination
- Likely testing of “typical” Type A programs this year

New recipients/increase in first-time single audits

Delayed federal guidance resulting in delayed audits =
Workload Compression

Federal focus on oversight, accountability, and transparency

Pressures on pass through entities

⁵ Quality continues to be a focus



Technical Updates

Overview

AICPA

Yellow Book

Single audits

Other federal agency audit requirement updates

SLG F/S audit developments

AICPA EAQ - 2022 Areas of Focus



**Audit evidence,
including remote
auditing**



Risk assessment



Single audit



Auditing estimates



**Emerging attest,
including ESG**

Key Point – every one of these items is significant in a School audit

AICPA Peer Review - Checklists of Interest to Governmental Auditors

Section	Title	Date
20,500	Governmental Audit (F/S audit)	10/2020
20,600	Not for Profit Audit (F/S audit)	10/2021
22,100	Single Audit (Parts A and B)	4/2022
4,400A	2018 Yellow Book - Quality Control	10/2020
22,080	HUD (related to for-profit audits)	10/2021
22,110A	2018 Yellow Book - Audits	10/2020
22,120A	Yellow Book - Attestation Engagements and Reviews	10/2020

Note: Bold – K12 specific application

Use the checklists as part of quality control!

Access [AICPA peer review checklists](#).

Clarified AICPA Standards for Performing and Reporting on Peer Reviews - Changes Coming

Will make peer review guidance easier to read, understand and apply, while not substantially changing what is already required

Most procedures in a system review will not be required to be performed at the firm's office. Extent of procedures and number of office visits will be determined by assessing peer review risk.

A surprise engagement selection is not required but still may be selected based on assessment of peer review risk.

The term *significant deficiencies* is eliminated in fail reports on engagement reviews.

Issued February 2022
and effective for Peer
Reviews beginning on
or after May 1, 2022

Changes will make
the peer review “feel”
a bit different without
changing substance.

AICPA Ethics - Interpretations with Nearing Effective Dates



Loans, Acquisitions, and Other Transactions

- Effective 12/31/22
- [Official release](#)
- [JofA article](#)

Assisting Attest Clients With Implementing Accounting Standards

- ET 1.295.113
- Effective 12/31/22
- [Official release](#)
- [JofA article](#)

Unpaid Fees - ET 1.230.010

- Effective 12/31/22
- [Official release](#)
- [JofA article](#)

Responding to Noncompliance with Laws and Regulations (NOCLAR)

- Effective June 30, 2023
- [Official release](#)
- [JofA article](#)



Information Systems Services - ET 1.295.145 - Effective date now delayed to 1/1/2023

PEEC adopts Temporary Policy statement related to the Uniformed Services and Reemployment Rights act and parallel statutes - [Official release](#); [JofA article](#)

Assisting Attest Clients With Implementing Accounting Standards - ET 1.295.113

AICPA position

- Effective 12/31/22 (6/30/23 for K12)
- Self-review, management participation threats need to be assessed to determine at acceptable level
- Generally acceptable: training, assists identifying elements of FS is impacted, advice and recommendations of application in specific circumstances, perspective on management implementation plan, providing templates, sample JE's
- Generally impairs: leads/supervises implementation, makes decisions on what and how, sets policy/procedures, designs I/V, adjusts information system

Assisting Attest Clients With Implementing Accounting Standards - ET 1.295.113

Implications for serving public schools

- Assistance is still okay!
- Several ways auditor can be involved, so schools SHOULD ASK for help
- Abdication is not acceptable, district MUST take responsibility
- SKE is a MUST for the district.
- District should be able to explain what was changed, why and what the impact was

Responding to Noncompliance with Laws and Regulations (NOCLAR)

AICPA position

- Effective June 30, 2023
- Integrity and Objectivity rule threat
- Guides the auditor in evaluating the implications of the matter and the possible courses of action when responding to it
- Address obligations for confidentiality and the requirements to report under applicable laws and regulations
- Identifies the required assessment of where in the organization to report
- Consideration of need to withdrawal from engagement
- Responsibility focused on the client, those charged with governance, management, others working under direction of client
- Measure – laws/reg with direct/material effect on material amounts and disclosures in FS, Other Laws/Reg w compliance fundamental to operating aspects of client

Responding to Noncompliance with Laws and Regulations (NOCLAR)

Implications for serving public schools

- Areas where NOCLAR might be identified: fraud, money laundering, Securities trading, banking, data protection, tax and pension payments, environmental protection, public health/safety
- Could consequences have a material effect (creates serious adverse consequences) on FS, including users of FS?
- Board and Administration are responsible to operate in accordance with laws and regs.
- If become aware, auditor must understand the matter, evaluate, document, communicate with appropriate level within the District, and other regulatory bodies in certain circumstances.
- School Audit Manual outlines MDE communication requirements

Information Systems Services - ET 1.295.145

AICPA position

- Effective date now delayed to 1/1/2023 (6/30.23 for Schools)
- Limits IT services that can be provided by a CPA firm for a client or affiliate – focus is on Financial Information Systems (FIS)
- Commercial off the shelf software (COTS) does not impact independence unless firm was the vendor who designed, developed, implemented
- If the firm designed/developed software independence threat exists
- Requires carefully application of non audit services independence assessments

Information Systems Services - ET 1.295.145

Implications for serving public schools

- Schools can receive non audit IT services from audit firms
- Nature of service must be assessed to determine if independence threat exists
- COTS products generally do not create a threat, including installation
- If design/development I included then treat must be assessed
- Roles/responsibilities carefully outlined in engagement letter

AICPA Ethics – SLG Affiliates

Effective for periods beginning after 12/15/21 (July 1, 2022 for Schools - date reflects a one-year delay due to the pandemic)

Access [Official Release](#)

[Implementation Guide](#) recently issued that includes three tools as follows:

- An [affiliates survey tool](#) for identifying which entities are affiliates.
- An [investments survey tool](#) for identifying whether an investment is an affiliate.
- An [excel tool](#) that is intended to allow you to evaluate multiple entities or investments.



Who is an Affiliate of the District?

4 Types of entities Can be an Affiliate. If an affiliate exists independence assessment must be applied

Type 1 –must have all of the following:

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

Type 2–must have all of the following:

- Included in your client's financial statements
- Does refer to the other auditor
- Material to your client AND
- Client has more than minimal influence over the entity's accounting or financial reporting process

Who is an Affiliate of the District?

Type 3 -must have all of the following (likely to be rare):

- Excluded from client's financial statements, but required by GAAP to be included
- Material to the client AND
- Client has more than minimal influence

Type 4

- Investments held by client (investor)
- Client can control UNLESS the investment is trivial or clearly inconsequential to your client's financial statements, or
- Client has significance influence AND the investment is material to the financial statements as a whole

Who is an Affiliate of the District?

Some “more common” types of entities

- Funds
- Component units
- Departments
- Agencies
- Programs
- Fiduciary activities
- Employee benefit plans
- Certain investments (investment pools?)

Implications for firms

do your clients have any affiliates?

Are you doing work for any of the affiliates?

Does the firm have a workaid, completed in planning, documenting assessment?

Must be independent of all affiliates!

AICPA Ethics - Other Resources

Requirements

- Access the AICPA [Professional Code of Conduct](#)

FAQs

- [General Ethics](#) (3/2022)
 - Answers to common member inquiries provided by AICPA Ethics team
- [Nonattest Services](#) (10/2021)
 - Topics cover hosting and providing attest clients with accounting/other records prepared by the auditor

Other resources

- “Ethically Speaking” Podcasts - recent podcasts on auditing government entities; independence and nonattest services; and more - [Access podcasts](#)
- AICPA Practice Aid - [Independence Considerations for Information Services Practice Aid](#)

AICPA ASB - Recent Auditing Standards

SAS No.	Topic	AU- C Section Affected	Issued
<u>142</u> *	Audit Evidence	500 and various other AU-Cs	July 2020
<u>143</u> **	Auditing Accounting Estimates and Related Disclosures	540 and various other AU-Cs	July 2020
<u>144</u> **	Use of Specialists and Use of Pricing Information	501, 540, and 620	June 2021
<u>145</u> **	Risk Assessment	315 and various other AU-Cs	October 2021
146	Quality Management GAAS engagements, 12.15.25 effective	Transition from policy to risk based approach	May 2022

*Effective for audits of financial statements for periods ending on or after December 15, 2022; (June 30, 2023 for Public Schools)

** Effective for audits of financial statements for periods ending on or after December 15, 2023. (June 30, 2024 for Public Schools)

Early implementation is permitted.



SAS 142, *Audit Evidence*



Old objective:

“The objective of the auditor is to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence...”



New objective:

“The objective of the auditor is to evaluate information to be used as audit evidence, including the results of audit procedures, to inform the auditor’s overall conclusion about whether sufficient appropriate audit evidence has been obtained.”

Audit Evidence
“Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence is information to which audit procedures have been applied and consists of information that corroborates or contradicts assertions in the financial statements.”

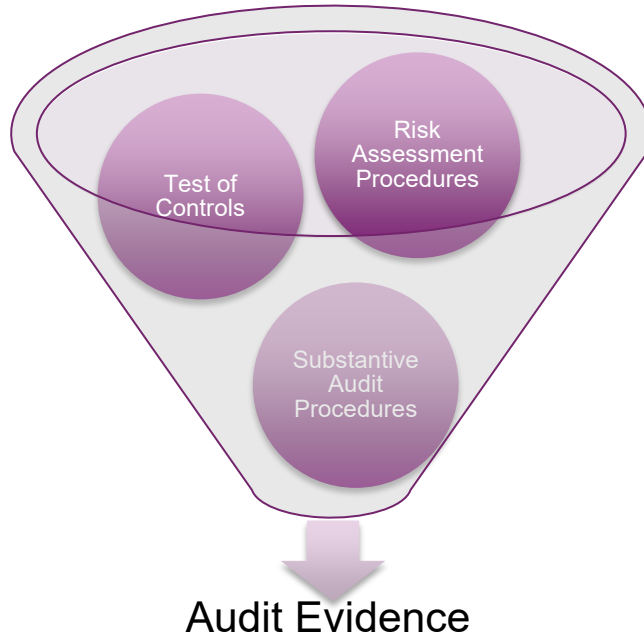
SAS 142, *Audit Evidence*

Develops a framework for evaluating attributes of audit evidence to evaluate

- Sufficiency and
- Appropriateness
 - relevance and reliability (including its source)
- Whether the information corroborates or contradicts management's assertions
- Whether the information is sufficiently precise and detailed

Sufficiency and appropriateness together affect the persuasiveness of audit evidence

SAS 142, *Audit Evidence* - Audit Procedures



“The auditor may use automated tools and techniques to process, organize, structure, or present data in a given context in order to generate useful information that can be used as audit evidence.”

“An auditor may use automated tools and techniques to perform both a risk assessment procedure and a substantive procedure concurrently.”

AICPA ASB - NOCLAR Standard will be issued June 22!

Client's Noncompliance with Laws and Regulations (NOCLAR)

- Addresses predecessor/successor communication around NOCLAR
- SAS No. 146 will be issued in early June 2022 in conjunction with changes to Code of Professional Conduct and effective for audits of financial statements for **periods ending on or after December 15, 2022. (June 30, 2023 for Schools)**

New Requirements

- Auditor required to inquire of predecessor regarding identified or suspected fraud and matters involving NOCLAR
- Predecessor auditor required to respond fully and timely and to indicate if the response is limited

Auditor's Reporting Suite - Effective for Periods Ending on or After 12/31/21 (June 30, 2022 for Schools)

SAS No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements

SAS No. 137, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports

SAS No. 138, Amendments to the Description of the Concept of Materiality

SAS No. 139, Amendments to AU-C Sections 800, 805, 810 to Incorporate Auditor Reporting Changes from SAS No. 134

SAS No. 140, Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes from SAS Nos. 134 and 137

SAS No. 141, Amendments to the Effective Dates of SAS Nos. 134-137

2021 SLG, GAS-SA, and NFP Guides were updated completely for SASs 134 - 140, including updated report illustrations

A sampling of updated reports can also be found in the [GAQC Illustrative Report Resource Center](#) (single audit, Yellow Book and F/S reports).

AICPA ASB – Significant report changes

Requires specific ordering of sections (opinion – first paragraph!, basis for opinion, responsibilities of management for the f/s, auditor's responsibilities for the audit of the f/s)

Expands description of auditor and management responsibilities

Requires separate sections for RSI, SI, OI

Clarifies scope of OI and amends auditor's responsibilities and reporting for OI

Revises the definition of materiality (impacts audit documentation)

Enhances auditor reporting relating to going concern (separate section for going concern when substantial doubt exists)

Allows for Key Audit Matters (only if engaged to include, rare in schools)

Impacts all types of reporting including GAAP F/S reports; special-purpose framework reports, accounts/elements reports, compliance opinions, etc.

AICPA ASB - Changes to AU-C 935, *Compliance Audits (SAS 140)*

- Updates report elements and illustrative reports to be consistent with new reporting standards
 - Single audit reporting is changing!
- Amends definition of material noncompliance to align with SAS 138 (impacts audit documentation)
- Updates for consistency with the UG, the OMB *Compliance Supplement*, and the 2018 YB
- Updates to Appendix, “AU-C Sections That Are Not Applicable to Compliance Audits



Statement on
Auditing Standards

April 2020
140

Issued by the Auditing Standards Board

Amendments to AU-C Sections 725, 730, 930, 935, and 940 to
Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137

(Amends Statements on Auditing Standards [SAS])

- No. 117, *Compliance Audits*, as amended [AICPA, Professional Standards, AU-C sec. 935]
- No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole*, as amended [AICPA, Professional Standards, AU-C sec. 725]
- No. 120, *Required Supplementary Information*, as amended [AICPA, Professional Standards, AU-C sec. 730]
- No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended
 - Section 920, *Letters for Underwriters and Certain Other Requesting Parties* [AICPA, Professional Standards, AU-C sec. 920]
 - Section 930, *Interim Financial Information* [AICPA, Professional Standards, AU-C sec. 930]
- No. 124, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country* [AICPA, Professional Standards, AU-C sec. 910]
- No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, as amended [AICPA, Professional Standards, AU-C sec. 940]
- No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended
 - Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* [AICPA, Professional Standards, AU-C sec. 706]
- No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as amended [AICPA, Professional Standards, AU-C sec. 703]

AICPA ASB – Other impacts of SASs 134 - 140

Changes required to engagement letters

- Management expectation regarding providing access to all information

Emphasis on disclosure – required audit effort on disclosures

Heightening the auditor's focus on related parties and significant unusual transactions

Other Information changes – clarifies auditor required to perform procedures and remain alert for information that is misleading (ex content within annual reports)

Action Items –

- Update report templates, ensure all elements are included.
- insert changes into audit products
- Plan for communication of change in reporting to those charged w Governance
- Adjust audit tests to conform to content changes

AICPA ASB - Recent Attestation Standards

SSAE No.	Topic	AT-C Section Affected	Issued
<u>19</u> [*]	Agreed-Upon Procedures Engagements (includes changes to reporting)	215, 105	December 2019
<u>20</u> ^{**}	Materiality	205, 210	September 2020
<u>21</u> ^{***}	Direct Examination Engagements	206, 105	September 2020
<u>22</u> ^{***}	Review Engagements	210	December 2020

***Effective for reports dated on or after 7/15/21.**

****Effective for examination and review reports dated on or after 12/15/21.**

*****Effective for reports dated on or after 6/15/22.**



ASB Proposed Standards

**Special Considerations -
Audits of Group Financial
Statements (Including the
Work of Component
Auditors and Audits of
Referred-to Audits)**

**Amendments to
AU-C Section 935,
Compliance Audits**

**Proposed Statements on
Quality Management
Standards**

Access the proposals at:

<https://www.aicpa.org/research/exposedrafts/ccountingandauditing.html>

Yellow Book - General Reminders



Understand when engagements are subject to Yellow Book(e.g., *single audit, certain for-profit audits, CSLFRF (Coronavirus State and Local Fiscal Recovery Funds) compliance examination*)



Ensure the engagement team has the right experience, training, and resources



Ensure that engagement teams meet the *Government Auditing Standards* continuing professional education requirements



Follow Yellow Book independence rules for nonaudit services



Have a peer review and make the peer review report public

Reminder – all Mi schools are required to be audited under yellow Book

Yellow Book Independence Reminders

School Districts may ask for help they have not asked for before due to pandemic (e.g., help with applications, how do address new federal funding, assistance with financial statement preparation, etc.)

Ensure appropriate consideration of AICPA and GAO independence rules relevant to the performance of nonaudit services

- Remember clients must have skills, knowledge, and experience (a hurdle test)

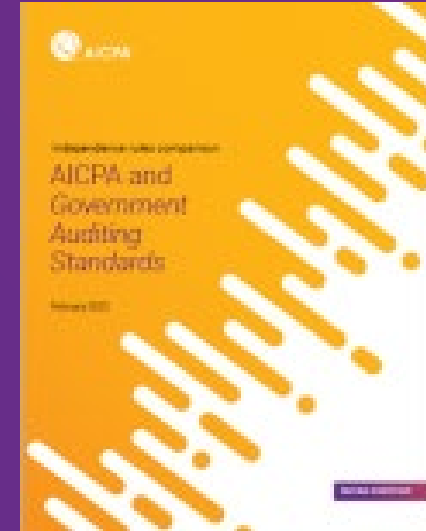
Document independence assessments

Utilize engagement letters for non audit services

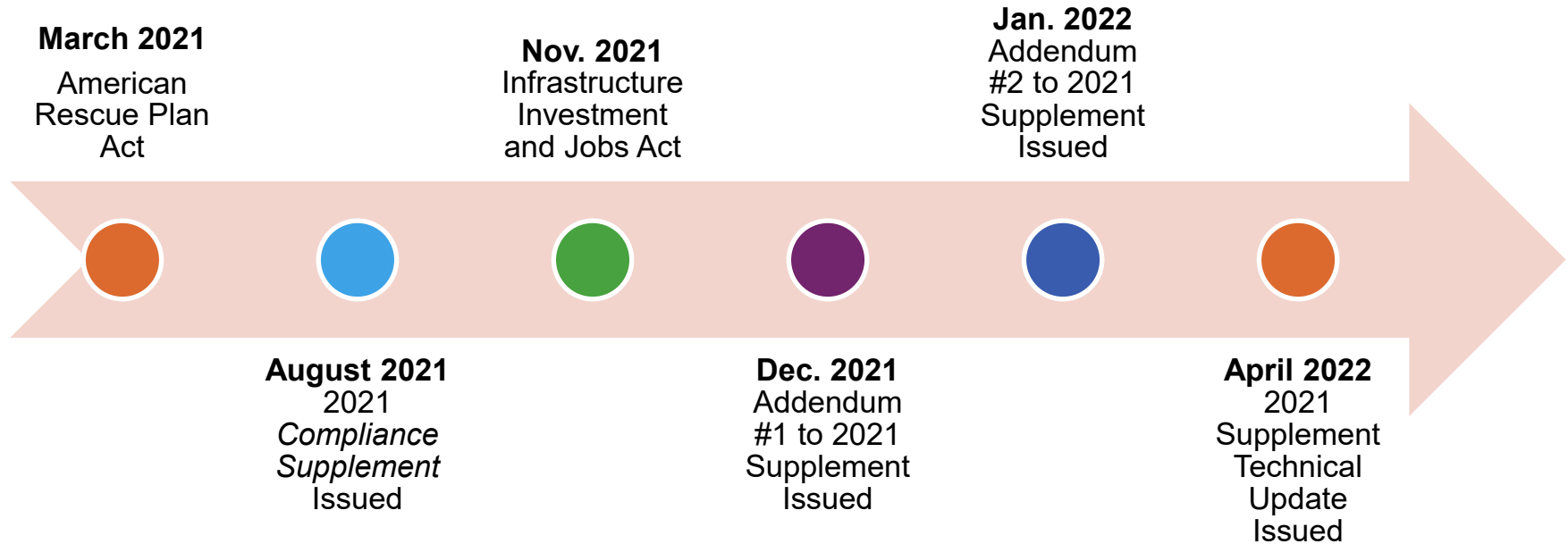
Yellow Book Independence Resource

AICPA Professional Ethics team issued, *AICPA and Government Auditing Standards Independence Rules Comparison*

- Assists auditors in complying with both sets of independence standards
- Provides a high-level overview of requirements, detailed comparisons of the conceptual framework approach and nonattest/nonaudit services topics, and comparison tables
- Includes detailed references to each set of standards
- Access the document at:
<https://us.aicpa.org/content/dam/aicpa/interestareas/professionalethics/resources/tools/downloadabledocuments/56175896-gaocomparison2022.pdf>,



Recent Key Events Impacting Single Audits Over Last Year



Now add 2022 OMB Compliance Supplement...issued May 22!
No addendums expected to 22 supplement!

Significant Stress to the “Single Audit” System Continues

COVID-19 impact

- Historic amounts of federal funding both through new and existing federal programs
- Thousands of first-time single audit recipients
- Type A programs for first time for some school districts

Infrastructure Investment and Jobs Act (IIJA) Impact

- Adds billions more in federal funding that will become subject to single audit
- Unlike COVID-19 funding, there will be a slower distribution timeframe
- Not included in 2022 compliance supplement

Challenges

- Recipients
- Auditors
- Adding requirements to for-profit entities (e.g., Provider Relief Funds (PRF), Shuttered Venue Operators Grant (SVOG))

No More Single Audit Submission Extensions

OMB has stated there will be no additional single audit submission extensions

- AICPA strongly advocated extensions be extended through 12/31/21 year-ends

6-month extensions expired for years ended 6/30/21

- 6/30/21 single audits must be submitted by 9/30/22
- 6/30/22 single audits must be submitted by 9/30/23
 - MDE School District submission deadlines have not changed

BUT... June 30, 2022 school single audits cannot submit DCF until 10.1.22, due to shift to GSA



2021 OMB Compliance Supplement – for reference

Original Supplement - Issued in August 2021

- Normal updates; incorporated new Uniform Guidance; expands number of higher risk programs

Addendum 1 - Issued in December 2021

- Treasury 21.027—The Coronavirus State and Local Fiscal Recovery Fund (CSLFRF)
- Education 84.425—Education Stabilization Fund (ESF) update

Addendum 2 - Issued on January 19, 2022

- Includes 4 new programs and 3 existing programs with changes due to American Rescue Plan Act implications

Technical Update – Issued April 8, 2022

- Makes modifications to CSLFRF and PRF programs

Access [original Supplement](#); Access [Supplement Addenda and Technical Update](#)

2022 Compliance Supplement

Issued May 2022!

Several key new programs

- For example, ERA, SVOG, Homeowners Assistance Fund, Coronavirus Capital Projects, **Emergency Connectivity Fund**, Shuttered Venue Operations

Will continue to identify higher risk programs

- Some tweaks to the table in Appendix IV (e.g., CRF comes off, **CSLFRF comes on, ESF updates, ARP programs** expected to be specifically identified instead of auditors being pointed to a listing of ARP programs)

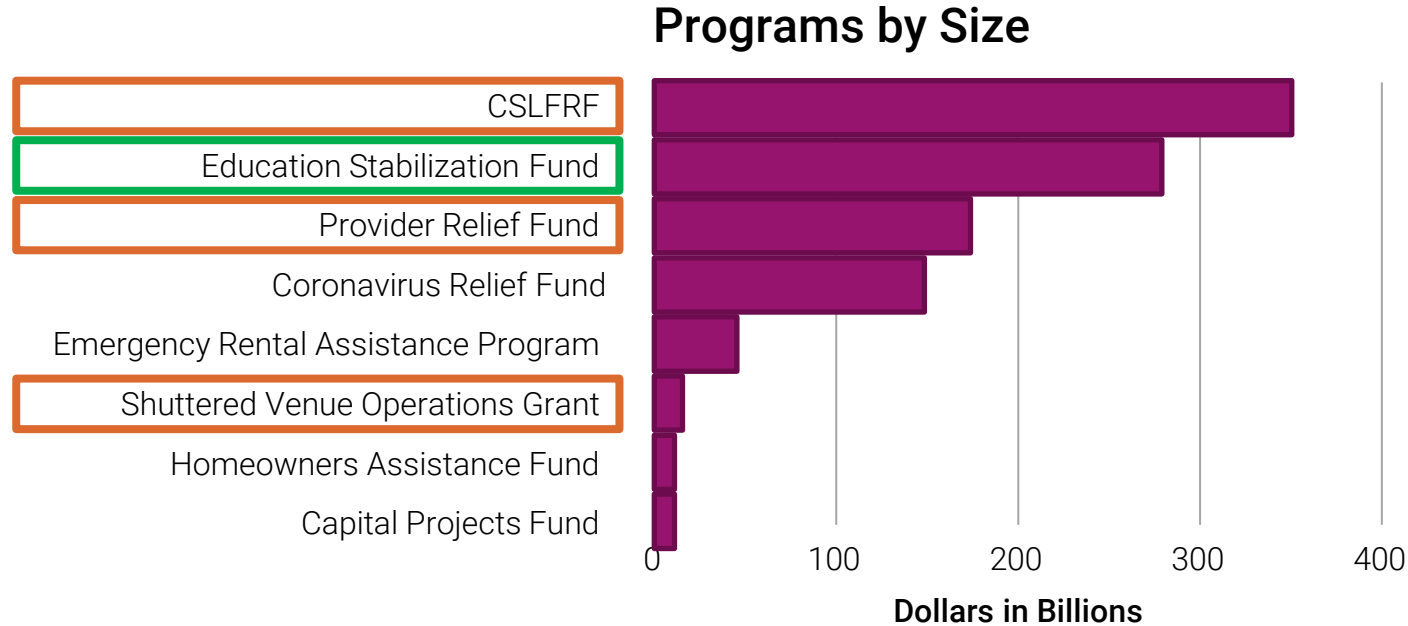
Changes to pick 6 identified requirements – double check matrix

No Addendum expected for 2022

- Impact of IIJA expected to be addressed in the 2023 Supplement



Federal Pandemic Programs Having Significant Grants Management Focus



CSLFRF (expected limited school impact, unless government pass through, ex ARP GSRP AL 21.027)

Program section included in Addendum #1 to the 2021 Supplement (issued in 12/2021), built into 2022 CS

OMB issued a technical update to the 2021 CSLFRF section in 4/2022

Introduces an alternative compliance examination engagement for certain eligible recipients

- Watch for a future GAQC Practice Aid

Considered “higher risk” in 2022 Supplement

[GAQC Alert #439](#) has additional details

DEPARTMENT OF THE TREASURY

ASSISTANCE LISTING 21.027 CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS

I. PROGRAM OBJECTIVES

The purpose of the Coronavirus State and Local Fiscal Recovery Funds ("the Fund") is to provide direct payments to States (defined to include the District of Columbia), U.S. Territories (defined to include Puerto Rico, U.S. Virgin Islands, Guam, Northern Mariana Islands, and American Samoa), Tribal governments, Metropolitan cities, Counties, and (through States) Nonentitlement units of local government (collectively the “eligible entities”), to:

1. Respond to the public health emergency, COVID-19 or its negative economic impacts, including providing assistance to households, small businesses, nonprofits, and impacted industries, such as tourism, travel, and hospitality;
2. Respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of eligible employers that have eligible workers who are performing essential work, or by providing grants to eligible entities who perform essential work;
3. Provide government services, to the extent COVID-19 caused a reduction in revenues collected in the most recent full fiscal year of the State, Territory, Tribal

ESF (IMPORTANT!!!!!!)

Considered “higher risk” again in 2022 Supplement

New guidance for several new subprograms in the 2022 Supplement

Remember! Rules for this program differ with each new tranche of funding (e.g., HEERF 2 allows lost revenue and retroactive application)

Education’s use of one Assistance Listing number with alpha characters challenging

- Considered one program! (not a cluster)
- SEFA implications

Focus items

how should audit programs be updated in 2022 for ESF programs?

How should programs be reported on the SEFA

Child Nutrition Cluster

- Cluster updates
 - Adds fresh fruit and vegetable program (FFVP) 10.582
 - Removes Child nutrition discretionary Grants limited Availability Program 10.579
 - Program could operate under “normal” rules or under SSO waiver
- Audit Implications
 - Is it a significant change to the cluster? If yes, impact on MP selection
 - Are all CNC program activities identified, included in cluster for testing?
 - Audit tests adjusted to address program, especially if operating under normal rules
- Reporting Implications
 - Correct program identification
 - Correct cluster identification

Emergency Connectivity Fund (ECF)– ALN #32.009

- “Similar” to Universal Service Fund but subject to Single Audit
- Code as federal and include on SEFA!
- Period of performance: 7/1/21 – 6/30/22 (school fiscal year!)
 - Note application period extended past 7.1.21, but expenditures within period of performance are allowable
- If a new Type A for your District, you will be tested
- If a Type B, is it a High Risk B? Since program is new, and labeled "higher risk" in compliance supplement, carefully evaluate.
- No “netting” – record as revenue and expenditure, even if payments made directly to vendor
- Grant Purpose: Meet remote learning needs of students, school staff, library patrons who lack access to connected devices, broadband connections for remote learning during COVID-19 emergency period
- Grant objectives - Close the homework gap through purchase eligible equipment, advanced telecommunications, and information services for use by students, school staff

Federal and State Grant Funding Comments

- See separate session on specific federal and state grants management and auditing updates
- Key considerations
 - Several CNC updates including emergency operating reimbursement program, supply chain assistance, Pandemic Electronic Benefit Transfer (federal assistance but not in CNC), Excess fund balance, compliance category changes
 - FEMA funding and implications
 - ARP GSRP
 - Child Care Sustainability Grant
 - Pandemic EBT local costs grant (AL 10.649)
 - ESSER
 - Innovative practices
 - Section 31o

Other Single Audit Developments - SEFA Challenges

Out-of-Period issues

- CRF/ESF allowing institutions to go back to fiscal 2020 and grab expenditures/lost revenue
- ARP ESF funds similar to other ESF but more “strings”

Determining completeness - certain COVID funding may be handled by departments unaccustomed to federal funding (e.g., 93.461 and 32.009)

Identification of COVID-19 funding on face of SEFA

Determining when awards exist

Consider This

Do not overlook the GAQC nonauthoritative [Guidance on the Reporting of Certain COVID-19 Awards on an Accrual Basis SEFA](#)

Along with MDE 1022 pandemic funding guidance

Other Single Audit Developments - FEMA “Swaps”

FEMA may replace certain expenditures already charged to another federal program in the year after those expenditures already reported on SEFA

For Schools encountering this:

- Amending cost reports
- Updating documentation
- Updating reporting on SEFA
 - Consider using adjustments and transfer and related footnote to highlight impact

Other Single Audit Developments - Responding to Letters from Federal Agencies

Increase in auditor receiving letters and other requests from federal agencies

- Letters from Education on the SFA program
- Letters from HHS on situations where PRF was reported on SEFAs prior to HHS guidance aligning such reporting to report submissions to the PRF Reporting Portal

When requests involve access to audit documentation, refer to Interpretation No. 1, [Providing Access to or Copies of Audit Documentation to a Regulator](#) (AU-C sec. 9230 par. .01-.15),

Consult within firm/organization to determine protocols for such requests

As MDE increase monitoring, such requests are likely to increase.

- Does the firm have a process to manage requests?
- Determine when a request meets standards
- Plan for providing information
- Process for District notification

Other Single Audit Developments - New/Less Experienced Auditors and Auditees

Many more auditees new to single audit

Many new “single auditors” too

Most Michigan Schools already receive Single Audit

- Some have not, and now will likely have a single audit for first time

Some auditors may not have performed school single audits for these types of schools

High risk of

- Audit errors
- Lack of capacity to perform

“Tips” checklist tools issued by GAQC for auditors and organizations newer to single audit (all open to the public)

- [Single audit tips for auditors](#)
- [Tips for organizations subject to single audit requirements](#)

Federal Audit Clearinghouse - Changes Coming!

The provider of the FAC will change from Census to GSA on October 1, 2022

Single audits with a fiscal period ending in 2021 (or earlier) should be submitted to Census FAC

- Census will continue to receive and process single audits for a limited period after September 30, 2022, allowing auditees an opportunity to complete remaining in-process submissions.

Single audits with a fiscal period ending in 2022 will be submitted to the new GSA FAC beginning on October 1, 2022.

GAQC has requested that OMB issue guidance on late submissions that may result from the October launch date of the new FAC

THIS WILL BE A BIG DEAL FOR SCHOOL DISTRICTS.
REPORTS WILL HAVE TO BE HELD UNTIL AFTER 10.1.22
(ASSUMING THE CUT OVER IS SMOOTH!)

Auditors and auditees with earlier 2022 fiscal year end single audits should develop policies to ensure submission occurs once the new FAC opens

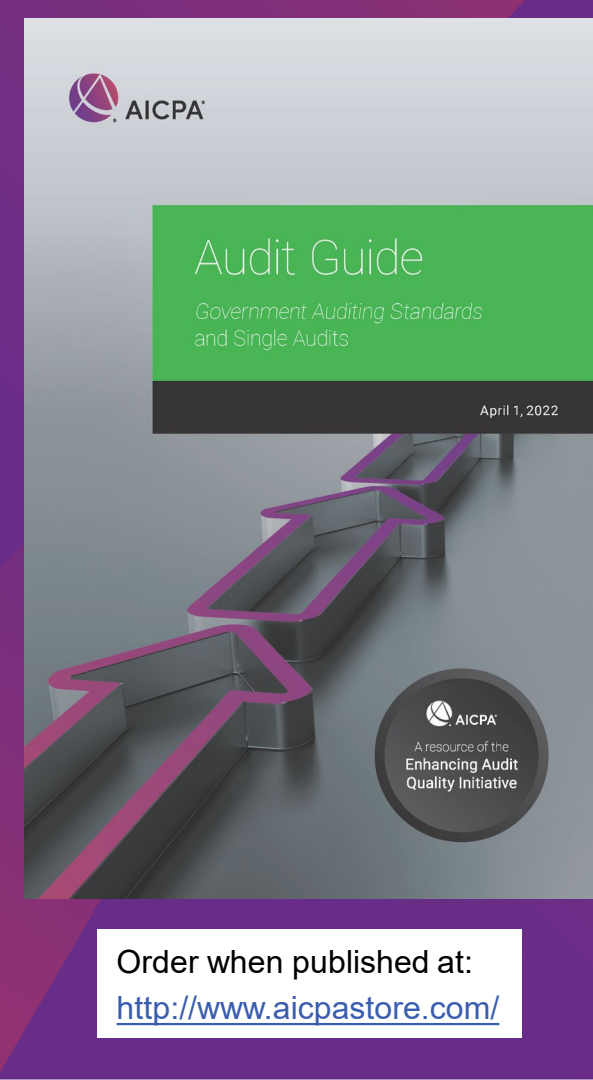
AICPA Audit Guide, *Government Auditing Standards and Single Audits*

Key resource for auditors; you should be using this Guide!

2022 update expected in eBook and paperback this summer

Key changes:

- Dual guidance included to introduce SAS Nos. 142, 143 and 145
- Includes new illustrative auditor's report that includes a disclaimer of opinion on compliance



Order when published at:

<http://www.aicpastore.com/>

Group Discussion – What single audit concerns are top of mind coming into the 2022 audit?



F/S Audit Developments for School Districts

COVID-19 Impact Continues for Schools

Remote audit
issues

Engagement
acceptance

Risk
assessment
and response

Continued
accounting
challenges

Fraud

Internal control

Noncompliance
with laws and
regulations

AICPA COVID Accounting-Related TQAs

TQA Section 5270.01, *Recipient Accounting for Shuttered Venue Operators Grants and Restaurant Revitalization Fund Grants Received Under the Small Business Administration COVID-19 Relief Programs*

TQA Section 6400.64-.70, *CARES Act Provisions Specific to Health Care Entities*

TQA Section 6400.71, *Accounting by a Recipient Entity for Vaccines or Other Pharmaceuticals, Medical Supplies, or Equipment Received for Distribution to Specified Patients*



Access [AICPA TQAs](#)

Continued Accounting Challenges

[GASB TB 2020-1](#), *Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases*, addresses:

- Revenue recognition
 - CRF and revenue loss related programs
- Subsequent events
 - Impact of CARES Act amendments after fieldwork but before issuance
- PPP loan recognition
 - Implications of loan forgiveness and reporting
- Operating vs. nonoperating
 - ESF recognition in enterprise fund/business type activity
- Special or extraordinary items
 - Actions and related costs responding to pandemic are not considered special or extraordinary!

Also see the following resources:

[GASB Toolbox](#)

AICPA
[pandemic-related FAQs](#) for
SLG F/S
accounting and
auditing matters

GASB Standards Tracker

Fiscal years ending 12/31/2021

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*

Fiscal years ending 6/30/2022

- **GASB Statement No. 87, Leases**
- GASB Statement No. 92, *Omnibus 2020*, paragraphs 6-10 and 12
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, paragraphs 13 & 14
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Compensation Plans*, except paragraphs 4 and 5

GASB Standards Tracker

Fiscal years ending 12/31/2022

- GASB Statement No. 91, *Conduit Debt Obligations*

Fiscal years ending 6/30/2023

- **GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***
- **GASB Statement No. 96, *Subscription-Based Information Technology Arrangement***

Reporting periods ending 6/30/2024

- GASB Statement No. 99, *Omnibus 2022*

GASB Upcoming Issuances

2022

- Final: Disclosure Framework
- Final: Compensated Absences
- Final: Prior Period Adjustments, Accounting Changes, and Error Corrections
- ED: Risk and Uncertainties Disclosures
- ED: Implementation Guidance - Update

2023

- **Final: Recognition**
- **Final: Financial Reporting Model**
- ED: Classifications of Nonfinancial Assets

2025

- **ED: Revenue and Expense Recognition**
- ED: Going Concern Uncertainties and Severe Financial Stress

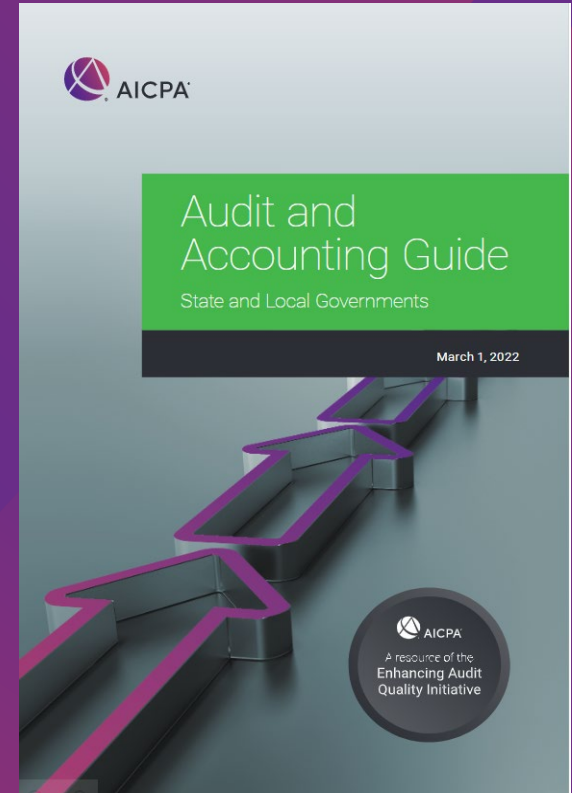
AICPA Audit and Accounting Guide, *State and Local Governments*

Key resource for auditors of SLGs; you should be using this Guide!

New edition expected in late Summer 2022

Key changes made:

- Introduces SAS No. 142, *Audit Evidence*
- New chapter on leases (see next slide)
- Newly effective GASB standards



Order when published at:

<http://www.aicpastore.com/>

AICPA SLG Guide New Upcoming Lease Chapter Overview

Will include accounting guidance for both lessees and lessors

Will include audit guidance primarily focused on lessees

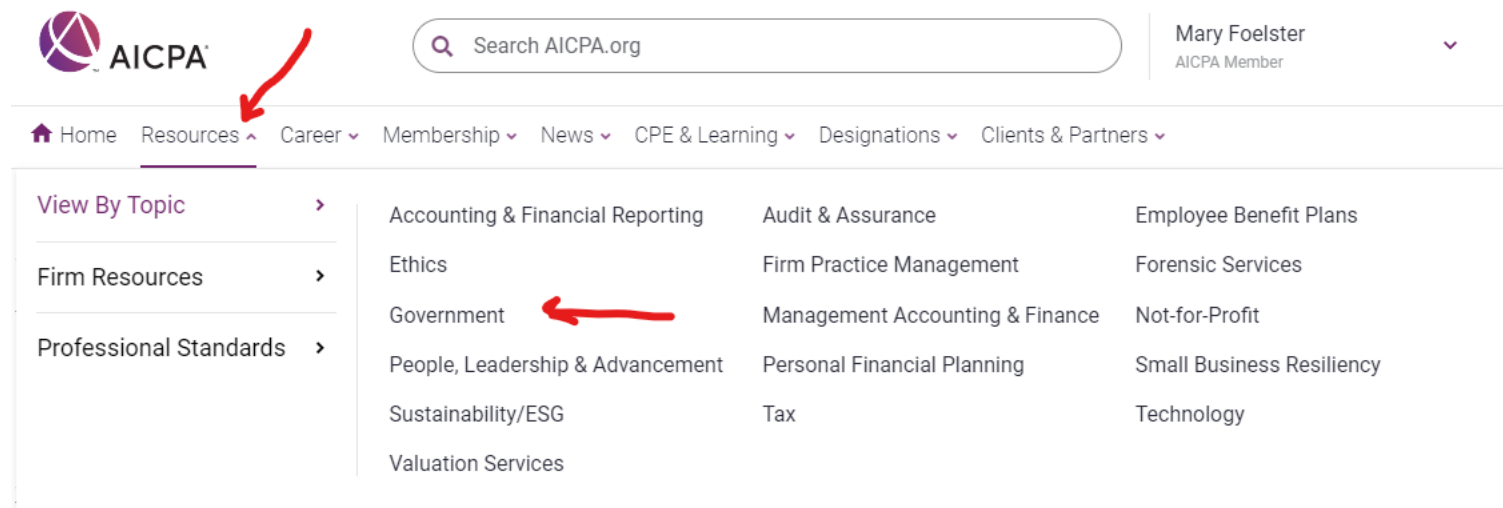
Audit guidance for lessees can be adapted as appropriate for lessors



School Impact?
Much effort
potentially little substantive impact


Navigating the new GAQC Web site

Transitioning GAQC Over to the New AICPA Web Site (www.aicpa.org)



If you type www.aicpa.org/GAQC into your browser, it will take you to the new “Government” page.

Top of Web Page Includes our “Spotlight” Items





LOCKED

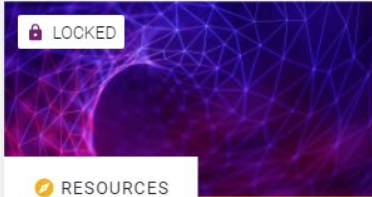
RESOURCES

2021 OMB Compliance Supplement Resource Center

Jan 25, 2022

1 min read







LOCKED


RESOURCES

Governmental illustrative auditor's reports

Jan 25, 2022

2 min read





LOCKED



177.9 KB

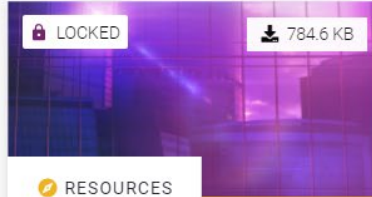
RESOURCES

GAQC Archived COVID-19 Resources

Mar 29, 2022

177.9 KB Download





LOCKED



784.6 KB


RESOURCES

Auditing for-profit entities with PRF and other HHS program funding

Feb 17, 2022

784.6 KB Download








GAQC mission and membership requir...

Dec 10, 2017

27 min read








GAQC firm and State Audit organization ...

Apr 04, 2022

1.7 MB Download








LOCKED

Single audit tips for auditors

Feb 17, 2022

608.6 KB Download







LOCKED

Tips for organizations subje...

Feb 17, 2022

541.6 KB Download



Accessing GAQC Content (Middle of the Page)

Just for GAQC Firm/SAO Members



Web Events

View no-CPE archives of GAQC web events



COVID-19

Pandemic-related tools and guidance developed by the GAQC



GAQC Alerts

Timely news of developments affecting governmental audits

Already an GAQC Firm/SAO member? Log in with your AICPA.org account to access your content.

Log in



OR Lea

Your GAQC Firm/SAO Benefits



FIRM MEMBER EXCLUSIVE



Web Events

View no-CPE archives of GAQC web events



COVID-19

Pandemic-related tools and guidance developed by the GAQC



GAQC Alerts

Timely news of developments affecting governmental audits



Discounts

Obtain GAQC member discounts on AICPA conferences & products



SA Tools

GAQC resources to assist with your single audits



F/T Resources

GAQC state & local government financial statement resources



Member Logos

For showcasing your GAQC membership



Contracting

Contracting recommendations for government audit services



COVID-19 Prog

GAQC summary of UG applicability for COVID-19-related programs

GAQC and Other Resources

GAQC Web site (www.aicpa.org/GAQC)

Key areas to check out and/or bookmark:

- [GAQC COVID-19 Resources](#)
- [Archived GAQC Alerts](#)
- [Archived GAQC Web events](#)
- [Illustrative Auditor's Reports](#)
- [Single Audit Resources](#)



Other GAQC Resources

[Guidance on the Reporting of Certain COVID-19 Awards on an Accrual Basis SEFA](#)

[Illustrative Auditors Reports](#)

- Single Audit, Yellow Book, SLG, HUD

[Single Audit Tips for Auditors](#)

[Tips for Organizations Subject to Single Audit Requirements](#)

[2021 Compliance Supplement Resource Center](#)

[Member logos](#)

Other AICPA resources

COVID-19 Resource Center

- Includes [audit and accounting resources](#)

Audit and Assurance Web page

A&A Technical Hotline (877) 242-7212 -
techinquiry@aicpa.org

Ethics Division Web Page (includes
AICPA Code)

- Ethics Hotline - ethics@aicpa.org or
888.777.7077

Not-for-Profit Certificate Program - On-
demand learning program

Not-for-Profit Section - For individuals
interested in NFP A&A

EAQ Web site

Peer Review Web page

MDE/K12 Accounting and Auditing Key Matters

Accounting

Leases – observations

- In summary, most leases will now fall under a single model approach similar to financing an asset (“right to use asset”)
 - Capital outlay, principal, interest, governmentwide assets & liabilities
 - Exceptions –12 months or less, and/or contracts that transfer ownership
- Guidance and numerous new account codes added to the accounting manual Spring 22
- GASB #87 impacts lessor arrangements as well –new codes and guidance

Accounting

Leases – observations (cont) - Sample Entries from MDE

Government-wide - Initial Journal Entry	Debit	Credit
Right to use asset - Building	122,296	
Right to use asset - Equipment	547,011	
Lease liability		669,307

To record right to use asset and related liability

Governmental Fund - Intitial Journal Entry	Debit	Credit
Capital Outlay	669,307	
Lease Proceeds		669,307

To record first payment on long-term lease

Accounting

Leases – observations (cont) - Sample Entries from MDE

Governmental Fund - Year 1 Entry	Debit	Credit
Principal - Lease Payment	264,451	
Interest Expense	10,415	
Cash		274,866

To record first payment on long-term lease

Government-wide - Year 1 Journal Entry	Debit	Credit
Amortization expense - Right to use asset	290,976	
Accumulated amortization - Right to use asset		290,976

To record 1st years amortization of the right to use asset

Lease liability	264,451	
Interest Expense	10,415	
Cash		274,866

To record first payment on long-term lease

Accounting

Leases – observations (cont) - Sample Entries from MDE

Accrual accounting: The first year's journal entries would be:

1/1/year 1	Right-of-use asset	27,232	
	Lease liability		27,232
	<i>To record the right-of-use asset and related lease liability.</i>		
12/31/year 1	Amortization expense: Right-of-use asset	9,077	
	Accumulated amortization: Right-of-use asset		9,077
	<i>To record the first year's amortization of the right-of-use asset equal to one-third of the asset value of \$27,232 each year.</i>		
12/31/year 1	Lease liability	8,638	
	Interest expense	1,362	
	Cash		10,000
	<i>To record the first payment on the related lease liability.</i>		

Modified accrual accounting: The first year's journal entries would be:

1/1/year 1	Expenditure: Lease right-of-use asset	27,232	
	Other financing source: Lease financing		27,232
	<i>To record the lease agreement at the present value of the minimum lease payments.</i>		
12/31/year 1	Expenditure: Lease financing principal	8,638	
	Expenditure: Interest	1,362	
	Cash		10,000
	<i>To record the first payment of interest and principal on the long-term lease.</i>		

Accounting

Leases – observations (cont) - Sample Entries from MDE

Pike Township	
Schedule of items appearing on the Statement of Net Position	
12/31/year 1	
Property, plant, and equipment:	
Right-of-use asset	\$ 27,232
Less: Accumulated amortization: Right-of-use asset	<u>9,077</u>
Right-of-use asset (net)	<u><u>\$ 18,155</u></u>
Current liabilities:	
Lease liability	\$ 9,070 *
Long-term liabilities:	
Lease liability	9,524 †
* Lease liability 12/31/Yr 1, \$18,594, less the noncurrent amount, \$9,524.	
† Lease liability 12/31/Yr 1, \$18,594, less the current amount, \$9,070.	

Accounting

Leases – observations (cont) - Sample Entries from MDE

Pike Township		
Schedule of items appearing on the Statement of Revenues, Expenditures, and Changes in Fund Balances		
For the year ended 12/31/year 1		
Expenditures:		
Expenditure: Lease right-of-use asset	\$	27,232
Expenditure: Lease financing principal		8,638
Expenditure: Interest		1,362
Expenditure: Rent		24,000
Other financing sources:		
Other financing source: Lease financing	\$	27,232

Accounting

Leases – observations (cont)

Next steps in recording

- New account codes are added to the [Appendix of the Michigan Public School Accounting Manual](#)
- Required to be used for FY22 FID and other reporting
- GASB #87 guidance finalized and added to 1022 in May, Change Notice #32
- Updates provided on MSBO listserv, MDE State School Aid Updates, etc.

To Do – complete inventory of leases, determine if 87 applies, calculate beginning balance lease asset and liability, create entries, discuss conclusions with auditor before finalizing.

Accounting

- Next up GASB 96 - Subscription-Based Information Technology Arrangements (SBITA)
 - Implement 6.30.23
 - Looks and feels similar to Leases
 - Uses similar terminology – right to use asset/liabilities
 - 1022 guidance to be updated mid 2022
 - Note – potentially may have a larger impact than leases due to increased use of “the cloud” by Distrcits

To Do – begin to inventory subscription based IT arrangements

Accounting – other topics

- Michigan Catastrophic Claims Association (MCCA) Refunds – 400/vehicle – major class 199
- CFDA to ALN
 - CFDA being phased out, and new reference to ALN used, no impact on grant codes
- Pandemic Accounting Guidance in 1022
 - http://www.michigan.gov/documents/mde/COVID-19_Accounting_Guidance_691616_7.pdf
 - Updates:
 - Emergency Connectivity Fund (ECF) accounting (ALN 32.009)
 - New Fall 2021 Child Care Relief
 - Accounting for new school nutrition funds (Emergency Operations, Seamless Summer Option, Pandemic EBT Local Costs (ALN 10.649), etc.)
 - Coding clarified for specific federal funding
 - https://www.michigan.gov/documents/mde/Food_Service_Fund_Grant_Coding_SY_21-22_Posting_Version_742165_7.xlsx
 - Revenue recognition/reclassifying expenditures
 - ARP and IDEA ARP coding

Accounting – other topics

- Revenue and expenditure recognition
 - The Grant Code of funding source not to be used when recording expenditures until that revenue can be recognized. (ex GAN Date!)
 - Additional accounting entries required when revenue cannot be recognized in the same fiscal year as eligible expenditures may be incurred
 - Example: CRF expenditure period goes back to March 1, 2020 but revenue could not have been recognized in FY20
 - Applies to other funding sources with similar revenue recognition/expenditure period “disconnects”
 - **Section 23b Summer School/Credit Recovery** - FY21 expenditures but no revenue until FY22
 - **Section 11r(4) ESSER (II) Per-Pupil Equalization** - Could cover both FY20 & FY21 exp., but FY22 revenue
- 1022 provides examples of JE's and how to use account codes to not double count the expense

Auditing

Michigan School Auditing Manual

- Updated for 2022, does not have 2022 compliance supplement updates due to timing of OMB issuance, but 2022 CS link on MDE website
- Updates highlighted in Yellow

Key items

- CNC
 - waivers on students eating free available thru 6.22 (seamless summer option), normal food operations could have been selected
 - NSL reimbursement rates received a 25 cent increase in 1.22
 - Paid lunch equity not required if operating under waiver
 - Provided indirect cost calculation template link
 - Excess fund balance - MDE wants to know if over 3 months (management letter if not material)
 - Attachment 4 provides waiver information
- Title I
 - All districts carryover can apply for waiver if carry over more than 15%
- Special Ed Cluster – no changes! Excess Cost not required to be tested.

Auditing

Michigan School Auditing Manual

Key items

- Title II, part A 84.367A
 - Name change to Supportive Effective Instruction
 - Formerly Improving Teacher Quality
- ESSER III (84.425U)
 - New program under ARP
 - Period of performance 3.13.20 to 9.30.24, including Tydings
 - Allowable costs under CARES, CRRSA and ARP
 - Approval more complicated
 - Expenditure grant codes – ESSER formula – 435, Equalization (11t) - 441

Auditing

Michigan School Auditing Manual

ESF (ESSER) - planning considerations

- Aligns with 2021 Compliance Supplement and Addendums
 - Need to check 2022 CS for changes
- Emphasizes ESF is higher risk program
- Adds ARP/ESSER III, 84.425U
- Carefully consider districts that continued to “reach back”
- Focus on what was approved/budgeted
- GAN date key for starting revenue recognition
- Supplanting allowed
- Double dipping concern is significant
- District process for identifying and tracking is key

Auditing

Michigan School Auditing Manual

Key items

- NEXSYS Guidance_Auditor access
- obtain MEIS number
 - <http://www.michigan.gov/MEIS>, Instructions at Michigan.gov/MDE-NexSys
- Obtain number, username and password.
<https://mdoe.state.mi.us/MEIS/createnewaccount.aspx>.
- Access MEIS, go to www.Michigan.gov/MEIS. click on the MEIS user management box and follow instructions given <https://mdoe.state.mi.us/MEIS/Login.aspx>. Due to security requirements, MEIS account numbers are not transferrable.
- Each person from school district or accounting firm required to have own account#
- Create MILogin for Third Party account <https://milogintp.michigan.gov>. Once MEIS and MILogin account created auditors should contact District reviewed to request auditor's MEIS number and/or MILogin for Third Party account be added as District contact.

Auditing

- Audit Alert –Discussion items
 - Format is brief with links to more information
 - Reminder, report entitlement and bonus separately on SEFA
 - Treatment of transfer between grants especially related to ESSER
 - CNC updates – SFSP waiver status, reporting of excess fund balance, reminder on food service indirect costs
 - Title I – carryover waiver status
 - ESSER – added guidance related to ESSER II, III,11t
 - NexSYS access, grant auditor report is accessed here
 - Reminders on financial statement level related matters – ex budgeting requirements

MDE resources – short list

- Financial Accounting Guidance During the COVID-19 Pandemic
 - http://www.michigan.gov/documents/mde/COVID-19_Accounting_Guidance_691616_7.pdf
- Michigan Public School Accounting Manual
 - <https://www.michigan.gov/mde/0,4615,7-140-6605-21321--,00.html>
 - Chart of Accounts (Appendix) and other guidance, including new lease chart of account updates
 - Change Notices
- Accounting for State School Aid Revenues
 - https://www.michigan.gov/documents/saacct03_45776_7.pdf
 - Recently updated with new FY22 categoricals
- Program Allocations
 - https://www.michigan.gov/mde/0,4615,7-140-81376_51051-127227--,00.html
 - All federal program allocations (incl. ESSER, GEER, etc.)
- Michigan School Auditing Manual and Audit Alert
 - <https://www.michigan.gov/mde/services/financial-management/audits>

Key Take Aways

Management Risks – staffing, accounting, keeping current, maintaining controls

Audit Risks – still high and plentiful. Documentation and assessment is essential for FS and SA

Leases – identify, value, determine treatment, record

Federal Grants – District pressures are significant, accounting confusing, desire for creativity can lead to missteps

Single Audit, Audit Effort – The single audit will take significantly more time, likely more programs under audit

Key Take Aways

Audit Reports – all new - implement, understand

Compliance Supplement – likely out “sooner” but need to carefully review updates

DCF – will submit a school single audits to a new site beginning 10.1

Independence – with all the needs and staff shortages, care is needed in assessing and documenting assistance

Appreciation – understand the environment that business officials and auditors are working in and the efforts to get the job done.

Final Thoughts

Welcome to the accounting department..... *where everybody counts.*

What do you call an accountant with an opinion?*An auditor!*

What do you call a trial balance that does not balance?*A late night.*

**Have you heard the one about the fun accountant?...
*Me neitherbut business managers, well that is another story 😊!***

QUESTIONS

