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Objectives

To design best practices to avoid the most frequent deficiencies noted by ethics, peer review, and various regulatory oversight agencies



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Agenda

- Analysis of Common Deficiencies
- What you should lose sleep over (but probably aren't)
- Best practices – followed by your own action items



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Common deficiencies

Following scenarios highlight common deficiencies



Most frequent violations

- Missed major programs
- SEFA reporting problems
- Audit reporting deficiencies
- Inadequate compliance testing
- Sampling problems
- Financial statement deficiencies

Major program determination

Entity has a new program that is over the Type A threshold. The auditor assessed risk and deemed it low risk using their professional judgment.

Major program determination

Entity has a program that has been around for a number of years that has been assessed as low risk and never audited as major. This year, for the first time, it exceeds the Type A threshold.

Program and cluster determination

Entity under audit had several awards under the same CFDA # that had very different objectives and were run by different personnel. Should these be combined for major program determination?

Percentage of coverage

The entity's (not a low risk entity) percentage of coverage was 49.6%? Is this compliant with standards?

Percentage of coverage

The auditee (a low risk auditee) has one major program that exceeds 25% of total expenditures.

Is the auditor required to test any additional programs?



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ADM determination

Compliance Requirement	Applicable	Direct	Material
A	Yes	n/a	n/a
B	Yes	n/a	n/a
C	Yes	Yes	Yes
D	No		
E	No		
F	No		



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ADM controls and compliance testing

Auditor determined that it is more efficient to not test controls for the ADM compliance requirements. Instead, they only tested compliance over the ADM compliance requirements.



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Noncompliance

- You have found material non-compliance with a major program and are qualifying the compliance report as a result. What else would you reasonably expect to do beyond reporting the compliance finding?

Findings not reported in required format

- Condition
- Criteria
- Cause
- Effect
- Questioned costs
- Recommendations
- View of responsible officials

Sampling

- We tested cash disbursements and payroll for the auditee as part of the financial statement audit as well as a dual purpose test for control testing and compliance testing for the major programs

Month	Agrees
October	yes
November	no
January	no
April	no
June	yes

Errors are isolated as the person preparing the monthly reports with errors is no longer with the Org. and we believe the Org. could, if necessary, create the documentation.

Governmental Accounting and Reporting Issues

Defining the Reporting Entity

- The primary government
- Organizations for which the primary government is financially accountable
- Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete

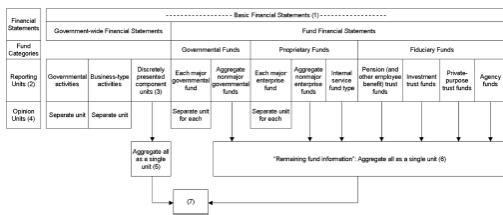
GASB 61 impact on 6/30/2013 year-ends and later

Component Units

- Each component unit must have individual data somewhere in the CAFR
 - Major – Include in basic financial statements or notes
 - Non-major – Include as supplementary information
- Provide specific rather than generic description of the criteria used to include component units (blended and discretely presented)

Don't forget GASBS 61 considerations

Independent Auditor Report Issues – Overview of Reporting Units and Opinion Units – Exhibit 4-1, *Audit and Accounting Guide, State and Local Government*



MD&A Issues

- Budget analysis for the General Fund - comprehensive
 - Significant variances between
 - Original and final amended
 - Final amended budget and actual results
- Comparative financial statements – Complete Presentations
 - Three years
 - Condensed financial data and comparative analysis for each of year
 - Narrative analysis of changes between years is mandatory
 - Year 2013 and Year 2012
 - Year 2012 and Year 2011

MD&A Issues

What is a common issue identified by auditors with respect to the MD&A?

Cash and Investments Disclosures

- Investment disclosures organized by
 - Investment type, such as U.S. Treasuries, corporate bonds, or commercial paper.
 - Dissimilar investments, should not be aggregated
- Deposit and investment disclosures
 - Generally made for the primary government,
 - Including blended component units.

Cash and Investments Disclosures

- The accounting methods for investments
- The methods and significant assumptions used to estimate the fair value of investments, if other than quoted market prices
- The credit quality ratings of investments in debt securities
 - Described by nationally recognized statistical rating organization
- Custodial credit risk
 - The amount of bank balances
 - The fact that the balances are uninsured
 - Basis on which the balances are exposed to custodial credit risk

Cash and Investments Disclosures

- For investment securities, including securities underlying repurchase agreements, exposed to custodial credit risk
 - Investment type
 - Reported amount, and how the investments are held
 - Does not apply to investments in external investment pools and in open-end mutual funds or to securities underlying reverse repurchase agreements.
- Investments in any one issuer, by amount and issuer, that represent 5 percent or more of total investments

Receivables

- Details about receivables aggregated in the financial statements when those aggregations obscure significant components of the receivables
 - GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraph 13
- Significant receivable balances not expected to be collected within one year of the financial statement date
 - GASB Statement No. 38 paragraph 13

Receivables noncurrent portion

True or false,

The auditor does not generally need to worry about the valuation assertion for the portion of any receivables reported in governmental funds that are offset by a deferral?

Long-term Liabilities

- Recommended that the purpose of each debt issuance be disclosed
- It is required that the notes disclose which funds liquidate each long term liability other than debt
 - Compensated absences
 - Claims and judgments
 - Termination benefits
 - Pension and OPEB liabilities
- Debt service requirements to maturity, presenting principal and interest requirements separately for each of the five subsequent fiscal years and in five-year increments after that should be disclosed

OPEB

- Contributions include:
 - Payments of benefits directly to or on behalf of a retiree or beneficiary
 - Premium payments to an insurer
 - Assets transferred to a trust, or equivalent arrangement
- If there are eligible members in the plan, there were contributions
- Even if “pay as you go,” the amount you paid during the year is the contribution.

GASB 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*

- Current years schedule of funding progress
- Annual Pension Contribution (APC) and employer contribution information
- Disclosures should focus on APC as adjusted for cumulative over/under funding
- Required Supplementary Information for schedule of employer contributions should focus on Annual Required Contribution
- Updated for the fiscal year of the reporting government (NOT the Plan year)

Transfers

- Amounts transferred by
 - Individual major fund
 - Nonmajor governmental funds in the aggregate
 - Nonmajor enterprise funds in the aggregate
 - Internal service funds in the aggregate
 - Fiduciary fund type
- A general description of the principal purposes of interfund transfers
- The intended purpose and the amount of significant transfers that
 - Do not occur on a routine basis, or
 - Are inconsistent with the activities of the fund making the transfer

Transfers – Audit Issues

What are some of the common audit issues that arise with respect to transfers?

GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions

- Committed Fund Balance
 - Disclose the highest level (most binding decision)
- Assigned Fund Balance
 - Can others besides the Board/Council assign fund balance? If YES, disclose how the person or body was delegated with that power (policy approved). If NO, disclose that only the Board/Council may assign fund balance.
- Disclose flow assumptions – Is there a policy?
 - YES = Disclose
 - NO = Disclose GASB's suggestion; Restricted before unrestricted; Committed, then assigned and unassigned
- Disclose revenue sources used as a basis to establish all major special revenue funds

GASB 54

- Stabilization Arrangements
 - Specific
 - Non-routine
- Encumbrances
 - Most will be liquidated by restricted, committed, or assigned resources and therefore should be reported in one of those categories
 - Disclose the remainder in the notes.
- Fund Balance Policy
 - Does not affect fund balance categories
 - Policy should be disclosed in the notes (previously discussed in the letter of transmittal)



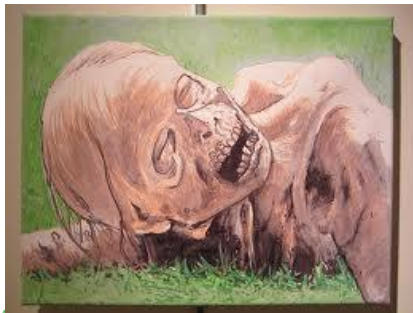
Audit Clarity Reports

- Description of management's responsibility in more detail
- Use of headings to clearly distinguish each section of the report
- Emphasis of matter paragraphs
- Other matter paragraphs

Yellow Book Reporting changes

- Added the title, "Independent Auditor's Report"
- Maintained the existing report subheadings of "Internal Control Over Financial Reporting" and "Compliance and Other Matters"
- Reference to management letter no longer required in YB report
- Replaced the "restricted use alert" with a "purpose alert" (AU-C 905)

2011 Yellow Book



2011 Yellow Book Independence changes

- Effective NOW
- Skills, knowledge and experience evaluation
- Conceptual framework requirement

You will likely have to change your response when performing nonaudit services

Best practices

- Competency and CPE
- System of Quality control
- Engagement team meetings
- Join GAQC
- Use AICPA audit guides
- Correct compliance supplement
- Current practice aids
- Checklists are a tool; not a crutch

**RISK
ALERT**
You
don't
know
what
you
don't
know

Avoid Common Reporting and Disclosure Errors

- Use applicable industry checklist
 - Both the preparer and auditor should make use of applicable disclosure and reporting checklists
- Don't place too much reliance on "SALY"
- Consider the implications of unique reporting requirements for unique business activities
- Allow sufficient time for the report preparations and review process
 - Too many errors are made during an 11th hour rush to complete

Federal Audit Clearinghouse – Quality Control Tips for Submission Review

- Consider using the FAC to periodically review submissions for...
 - Lack of identification of clusters
 - Improper application of definition of a federal program (programs with same CFDA #)
 - Missed major program based on type A program 2-year look back
 - Missed major program based on type A program with a prescribed prior year finding
 - Inadequate percentage of coverage
 - Improper determination of low-risk auditee status
 - Type A program threshold calculation errors

Resources

- GAQC - <http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Pages/GAQC.aspx>
- AICPA Ethics - Common deficiencies http://www.aicpa.org/InterestAreas/FRC/DownloadableDocuments/ProfessionalEthics_Division/FRC_Ethics_Gov_NFP_Violations.pdf



Resources

[Peer review checklists](#)
[Guide for Quality Control Reviews of OMB Circular A-133 Audits](#),
[Guide for Desk Reviews of OMB Circular A-133 Audit Reports](#) published by The Council of the Inspectors General on Integrity and Efficiency