



GASB Statement 54 and Other Audit Issues

Statement 54 Basics

- ▶ Only applies to governmental funds
- ▶ Effective date – June year ends – June 30, 2011
- ▶ Expectation that Districts will implement for year ending June 30, 2010
- ▶ Incorporating as part of chart of accounts change
- ▶ Requires change to beginning fund balances in year of adoption



Current Fund Balance Classifications

- ▶ **Two categories**
 - ▶ Reserved
 - ▶ Unreserved
 - ▶ Designated
 - ▶ Undesignated



Current Fund Balance Classifications

- ▶ Reserved – portion of fund balance not appropriable for expenditure or legally segregated for a specific use
- ▶ Unreserved
 - ▶ Designated – Indicate tentative plans for the use of future financial resources; subject to change
 - ▶ Undesignated – Remaining amount after accounting for all reserved and designated governmental fund balances



GASB 54 Classifications

- ▶ **Five Categories**
 - ▶ Nonspendable
 - ▶ Restricted
 - ▶ Committed
 - ▶ Assigned
 - ▶ Unassigned



GASB 54 Classifications

- ▶ **Nonspendable** – amounts not in a spendable form or that are required to be maintained intact
 - ▶ Amounts for inventories
 - ▶ Amounts for prepaid amounts
 - ▶ Corpus or principal of a permanent fund



GASB 54 Classifications

- ▶ Restricted – amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation
 - ▶ Unspent grant funds
 - ▶ Unspent bond proceeds
 - ▶ Unspent capital outlay and FSPK funds
 - ▶ Funds held in debt service accounts for bond payments



GASB 54 Classifications

- ▶ Committed – amounts constrained for a specific purpose by a government using its highest level of decision-making authority (School Board)
- ▶ Requires the same group to remove or change the constraints
- ▶ Action to constrain resources must occur prior to the fiscal year-end; however, the amount can be determined in the subsequent period



GASB 54 Classifications

- ▶ **Committed (continued)**

- ▶ Construction
- ▶ Board initiatives
- ▶ Future personnel costs
- ▶ Sick leave (KRS 157.420) – limited to not more than 50% of the maximum liability for the current year to be determined according to the number of staff employed on September 15



GASB 54 Classifications

▶ Assigned

- ▶ For all funds other than the general fund, any remaining positive amounts not classified as nonspendable, restricted or committed
- ▶ For the general fund, amounts constrained for the **intent** to be used for a specific purpose by a governing board or a body or official that has been designated authority to assign amounts (for example, budget or finance committee)
- ▶ Cannot assign an amount if it would result in a deficit unassigned fund balance



GASB 54 Classifications

▶ Unassigned

- ▶ For the general fund, amounts not classified in any other category. The general fund is the only fund that would report a positive amount as unassigned
- ▶ For all other governmental funds, deficit amounts in each fund



Encumbrances

- ▶ Encumbrances should not be reported on the face of the financial statements
- ▶ Amounts encumbered for a specific purpose for which amounts have not been previously restricted, committed or assigned should be classified as either committed or assigned, based on the category criteria
- ▶ Significant encumbrances at year-end should be disclosed in the notes to the financial statements as a commitment



Note Disclosures

- ▶ Description of authority and actions that lead to committed and assigned fund balance
- ▶ Policy regarding order of spending regarding restricted and unrestricted fund balance and the order of spending for committed, assigned and unassigned
- ▶ Description of any formally adopted minimum fund balance policies
- ▶ Purpose of each major special revenue fund and which revenues or other sources are reported in each fund



Fund Definitions

- ▶ Special revenue fund – Fund used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purpose other than debt service or capital projects
- ▶ Capital Projects Fund – Fund used to account for financial resources that are restricted, committed or assigned to expenditure for capital outlays



Fund Definitions

- ▶ Debt Service Fund – Fund used to account for financial resources that are restricted, committed or assigned to expenditure for principal and interest



Audit Process

Hiring An Auditor

Elements To Consider (Requests For Proposal)

- ▶ **Quality And Qualifications Of Audit Firm**
 - ▶ Peer Review
 - ▶ Governmental Experience
 - ▶ Familiarity With MUNIS
- ▶ **Audit Price**
 - ▶ Evaluate After Selecting Qualified Firms
- ▶ **Term Of Contract**
 - ▶ Longer Contracts Can Lead To Better Efficiency



Audit Process

Conducting The Audit

- ▶ **Audit Schedule Discussion**
 - ▶ Timing
 - ▶ What The Auditor Needs
 - ▶ Audit Responsibility
 - ▶ Materiality
- ▶ **Exit Conference**
- ▶ **Report Delivery**
- ▶ **Audit Findings**
 - ▶ **Corrective Action Plan**
 - ▶ Addresses Audit Findings
 - ▶ Illustrates Solutions



Audit Process

- ▶ **Financial Statements and Notes Preparation**
 - ▶ Independence Requirements
 - ▶ Knowledge Required
 - ▶ Preparation
 - ▶ Review and Approval
- ▶ **Non-Audit Services**



What's Included

Financial Statement Audit

- ▶ **Government-Wide Financial Statements**
 - ▶ Statement Of Net Assets
 - ▶ Statement Of Activities
- ▶ **Fund Financial Statements**
 - ▶ Governmental Funds
 - ▶ Proprietary Funds
 - ▶ Major And Non-Major Funds
 - ▶ Fiduciary Funds
- ▶ **Notes To The Financial Statements**
- ▶ **Required Supplementary Information**
 - ▶ Management's Discussion And Analysis
 - ▶ Budgetary Comparison Schedules



Single Audit

- ▶ **Low-Risk Auditee (Must Have The Following In Both The Past Two Fiscal Years)**
 - ▶ Single Or Program Specific Audits
 - ▶ Audit Opinions On The Financial Statements And The Schedule Of Expenditures Of Federal Awards Were Unqualified
 - ▶ The Yellow Book Report On Internal Control Did Not Identify Material Weaknesses
 - ▶ No Type A Programs Had Findings
- ▶ **Covers All Federal Funds Expended**
- ▶ **Major Programs Audited**
- ▶ **ARRA Programs Will Be High Risk**
- ▶ **Must Audit 50% Of Federal Dollars Expended As Major Programs Unless District Qualifies As A Low-Risk Auditee, Then Only 25% Must Be Audited**



Single Audit

- ▶ Federal Compliance Requirements Can Be Found Under Circular A-133 At www.whitehouse.gov/OMB
- ▶ Schedule Of Expenditures Of Federal Awards
- ▶ Data Collection Form



Single Audit

- ▶ OMB Circular A-87 Governs Allowable Costs
- ▶ Attachment B, Section 8 Of A-87 Addresses Personnel Costs
- ▶ Must Complete Periodic Certifications At Least Semi-Annually For Employees Who Work On One Federal Program
 - ▶ Must Be Signed By The Employee Or Supervisory Official Having First Hand Knowledge Of The Work Performed
- ▶ Must Complete Personnel Activity Reports Or Equivalent When Employees Work On Multiple Federal Programs Or A Federal And Non-Federal Program
 - ▶ Must Reflect An After The Fact Distribution Of The Actual Activity Of Each Employee.
 - ▶ Must Account For The Total Activity For Which Each Employee Is Compensated.
 - ▶ They Must Be Prepared At Least Monthly And Must Coincide With One Or More Pay Periods.
 - ▶ They Must Be Signed By The Employee.



Individual School Activity Funds

▶ Common Audit Issues

- ▶ Segregation Of Duties
- ▶ Collection Of Monies
- ▶ Athletic Events
- ▶ Documentation For Receipts And Disbursements
- ▶ Concession Inventory Reconciliation
- ▶ Vending Machine Monitoring
- ▶ Booster Clubs



Internal Controls

▶ SAS 115

- ▶ Effective for June 30, 2010 Audits
- ▶ Terminology
 - ▶ Control Deficiency – A Control Does Not Allow Management or Employees In The Normal Course of Performing Their Assigned Functions To Prevent Or Detect and Correct Misstatements On A Timely Basis
 - ▶ Significant Deficiency – Deficiency, or a Combination of Deficiencies, in Internal Control that is Less Severe than a Material Weakness, Yet Important Enough to Merit Attention by those Charged with Governance



Internal Controls

- ▶ Material Weakness – A Deficiency or Combination of Deficiencies In Internal Control Such That There is a Reasonable Possibility That A Material Misstatement of the Entity’s Financial Statements Will Not Be Prevented, Or Detected and Corrected on a Timely Basis
- ▶ Examples of Significant Deficiencies
 - ▶ Lack Of Expertise in Applying Generally Accepted Accounting Principles
 - ▶ Inadequate Design of Controls
 - ▶ Failure of Controls to Safeguard Assets



Internal Controls

- ▶ Examples of Material Weaknesses
 - ▶ Lack Of Oversight By Those Charged With Governance
 - ▶ Restatement Of Previously Issued Financial Statements
 - ▶ Identification By The Auditor of a Material Misstatement that Would Not Have Been Detected by the Entity's Internal Control
 - ▶ Fraud Of Any Amount By Senior Management
- ▶ Written Communication Required



Internal Controls

Suggested Controls Segregation Of Duties

- ▶ Used To Ensure That Errors Or Irregularities Are Prevented Or Detected On A Timely Basis By Employees In The Normal Course Of Business
- ▶ Two Benefits
 - ▶ A Deliberate Fraud Is More Difficult Because It Requires Collusion Of Two Or More Persons
 - ▶ It Is Much More Likely That Innocent Errors Will Be Found
- ▶ No Single Individual Should Have Control Over Two Or More Phases Of A Transaction Or Operation



Internal Controls

Suggested Controls

Segregation Of Duties (Continued)

▶ Incompatible Duties

- ▶ Authorizing A Transaction And Receiving And Maintaining Custody Of The Asset That Resulted From The Transaction
- ▶ Depositing Cash And Reconciling Bank Statements
- ▶ Approving Time Cards And Having Custody Of Paychecks
- ▶ Having Unlimited Access To Assets, Accounting Records And Computer Programs. For Instance Having Access And Using Checks As The Source Documents To Post To Accounting Records Rather Than Using A Check Log Or Receipts



Internal Controls

Suggested Controls

Segregation Of Duties (Continued)

- ▶ **Mitigating Controls**
 - ▶ Mitigating Or Compensating Controls Are Additional Procedures Designed To Reduce The Risk Of Errors Or Irregularities When Duties Cannot Be Completely Segregated
- ▶ **Key Control Areas**
 - ▶ Cash Receipts and Disbursements
 - ▶ Payroll
 - ▶ Bank Reconciliation
 - ▶ Purchasing And Accounts Payable
 - ▶ General Ledger And General Journal Entries



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