



2017 Governmental Accounting Update

Continuing Professional Education

North Carolina Office of the State Controller

- Date:** June 14, 2017
8:15 a.m. to 4:45 p.m.
- Location:** The McKimmon Conference and Training Center
N.C. State University
1101 Gorman Street
Raleigh, NC 27606
- Objective:** To provide an update of recent activities of the Governmental Accounting Standards Board (GASB) and other topics including data security, fraud, and compliance.
- Content:** Morning Session
GASB Update – Eide Bailly, LLP (4 CPE hours)
 - GASB 74, Other Postemployment Benefits (OPEB) Plan Reporting
 - GASB 75, OPEB - Employers
 - GASB 77, Tax Abatement Disclosures
 - GASB 80, Blending Requirements for Certain Component Units
 - GASB 81, Irrevocable Split-Interest Agreements
 - GASB 82, Pension Issues
 - GASB 83, Asset Retirement Obligations
 - GASB 84, Fiduciary Activities
 - GASB 85, Omnibus
 - GASB 86, Certain Debt Extinguishments
 - GASB 87, Leases
 - GASB Exposure Drafts and Technical AgendaAfternoon Session
Other Governmental Accounting Topics – Elliott Davis Decosimo (4 CPE hours)
 - Data security and cyber threats
 - Fraud Update
 - Grant Compliance
 - IRS Compliance Issues: Spotlight on Fringe Benefits
- Instructors:** Eric Berman - Eide Bailly LLP
Bonnie Bastow, Fellen Yang, Rochelle Friend, Tom McNeish, and Denise Hill - Elliott Davis Decosimo
- CPE Credit Offered:** Eight hours
- Materials:** Will be available in advance on the OSC web page
- Teaching Method:** Lecture
- Mini-breakfast:** Available beginning at 7:30 a.m.
- Lunch:** 12:00 p.m. – 1:00 p.m.
- Prerequisites:** Employed by a State agency or institution that is part of the State financial reporting entity (i.e., an entity included in the State's Comprehensive Annual Financial Report)
- Advance Preparation:** None
- Level:** Basic
-

DEVELOPERS: EIDE BAILLY, LLP <http://www.eidebailly.com/about-us/>
ELLIOTT DAVIS DECOSIMO <http://www.elliottdavis.com/about-us>

SPONSOR: NC Office of the State Controller <https://www.osc.nc.gov/about-osc>



AGENDA

2017 Governmental Accounting Update

June 14, 2017

-
- 8:15 – 8:20 Call to Order – Michael Euliss, Office of the State Controller, Communications/Government Relations/Training Director
- 8:20 – 8:30 Opening Remarks – Dr. Linda Combs, State Controller
- Governmental Accounting Standards Board Update (Eric Berman, Eide Bailly LLP)**
- 8:30 – 10:00 What Do We Need to Think About for June 30, 2017?
- GASB 82 – Pension Issues
 - GASB 74 – OPEB Plans
 - GASB 77 – Tax Abatement Disclosures
 - GASB 80 – Blending Requirements for *Certain* Component Units
 - Implementation Guide - 2016-1
- 10:00 – 10:20 Break
- 10:20 – 11:50 June 30, 2018 Issues
- GASB 75 - OPEB Employers
 - GASB 85 – Omnibus
 - GASB 81 – Irrevocable Split Interest Agreements
 - GASB 86 – *Certain* Debt Extinguishments
 - Implementation Guide – 2017-1
- 11:50 – 12:00 June 30, 2019 and Beyond
- GASB 83 – Asset Retirement Obligations
 - GASB 84 – Fiduciary Activities
 - GASB 87 - Leases
- 12:00 – 1:00 Lunch
- Financial Management Topics (Elliott Davis Decosimo)**
- 1:00 – 1:05 Call to Order – Michael Euliss, Office of the State Controller
- 1:05 – 1:55 Grant Compliance – Tom McNeish, Elliott Davis Decosimo
- 1:55 – 2:45 Emerging Tax Topics for Fiscal Officers – Understanding your Agency’s Risks – Denise Hill, Elliott Davis Decosimo
- 2:45 – 3:05 Break
- 3:05 – 3:55 Fraud Update – Rochelle Friend, Elliott Davis Decosimo
- 3:55 – 4:45 Data Security and Cyber Threats – Bonnie Bastow and Fellen Yang, Elliott Davis Decosimo
- Closing Remarks – Michael Euliss, Office of the State Controller

Upcoming Training Dates: July 26, 2017 – 2017 Professional Ethics and Conduct Webcast December 12, 2017 – 2017 OSC Financial Conference

ERIC S. BERMAN, MSA, CPA, CGMA, has over 25 years of governmental accounting and auditing experience and is a partner with Eide Bailly LLP. Previous to Eide Bailly LLP, he was a quality control principal with a public accounting firm in California. His public sector experience includes being a deputy comptroller for the commonwealth of Massachusetts from 1999 to 2010, and the chief financial officer of the Massachusetts Water Pollution Abatement Trust from 1994 to 1999.

Eric is a licensed CPA in Massachusetts. He obtained an M.S. in accountancy from Bentley University.

Eric recently represented the Association of Government Accountants as the vice chairman of the Government Accounting Standards Advisory Council to GASB. He was the previous chair of the Financial Management Standards Board and currently is chairman of the AGA's Audit Committee. He also is a previous chair of the American Institute of Certified Public Accountants' Governmental Performance and Accountability Committee and is a former member of the AICPA's State and Local Government Expert Panel. He was recently named to the GASB's task force reexamining the financial reporting model for state and local governments.

Eric is frequently called upon to consult and train state and local governments throughout the country on governmental accounting and auditing.



Tom McNeish, CPA

Shareholder and Government Practice Leader

Tom relocated to the Triangle from South Carolina in 2013 to launch our Raleigh office. As chair of the Government practice, Tom focuses on providing audit and consulting services to public sector clients including counties, municipalities, state agencies, and public colleges and universities. He has more than 20 years of experience with financial reporting under government accounting standards and compliance requirements related to Yellow Book and the Uniform Guidance. Tom's clients include large and small governments, including entities with annual budgets in excess of \$5 billion. Prior to joining Elliott Davis Decosimo in 1998, Tom provided audit and consulting services with the accounting firm of Ernst & Young. He began his career as a commercial loan officer with Nationsbank. Tom earned a B.S. in Finance and an M.S. in Accountancy from the University of South Carolina.



Bonnie Bastow, CIA, CISA, CISM

IT Director

Bonnie has over 20 years of experience in Accounting, Finance, Operations and Information Systems. Her main focus is providing IT related assurance, consulting, advisory, compliance and security services. She has executed SOC1 and SOC2 engagements, FFEIC engagements, developed custom audit work-programs and conducted system implementation audits and reviews. Bonnie's ERP experience includes: SAP, Oracle, Lawson, Dynamics GP, JD Edwards, UltiPro, and PeopleSoft (Financials & HRMS) – operating systems: Unix/Linux, iSeries (AS/400), Windows Server and mainframe – and databases; Oracle, SQL and DB2. Bonnie has worked with various frameworks including: COBIT, FFIEC and COSO. Prior to joining Elliott Davis Decosimo, she held positions as CFO, Controller, Corporate Auditor and IT Director in manufacturing and distribution firms. She has an extensive IT services background in system selections, system implementation, business process reviews, technical writing, and project management. As an IT Risk professional she has previously worked primarily with a leading national CPA firm. Bonnie earned her B.A. in Business & Accounting from Alma College. She also holds an MBA from Michigan State University



Fellen Yang
IT Manager

Fellen joined our IT client service team in 2015 after serving as an IT auditor and consultant with RSM McGladrey. She specializes in client-facing project management in the financial institution and government industries as well as evaluating automated controls and providing advisory services related to data security. Her core competencies include auditing ITGCs and business processes in support of financial statement audits, internal audit support with SOX compliance, FFIEC engagements and SOC engagements. Fellen's focus is on planning, leading and executing engagements to report on the effectiveness of ITGCs in support of financial statement audits and SOC 1 and SOC 2 engagements. She performs these services for various governmental entities and Fortune 500 corporations including SOX 404 and non-accelerated filers as well as a diverse mix of small, medium and large cap private entities. Fellen has led and executed cyber security engagements including internal vulnerability assessment, external vulnerability and penetration assessment, and social engineering testing. Fellen is a graduate of the University of Pittsburgh with a B.S. in Computer Engineering. She also attended the University of Florida where she received her M.S.



Denise P. Hill, CPA
Tax Senior Manager

Denise has more than 30 years of experience in providing tax preparation and consulting services to a diverse client base which includes governmental and not-for-profit entities. She regularly advises public universities and local governments on a broad range of issues including development of effective policies for IRS compliance related to fringe benefits, employee vs independent contractor classification, and personal use of entity assets. Prior to joining Elliott Davis Decosimo in our Columbia, SC office, Denise served as a tax manager with PwC. She holds a B.S. in Accounting from the University of South Carolina.



Rochelle Friend, CPA, CFE
Audit Manager

Rochelle is a manager in our Raleigh office where she focuses on providing and assurance and consulting services to government and not-for-profit entities. As a leader in our Government Practice, she directs engagement teams in performing financial statement and compliance audits in accordance with Government Auditing Standards and the Uniform Guidance. Rochelle joined Elliott Davis Decosimo in the fall of 2016, coming from Portland, OR where she conducted assurance and attest work for a variety of public sector clients, including state agencies, cities, counties, special service districts and council of governments. As a certified fraud examiner, Rochelle has leveraged her audit experience to assist clients in identifying and evaluating potential weaknesses in their fraud prevention controls. She holds a B.S. in accounting from Linfield College.

GASB Update



North Carolina Office of the State Controller
June 2017



www.eidebailly.com

Agenda

- What Do We Need to Think About for June 30, 2017
 - GASB-82 – Pension Issues - Are you Ready?
 - GASB-74 – OPEB Plans
 - GASB-77 – Tax Abatement Disclosures
 - GASB-80 – Blending Requirements for **Certain** Component Units
 - IGU – 2016 – 1
- June 30, 2018 Issues
 - GASB-75 – OPEB
 - **Breaking News - Omnibus 2017 (GASB-85)**
 - GASB-81 – Irrevocable Split-Interest Agreements
 - **Breaking News - Certain Debt Extinguishments (GASB-86)**
 - IGU-2017-1
- June 30, 2019 and beyond
 - Asset Retirement Obligations (GASB-83)
 - Fiduciary Activities (GASB-84)
 - **Breaking News - Leases (GASB-87)**

These seminar materials are intended to provide the seminar participants with guidance in accounting and financial reporting matters. The materials do not constitute, and should not be treated as professional advice regarding the use of any particular accounting or financial reporting technique. Every effort has been made to assure the accuracy of these materials. Eide Bailly LLP and the author do not assume responsibility for any individual's reliance upon the written or oral information provided during the seminar. Seminar participants should independently verify all statements made before applying them to a particular fact situation, and should independently determine consequences of any particular technique before recommending the technique to a client or implementing it on the client's behalf.

www.eidebailly.com

Agenda (Continued)

- Proposed GAAP:
 - **Financial Reporting Model**
 - Revenue & Expense Recognition Project
 - Note Disclosure Reexamination Research?
 - Debt disclosures and direct borrowing (private placement issues)
 - Capitalized Interest
 - Equity Method Interests
 - Going Concern Disclosures
 - Conduit Debt
 - Social Impact Bonds

These seminar materials are intended to provide the seminar participants with guidance in accounting and financial reporting matters. The materials do not constitute, and should not be treated as professional advice regarding the use of any particular accounting or financial reporting technique. Every effort has been made to assure the accuracy of these materials. Eide Bailly LLP and the author do not assume responsibility for any individual's reliance upon the written or oral information provided during the seminar. Seminar participants should independently verify all statements made before applying them to a particular fact situation, and should independently determine consequences of any particular technique before recommending the technique to a client or implementing it on the client's behalf.

www.eidebailly.com

Implementation Dates –GASB Statements

Effective Date – Periods Beginning After	Statement	First Fiscal Years Affected	
		June 30th	December 31st
December 15, 2015	GASB-77 - Tax Abatement Disclosures	2017	Already Implemented?
December 15, 2015	GASB-78 - Certain Multiple-Employer Defined Benefit Plans (Taft-Hartley)	2017	Already Implemented?
Pensions not within scope of 68 – June 15, 2016	GASB-73 - Pension and Related Assets not within Scope of GASB-68, (Other than Amendments to GASB 67/68)	2017	2017
June 15, 2016	GASB-74 - OPEB Plans	2017	2017
June 15, 2016	GASB-82 – Pension Issues	2017	2017
June 15, 2016	IGU-2016-1	2017	2017

www.eidebailly.com

Implementation Dates – Other GASB Statements

Effective Date – Periods Beginning After	Statement	First Fiscal Years Affected	
		June 30th	December 31st
June 15, 2016	GASB-80 – <i>Blending Requirements for Certain Component Units</i>	2017	2017
December 15, 2016	GASB-81 – <i>Irrevocable Split-Interest Agreements</i>	2018	2017
June 15, 2017	GASB-75 - <i>OPEB Employers</i>	2018	2018
June 15, 2018	GASB-83 - <i>Asset Retirement Obligations</i>	2019	2019
December 15, 2018	GASB-84 – <i>Fiduciary Activities</i>	2020	2019
June 15, 2017	GASB-85 - <i>Omnibus 2017</i>	2018	2018

www.eidebailly.com

Implementation Dates – Projects Almost Final

Proposed Effective Date – Periods Beginning After	Exposure Draft	First Fiscal Years Affected	
		June 30th	December 31st
June 15, 2017	<i>Certain Debt Extinguishments (GASB-86)</i>	2018	2018
June 15, 2017	<i>IGU-2017</i>	2018	2018
December 15, 2019	<i>Leases (GASB-87)</i>	2021	2020

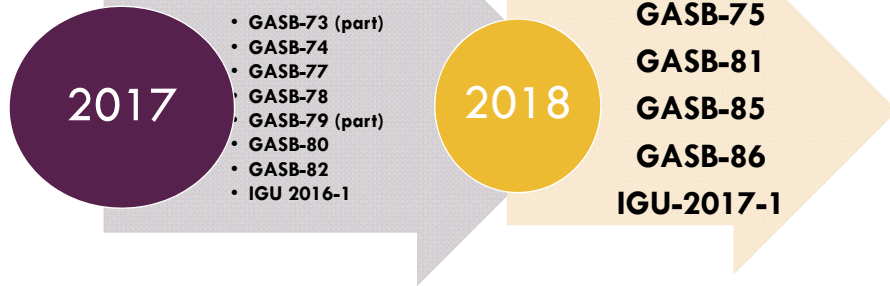
TOO EARLY TO TELL

- Debt Disclosures, including direct borrowing
- **Financial Reporting Model** (but rumor is 2020 or 2021 implementation)
- Capitalized Interest
- Equity Method Interests
- Going Concern Disclosures
- Revenue & Expense Recognition
- Note Disclosure Reexamination
- Conduit Debt
- Social Impact Bonds

www.eidebailly.com

For those who need a calendar

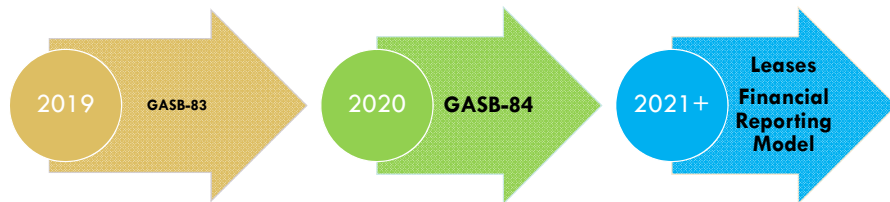
• June 30th year ends..



www.eidebailly.com

For those who need a calendar

• June 30th year ends..



www.eidebailly.com

What Do We Need to Think About for June 30, 2017



www.eidebailly.com

» GASB-82 – Pension Issues – Are You Ready?

- Further Amends GASB-67, 68 and 73
 - Also supersedes or amends 6 *Implementation Guide* questions
- 3 Issues
 - **Payroll-related measures**
 - Selection of Assumptions – Actuarial Standards of Practice
 - Employer-Paid Member Contributions (aka 'pick-ups' or 'EPMC's')
- Effective Date – **Reporting Periods beginning after June 15, 2016, *prior period restatement required***

www.eidebailly.com

»»» GASB-82 – Pension Issues

- Pension Issues
 - Payroll-related measures
 - RSI that includes covered employee payroll information in single and cost-sharing multiple employer plans would now be **covered payroll**
 - **Covered payroll** is the portion of compensation paid to active employees **on which contributions to a pension plan are based – BE CAREFUL**
 - *Covered employee payroll* (GASB-67 / 68 definition) is payroll of employees that are provided with pensions through the pension plan
 - **Confused?? – You’ll see these again later today...**
 - **RSI schedules may need to be adjusted**

www.eidebailly.com

»»» GASB-82 – Pension Issues – Cheat Sheet for EPMCs

Scenario	Plan Treatment (GASB-67 or 73)	Employer Treatment (GASB-68 or 73)	Other Information
Amount is paid by member / government of a plan to satisfy <u>plan member contributions</u> (no IRC 414(h)(2) election made)	Plan member contributions in the Statement of Changes in Fiduciary Net Position	Including to determine proportionate share in cost-sharing plan (and any internal allocations,) employee contributions	Employer’s expense and expenditures for amounts recognized in period that contribution is assessed and classified as salaries and wages (adjusting W-2’s)
Employer makes payments to satisfy employee contributions (pick-ups)	Employer contributions in Statement of Changes in Fiduciary Net Position	Contributions are employer pension expense . If made after measurement period, but before year end, deferred outflow of resources .	Employers must align to provisions of Rev. Rul. 2006-43.

RSI Schedules May Change

www.eidebailly.com

Clarifications related to Pensions in IGU-2016-1

- 11 New Q&As related to 67 / 68 (remember they are authoritative – more later) – most important ones
 - 4.16. Q—Should the information that is required by paragraphs 30a(4) and 30a(5) of Statement 67 about the **number of employees** that are covered by the benefit terms and the benefit terms themselves, respectively, be current as of (a) **the actuarial valuation date** that is used as the basis for the total pension liability **or** (b) **the pension plan's fiscal year-end**?
 - A—The requirements of paragraphs 30a(4) and 30a(5) of Statement 67 are intended to result in the disclosure of information about the benefit terms **at the pension plan's fiscal year-end**.

www.eidebailly.com

Clarifications related to Pensions in IGU-2016-1

- 11 New Q&As related to 67 / 68 (remember they are authoritative – more later) – most important ones
 - 4.18. Q—How should the effects of a **change in the discount rate** on the total pension liability be classified in the schedule of changes in the net pension liability? (*Likely for this current valuation in most plans*)
 - A—A change in the total pension liability arising from a change in the discount rate should be presented as a change of assumption or other input – (*In other words – no restatement just due to this change*).

www.eidebailly.com



Clarifications related to Pensions in IGU-2016-1

- 11 New Q&As related to 67 / 68 (remember they are authoritative – more later) – most important ones
 - 4.23. Q—In 20X5, if an employer reports a **deferred outflow of resources** related to pensions for **contributions made to the pension plan subsequent to the measurement date** and before the end of the reporting period, how should the contributions be accounted for in the subsequent reporting period (20X6)?
 - A—In 20X6, the amount of contributions that was reported as a deferred outflow of resources related to pensions in 20X5 should be accounted for as a reduction of deferred outflows of resources related to pensions and a reduction of the net pension liability.

www.eidebailly.com

OPEB (Part 1) - Plans

OPEB

NO. 74 | JUNE 2015
Governmental Accounting Standards Series

Statement No. 74 of the Governmental Accounting Standards Board

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

GASB
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Statement 74
Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

NO. 75 | JUNE 2015
Governmental Accounting Standards Series

Statement No. 75 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions


GASB
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Statement 75
Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

www.eidebailly.com 17

What is OPEB?

- Other postemployment benefits – all postemployment benefits promised to employees other than pensions
- Principally, retiree health insurance – but also life insurance, disability, legal services, and other benefits
- Includes:
 - Payments made to insurance companies on behalf of retirees,
 - Payments directly to retirees, and
 - Subsidizing retiree premiums by allowing them to be insured in the same group as active employees



www.eidebailly.com

▶▶▶ OPEB Reporting—Key Provisions

- Mirrors pension standards
- Measurement may increase size of long-term obligation and annual cost for OPEB
- Recognize the net liability on the face of the financial statements
- Present more extensive note disclosures and supporting schedules



Due to beginning balance restatement – similar effort to GASB-68 in implementation if it applies!!!

Effective Date – Fiscal Years Beginning after	Statement	June 30 th Governments	December 31 st Governments
June 15, 2016	GASB-74, OPEB Plans	2017	2017
June 15, 2017	GASB-75, OPEB Employers	2018	2018

www.eidebailly.com

▶▶▶ Other Highlights

- **Identical** in most respects to pension standards in Statements 67 and 68
- Recognize net OPEB liability in accrual-basis financial statements
- Recognize many portions of change in net OPEB liability as OPEB expense immediately; others deferred and recognized as OPEB expense over shorter periods than previously
- Cost-sharing governments and nonemployer contributing entities report proportionate shares of collective net OPEB liability, OPEB expense, and OPEB-related deferrals
- Enhanced notes and RSI – similar to GASB-67 / 68
 - All old GASB-43 Plan schedules / notes removed
- **Caution** - most OPEB plans are single employer

www.eidebailly.com



GASB Implementation Guide 2017-2, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans (GASB-74)*

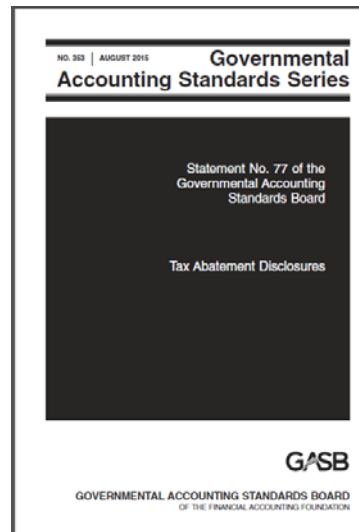
- 160 Q&A's – implementation date is actually periods beginning after June 15, 2017 – **one year later than GASB-74.**
 - **Many OPEB plans may decide to early implement**
- Appendix with 7 Illustrations
 - Determination of Benefit Payments if blended premium rates are stated
 - Determination of the discount rate in circumstances in which benefit payments are made by the employer with its own resources (PAYGO)
 - Calculation of money-weighted rate of return
 - Reconciliation of amounts in the plan statements to money-weighted rate of return
 - RSI schedules
 - Note disclosures and RSI for a cost-sharing multiple-employer OPEB Plan
 - Alternative measurement method calculations

www.eidebailly.com



GASB-77

Tax Abatement Disclosures



www.eidebailly.com

» Objectives of GASB-77

- GASB-77 may provide financial statement users with essential information about tax abatement programs in order to better gauge:
 - Whether current-year revenues were sufficient to pay for current-year services
 - Compliance with finance related legal or contractual requirements
 - Sources and uses of financial resources
 - Financial position and economic condition
- Recognition of accounting events not being considered (e.g.: when abatements occur)

www.eidebailly.com

» Definition and Scope

- GASB-77 applies *only* to transactions meeting this definition:
 - **A tax abatement is a reduction in taxes that results from an agreement between one or more governmental entities and an individual or entity in which**
 - One or more governmental entities promise to forgo tax revenues in which they are otherwise entitled **and**
 - The individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments
 - Transaction's substance more important than form
 - Scope is very limited – could be mostly related to economic development

www.eidebailly.com

Disclosures Based on Facts & Circumstances

	Government Makes Abatement	Government Required to Abate by Other Government (ex: State – City)
Name of program	Yes	
Purpose of program	Yes	
Name of government		Yes
Tax type abated	Yes	Yes
Authority to abate tax	Yes	
Eligibility criteria	Yes	
Abatement mechanism	Yes	

www.eidebailly.com

Disclosures Based on Facts & Circumstances

	Government Makes Abatement	Government Required to Abate by Other Government (ex: State – City)
Abatement mechanism	Yes	
Recapture provisions	Yes	
Type of <i>recipient</i> commitments (ex: 200 jobs by X day)	Yes	
Dollar amount of taxes abated	Yes	Yes
Amounts received / receivable from other governments	Yes	Yes
Other commitments made by government	Yes	
Quantitative threshold for individual disclosure	Yes	Yes
Information omitted due to legal restrictions	Yes	Yes

For Component Units that Abate – judge whether disclosure is *essential*

www.eidebailly.com

Effective Date & Transition

- The disclosure requirements applied to the current period and all prior periods presented.
- If application for all prior period presented is not practical, the reason for not applying the standards to prior periods presented would be explained.
- Became Effective for periods *beginning* after December 15, 2015

www.eidebailly.com

Blending Requirements for *Certain* (NOT ALL) Component Units

GASB-80

»» Blending Requirements for *Certain* Component Units

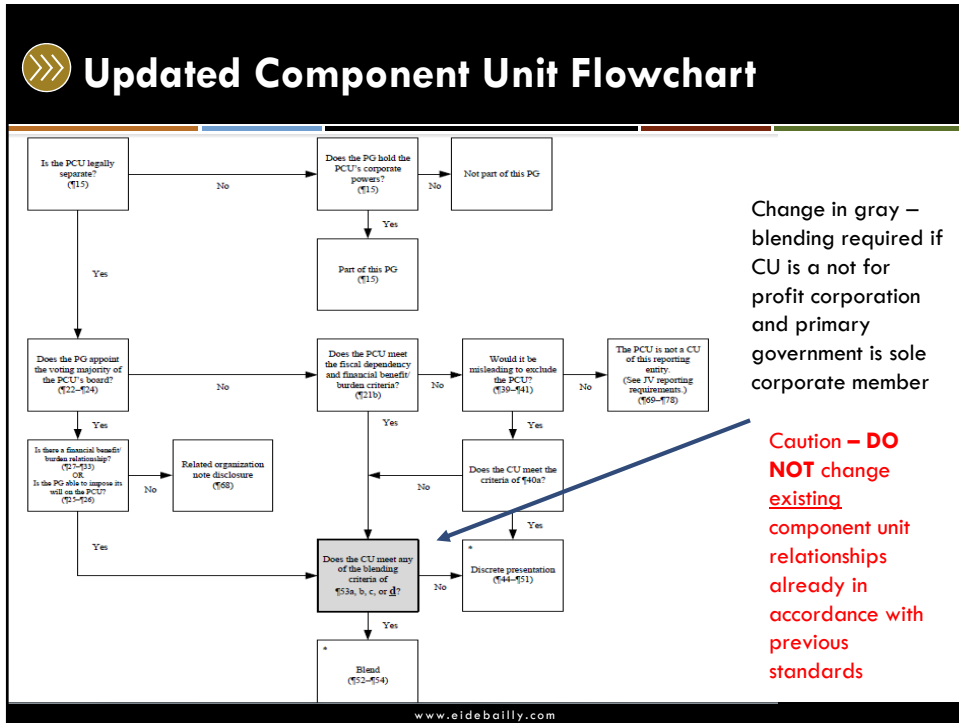
- Could be an issue for Institutions of Higher Education, Hospitals or other BTAs
- Addresses the large diversity in practice in the application of component unit presentation among certain governments primarily engaged in business-type activities.
- Diversity stems from the (lack of) consideration of the corporate structure (LLC, LLP, NFP) of the component unit.
- Component Unit provisions will be amended to require blending for component units incorporated as not-for-profit corporations when primary government is *sole corporate member* of NFP
- Effective date periods beginning after June 15, 2016
 - Requires a restatement (if applies) – change in reporting entity

www.eidebailly.com

»» What is a Sole Corporate Member?

- Membership in a not-for-profit corporation is defined in articles of incorporation or bylaws
- State statutes usually define “member” in each state as it relates to a not-for-profit
- Other structures involving LLC’s / LLP’s are for now, not being included in final standard
 - Consider concepts of control and accountability (*what walks like a duck... quacks like a duck...*)

www.eidebailly.com



A common issue...

- The County General Hospital is the sole corporate member of an LLC that is a legally separate entity that provides rehabilitation services to patients. There is no separate board for the LLC. The public hospital has the approval authority over the LLC's budgets and operations, making the LLC a component unit. Is the LLC required to be blended?
 - **What do you think?**

www.eidebailly.com

Implementation Guide Update – 2016-1



Implementation Guide Update 2016-1

- Part of normal cycle established in GASB-76
- New Q&As – many investment and pension related
 - Relationship of GASB-3, 40 and 72 – 9 questions
 - Component units vs. investments – 4 questions
 - Pensions – 11 questions
 - Investments and External Investment Pools – 28 questions
 - Investments reporting – 11 questions
 - OPEB – 2 questions
 - Derivatives – 2 questions
 - Other (GASB-23, 32, 33, 51, 54, 60, 65, 70, 77)
- Amendments to 2015-1 – 39 questions
- Effective date – periods beginning after June 15, 2016

June 30, 2018 Issues



www.eidebailly.com

Irrevocable Split-Interest Agreements (ISIAs)

GASB-81

Irrevocable Split Interest Agreements (ISIAs)

- Inconsistent reporting of giving arrangements by donors to governments of all types
 - Government may be a trustee, beneficiary or both
- Common types
 - *Charitable lead trusts* – government receives the rights to benefits only during term of agreement
 - *Charitable remainder trusts* – government receives some (or all) benefits remaining at end of agreement
 - *Charitable annuities* – government receives a specific amount or percentage (fixed or variable) throughout agreement (if % of fair value then it's a unitrust)
 - *Life interest in real estate* – very common – government receives right to use asset dependent upon life of donor
 - Upon death, government or beneficiary gets real estate

www.eidebailly.com

What Does This All Mean?

If Government is Intermediary AND Beneficiary



Donors



Government is administrator OR COULD BE 3rd PARTY (bank etc)



Charity and government are beneficiaries

www.eidebailly.com

What Does This All Mean?

Alternative 2 – Charity
Receives Income,
Government gets
remainder after period
of time



Principal
ONLY at a
certain date



Donors

Income
stream
ONLY



Government is
administrator



www.eidebailly.com

What Does This All Mean?

Alternative 3 –
Government Receives
Income, Charity gets
remainder after period
of time



Income
Stream
ONLY



Donors

Principal
ONLY at
a Certain
Date



Government is
administrator



www.eidebailly.com

Scope of GASB-81

- **Irrevocable split-interest agreements** for which the government is the intermediary (trustee or agent) and a beneficiary
 - Donor gives resources to government that also is a beneficiary in the agreement – government could be:
 - **Lead interest:** payments during the life of the agreement, generally to non-governmental beneficiary (donor or donor’s relative)
 - **Remainder interest:** assets remaining at termination of the agreement; generally goes to government
- **Beneficial interests** in resources held and administered by 3rd parties
 - Refers to the right to receive resources in a future reporting period, from resources administered by a 3rd party

www.eidebailly.com

Irrevocable Split Interest Agreements (ISIAs)

	When to Measure	Assets	Liabilities	Deferred Inflows of Resources
If held by Government	Initial Agreement Date	Fair Value	If <i>nongovernmental</i> beneficiary – settlement amount	Remainder if to the government – assets less liability
	Subsequent reporting dates	Investments in accordance with GASB-72 at fair value Changes in fair value in deferred inflow of resources	Distributions to lead interest beneficiary would reduce liability	Net of asset and liability (including fair value change)
Held by 3 rd Parties	Initial Agreement Date	Fair Value		Same as Asset
	Subsequent reporting dates	Same as above	Should be none	Net amount

www.eidebailly.com

Irrevocable Split Interest Agreements (ISIAs)

- Life interest in real estate – most common
 - If capital asset – per GASB-72, asset = acquisition value, NOT fair value
 - If investment – record at fair value per GASB-72
 - Liabilities could be present for obligations assumed (maintenance, repairs, mortgage...)
 - Deferred inflow of resources = value of right to use property
 - Value would be present value of rent payment if the donor was to ever pay rent
 - Second deferred inflow of resources could be present if there is a difference between assets, liabilities and value of right to use property.

www.eidebailly.com

Irrevocable Split Interest Agreements (ISIAs) – Recap on Asset Recognition

- *In general* - assets would be recognized by reporting government if ALL are met:
 1. Government is named as the beneficiary legally
 2. Government has an unconditional interest
 3. Interest is irrevocable
 4. Donor cannot vary the resources
 5. Government is not under the control of the donor
 6. Government may assign interest without approval of the donor, and
 7. If interest is assigned, the government's interest is not terminated / invalidated
- Effective date for periods beginning after 12/15/16

www.eidebailly.com

Certain Debt Extinguishments ED (Defeating debt with cash *not* bonds)

GASB-86

Implementation for Periods *Beginning* after June 15, 2017



www.eidebailly.com

What GASB-86 Entails

- Placement of only existing resources in a trust
 - Would be accounted for as in-substance defeasance as long as all criteria in the existing standards are met
 - Would recognize the difference between the net carrying value of the debt and the reacquisition price as a gain or loss in the period of defeasance
 - Notes to the financial statements:
 - Would describe the transaction in the period it occurs
 - Would disclose the remaining outstanding balance in each period as long as the debt remains outstanding
- Prepaid insurance
 - At the time debt is extinguished, any related prepaid insurance that remains would be included in the net carrying amount of the debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount

www.eidebailly.com

»»» What GASB-86 Entails

- If substitution of the essentially risk-free monetary assets in escrow with monetary assets that are not essentially risk-free is *not* prohibited, a government would disclose in the notes to the financial statements:
 - In the period of the defeasance: the fact that substitution is not prohibited
 - In subsequent periods: the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists
- Effective date - periods beginning after June 15, 2017

www.eidebailly.com

»»» Implementation Guide Update 2017-1

- 41 new questions and answers
 - 1 on cash flow and OPEB
 - 1 on GASB-80
 - 33 on pension plan accounting and financial reporting (GASB-67, 68, 71, 73, 78)
 - 2 on GASB-79
 - 1 on GASB-54 (*still there's questions??*)
 - 3 on GASB-77
- 33 questions amended in existing guide – some amending 2016-1!
- Implementation for periods beginning after June 15, 2017

www.eidebailly.com

Key question on GASB-72 and 79 – 4.36

- How should a local government's investment position in an external investment pool be categorized within the fair value hierarchy for purposes of the note disclosure requirement of paragraph 81a(2) of Statement No. 72, *Fair Value Measurement and Application*?
 - If the pool elects at amortized cost – investments then not measured at fair value –
 - Should not be categorized within the fair value hierarchy.
 - If the pool is at fair value – (either floating value or stable \$1)
 - Should also not be categorized within the fair value hierarchy
 - Do not look through to underlying investments
 - Present below the levels or as cash / cash equivalents

www.eidebailly.com

Let's Take a Break...

OPEB Part II - Employers

NO. 74 | JUNE 2015

Governmental Accounting Standards Series

Statement No. 74 of the Governmental Accounting Standards Board

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD OF THE FINANCIAL ACCOUNTING FOUNDATION

NO. 75 | JUNE 2015

Governmental Accounting Standards Series

Statement No. 75 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD OF THE FINANCIAL ACCOUNTING FOUNDATION

Statement 74

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

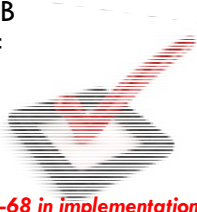
Statement 75

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

www.eidebailly.com 51

OPEB Reporting—Key Provisions - Reminder

- Mirrors pension standards
- Measurement may increase size of long-term obligation and annual cost for OPEB
- Recognize the net liability on the face of the financial statements
- Present more extensive note disclosures and supporting schedules



Due to beginning balance restatement – similar effort to GASB-68 in implementation if it applies!!!

Effective Date – Fiscal Years Beginning after	Statement	June 30 th Governments	December 31 st Governments
June 15, 2016	GASB-74, OPEB Plans	2017	2017
June 15, 2017	GASB-75, OPEB Employers	2018	2018

www.eidebailly.com



Understanding the Differences Between Pensions and OPEB – Key Differences

Pensions	OPEB
Salary and time are vital in projection of benefits (longer you work, the more your salary, the more benefit)	Based on healthcare claims – years of service do not impact in many cases
Pension actuaries are common	OPEB actuaries must have experience in both pensions <i>and</i> healthcare claims development or have 2 certifications
Actuarial assumptions are relatively stable	Actuarial assumptions include pension assumptions, plus healthcare cost trend rate, effects of taxation, insurance and Medicare (as well as law) – pension assumptions may not be that significant in OPEB
Benefits are well documented and change infrequently	Much more informal – may change annually based on budget / healthcare trends / laws / bargaining

www.eidebailly.com



Understanding the Differences Between Pensions and OPEB – Key Differences

Pensions	OPEB
Base benefit is defined in advance with potential COLAs (if allowed)	Benefit may be adjusted by administrative policy, collective bargaining, etc.
Usually a separate plan, usually an irrevocable trust	Most often part of the employer, potentially part of HR – irrevocable trust is not common
Annual valuations most often done	Biennial (or triennial) valuations performed
Data sources / internal controls are usually well documented, even if some is at the employer(s) and some at the plan	Data sources / internal controls less documented, especially if a third-party administrator / insurer is involved
Actuarial valuations use entry-age normal method – focusing on projecting the future benefits, discounting payments to present value and attribute amounts to future periods	Same method as pensions, but adds healthcare claims development and effect of laws, insurance etc.

www.eidebailly.com



Understanding the Differences Between Pensions and OPEB – Key Differences in Assumptions

Pensions	OPEB
Long-term investment rate of return is usually key driver in discount rate	Investment rate of return is usually immaterial due to lack of funding and no trust available
Mortality rate is critical in projection of liability	Mortality rate is less critical as plan is usually pay as you go (PAYGO) meaning much of the liability is pre-age 65 / 67 (after that age – Medicare or other insurance?)
Retirement age is where liability is to be ready to be paid	Retirement age is crucial to determine cash flows, but years of service harder to determine
Inflation and COLAs may be present	Healthcare cost trend rate may be a larger driver than investment return
Multiple retirement benefit options may exist for survivors	Plan choice, number of dependents / beneficiaries may significantly change liabilities

www.eidebailly.com



Understanding the Differences Between Pensions and OPEB – Key Differences in Assumptions

Pensions	OPEB
Not a factor	Utilization by Age is key – the older you get, the more healthcare costs
Not a factor	Retirees may have to pay for / share in costs of healthcare (premiums). Higher premiums = lower participation rates. May convert to Medicare or other insurance after age 65 / 67
Not a factor unless GASB in the future revisits decision not to include social security as a liability	Excise tax exists (ACA “Cadillac Tax”)

www.eidebailly.com

 **As a Result...**

- Detailed Plan documentation and ensuring that the plan as documented is the plan as administered is critical
 - HR and Finance (and others) must talk to each other!
- Interfacing the OPEB valuation with the pension valuation is important
 - Certain assumptions should be the same such as mortality, retirement rates, etc.
 - The plan may be the only source of key information such as total years of service

www.eidebailly.com

 **As a Result...**

- Audit procedures that worked well for pensions may be totally ineffective for OPEB
 - Truly understanding the benefits, key assumption drivers, sources of data, and key census data will be critical to designing procedures and gathering audit evidence.
- **What do you think the key reason why the model for allocating pension costs from cost-sharing multiple-employer plans to employers may not work for OPEB multiple-employer plans?**

www.eidebailly.com

»» Big Deals for OPEB Employers

- GASB-75 replaces all provisions of GASB-45 (and 57) as applicable
 - Discount rate will no longer be blended like GASB-45 – for most employers that are not funded, AA bond index rate like GASB-68 (may be a benefit by the way...)
 - OPEB expense will likely be more volatile due to funding levels
 - Slightly different terminology (Normal Cost = Service Cost)
 - Nearly all other aspects similar to GASB-68 as amended
 - Note disclosure and RSI all replaced upon implementation
 - Beginning balance restatement required like GASB-68

www.eidebailly.com

»» Additional Big Deals for OPEB Employers

- Liability may be heavily influenced by
 - Excise taxation (ACA 'Cadillac Tax' – now delayed to 2020?)
 - Medicare 'toggle' (conversion to Medicare upon being eligible)
 - Insured plans (where insurer assumes risk of healthcare liability and employer only risk is for premiums)

www.eidebailly.com

»» Note Disclosure Requirements

- ✓ Basic information (name of plan, PERS, type of plan)
- ✓ Brief description of benefits including census data
- ✓ Availability of standalone report and how to obtain
- ✓ Authority to establish / change contributions and contribution rates
- ✓ Contributions to the plan
- ✓ Significant assumptions and other inputs to measure OPEB liability (include healthcare cost trends, COLAs, mortality, etc.)
- ✓ Experience study dates
- ✓ Sensitivity analyses
- ✓ Discount rate disclosures
- ✓ Schedule of changes in Net OPEB liability

www.eidebailly.com

»» Note Disclosure Requirements

- ✓ Measurement date information
- ✓ Deferred inflows / outflows of resources amortizations
- ✓ OPEB expense
- ✓ RSI Schedules – 10 years (instead of schedule of funding progress and three valuations)
- ✓ Schedule of changes in NOL
- ✓ Contributions schedules
- ✓ Notes on trends changes that are result of elements under management's control

www.eidebailly.com

Tools You Can Use

- **Documentation for today includes 17+ pages of 'rolling' FAQs that our firm receives on OPEB**
 - Includes questions related to GASB-74, 75 and 85 (see next section)
 - Questions related to
 - Implementation Dates and Transition
 - Differences between OPEB and Pensions
 - Reporting by Plans and Employers and RSI
 - Subsidy provisions
 - Early Retirement Incentive Programs, Sick Leave and Termination conversions, Disability, Workers' Compensation
 - Types of Plans
 - Set of Notes and RSI for this year only (includes GASB-45 disclosure) (Not to be used upon GASB-75 implementation)

www.eidebailly.com

Omnibus 2017

GASB-85

Effective Date – Periods Beginning After June 15, 2017



www.eidebailly.com

OPEB Topics Addressed

- Pensions and other postemployment benefits (OPEB)
 - Timing of the measurement of pension and OPEB liabilities and related expenditures in financial statements prepared using the current financial resources measurement focus
 - Recognition of on-behalf payments for pensions or OPEB in employer financial statements
 - Presentation of payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB

www.eidebailly.com

OPEB Topics Addressed

- OPEB
 - Requirements for employer-paid member contributions for OPEB
 - Simplifications related to the alternative measurement method
 - Applicability of Statement 75 for employers whose employees are provided with OPEB through multiple-employer defined benefit OPEB plans that have characteristics similar to those identified in Statement 78 (aka 'Taft-Hartley' or VEBA's)

www.eidebailly.com

Key Points of Focus – For OPEB Changes

- Payroll Measures for Defined Benefit OPEB plans – Similar to GASB-82
 - Covered payroll is the payroll on which contributions to the OPEB plan are based
 - Single and Cost-Sharing Multiple-Employer **Plans**- measure of payroll used in RSI should be **covered payroll unless contributions to plan ARE NOT based on a measure of pay**
 - If not based on measure of pay, **do not present ratio** (could be common)
- Payroll Measures for Defined Benefit OPEB Employers administered through Trusts
 - Use covered payroll if based on a measure of pay
 - Use covered-employee payroll if NOT based on measure of pay
- EPMC's – same as GASB-82 – but could be more prevalent

www.eidebailly.com

Other Topics Addressed in GASB-85

- Component unit presentation
 - Requirements for blending component units for single-column business-type activities
- Government combinations
 - Amounts reported as goodwill and “negative” goodwill
- Fair value measurement and application
 - How to classify real estate held for both operations and investment purposes by insurance entities
 - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost

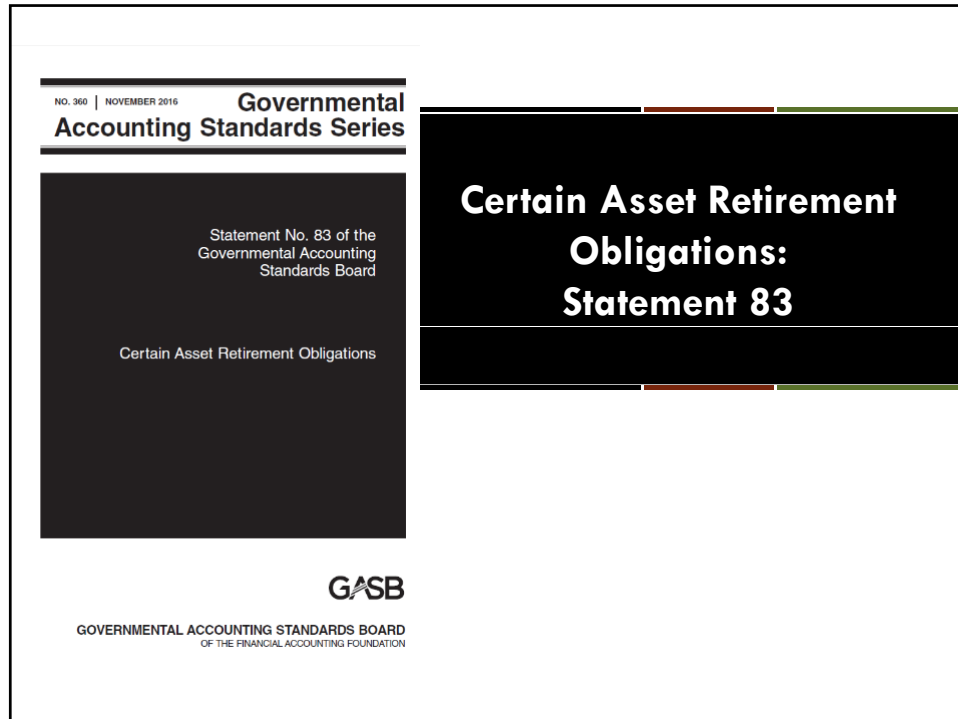
www.eidebailly.com

Adjustments to GASB-72 by GASB-85

- Governmental insurance entities may hold real estate
 - GASB-85 allows *either* capital asset or investment, depending on if it meets the definition of an investment in GASB-72
- Money market investments and participating interest-earning investment contracts (adjust with rate changes)
 - Can be measured at amortized cost per GASB-31, par. 9
 - Must have a remaining maturity of less than 1 year
 - Must have minimal credit risk in investment

www.eidebailly.com

**June 30, 2019 and Beyond
(Issued Standards)**



»»» What Is the Definition of an ARO?

- Asset retirement obligation—A legal obligation associated with the retirement of a capital asset
 - Retirement of a tangible capital asset—The other-than-temporary removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)
 - Doesn't matter if capital asset was acquired or constructed
 - May also occur when government is a lessor
 - Legal obligation must be enforceable

What Is the Scope of Statement 83?

- Retirement of tangible capital assets, for example:
 - Nuclear power plant decommissioning
 - Coal ash pond closure (those that are not landfills)
 - Contractually required land restoration such as removal of wind turbines
 - MRI's / X-Ray Machines
 - Other similar obligations
- Disposal of a replaced part that is a component of a capital asset
- Environmental remediation associated with a requirement of tangible capital assets that results from the normal operations of those tangible capital assets

www.eidebailly.com

What Is Excluded From the Scope of the Statement 83?

- Obligations associated with:
 - Plan to solely sell or otherwise dispose of a tangible capital asset
 - Preparation of a tangible capital asset for an alternative use
 - Asbestos removal or pollution remediation (GASB-49) that result from the other-than-normal operation of a tangible capital assets
 - Maintenance, rather than retirement, of a tangible capital asset
- Cost of replacement part that is a component of a capital asset
- Landfill closure and postclosure care obligations, including those not covered by Statement 18
- Conditional obligations to perform asset retirement activities

www.eidebailly.com

Recognition of Liabilities

- Similar to GASB-49
 - Liability has to be incurred and *reasonably estimable*
 - Must be external **and** internal events to obligate the government
 - External events
 - Federal, state, local laws / regulations
 - Legally binding contracts
 - Court judgment imposing legally enforceable liability
 - Internal events
 - For **contamination related** events – occurrence
 - Non-contamination
 - Pattern of incurrence based on use (mine excavation)
 - Placing of capital asset into service
 - Abandonment before use (permanent construction stoppage)
 - Acquisition of a capital asset with existing ARO

www.eidebailly.com

Recognition of Rest of Accounting Elements

- Once liability is recognized, **deferred outflow of resources** is debit *unless* capital asset is abandoned before use
- Liability is recognized based on legal requirements as of reporting date
 - Based on **current value of outlays** to settle liability
 - Current value is amount that would be paid if all equipment, facilities, services etc., in estimates during the current year
 - Based on best estimate of all available evidence
 - Outcomes weighed just like GASB-49 (probability)

www.eidebailly.com



Putting it all Together - Recognition & Measurement

Initial Recognition	ARO liability when incurred and reasonably estimable—measured based on the best estimate of the current value of outlays expected to be incurred	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	<ul style="list-style-type: none"> • At least annually adjust the current value for the effects of inflation or deflation • At least annually evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant 	Recognize a reduction as an outflow of resources (for example, expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset

www.eidebailly.com

77



Asset Retirement Obligations – GASB-83

- Implementation –
 - Periods beginning after June 15, 2018
 - Prior period adjustment / restatement
- Auditing of ARO will focus on recognition and estimation process
 - Independent verification of estimates
 - Potential engineering specialist needed
 - Confirmation of restricted assets

www.eidebailly.com

Accounting and Financial Reporting for Fiduciary Activities

GASB-84
Effective Date – Periods Beginning After
December 15, 2018



www.eidebailly.com

NO. 84 | JANUARY 2017
Governmental Accounting Standards Series

Statement No. 84 of the
 Governmental Accounting
 Standards Board

Fiduciary Activities

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
 OF THE FINANCIAL ACCOUNTING FOUNDATION

» You Might Be a Fiduciary If....

The government has All Three of the following:

- The government **controls** the assets (see slide after next)
- Those assets are *not* derived solely from:
 1. The government's own-source revenues
 2. Government-mandated and voluntary nonexchange transactions that
 - a) **are not** pass-through grants **and**
 - b) for which the government **does not** have administrative or direct financial involvement in the program
- **One** of the criteria on the next slide is met



www.eidebailly.com

» You Might Be a Fiduciary If...

- **One** of the following criteria
 1. The assets are administered through a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary.
 2. The assets are for the benefit of individuals that are *not* required to be residents or recipients of the government's goods and services as a condition of being a beneficiary, and the use of those assets does not require substantive approval by the government. In addition, the assets are *not* derived from the government's provision of goods or services to those individuals.
 3. The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the government's provision of goods or services to those organizations.

www.eidebailly.com

» You Might Be a Fiduciary If...

- A government has **control**
 - A government controls the assets of an activity if:
 - The government *holds* the assets.
 - The government has the ability to *direct* the
 - Use,
 - Exchange, or
 - Employment of the assets in a manner that provides benefits to the specified or intended beneficiaries.

www.eidebailly.com

»»» Fiduciary Fund Type Changes

- New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.
 - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.
- *Custodial funds* will report fiduciary activities for which there is no trust agreement or equivalent arrangement.
 - External portions of investment pools that are *not* held in trust should be reported in a separate column under the custodial fund umbrella
 - Use “*external investment pool fund*” to distinguish from other custodial funds

www.eidebailly.com

83

»»» Agency Funds Currently in Stand-alone BTAs

- A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.
- Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

www.eidebailly.com

84

Other Fun Stuff – Reporting – Not Much Changing other than Agency Funds

- Present additions disaggregated by source and, if applicable, separately display investment income and investment costs
- Present deductions disaggregated by type and, if applicable, separately display administrative costs
- Applies to statement of changes in fiduciary net position for all fiduciary funds *except* custodial funds held for three months or less
 - For these custodial funds, governments would be allowed to report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows

www.eidebailly.com

Other Fun Stuff...

- Liabilities would be recognized in fiduciary funds when an event has occurred that compels the government to disburse fiduciary resources.
 - No further action would be needed to pay a beneficiary that is entitled to receive the resources
 - Example – state government collects taxes on behalf of other governments but must make transfers to other governments within 5 days – liability would be declared upon collection
 - Example – 529 plan that qualifies as a fiduciary fund (many may not be) when a participant requests tuition
 - GASB-32 rescinded upon implementation (457 Plans) – use GASB-84

www.eidebailly.com

Other Fun Stuff...

- Student Activity Funds generated a lot of buzz –
 - Holding resources for the benefit of students *could* result in the school district being an administrator of the funds
 - **Would be a Fiduciary = Fiduciary Fund**
 - If activity is similar to providing goods and services as a result of fees paid, *may not be a fiduciary – may be a governmental fund*
- In Basis for Conclusions (pars. B20 and B21) – GASB concludes no specific requirements addressing all student activities included in GASB-84
 - Likely *Implementation Guide* questions in the future?

www.eidebailly.com

Leases

Proposed Implementation – periods beginning after
December 15, **2019**

BEING APPROVED BY JUNE 30
GASB-87



www.eidebailly.com

Leases – Big Deals

- Single approach—right of use
 - No classification of leases into operating/capital or other categories
 - Potentially develop some exceptions
 - Underlying assumption that leases are financings
- Practicality exceptions—short-term lease
 - Lease that, at the beginning of the lease, has maximum possible term under the contract, including any options to extend, of 12 months or less
- All standard setters changing, but not all at once

www.eidebailly.com

Exceptions from Lease Accounting

- Leases for Intangible Assets
 - Exploration / mining rights for natural resources
 - Licenses for performing arts, copyrights, patents, software, other than subleases
- Biological assets / timber / living plants or animals
- Inventory
- Power purchase agreements that are leases
- Service Concession Arrangements (GASB-60)
- Leases where underlying asset is financed with conduit debt *unless* asset and conduit debt are reported by lessor
 - Conduit debt is common in state revolving fund loans
- Regulated leases (airports) where cost recovery is controlled – lessor only recognizes payment provisions in contract and limited disclosures
- Ownership transfers without termination options = financed sales (notes receivable)
- Leases that are investments – limited disclosure

www.eidebailly.com

Leases

- What is a Lease?
 - Contract that conveys control of the right the right to use
 - Another entity's nonfinancial asset (the underlying asset)
 - For a period of time as specified in the contract
 - In an exchange or exchange – like transaction
 - Control of the right is evidenced by both:
 - Obtaining of service capacity from the use of the asset as specified in the contract
 - Ability to determine the nature / use of the asset as specified in the contract
- Bottom line
 - No capital vs. operating leases
 - Other exceptions may occur
 - Underlying assumption that nearly all leases are financing driven (financings)
 - **Transfers of ownership without termination also are financings**

www.eidebailly.com

Leases

- Lessees – Recognition and Measurement
 - Intangible asset for **the right to use** the underlying asset and
 - Liability for future payments
 - Day 0 liability =
 - Fixed payments over lease term
 - Variable payments based on an index / rate in effect at that date
 - Variable payments that are in-substance fixed
 - Residual value guarantees that are *probable* of being required
 - Termination penalties if based on the determination of the lease term, the termination option is *probable* of being exercised
 - Liability does not include lease payments that are dependent on a lessee's performance or usage of an underlying asset

www.eidebailly.com

Leases

- Lessees – Recognition and Measurement
 - Liability remeasured by calculating interest and reducing liability for actual payments *less* interest
 - Lease asset amortized using a systematic and rational basis over the *shorter* of
 - the useful life of the underlying asset or
 - the lease term
 - Amortization is based on lessee's depreciation policy if the lease transfers ownership or if a purchase option is determined to be *probable* of being exercised
 - Amortization of the lease asset classified as amortization expense
 - Amortization of the discount is interest expense in statement of activities

www.eidebailly.com

Leases

- Lessees – Recognition and Measurement
 - Short-term leases
 - Measured at beginning of lease
 - Has a maximum possible term, including options to extend < 1 year
 - Regardless of probability of being exercised
 - End result may be very few operating leases
 - Leases in Business-Type Activities – Statement of Cash Flows
 - If lease asset recognized, cash flows is in capital and related financing (including interest)
 - Short-term leases in operating activities

www.eidebailly.com

Other Lease Provisions on Term of Lease

- Lessee's or lessor's options to extend and terminate the lease evaluated throughout lease term **at the point when a renewal or termination option is elected contrary to original lease term determination**
 - **Likelihood of occurrence of options is proposed to be at a reasonably certain standard (more than probable)**
- Options include all relevant factors including penalties (economic disincentives)
 - Fiscal funding clauses would be considered like any other termination option – only if it is reasonably certain the clause will be exercised

www.eidebailly.com

Leases

- **Governmental lessor**
 - Board has proposed symmetry
 - Lessor would recognize receivable for the right to receive payments
 - Payments discounted by the rate charged lessee
 - No de-recognition of underlying asset
 - No recognition of performance liability (e.g. security)
 - Deferred inflow of resources is credit = [receivable + cash received]
 - Lease revenue recognized systematically & rationally over lease term (e.g. effective interest method)
 - If in Business-Type Activities, Lessor's Statement of Cash Flows would show lease consistent with how underlying asset is shown (investing or capital and related financing)
 - Short-term lease would be operating cash flow like lessee

www.eidebailly.com

Leases

- **Governmental lessor**
 - Receivable includes
 - Residual value guarantees
 - Purchase options
 - Termination penalties (if measured, exercised and unpaid)
 - Direct costs expensed (just like GASB-65)
- Sub-lease situations
 - **2 separate transactions**
 - **Do not net**
 - **Apply all applicable guidance**
- Sale-Leasebacks, Lease-Leasebacks and Intra-entity leases all have provisions in exposure draft

www.eidebailly.com

Debits and Credits on One Sheet

	Party	Assets	Liabilities	Deferred Inflow of Resources
Initial Reporting	Lessee	Intangible asset (lease liability + prepayments + initial direct costs placing asset into use)	Present value of future lease payments (fixed, variable, including guarantees etc.)	Should be none
	Lessor	Lease receivable, capital asset remains on books	Should be none	Lease receivable + cash that relates to future period
Subsequent Reporting	Lessee	Amortize intangible over shorter of useful life or term of lease	Reduce by lease payments (effective interest)	Should be none
	Lessor	Depreciate capital asset unless required to be returned in original or better condition Reduce receivable, taking into account accrued interest	Should be none	Recognize revenue in effective interest method (systematic & rational)

www.eidebailly.com

Effective Date

- Periods *beginning* after December 15, **2019**
- Existing Leases –
 - Adjust based on the *remaining lease payments as of the beginning of the period of implementation or the beginning of any earlier periods restated*
 - June 30, 2021 = July 1, 2020
 - Airports –
 - Leases bound by regulatory language follow that language
 - Other concessions would use GASB
- Preparers may want to start reviewing software now that determines capital vs. operating lease (if applicable)

www.eidebailly.com

**And GASB's Just Getting Started...
PROPOSED GAAP**

Financial Reporting Model

- Key focus areas:
 - MD&A – most valuable piece of reporting model but frequently last to get prepped / boilerplate / copied
 - Government-wide statements – users love them, preparers don't, auditors mixed
 - Biggest problem – *internal* decision-makers don't use them
 - Statement of Activities is weakest link
 - Government-wide statement of cash flows in our future?
 - Funds
 - All tend to like them, except for lack of comparability
 - Some call for governmental funds to be full accrual
 - Others called for governmental funds to be RSI
 - Budgetary comparisons, modified approach, capital assets and debt are all on the table (among others)

www.eidebailly.com

ICYMI (In Case You Missed It) – What Was in the ITC?

- First of **3** rounds of public comment periods
- ITC addressed these topics:
 - Measurement focus and basis of accounting for governmental fund financial statements
 - Format of governmental fund resource flows statement (currently statement of revenues, expenditures and changes in fund balance)
 - Governmental funds cash flows statement
 - Format of the government-wide statement of activities

www.eidebailly.com

102

»» On To Round 2 – Preliminary Views

- **Management's Discussion and Analysis (MD&A)**—options for enhancing the financial statement analysis component, eliminating requirements that are boilerplate and no longer necessary for understanding the financial reporting model, and clarifying guidance for presenting currently known facts, decisions, or conditions
- **Major Funds**—explore options for providing additional information about debt service funds, either individually or in aggregate in the financial statements or the notes
- **Proprietary Fund and Business-Type Activity (BTA) Financial Statements**—explore operating performance measure alternatives in conjunction with evaluating the guidance for the separate presentation of operating and non-operating revenues and expenses.
- **Permanent Funds** – should these be still reported and if yes, where? Fiduciary Funds?

www.eidebailly.com

»» On To Round 2 – Preliminary Views

- **Extraordinary and Special Items**—explore options for clarifying the guidance for more consistent reporting
- **Fiduciary Fund Financial Statements**—explore where these financial statements should be presented in the basic financial statements
- **Budgetary Comparisons**—explore the appropriate method of communication (either as basic financial statements or required supplementary information) and which budget variances, if any, should be required to be presented
- **Any Elements from ITC requiring carried forward**

www.eidebailly.com

Round 3 – Exposure Draft

- Elements Tentatively OK'd by GASB from Invitation to Comment that may also have been included in Preliminary Views
- Preliminary Views Elements that were Tentatively OK'd
- Any other elements added late
- In other words... it's the last shot before final, except if major changes needed (then reexposed)

www.eidebailly.com

Tentative Remaining Timeline

Preliminary Views	3 rd Quarter - 2018
Exposure Draft	2 nd Quarter - 2020
Final Statement Expected	4th Quarter - 2021
Implementation	Anyone's guess....

www.eidebailly.com



Revenue and Expense Recognition Project

- Reexamination of exchange and exchange-like transactions (GASB-33 and 36)
 - All standard setters redoing revenue recognition
 - Current guidance does not take into account multiple events or performance obligations clearly
 - Very long timeline due to other standard setters timelines –
 - ITC January 2018
 - PV October 2019
 - ED April 2021
 - Final June 2022

www.eidebailly.com



Note Disclosure Reexamination

- Note Disclosure Reexamination – **Please GASB say YES!**
 - Initial research going on but strong support from Board to add as a full project
 - How to reduce repetition **and length of notes**
 - Do current notes meet intended objectives and provide decision-useful information / accountability?
 - Disclosure related to standards issued from GASB-72 and forward *potentially excluded*
 - Can the nature / extent of notes be improved?
 - Can component unit notes in primary government statement's improve?
 - Initial research now, full addition of project by November 2017

www.eidebailly.com

Total Projects Timeline (as of December 2016)

	Financial Reporting Model	Revenue / Expense Project	Note Disclosure Project	Recognition Concepts Statement
2017	ITC	Research	Project Approved?	Research
2018	Preliminary Views	ITC	Research?	Preliminary Views
2019	Deliberations	Preliminary Views	Due Process Document?	Deliberation
2020	Exposure Draft	Deliberations	Unclear	Exposure Draft
2021	Deliberations	Exposure Draft	↓	Final
2022	Final	Final		
Unknown	Implementation			
<i>Tentative – Subject to Change at Any Time</i>				

www.eidebailly.com

Just a Mention of GASB's Other Projects

- Debt Disclosures and Direct Borrowing (Private Placement)
 - Exposure Draft out by July 1
- Capitalized Interest – ED – 4th Quarter 2017
- Equity Method Interest – ED – 1st Quarter 2018
- Still Being Researched
 - Going Concern – needed change due to Puerto Rico and SAS-132 (Audit Standards) Changes
 - Conduit Debt
 - Social Impact Bonds
 - Cloud Computing / Software
 - Update to Service Concession Arrangements?

Questions and Thank You!



Eric S. Berman, MSA, CPA, CGMA

Partner

Eide Bailly LLP
12 Stedman Street, Apt. 2
Brookline, MA 02446

T 208.424.3524

M 626.375.3600

E eberman@eidebailly.com

www.eidebailly.com

Experience the Eide Bailly Difference



CPAs & BUSINESS ADVISORS

www.eidebailly.com

Frequently Asked Questions on GASB-74, 75 and 85 (The GASB's OPEB Standards)

1. What are the implementation dates of the various standards?

- A. GASB-74 on OPEB plans has an implementation date for periods beginning after June 15, 2016. For employers GASB-75 has an implementation date for periods beginning after June 15, 2017. GASB-85 (Omnibus 2017,) which contains clarification standards related to GASB-74 and 75 has an implementation date also for periods beginning after June 15, 2017. All of the standards require a retroactive restatement of financial statements for all prior periods presented. If restatement for prior periods is not practical, the cumulative effect of applying the statements is presented as a restatement of beginning net position for the earliest period restated. Note disclosure and RSI will need to also be redrafted.

2. In the year of transition to GASB-74, won't there be a presentation of old information for employers and new information for the plan(s)?

- A. Yes. Unless an employer early implements GASB-75 and GASB-85, there will be a mixture of note disclosure and required supplementary information (RSI) for employers with single employer plans for the initial fiscal year of implementation of GASB-74. The note disclosure and RSI that has been required by the former GASB-45 will continue for another year until GASB-75 and GASB-85 are to be implemented.

3. Can I use the actuarial valuation prepared 3 years prior to June 30, 2017 for the purposes of GASB-74?

- A. No. First, the total OPEB liability should be determined by:
(1) an actuarial valuation as of the OPEB plan's most recent fiscal year-end *or*
(2) the use of update procedures to roll forward to the OPEB plan's most recent fiscal year-end amounts from an actuarial valuation as of a date *no more than 24 months earlier than the OPEB plan's most recent fiscal year-end.*

If update procedures are used and significant changes occur between the actuarial valuation date and the OPEB plan's fiscal year-end, professional judgment should be used to determine the extent of procedures needed to roll forward the measurement from the actuarial valuation to the OPEB plan's fiscal year-end, and consideration should be given to whether a new actuarial valuation is needed. For purposes of this determination, the effects of changes in the discount rate resulting from changes in the OPEB plan's fiduciary net position or from changes in the municipal bond rate, if applicable, should be among the factors evaluated. For financial reporting purposes, an actuarial valuation of the total OPEB liability should be performed at least biennially. More frequent actuarial valuations are encouraged.

Second, the actuarial valuation must use all assumptions in conformity with actuarial standards of practice (ASOP). Actuarial deviations are common and should be excluded for the purposes of financial reporting.

Third, the valuation should use the entry-age normal actuarial cost method only. GASB-43 and 45 allowed the use of six potential methods, including the entry-age normal method. Each period's service cost should be presented as a level percentage of pay.

Fourth, the discount rate previously used may be materially different than the new rate required in accordance with GASB-74, 75 and 85. The new rate is the long-term expected rate of return on

plan investments used to finance the payment of benefits to the extent the OPEB plan's fiduciary net position is projected to be sufficient to make those benefit payments and OPEB plan assets are expected to be invested using a strategy to achieve that return. Where the conditions are not met to pay benefits, a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher is used. The two rates are then adjusted to a single rate.

Fifth, many valuations are solely for an implicit rate subsidy provided to beneficiaries. This subsidy occurred when an employer was paying a health insurance premium that was *not age-adjusted*. GASB-74, 75 and 85 require valuations to measure the total OPEB liability using projected benefit payments based on *claims costs*, or *age-adjusted premiums approximating claims costs*. Therefore, the implicit rate subsidy calculation becomes meaningless.

Finally, the OPEB valuation must also be adjusted for the presence of insurance where there is a transfer of risk, taxation (including the effects of Medicare, the Patient Protection and Affordable Care Act taxation), legal or contractual caps on benefit payments and many other factors and assumptions that may not be present in a current valuation.

4. What are the major differences in understanding OPEB versus pensions?

A. Some of the major differences are as follows:

<u>Pensions</u>	<u>OPEB</u>
<ul style="list-style-type: none"> • Salary and time are vital in projection of benefits (longer you work, the more your salary, the more benefit) 	<ul style="list-style-type: none"> • Based on healthcare claims – years of service do not impact in many cases
<ul style="list-style-type: none"> • Pension actuaries are common 	<ul style="list-style-type: none"> • OPEB actuaries must have experience in both pensions <i>and</i> healthcare claims development <i>or</i> have 2 certifications
<ul style="list-style-type: none"> • Actuarial assumptions are relatively stable 	<ul style="list-style-type: none"> • Actuarial assumptions include pension assumptions, plus healthcare cost trend rate, effects of taxation, insurance and Medicare (as well as law) – pension assumptions may not be that significant in OPEB
<ul style="list-style-type: none"> • Benefits are well documented and change infrequently 	<ul style="list-style-type: none"> • Much more informal – may change annually based on budget / healthcare trends / laws / bargaining
<ul style="list-style-type: none"> • Usually a separate plan, usually an irrevocable trust 	<ul style="list-style-type: none"> • Most often part of the employer, potentially part of HR – irrevocable trust is not common
<ul style="list-style-type: none"> • Annual valuations most often done 	<ul style="list-style-type: none"> • Biennial (or triennial) valuations performed
<ul style="list-style-type: none"> • Data sources / internal controls are usually well documented, even if some is at the employer(s) and some at the plan 	<ul style="list-style-type: none"> • Data sources / internal controls less documented, especially if a third-party administrator / insurer is involved
<ul style="list-style-type: none"> • Actuarial valuations use entry-age normal method – focusing on projecting the future benefits, discounting payments to present value and attribute amounts to future periods 	<ul style="list-style-type: none"> • Same method as pensions, but adds healthcare claims development and effect of laws, insurance etc.

<u>Pensions</u>	<u>OPEB</u>
<ul style="list-style-type: none"> • Long-term investment rate of return is usually key driver in discount rate 	<ul style="list-style-type: none"> • Investment rate of return is usually immaterial due to lack of funding and no trust available
<ul style="list-style-type: none"> • Mortality rate is critical in projection of liability 	<ul style="list-style-type: none"> • Mortality rate is less critical as plan is usually pay as you go (PAYGO) meaning much of the liability is pre-age 65 / 67 (after that age – Medicare or other insurance?)
<ul style="list-style-type: none"> • Retirement age is where liability is to be ready to be paid 	<ul style="list-style-type: none"> • Retirement age is crucial to determine cash flows, but years of service harder to determine
<ul style="list-style-type: none"> • Inflation and COLAs may be present 	<ul style="list-style-type: none"> • Healthcare cost trend rate may be a larger driver than investment return
<ul style="list-style-type: none"> • Multiple retirement benefit options may exist for survivors 	<ul style="list-style-type: none"> • Plan choice, number of dependents / beneficiaries may significantly change liabilities
<ul style="list-style-type: none"> • Not a factor 	<ul style="list-style-type: none"> • Utilization by Age is key – the older you get, the more healthcare costs
<ul style="list-style-type: none"> • Not a factor 	<ul style="list-style-type: none"> • Retirees may have to pay for / share in costs of healthcare (premiums). Higher premiums may result in lower participation rates. The OPEB liability may also convert to Medicare or other insurance after age 65 to 67
<ul style="list-style-type: none"> • Not a factor unless GASB in the future revisits decision not to include social security as a liability 	<ul style="list-style-type: none"> • Excise tax exists (ACA “Cadillac Tax”)

5. Does GASB-74 require the issuance of a stand-alone financial report for a defined benefit OPEB plan?

A. No. However, many governments have laws or regulations that require a separate report that is audited.

6. A government has a single-employer OPEB plan reported as a trust fund. A stand-alone financial report is prepared. Does the government have to apply all the requirements of GASB-74 for the purposes of reporting the trust fund in the government’s financial report?

A. No. In general, Statement 74 applies to financial reporting of the plan in stand-alone financial statements and in circumstances in which the plan is included as a trust fund of another government, for purposes of including the OPEB plan as a trust fund in the government’s financial report, footnotes 8 and 10 of GASB-74 limit the applicability of the note disclosure and RSI requirements to circumstances in which defined benefit OPEB plan financial statements are presented *solely in the financial report of the government*. Therefore, because a stand-alone plan financial report is prepared in accordance with the requirements of GASB-74, GASB-74 does not require that the government to include the information identified in the detailed disclosure and RSI requirements of Statement 74 as part of *its presentation* of the OPEB plan as a trust fund in its financial report. Paragraph 106 of GASB-34, as amended, requires that, in this circumstance, the government’s notes to financial statements include information about how to obtain the stand-alone plan financial report.

- 7. A government only offers an unfunded (“PAYGO”) defined benefit OPEB plan. The government’s annual contributions are approximately equal to benefit payments. A trust is present in accordance with the provisions of GASB-74. Does GASB-74 apply?**
- A. Yes. Since a trust is present in accordance with GASB-74, the reporting requirements apply. This would be also true if the plan was closed to new entrants. **If no trust is present (an agency fund is currently used,)** there is no OPEB plan reporting (a statement of fiduciary net position, a statement of changes in fiduciary net position, notes to the basic financial statements, or RSI) in accordance with the majority of GASB-74. However, if any assets are accumulated for OPEB, the assets are reported on the employer’s financial reports as an agency fund. Also, upon the implementation of GASB-84, such reporting may change to a custodial fund which will present a statement of fiduciary net position and a statement of changes in fiduciary net position.
- 8. A defined-benefit pension plan using an irrevocable trust also provides benefits for postemployment healthcare. Does GASB-74 apply?**
- A. Yes. If a trust is used to administer *both* a pension plan and an OPEB plan *and* the OPEB partition of the trust meets the criteria for an irrevocable trust in GASB-74 relative to the assets held for OPEB. However, steps must be taken to ensure that the assets, *once initially allocated to OPEB are dedicated solely to provide OPEB until the point in time at which all benefits provided through the OPEB plan have been paid.* Otherwise, the dedicated purpose provisions of GASB-74 (and the Internal Revenue Code) are not met. The benefits then are classified as pensions.
- 9. A defined benefit pension plan also provides a postemployment health insurance subsidy in the form of an additional monthly cash payment to each recipient. There is no limitation on the use of the subsidy. Should the subsidy be classified as OPEB?**
- A. No. Since there is no limitation, it is considered retiree income and classified as pensions.
- 10. Is separate reporting required for a defined benefit plan administered through a trust in accordance with GASB-67 and a postemployment healthcare plan administered through a trust in accordance with GASB-74?**
- A. Yes. Two plans are present. Separate columns should be presented or if there are multiple plans, a combining statement may be used in stand-alone reports. If the plans are reported as trust funds by the employer or sponsor (no stand-alone reporting,) fiduciary fund financial statements are required to include a separate column for each fiduciary fund type, including pension and other employee benefit trust funds as one of those fund types. If separate financial reports of the individual pension and postemployment healthcare plans prepared in accordance with GAAP have been issued, the employer’s or sponsor’s notes to financial statements should include information about how to obtain those reports. In that case, separate plan financial statements (including notes to financial statements) for those plans *are not required* to be presented in the employer’s or sponsor’s report. If separate GAAP-basis plan reports *have not been issued,* separate financial statements (including notes to financial statements) for individual pension and postemployment healthcare plans should be presented in the employer’s or sponsor’s notes to financial statements and should be accompanied by required schedules of each plan, as applicable, in accordance with GASB-34, par. 106, as amended.
- 11. A state-administered cost-sharing pension plan collects \$75 per plan member per month from employers for postemployment healthcare benefits. Amounts collected by the pension plan for postemployment healthcare benefits are remitted to a separate state agency that**

administers the postemployment healthcare plan. The cash collected for postemployment healthcare benefits is credited to a liability account in the pension trust fund, which is liquidated when money is remitted to the state agency that administers the postemployment healthcare plan. For financial reporting purposes, should the pension plan instead report those amounts in accordance with the requirements of Statement 74 for an OPEB plan?

- A. No. In collecting and remitting contributions to the agency administering the postemployment healthcare plan, the pension plan's role in this case is that of a *cash conduit*. Reporting the cash flow through a liability account in the trust fund is an appropriate way of reporting the pension plan's involvement. (Agency fund reporting also would fit the circumstances until the implementation of GASB-84).

POINT OF FOCUS: A problem in many states is which entity should implement GASB-74. Many states have similar situations to the above. If a separate state agency is an administrator of an OPEB plan, managing the plan provisions, then the state agency should implement GASB-74 where applicable not a pension plan that merely collects cash from employers and passes the cash to the agency.

12. In order to trim payroll, a government offers an early retirement incentive in the form of healthcare benefits for 5 years to any employee with at least 20 years of service. This is in addition to already existing OPEB healthcare benefits. Acceptance of the early termination offer also extends postemployment healthcare benefits to include ages 60-64. Does the early retirement incentive affect the amounts reported by the OPEB plan about the net OPEB liability?

- A. Yes. Although this is a termination benefit in accordance with GASB-47, *Accounting for Termination Benefits*, as amended, an enhanced OPEB benefit results in accordance with GASB-74 due to the extending of the period of time in which benefits are provided. Therefore, the net OPEB liability is affected.

13. An employer allows employees' unused sick leave at the conclusion of active service to be applied to postemployment healthcare premiums or claims costs. Does any of the following activities constitute OPEB: establishment of the accounts, the payment of cash equal to the account balances to a third party administrator, or cash payments from the accounts for premiums or benefits if the employer retains administration?

- A. No. None of the above are specifically OPEB. In those cases, conversion of sick leave of an individual account is an example of termination of sick leave in accordance with GASB-16, *Accounting for Compensated Absences*, footnote 6, as amended. **However**, if the balance of unused sick leave is converted to postemployment healthcare benefits at the rate of one month of healthcare premiums up to a stipulated monthly amount, for a formula of hours of sick leave (example one month premium for every 8 hours of sick leave converted), **they would be defined benefit OPEB** in accordance with GASB-74, footnote 6.

14. Are long-term disability and workers' compensation benefits considered OPEB for financial reporting purposes?

- A. Disability depends on facts and circumstances. If they are provided through a defined benefit pension plan, they are pensions. If they are provided separately, they are OPEB. Workers' compensation benefits are not OPEB benefits in exchange for employee service. They should be

accounted for in accordance with the provisions of GASB-10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.

15. A defined benefit OPEB plan that is administered through a trust is used to provide OPEB to the employees of a state government and several governments that are component units of the state. There are no other entities whose employees are provided with OPEB through the plan. The assets in the plan legally can be used to pay benefits to the employees of the state or any of the component units. Is this plan a single-employer, agent multiple-employer, or cost-sharing multiple-employer plan?

- A. The plan is a single employer plan. GASB-74 par. 13 specifies that a primary government and its component units should be considered to be one employer for purposes of classifying a defined benefit OPEB plan as single employer or multiple employer. If non-state / non-component unit entities are also members of the plan, the plan is a multiple-employer plan for financial reporting purposes. If (a) a separate account is maintained for each of the governments or (b) a separate account is maintained for the state and its component units together and separate accounts are maintained for each of the other governments, such that the assets in each of the separate accounts legally are available to pay the benefits of only the employees of the government or governments whose assets are maintained in the separate account, the plan would be classified as an agent multiple-employer plan. If, instead, the OPEB plan assets legally can be used to pay the benefits of the employees of *any of the governments*, the plan would be classified as a cost - sharing multiple-employer plan.

16. What is the difference between investment-related expenses, (which would offset investment income in the statement of changes in fiduciary net position) versus administrative expenses? For example, should the CIO, investment staff salaries, payroll taxes, technology and other related costs be reported as investment expense?

- A. GASB-74 par. 28(d)(2) requires separate display of investment expense, including investment management and custodial fees and all other significant investment-related costs. The purpose of that requirement is to help users of the OPEB plan's financial statements assess both gross and net investment income. GASB-74 provides that investment-related costs should be reported as investment expense if they are separable from

- (a) investment income and
- (b) the administrative expense of the OPEB plan.

Each investment-related cost should be evaluated on its own merits. The cost associated with each of the examples given in the question that are readily identifiable as an investment-related cost and should be reported as an investment expense. In contrast, if a plan employee's time is variable and cannot be directly identified with investments, professional judgment should be used to measure the cost of investment expense and administrative expense.

17. Should the information that is required in the notes on census data and the authority under which benefit terms are established or may be amended, the types of benefits and policies of COLAs and other changes be current as of (a) the actuarial valuation date that is used as the basis for the total OPEB liability or (b) the OPEB plan's fiscal year-end?

- A. The requirements are intended to result in the disclosure of information about the benefit terms at the OPEB plan's fiscal year-end.

18. A government includes the OPEB plan through which it provides benefits to its employees as a fiduciary fund in its financial report. The OPEB plan does not issue a stand-alone financial report. Should the government make the note disclosures required by GASB-74 for the OPEB plan, as well as the note disclosures required for an employer that provides benefits through the plan?

A. **Yes.** In this circumstance, the presentation of information from two perspectives is required within the same report—first, from the perspective of an employer that provides its employees with benefits through the OPEB plan and, second, from the standpoint of the OPEB plan itself. Accordingly, in addition to applying employer reporting requirements, the government should include in its financial report information required by GASB-74 for the OPEB plan. However, footnote 8 of GASB-74 provides for coordination of employer and plan note disclosures within the employer’s financial report with the objective of avoiding unnecessary duplication of information within that report.

19. What about RSI for the same government?

A. **Yes.** In addition to applying employer reporting requirements, the government should present the information required by GASB-74 with regard to the OPEB plan, again avoiding unnecessary duplication of information.

20. Within a single employer plan, multiple tiers of benefits have been created with different benefits to plan members hired between certain dates. Separate actuarial valuations are prepared. Are separate RSI schedules required for each tier?

A. No. The RSI is presented for the plan as a whole.

21. A cost-sharing multiple-employer OPEB plan only covers volunteers. Employer contributions are assessed as a dollar amount per active member. How does this affect the presentation of RSI and the measures of the net OPEB liability and contributions in relation to a measure of payroll?

A. As employer contributions are not based on a measure of pay, there is no covered payroll. Therefore, the payroll ratios are not presented in the RSI schedules.

22. A single-employer OPEB plan intends to have annual actuarial valuations for the purposes of determining the net OPEB liability information required to be presented in its financial statements. On an ongoing basis, the plan intend to base the measurement of the NOL on an actuarial valuation performed as of *the end of the prior fiscal year* and updated to the end of the current fiscal year. In the initial year of implementation (June 30, 2017,) can the results of the June 30, 2016 actuarial valuation be used as a basis for determining the total OPEB liability at BOTH July 1, 2016 and June 30, 2017?

A. **Yes.** Use of the valuation would be consistent with the timing requirements of GASB-74. The valuation is within 24 months of the OPEB plan’s fiscal year end. The amounts reported as of the end of the plan’s fiscal year (June 30, 2017) should be updated to include the significant effects of transactions and other events that occur during the year.

SAMPLE GOVERNMENT NOTE DISCLOSURE IN THE YEAR OF TRANSITION

Financial Statements, Note Disclosures, and Required Supplementary Information for a Single-Employer OPEB Plan Administered through a Trust That Meets the Criteria in GASB-74 (No Nonemployer Contributing Entities) AND GASB-45 – TO BE ONLY USED FOR FISCAL YEARS ENDING JUNE 30, 2017

[Note: This illustration includes only note disclosures and required supplementary information required by this Statement. If the OPEB plan is included in the financial report of a government that applies the requirements of GASB-45 for benefits provided through the OPEB plan, the OPEB plan should apply the requirements of footnotes 8 and 10 of GASB-74, as applicable (avoiding duplication of note disclosures and RSI. The circumstances of this OPEB plan do not include all circumstances for which note disclosures and required supplementary information should be presented.)]

**CITY EMPLOYEES RETIREMENT SYSTEM
Sample City Retiree Benefits Plan
Statement of Fiduciary Net Position June 30, 2017
(Dollar amounts in thousands)**

	<u>2017</u>
Assets	
Cash and deposits	\$9,173
Receivables:	
Contributions	132
Due from broker for investments sold	5,322
Investment income	<u>493</u>
Total receivables	5,947
Investments:	
Domestic equities	196,836
Fixed income	165,103
Private equity	91,058
Real estate	<u>15,368</u>
Total investments	<u>468,365</u>
Total assets	483,485
Liabilities	
Payables:	
Investment management fees	245
Due to broker for investments purchased	<u>6,394</u>
Total liabilities	<u>6,639</u>
Net position restricted for postemployment benefits other than pensions	<u>\$476,846</u>

**Statement of Changes in Fiduciary Net Position
for the Year Ended June 30, 2017
(Dollar amounts in thousands)**

	2017
Additions	
Employer contributions	\$22,424
Investment income:	
Net increase in fair value of investments	37,842
Interest and dividends	7,625
Less investment expense	<u>(1,252)</u>
Net investment income	<u>44,215</u>
Total additions	66,639
Deductions	
Benefit payments	7,899
Administrative expense	<u>148</u>
Total deductions	<u>8,047</u>
Net increase in net position	58,592
Net position restricted for postemployment benefits other than pensions	
Beginning of year	418,254
End of year	<u>\$476,846</u>

Notes to the Financial Statements for the Year Ended June 30, 2017

(Dollar amounts in thousands)

Plan Description

Plan administration. The Sample City Employees Retirement System (SCERS) administers the Sample City Retiree Benefits Plan (SCRBP)—a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time general and public safety employees of the City.

Management of the SCRBP is vested in the SCERS Board of Trustees (SCERS Board), which consists of nine members—four elected by plan members, four appointed by the City Council, and the City Treasurer, who serves as an ex-officio member.

Plan membership. At June 30, 2017, SCRBP membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	1,307
Inactive plan members entitled to but not yet receiving benefit payments	142
Active plan members	<u>8,356</u>
	<u>9,805</u>

[If the OPEB plan was closed to new entrants, the OPEB plan should disclose that fact, as required by paragraph 34a(4) of GASB-74.]

Benefits provided. SCRBP provides healthcare and vision benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan. Chapter 21 of the Sample City Code grants the authority to establish and amend the benefit terms to the SCERS Board.

[If the benefit terms included automatic or ad hoc poste mployment benefit changes, the OPEB plan should disclose information about those terms, as required by paragraph 34a(5) of GASB-74.]

Contributions. Chapter 21 of the Sample City Code grants the authority to establish and amend the contribution requirements of the City and plan members to the SCERS Board. The Board establishes rates based on an actuarially determined rate. For the year ended June 30, 2017, the City's average contribution rate was 4.19 percent of covered-employee payroll. Plan members are not required to contribute to the plan.

[If there was a legal or contractual maximum contribution rate, the OPEB plan should disclose information required by paragraph 34a(6)(c) of GASB-74.]

Investments

Investment policy. SCRBP's policy in regard to the allocation of invested assets is established and may be amended by the SCERS Board by a majority vote of its members. It is the policy of the SCERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. SCRBP's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	40%
Fixed income	35
Private equity	20
Real estate	3
Cash	<u>2</u>
Total	<u>100%</u>

[If there had been a significant change in the OPEB plan's investment policy during the reporting period, the OPEB plan should disclose information required by paragraph 34b(1)(c) of GASB-74.]

Concentrations. **[If the OPEB plan held investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of the OPEB plan's fiduciary net position, the OPEB plan should disclose information required by paragraph 34b(2) of GASB-74.]**

Rate of return. For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 10.34 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Receivables

[If the OPEB plan reported receivables from long-term contracts with the City for contributions, the OPEB plan should disclose information required by paragraph 34c of GASB-74.]

Allocated Insurance Contracts

[If the OPEB plan had allocated insurance contracts that are excluded from OPEB plan assets, the OPEB plan should disclose information required by paragraph 34d of GASB-74.]

Reserves

[If the OPEB plan had reserves, the OPEB plan should disclose information required by paragraph 34e of GASB-74.]

Net OPEB Liability of the City

The components of the net OPEB liability of the City at June 30, 2017, were as follows:

Total OPEB liability	\$483,212
Plan fiduciary net position	(476,846)
City's net OPEB liability	<u>\$6,366</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>98.68%</u>

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	9.5 percent for 2018, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent for 2026 and later years

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2013 - April 30, 2015.

[If the benefit terms included ad hoc postemployment benefit changes, the OPEB plan should disclose information about assumptions related to those changes, as required by paragraph 35b of GASB-74.]

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 (see the discussion of SCRBP's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.8%
Fixed income	1.0
Private equity	6.0
Real estate	5.9
Cash	0.0

Discount rate. The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

[If there had been a change in the discount rate since the end of the prior fiscal year, the OPEB plan should disclose information about that change, as required by paragraph 35b(2)(a) of GASB-74.]

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current discount rate:

	1% Decrease Discount Rate	7.0%	1% Increase
	(6.0%)	(7.0%)	(8.0%)
Net OPEB liability (asset)	<u>\$64,687</u>	<u>\$6,366</u>	<u>\$(41,620)</u>

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8.5 percent decreasing to 4.5 percent) or 1-percentage-point higher (10.5 percent decreasing to 6.5 percent) than the current healthcare cost trend rates:

	1% Decrease (8.5% decreasing to <u>4.5%</u>)	Healthcare Cost Trend Rates (9.5% decreasing to <u>5.5%</u>)	1% Increase (10.5% decreasing to <u>6.5%</u>)
Net OPEB liability (asset)	\$(<u>61,284</u>)	\$ <u>6,336</u>	\$ <u>88,512</u>

EMPLOYER DISCLOSURES

[The following are already disclosed above and are not presented again as they are duplicative: Plan Description, Funding Policy (not presented in GASB-75,) Actuarial Methods and Assumptions]

Annual OPEB Cost and Net OPEB Obligation of the City

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the City (ARC) using an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding, if paid on an ongoing basis, is projected to cover the normal cost (which approximates service cost) each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to SCRBP (dollar amounts in thousands):

Annual Required Contribution	\$22,424
Interest on net OPEB obligation	-
Adjustment to annual required contribution	=
Annual OPEB cost (expense)	22,424
Contributions made	<u>22,424</u>
Increase in net OPEB obligation	-
Net OPEB obligation-beginning of year	-
Net OPEB obligation – end of year	\$=

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the proceeding two years were as follows (dollar amounts in thousands):

<u>Fiscal Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	28,260	100%	-
2016	25,255	100%	-
2017	22,424	100%	-

Funded Status and Funding Progress. As of June 30, 2017, the most recent actuarial valuation date, the plan was 97.3 percent funded on a basis in alignment with GASB Statement No. 45. The actuarial accrued liability for benefits was \$483,212,000, and the actuarial value of assets was \$472,078,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$11,134,000. The covered payroll (annual payroll of active employees covered by the plan) was \$535,043,000, and the ratio of the UAAL to the covered payroll was 2.08 percent.

[NOTE – The amounts changed from GASB-74 numbers is intentional to show the difference between UAAL calculations and GASB-74/ 75 calculations. It is unclear if the covered payroll and covered-employee payroll calculations would differ in this illustration.]

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Schedules of Required Supplementary Information

**SCHEDULE OF CHANGES IN THE
CITY'S NET OPEB LIABILITY AND RELATED RATIOS**

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total OPEB liability				
Service cost	\$19,051	\$18,190	\$16,642	\$16,732
Interest	30,663	27,176	26,061	25,394
Changes of benefit terms	—	—	—	(36,889)
Differences between expected and actual experience	8,925	11,845	(18,490)	11,845
Changes of assumptions	—	—	(1,369)	—
Benefit payments	(7,899)	(7,758)	(7,601)	(7,425)
Net change in total OPEB liability	50,740	49,453	15,243	9,657
Total OPEB liability—beginning	<u>432,472</u>	<u>383,019</u>	<u>367,776</u>	<u>358,119</u>
Total OPEB liability—ending (a)	\$483,212	\$432,472	\$383,019	\$367,776
Plan fiduciary net position				
Contributions—employer	\$22,424	\$25,255	\$28,260	\$24,737
Net investment income	44,215	28,698	32,698	25,691
Benefit payments	(7,899)	(7,758)	(7,601)	(7,425)
Administrative expense	(148)	(144)	(137)	(128)
Net change in plan fiduciary net position	58,592	46,051	53,220	42,875
Plan fiduciary net position—beginning	<u>418,254</u>	<u>372,203</u>	<u>318,983</u>	<u>276,108</u>
Plan fiduciary net position—ending (b)	\$476,846	\$418,254	\$372,203	\$318,983
City's net OPEB liability—ending (a) - (b)	<u>\$6,366</u>	<u>\$14,218</u>	<u>\$10,816</u>	<u>\$48,793</u>
Plan fiduciary net position as a percentage of the total OPEB liability	98.68%	96.71%	97.18%	86.73%
Covered-employee payroll	\$535,043	\$524,209	\$511,884	\$510,760
City's net OPEB liability as a percentage of covered-employee payroll	<u>1.19%</u>	<u>2.71%</u>	<u>2.11%</u>	<u>9.55%</u>

Notes to Schedule:

Benefit changes, In 2014, benefit terms were modified to increase copayments for prescription drugs.

Changes of assumption. In 2015, expected retirement ages of general employees were adjusted to more closely reflect actual experience.

<p>This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which information is available.</p>
--

SCHEDULE OF CITY CONTRIBUTIONS

Last 10 Fiscal Years

(Dollar amounts in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>
Actuarially determined contribution	\$22,424	\$25,255	\$28,260	\$24,737
Contributions in relation to the actuarially determined contribution	<u>22,424</u>	<u>25,255</u>	<u>28,260</u>	<u>24,737</u>
Contribution deficiency (excess)	\$-	\$-	\$-	\$-
Covered-employee payroll	\$535,043	\$524,209	\$511,884	\$510,760
Contribution as a percentage of covered employee payroll	4.19%	4.82%	5.52%	4.84%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method		Entry age
Amortization method	Level percentage of payroll, closed	
Amortization period		15 years
Asset valuation method		5-year smoothed market
Inflation		3.0 percent
Healthcare cost trend rates	9.5 percent initial, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent	
Salary increases	3.25 percent, average, including inflation	
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation	
Retirement age	In the 2015 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience	
Mortality	RP-2000 Healthy Annuitant Mortality Table	

Other information:

The results of the 2014 actuarial valuation reflect a modification to benefit terms that increased retiree copayments for prescription drugs.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which information is available.

SCHEDULE OF INVESTMENT RETURNS

Last 10 Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual money-weighted rate of return, net of investment expense	10.34%	7.55%	9.96%	9.05%	(0.51)%	5.49%	6.95%	15.75%	12.51%	(1.33)%

SCHEDULE OF FUNDING PROGRESS SCRBP

Last 3 Fiscal Years

Actuarial Valuation Date <u>June 30</u>	Actuarial Value of Assets (a)	Actuarial Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a) ÷ c]
2015	\$368,481	\$383,019	14,538	96.2%	511,884	2.84%
2016	414,071	432,472	18,401	95.7%	524,209	3.51%
2017	470,165	483,212	11,134	97.3%	535,043	2.08%

This schedule must be discontinued upon the implementation of GASB-75.



Grant Compliance – *Auditee Documentation within the Uniform Guidance*

Tom McNeish

June 14, 2017

tom.mcneish@elliottdavis.com

919.334.6180



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



Background -2 CFR Part 200


General

- Issued by OMB on December 26, 2013
- Codified (and streamlined) eight existing OMB Circulars
- Intended to alleviate administrative burden of the existing standards
- Emphasizes engaged oversight and *effective internal controls*
- Moves away from “check the box” mentality

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

2




 **elliott davis
decosimo**


Background -2 CFR Part 200

Challenges

- Navigating a codification of eight Circulars
- Applying a single source of guidance to a broad spectrum of entities
- Recognizing Federal agency-specific requirements
- Developing an effective *plan for compliance*




© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
3

 **elliott davis
decosimo**

Background -2 CFR Part 200

Effective dates

- Effective for all new awards and incremental funding of existing awards after December 26, 2014.
- *Procurement Grace Period*
 - 2-year extension *now increased to 3-years*
 - June 30 fiscal year - new effective date is **7/1/18**
 - December 31 fiscal year - new effective date was **1/1/18**
 - Upon expiration, all entities will be required to comply fully with UG





© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
4

elliott davis
decosimo

Internal Controls

200.303

- Auditee must establish and maintain *effective internal control* that provides reasonable assurance as to compliance with all applicable grant requirements.
- Internal controls should be in compliance with:
 - COSO Framework
 - Green Book – *Standards for Internal Control in the Federal Government*

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
5

elliott davis
decosimo

Internal Controls

200.303

Effective internal control starts with a *sufficient understanding* of:

- Terms and conditions of the award, and applicable statutes and regs
- How to evaluate and monitor compliance
- How to take prompt action when noncompliance is identified
- How to safeguard PII

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
6




Internal Controls

200.303

- Sufficient understanding is best established by *well-written policies and procedures*
- Facilitates comprehensive analysis of applicable requirements and best practices
- Provides written clarity as to required documentation
- *“If you didn’t document it, you didn’t do it!”*

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
7






Internal Controls


200.303

Considerations

- Each entity is different – “one size does not fit all”
- What sections of UG have the greatest impact on your organization?
- Do you a sufficient understanding of those sections?
- What are the specific changes required to sufficiently *mitigate risk of noncompliance*?
- Design and clearly communicate plan for implementation
- Incorporate accountability

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
8



 **elliott davis
decosimo**


What to Document?

Start with the “non-negotiables”

UG stipulates documentation and written policy requirements in a number of areas including:

Conflict of interest - 200.112	Procurement- 200.319
Mandatory disclosures - 200.113	Pass-through entities - 200.331
Certification of completion - 200.201	Record retention- 200.331
Financial management - 200.302	Compensation- 200.430
Employee H&W costs - 200.305	Travel Costs - 200.474
Advance Payment of funds - 200.305	Revision of Budgets - 200.308
Property - 200.308 – 312	Audits and audit findings - 200.508 & 511

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
9

 **elliott davis
decosimo**

Conflict of Interest

200.112

- The entity must *disclose in writing* any potential conflict of interest to the Federal awarding agency or pass-through entity in accordance with applicable awarding agency policy.
- Specific COI requirements related to procurement are reflected in 200.318

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
10

Mandatory Disclosures


200.113

- The entity must disclose in a timely manner, *and in writing* all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the award.
- Failure to make required disclosures can result in any remedies described in § 200.338 *Remedies for noncompliance*, including suspension or debarment

Certification of Completion

200.201

- The entity must *certify in writing* at the end of the award that the project or activity was completed or the level of effort was expended.
- If the required level of activity or effort was not carried out, the amount of the award must be adjusted
- Changes in PI, project leader, project partner, or scope of effort must receive the *prior written approval* of the awarding agency or pass-through.




Financial Management


200.302

The entity's financial management system must provide for the following:

- Identification in the general ledger of all Federal awards received and expended
- Accurate, current, and complete disclosure of the financial results of each award
- Records and source documents that identify the source and application of funds for grant activities
- Effective internal control over, and accountability for, all funds, property, and other assets.
- Comparison of expenditures with budget amounts for each Federal award.
- Written procedures to implement the requirements of § 200.305 Payment.
- Written procedures for determining the allowability of costs.

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
13







Advance Payments

200.305

- The entity must be paid in advance, provided it maintains:
 - *Written procedures* that minimize the time elapsing between the receipt and disbursements of funds, and
 - *Financial management systems* that meet the standards for fund control and accountability
- Reimbursement is the preferred method when the requirements section 200.305 cannot be met

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
14




 **elliott davis
decosimo**


Revision of Budget and Program Plans

200.308

- Recipients are required to *report* deviations from budget or project scope or objective
- *Non-construction awards* - Recipients must request *prior written approval* for one or more of the following program or budget-related reasons:
 - Change in the scope or the objective
 - Change in a key person specified in the application or the award
 - Disengagement for more than 3 months (or a 25% reduction in time) by key persons
 - Inclusion of costs that require *prior written approval* in accordance with Subpart E
 - Transfer of funds budgeted for participant support costs
 - Subawarding, transferring or contracting out of any work under the award
 - Changes in the amount of approved cost-sharing or matching

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
15



 **elliott davis
decosimo**


Revision of Budget and Program Plans

200.308

Construction awards - The entity must request *prior written approval* promptly from the awarding agency for budget revisions whenever:

- The revision results from changes in the scope or the objective of the project or program.
- The need arises for additional Federal funds to complete the project.
- The revision involves specific costs for which prior written approval requirements may be imposed consistent with Subpart E—*Cost Principles*

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
16



 **elliott davis
decosimo**


Property - Real

200.311

- Disposition of real property requires *written disposition instructions* from the awarding agency
- The instructions must provide for one of the following alternatives:
 - *Retain* title after compensating the awarding agency
 - *Sell* the property and compensate the awarding agency
 - *Transfer* title to the awarding agency or to a 3rd party

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
17




 **elliott davis
decosimo**

Property – Federally-owned and Exempt

200.312

- The entity must submit annually an inventory listing of federally-owned property in its custody to the awarding agency.
- Upon completion of the award (or when the property is no longer needed), the entity must report the property to the awarding agency for further federal utilization.

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
18



 **elliott davis
decosimo**

Procurement – General Standards


200.318

The entity must maintain the following:

- Documented procurement procedures which conform to applicable Federal law and the standards reflected in section 200.318
- Written standards of conduct covering employee conflicts of interest
- Written standards of conduct covering organizational conflicts of interest
- Records sufficient to detail the history of procurement.

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
19



 **elliott davis
decosimo**


Procurement - Competition


200.319

Written procedures for competitive procurement transactions must ensure that all solicitations:

- Incorporate a clear and accurate description of the technical requirements
- Description must not contain features which unduly restrict competition.
- The description must set forth minimum essential characteristics and standards.
- Detailed product specifications should be avoided
- Prequalified lists of vendors must and include enough sources to ensure competition.

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
20







Procurement Noncompetitive

200.319

- *Generally* - The entity must have a written method for conducting technical evaluations of the proposals received and for selecting recipients
- *Noncompetitive* - As one of three conditions, the awarding agency (or passthrough) must provide expressed authorization in response to a written request for a noncompetitive proposal.



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
21




Pre-procurement Review

200.319

The entity must make available upon request, procurement documents, such as requests for proposals or invitations for bids, or independent cost estimates, when:

- Procurement procedures or operations fail to comply with UG standards
- The procurement is expected to exceed the Simplified Acquisition Threshold (SAT) and is to be awarded without competition
- The procurement, which is expected to exceed the SAT and specifies a “brand name” product
- The proposed contract is more than the SAT and is to be awarded to other than the low bidder
- A proposed contract modification changes the scope of a contract or increases the contract amount by more than the SAT



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
22

Pre-procurement Review Exemption

200.319

The entity may be exempt from the pre-procurement review if the awarding agency determines that its procurement systems comply with the UG

- The entity may request a review of its procurement system to determine if it meets the standards to be certified.
- The entity may self-certify its procurement system.
- Self-certification must not limit the awarding agency's right to survey the system.
- Under self-certification, the awarding agency may rely on written assurances from the entity that it is complying with the standards.
- The entity must cite specific policies, procedures, or regulations as being in compliance and have its system available for review.

Prior Written Approval

200.332

Common items requiring prior written approval from awarding agencies

- *Fixed amount awards* - Specific level of support without regard to actual costs incurred (200.332)
- *Notification to terminate* to include reasons for the termination, the effective date, and portion of award to be terminated (200.339)
- *Indirect costs* - May avoid subsequent disallowance or dispute, with prior written approval from the federal agency (200.407)
- *Administrative and clerical salaries* – Can only be directly charged with prior written approval from the federal agency (200.413)

Passthrough entities – Terms and Conditions

200.331

Every subaward must detail the following information:


- All requirements imposed by the pass-through entity
- An approved federally recognized indirect cost rate (if applicable)
- A requirement for auditor access to the subrecipient records
- Modifications to the subaward if any changes to the above
- Adequate terms and conditions to closeout of the subaward

Passthrough entities – Risk Assessment

200.331

Evaluate each subrecipient's risk of noncompliance to include factors such as:

- The subrecipient's experience with the similar subawards;
- The results of previous audits
- Whether the subrecipient has
 - new personnel or
 - new or substantially changed systems
- The extent and results of Federal awarding agency monitoring




Passthrough entities - Monitoring


200.331

Pass-through entity monitoring of the subrecipient must include:

- Reviewing required financial and programmatic reports
- Ensuring timely action on all audit and oversight deficiencies
- Issuing a management decision for audit findings




© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
27



Record Retention

200.333

- Entity records pertinent to a award must be retained for 3 years from the date of submission of the final expenditure report
- For awards that are renewed quarterly or annually, 3 years from the date of the submission of the quarterly or annual financial report
- Awarding agencies must not impose any other retention requirements with the exception of following:
 - Litigation, claims, or audits started before the expiration of the 3-year period
 - Written notification by the awarding agency (or other cognizant agency), to extend the retention period.
 - Requirement for property records to be retained for 3 years after final disposition
 - When records are transferred to or maintained by the awarding agency
 - Records of program income transactions after the period of performance.
 - Certain supporting records for ICR proposals and cost allocations plans



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
28

Compensation - General

200.430

Standards for Documentation of Personnel Expenses - Charges for salaries and wages must be based on records that accurately reflect the work performed.

These records must:

- Be supported by an effective system of internal control
- Be incorporated into the official records of the entity
- Reflect the total activity for which the employee is compensated
- Encompass both federally assisted and all other activities that are compensated by the entity
- Comply with the entity's written accounting policies and practices
- Support distribution of an employee's comp among multiple activities or cost objectives

Compensation – Higher Ed.

200.430

The following costs (and similar benefits) are allowable if granted under established written policies:

- Leaves of absence to include graduate work or sabbatical study, travel, or research
- Extra service pay from outside professional activities by non-faculty members
- Fringe benefits in the form of:
 - employer contributions for social security;
 - employee life, health, unemployment, and worker's compensation insurance
 - pension plan and retiree health care costs

 **elliott davis
decosimo**

Travel Costs

200.474

- Allowable travel costs include transportation, lodging, subsistence, and related items
- Incurred by employees on official business of the entity
- May be charged on an actual cost basis, on a per diem or mileage basis
- The method must be applied to an entire trip and not to selected days
- Must be consistent with methods applied to the entity's non-federally-funded activities
- Must be in accordance with the entity's *written travel reimbursement policies*.

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
31



 **elliott davis
decosimo**


Auditee Responsibilities


200.508

The auditee must:

- Arrange for the audit and ensure it is properly performed and submitted when due
- Prepare and maintain appropriate financial statements, including the schedule of expenditures of Federal awards
- Promptly follow up and take corrective action on audit findings
- Provide auditor access to personnel, accounts, books, records, supporting documentation, and other information as needed

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
32




 **elliott davis
decosimo**

Audit Findings Follow-up

200.511

- The auditee must prepare:
 - a summary schedule of prior audit findings (SSPAF)
 - a corrective action plan for current year findings (CAP)
- Both must include financial statements findings required to be reported under GAGAS
- The CAP must:
 - Be a separate document from the auditor's findings.
 - Address each audit finding included in the current year auditor's reports.
 - Include the name of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
33



 **elliott davis
decosimo**

Audit Findings Follow-up


200.511

SSPAF must include:

- Status of all findings reflected in the prior schedule of findings and questioned costs
- Uncorrected findings reflected in the prior year SSPAF
- *Fully corrected findings* - need only list the finding and state that corrective action was taken.
- *Findings not fully corrected* - must describe the reasons for recurrence and planned corrective action.
- *If corrective action taken is significantly different* from that previously reported, an explanation must be provided.

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
34







SFA Brief

- *DOE Required Audit Frequency*
 - **August 5, 2016** – DOE announces plans to include additional guidance in the 2017 Compliance Supplement requiring annual audits of Title IV funds regardless of low risk assessment.
 - **April 28, 2017** – DOE announces that such guidance will be delayed for inclusion in the 2018 Supplement
- *Common audit findings*
 - Failure to Take Corrective Action on prior year findings
 - Student credit balances not refunded timely
 - Late reporting of status changes to NSLDS
 - Return of Title IV funds - Calculation Errors and Late Remittances
 - Failure to modify academic progress policies to ensure clarity and compliance
 - Verification Violations

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
35






2017 Compliance Supplement - Status

- OMB has made a draft publicly available for the purpose of 2017 single audit planning
- Includes the typical updates such as the addition, deletion, and modification of various federal programs
- [Appendix V](#), lists the specific programmatic changes by CFDA number
- Revisions include an extension of the procurement grace period by an additional fiscal year.
- Procurement standards will now start for fiscal years beginning on or after December 26, 2017
- Requirement for annual audit of Title IV funds not to be included in 2017 supplement
- No changes to internal controls section
- Presently, the draft is in final clearance at OMB with no estimated date of final issuance
- OMB does not expect any significant changes to final supplement

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC
36



Yellow Book – Proposed Revisions

April 5, 2017 - The [GAO](#) proposed revisions to the 2011 edition of *Government Auditing Standards* including:

- Expanded *Independence* requirements now state that:
 - Preparing accounting records and financial statements create significant threats to auditors independence
 - Auditors should document the threats and safeguards to mitigate risks to an acceptable level or decline to perform such services.
- Expanded financial audit requirements to address *waste* in which auditors must:
 - Ascertain the potential effect on the audit objectives if waste is identified that could be quantitatively or qualitatively significant to the audit objectives.
 - Report in writing, instances of waste that:
 - they conclude have a material effect on the financial statements.
 - they conclude *may not* have a material effect on the financial statements, but still warrant the attention of those charged with governance.
- The proposed revisions are in exposure draft form with a July 6, 2017 deadline to provide comments to GAO

Tom McNeish

Email: tom.mcneish@elliottdavis.com

- **Phone:** 919.334.6180

Website: www.elliottdavis.com

Elliott Davis Decosimo provides comprehensive assurance, tax and consulting solutions to diverse businesses, organizations and individuals. With a network of forward-thinking professionals in major U.S. markets and alliance resources across the globe, the firm ranks among the top 30 and fastest-growing accounting firms in the U.S. Visit elliottdavis.com for more information.



This material was used by Elliott Davis Decosimo during an oral presentation; it is not a complete record of the discussion. This presentation is for informational purposes and does not contain or convey specific advice. It should not be used or relied upon in regard to any particular situation or circumstances without first consulting the appropriate advisor. No part of the presentation may be circulated, quoted, or reproduced for distribution without prior written approval from Elliott Davis Decosimo.





Emerging Tax Topics for Fiscal Officers – Understanding Your Agency’s Risks

Denise Hill

Senior Manager

June 14, 2017

denise.hill@elliottdavis.com

803.255.1479




© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



This material was used by Elliott Davis Decosimo during an oral presentation; it is not a complete record of the discussion. This presentation is for informational purposes and does not contain or convey specific advice. It should not be used or relied upon in regard to any particular situation or circumstances without first consulting the appropriate advisor. No part of the presentation may be circulated, quoted, or reproduced for distribution without prior written approval from Elliott Davis Decosimo.

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC




 **elliott davis decosimo**

Trending Issues

- Employee Fringe Benefits
- Board Policies – Fringe Benefits
- Written Guidelines and Policies
- Employee vs. Independent Contractor

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



 **elliott davis decosimo**

Trending Issues

Employee Fringe Benefits

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



Employee Fringe Benefits

Why discuss Fringe Benefits?

- Employment audits generate significant collections for the IRS – considered to be an untapped source of revenue
- Employment tax collections made up 33% of all IRS revenue in 2015 (Good news – only .2% of employment tax returns were audited in 2015 – approx. 54M)
- 2010 Project for small employers – IRS examined 6,000 employment tax returns and discovered that ***under reporting fringe benefits is a wide-spread problem***
- Benefits are no longer a minor part of compensation –they now represent close to 40% of the total cost of compensation

Employee Fringe Benefits

Fringe Benefits are the most overlooked area by employers

- Difficult to identify
- Difficult to value
- Uncertainty in reporting (i.e. taxable or not?)
- Lack of clear communication to employees
- Finance/payroll not aware of the benefit
- Overall departmental differences

Employee Fringe Benefits

What is a Fringe Benefit?

- Benefits are a wide variety of inducements offered to employees having little in common except they are not “paid” to the person each payday. This makes terminology and categorization of benefits difficult.
- **All** fringe benefits are taxable and must be included in the recipients’ pay, unless the law **specifically** excludes them.

Employee Fringe Benefits

Examples of Fringe Benefits

- Awards or prizes
- Bonuses (cash or noncash)
- Credit cards (employer-provided)
- Company cars
- Holiday gifts
- Laptop computers
- Meal allowances/reimbursements
- Retirement gifts
- Parking
- Safety or length of service awards
- Spousal Travel
- Uniform Allowances

Employee Fringe Benefits

Nontaxable Fringe Benefits – *Specifically excluded by law*

- IRC 105 & 106 – Employer Provided Health Benefits
- IRC 79 – Group Term Life Insurance (first \$50K of coverage)
- IRC 125 – Cafeteria Plans
- IRC 127 – Educational Assistance Programs
- IRC 129 – Dependent Care Assistance
- IRC 119 – Meals or Lodging for the Employer’s Convenience

Employee Fringe Benefits

Statutory Exclusions allowed by IRC Section 132 only if Certain Conditions are met:

- Working condition fringe benefit
- De minimis fringe benefit
- No additional cost service fringe benefit

Employee Fringe Benefits

Working Condition Fringe Benefit:

The entire value of the property or service provided is excludable from the employee's income if the employee would be able to deduct it as a trade or business expense during the process of getting an employee's job done.

- Examples:
 - Professional dues and subscriptions
 - Supplies
 - Business meal
 - Reimbursement for business travel
 - Job training
 - **Uniforms** that are not adaptable to general use

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



Employee Fringe Benefits

De Minimis Fringe Benefit:

The entire value of the property or service provided is excludable from the employee's income when the item has such a small value and frequency that accounting for them would be impractical.

- Examples:
 - Company picnics
 - Coffee, doughnuts, bottle water and soft drinks
 - Occasional use of the copy machine, fax machine and phones
 - Coffee mugs
 - Plaques
 - Flowers

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



Employee Fringe Benefits

Note: De minimis rules do not apply to cash and cash equivalents (including gift cards). Gift cards are considered cash equivalents – no matter how small the amount, even \$5. *Gift cards presented to an employee should be reported in their wages.*

Employee Fringe Benefits

Gifts and awards may be excluded from income under the following circumstances:

- Tangible *noncash* employee achievement awards given for length of service or safety:
 - Must be presented with meaningful presentation
 - FMV of award must be under \$400 per award / \$1,600 per year
 - Length of service may not be during first five years of employment
- Traditional *noncash* retirement awards presented upon completion of lengthy term of service (not taxable regardless of value because no expectation of future services, i.e. not compensatory)

Employee Fringe Benefits

Meals on Business Premises –Nontaxable under the following circumstances:

- Meals provided after hours for employees working overtime
- Meals provided during employer’s training seminars / departmental meetings
- Free meal from the cafeteria to substantially all employees during each work day so that employees may be on call at all times

Employee Fringe Benefits

Employer Provided Auto

- Use of an employer-provided auto by an employee while conducting an employer’s business is an *excludable working condition fringe benefit*
- Personal use of the company auto is a taxable fringe benefit, unless the personal use is reimbursed to the employer
- Business use must be properly substantiated with adequate records (i.e. using an accountable plan with documentation)

Employee Fringe Benefits

Take-Home Vehicles

A vehicle for take-home or 24-hour use may be assigned to certain employees for bona fide business reasons when the nature of their work requires such assignment.

There is a special rule of *\$3.00 per round trip commute that the IRS allows in all instances of take-home non-emergency vehicles* where the employee is required to be on call and report if needed at anytime, to commute to and/or from work in an assigned vehicle.

Commuting mileage to respond to an after-hours call-back or unscheduled return to work is considered official business.

Employees must assist the organization in keeping adequate mileage records on the forms and in the manner prescribed to insure compliance.

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Employee Fringe Benefits

Qualified non-personal use vehicles

- All of an employee's use of a qualified non-personal-use vehicle (such as a police car, unmarked vehicles, fire vehicles) ***is excluded from taxable income***
- These exempt vehicles are driven by employees with special training
- The vehicle being driven is equipped with specialized emergency or technical equipment used to treat and protect citizens of a County

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Employee Fringe Benefits

Uniforms

- Must be related to the employer's business and be provided so the employee can perform his/her job – such as high visibility shirts/reflective lettering for road crews or police officers and protective clothing.
- Typically, embroidered logos and patches on polo shirts or t-shirts are almost always taxable (i.e. considered an informal work uniform **by the IRS**). If the clothing/shoes are adaptable to normal wear, the value is taxable.
- ***Can this classification of an "informal work uniform" be favorably argued as a nontaxable working condition fringe benefit with the IRS?***

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Employee Fringe Benefits

IRS Clarification on Cost of Clothing

- In March 2015, the IRS sent a letter to U.S. Senator Mark Warner of Virginia announcing that firefighters and police officers will not be expected to pay taxes on common clothing items that they are required to wear while on duty.
- The Senator visited Washington, carrying a display of various uniforms used by deputy sheriffs that are being taxed to show firsthand how modern day uniforms used by deputy sheriffs are functional, less expensive than traditional uniforms, and should not be subject to taxes by the IRS. The IRS concurred, citing that these modern day uniforms come with distinctive agency logos and ***officials are prohibited from wearing them off duty.***
- <http://www.warner.senate.gov/public/index.cfm/2015/3/irs-tells-warner-uniforms-for-public-safety-officials-not-taxable>

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Employee Fringe Benefits

Employee Business Expense Reimbursements

Provided under an Accountable Plan which must meet **all three** of the following to be non-taxable:

1. There must be a business connection (the expense must qualify as a trade or business expense under IRC Section 162)
2. Must be adequate accounting by the recipient within a reasonable period of time – receipts are required for all expenses unless the IRS approved “Per Diem” rate is used
3. Excess of expenses must be returned within a reasonable period of time

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Employee Fringe Benefits


Accountable Plan / Adequate Accounting

- Employees are required to provide sufficient information to satisfy a “business connection” of the expenditure
 - What – amount
 - When – time, date, etc.
 - Where – business location, destination, etc.
 - Why – business purpose
 - Who – for entertainment purposes

Written contemporaneous recordkeeping has more value than oral evidence.


© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Employee Fringe Benefits



Questions?

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC




Trending Issues



Board Policies – Fringe Benefits

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



Board Policies – Fringe Benefits

Classification of Board Members for Payroll Tax Purposes:

- *Generally*, directors of a corporation (i.e. members of the governing board) are defined by statute as *non-employees*. This is due to the fact that a board member's responsibility for the fulfillment of an organization's mission and legal accountability for its operations typically dictate that the board be comprised of individuals from *outside of the organization*.
- While compensation paid to *corporate* Board Members would be reported on Form 1099-Miscellaneous, payments to *elected public officials serving as a Council or Board Member* would be reported on Form W-2.

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Board Policies – Fringe Benefits

Classification of Board Members for Payroll Tax Purposes:

- ***In contrast***, officials of states and their political subdivisions may or may not be classified as an employee, depending on state statute or common law rules.
- Current case law has made it clear that ***elected public officials are classified as employees*** since they are subject to a degree of control that is characteristic of an employer-employee relationship. In addition, Internal Revenue code Section 3401(c) indicates that an “officer, employee, or elected official” of government is an employee for income tax withholding purposes.
- **The key differential is that elected officials are considered responsible to the public, which has the power to vote them out of office.**

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Board Policies – Fringe Benefits

Classification of Board Members for Payroll Tax Purposes:

- If the board members of your agency or organization are elected by the state legislature, **they are classified by the IRS as an “employee”** for purposes of payroll tax reporting and remittance purposes.
- When a board member is an employee, the organization that employs them must withhold and pay employment taxes on the “taxable compensation” they receive. It is important to note that **taxable compensation can include both cash and non-cash** remuneration.
- Taxable compensation also includes any fringe benefit that are provided which must be included in the recipient’s annual Form W-2 **unless the law specifically excludes it (i.e. working condition fringe, no additional cost fringe, De minimis fringe benefit, Lodging and meals provided for the convenience of the employer).**

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Board Policies – Fringe Benefits

Typical examples of fringe benefits which may or may not be taxable, depending on the structure of the payment and the policies in place for reimbursements (i.e. written accountable business substantiation plan) include:

1. Free or discounted tickets to sponsored events
2. Transportation / **commuting** benefits
3. Per diem
4. Employer provided credit cards
5. Use of cars, vans, buses, airplanes
6. Parking
7. Spousal travel
8. and other items, such as access to gyms or entertainment facilities

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Board Policies – Fringe Benefits




Questions?




© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Trending Issues



Written Guidelines and Policies



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Written Guidelines and Policies

When is it time to update policy handbooks / procedures / and guidelines?

Written policies should be in place for the following reasons:

1. To ensure that there are no gaps in the public's understanding.
2. To provide clear, concise guidance on the distinction between business and personal use. Accountability issues will arise when detailed standards are inaccurate or outdated.
3. To review the requirements for business use of the "benefit" and how to record and report the business use. Policies that do not sufficiently document processes can create varying degrees of inconsistency among the board members.

Written Guidelines and Policies

Best Practices


- Provide background of the purpose for the policy, including how the personal use will be reported via the employer's payroll process.
- Clear concise guidance on the distinction between business and personal use. Accountability issues will arise when detailed standards for conduct are inaccurate or outdated.
- Review the requirements for business use of the "benefit" and how to record and report the business use. Policies that do not sufficiently **document processes** can create varying degrees of inconsistency within each department.

elliott davis decosimo

Trending Issues

Employee vs. Independent Contractor

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



elliott davis decosimo


Employee vs. Independent Contractor

From the IRS Website: When would I provide a W-2 and a Form 1099 to the same person?

A worker's role determines which information return an entity would provide. Entities provide a Form 1099-Misc to independent contractors and Form W-2 to employees.

However, there may be instances where a worker may be serving as an independent contractor and an employee for the same entity.

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC




Employee vs. Independent Contractor

- The IRS generally classifies an ***independent contractor*** as a worker that performs services in which:
 - the employer controls the end result of the work; but not
 - the means and methods of how the work is accomplished
- In contrast, the IRS generally classifies ***a common-law employee*** as a worker that performs services in which:
 - the employer controls the end result of the work; and
 - the means and methods of how the work is accomplished

Employee vs. Independent Contractor


- It is very unusual for an employee to also correctly receive a Form 1099 from his employer, but it is legally possible. To qualify all of the following must exist:
 - The individual has a legitimate independent business
 - He/she has other clients not connected to the employer
 - The work as an independent contractor is not the identical, or similar, to what he does as an employee
 - When doing the work reported on Form 1099 he must meet the common law test as an independent contractor

 **elliott davis
decosimo**


Employee vs. Independent Contractor

Caution

If you issue a W-2 and a 1099 to an employee be sure to clearly document and save your evidence. When a worker receives both from the same business in the same year, ***it is a red flag to the IRS***. It is likely you and the worker will be contacted to explain how this happened. You will need to be able to justify your treatment.




© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

 **elliott davis
decosimo**


Employee vs. Independent Contractor

Red Flags that may trigger an IRS payroll audit:

1. Random Audit: The IRS is devoting more time, money and efforts to examine worker classification and other non-compliance issues.
2. Employee receives both a W-2 and a Form 1099 in the same year.
3. Employee receives W-2 in one year and Form 1099 in another year.
4. Some employees covered by the retirement system and others are not.
5. Request by a Third Party: The IRS can get involved at the request of an individual hired by the district. A worker who expected to receive a W-2, but instead received a Form 1099, may contact the IRS to request tax relief or report that he or she was wrongly classified as an independent contractor, rather than an employee.




© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC




Trending Issues



Questions?



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC




Providing Additional Resources to Meet Your Needs

**360° INSIGHTS.
FOCUSED ON YOU.**

Receive Important News and Alerts
Customized to Your Interests

Subscribe at www.elliottdavis.com/subscribe



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



Denise P. Hill

Tax Senior Manager

Email: Denise.Hill@elliottdavis.com

Phone: 803.255.1479

Website: www.elliottdavis.com

Elliott Davis Decosimo provides comprehensive assurance, tax and consulting solutions to diverse businesses, organizations and individuals. With a network of forward-thinking professionals in major U.S. markets and alliance resources across the globe, the firm ranks among the top 30 and fastest-growing accounting firms in the U.S. Visit elliottdavis.com for more information.

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC





Fraud: Current Trends and Case Studies

Rochelle Friend, CPA, CFE

Manager

June 14, 2017



© 2017 Elliott Davis, PLLC



This material was used by Elliott Davis during an oral presentation; it is not a complete record of the discussion. This presentation is for informational purposes and does not contain or convey specific advice. It should not be used or relied upon in regard to any particular situation or circumstances without first consulting the appropriate advisor. No part of the presentation may be circulated, quoted, or reproduced for distribution without prior written approval from Elliott Davis.

2

© 2017 Elliott Davis Decosimo, PLLC



Presentation Overview

- Overview and selections from the 2016 Report to the Nations on Occupational Fraud and Abuse,* published by the Association of Certified Fraud Examiners (ACFE)
- Fraud Risk Management Guide**
- Example real-life fraud case studies and anecdotes
- “Take-Aways”

*Copyright 2016 by the Association of Certified Fraud Examiners, Inc.

** Copyright 2016 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)

3

© 2017 Elliott Davis Decosimo, PLLC

Speaker Background

- Manager, Raleigh office
- Over 6 years experience in public accounting
- Financial statement audit experience in industries including state and local government, not for profit, and technology and life sciences

4

© 2017 Elliott Davis Decosimo, PLLC

ACFE's 2016 Report to the Nations

- ACFE surveys the population of all certified fraud examiners and compiles results
- 2016 report is based on 2,410 cases of occupational fraud as reported by CFEs
- Provides valuable information on how fraud is committed, how it is detected, and how organizations can reduce their vulnerability to the risk of fraud
- Entire report available for download:
<http://www.acfe.com/rtn2016/resources/downloads.aspx>

5

© 2017 Elliott Davis Decosimo, PLLC

What is Fraud?

“In its broadest sense, fraud can encompass any crime for gain that uses deception as its principal modus operandus .”

- Association of Certified Fraud Examiners

6

© 2017 Elliott Davis Decosimo, PLLC

elliott davis decosimo

Why Does Occupational Fraud Occur?

Motivates the Crime:

- Inability to pay one's bills
- Need to meet productivity targets at work
- Desire for status symbols

“I was only borrowing the money.”
“I was entitled to the money.”
“I had to steal to provide for my family.”

Method by which the crime can be committed. Abuse of position or trust with a low perceived risk of detection.

7

© 2017 Elliott Davis Decosimo, PLLC

elliott davis decosimo

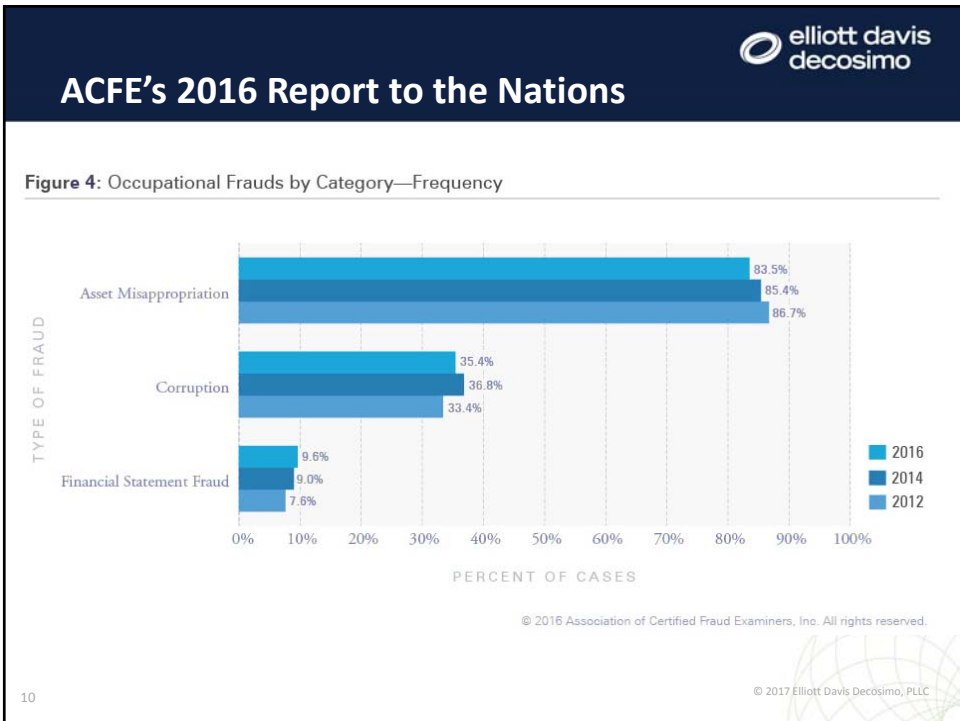
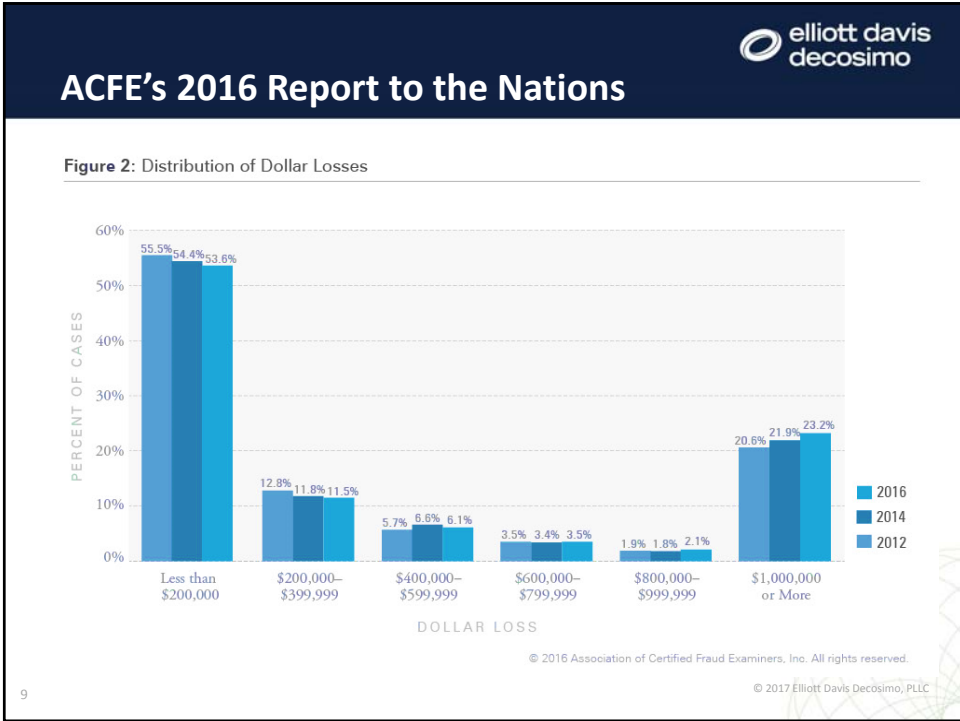
ACFE's 2016 Report to the Nations

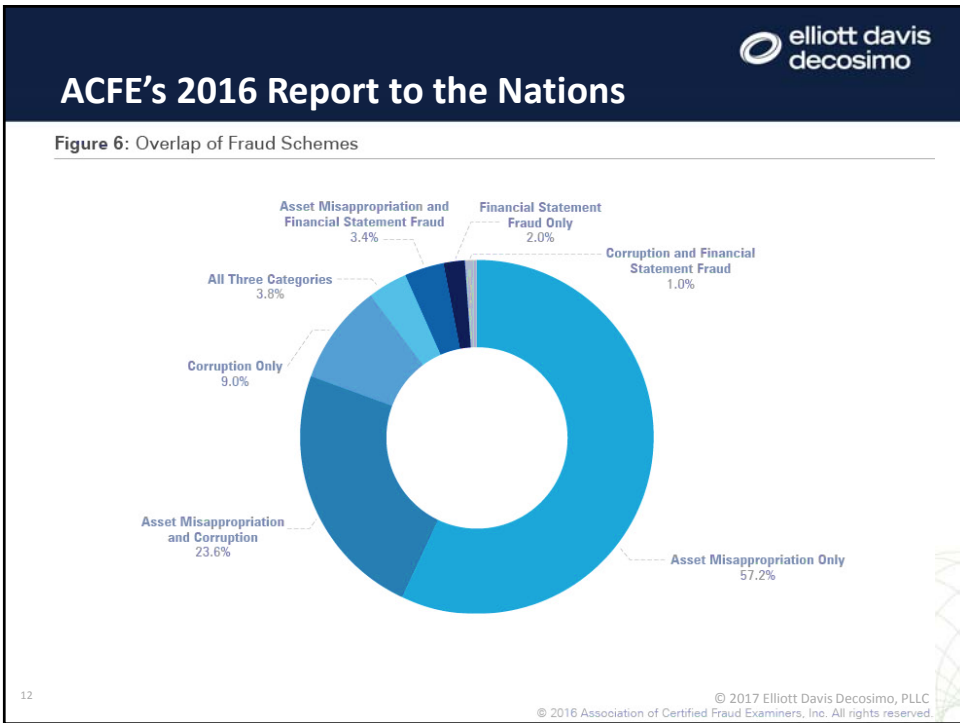
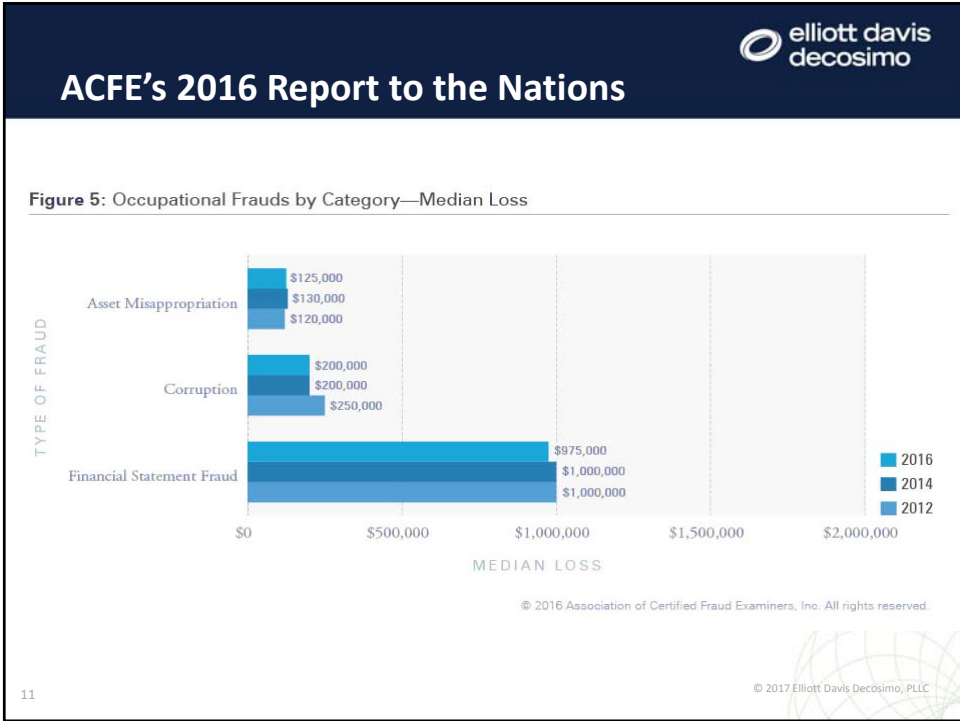
“The cost of fraud is the equivalent of a financial iceberg; some of the direct losses are plainly visible, but there is a huge mass of hidden harm that we cannot see.”

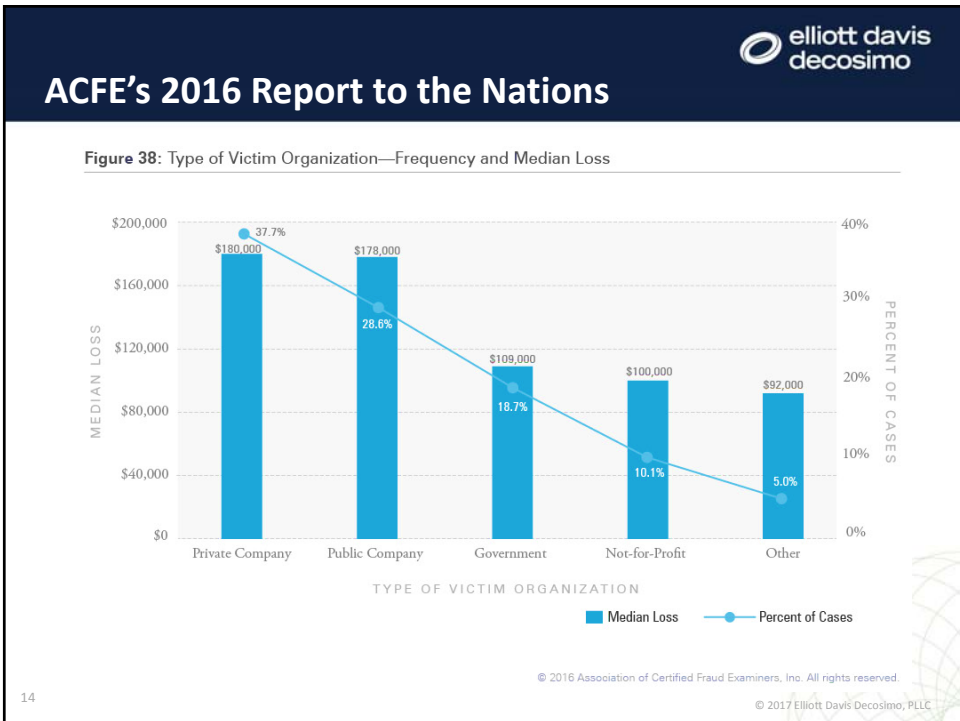
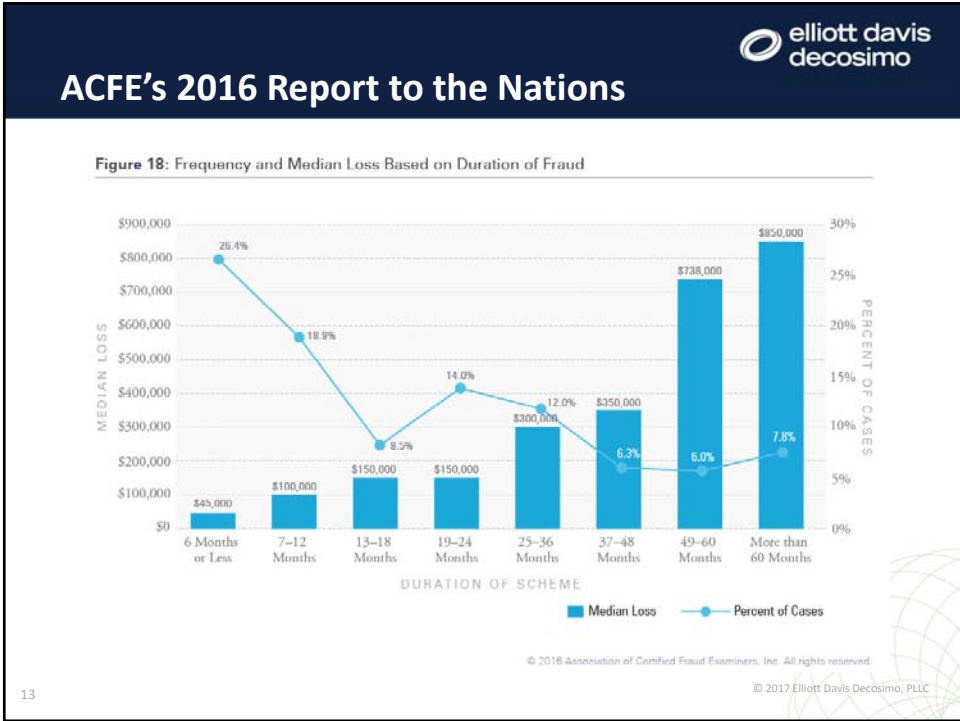
- 2014 Report to the Nations, ACFE

8

© 2017 Elliott Davis Decosimo, PLLC







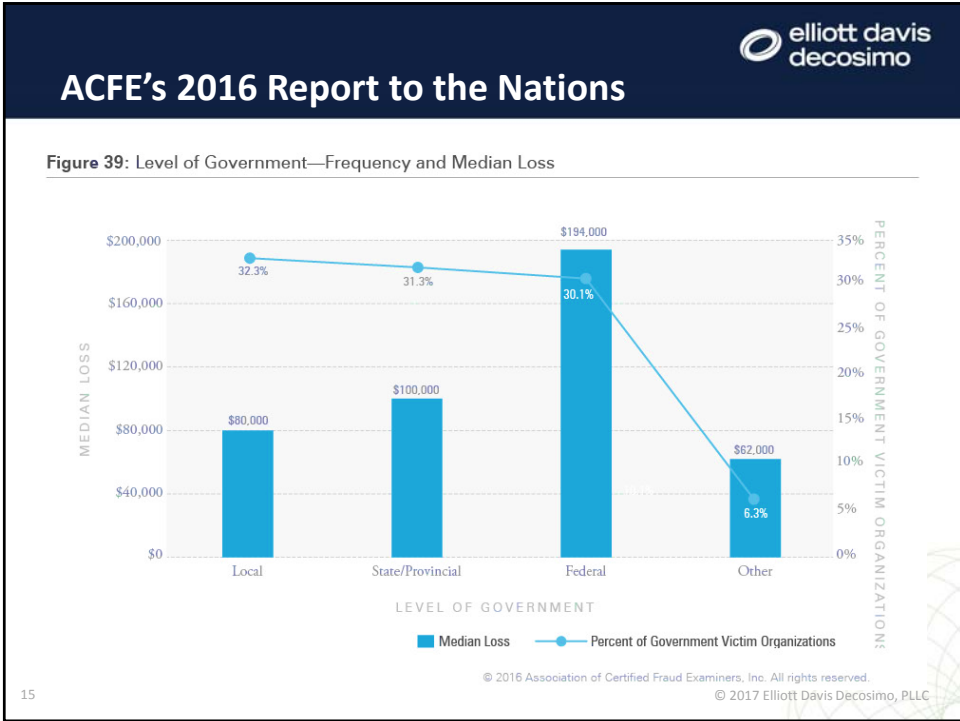
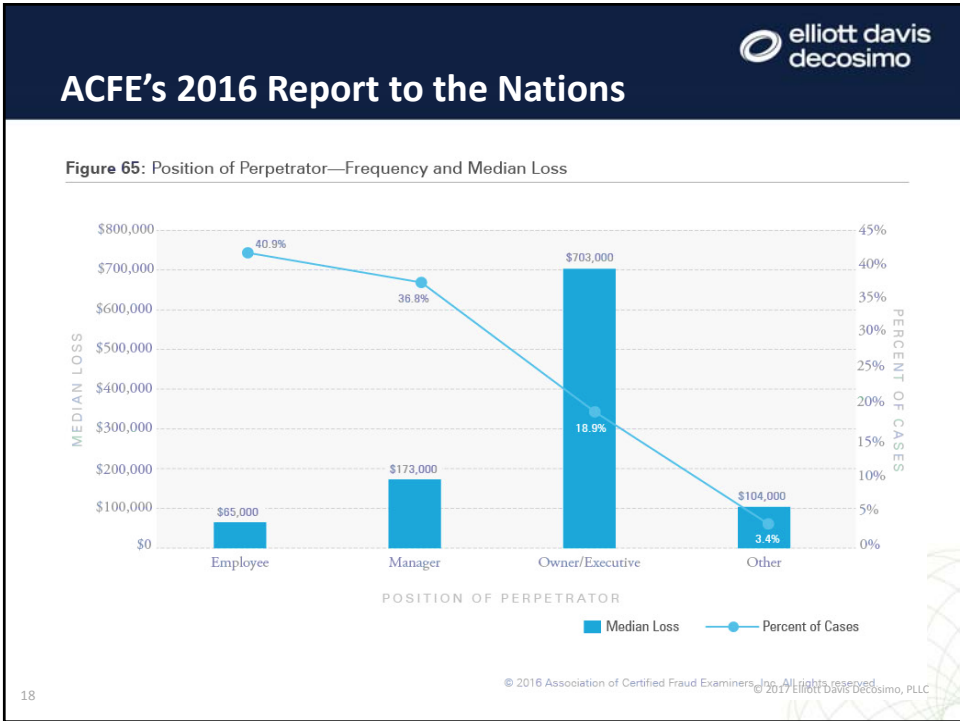
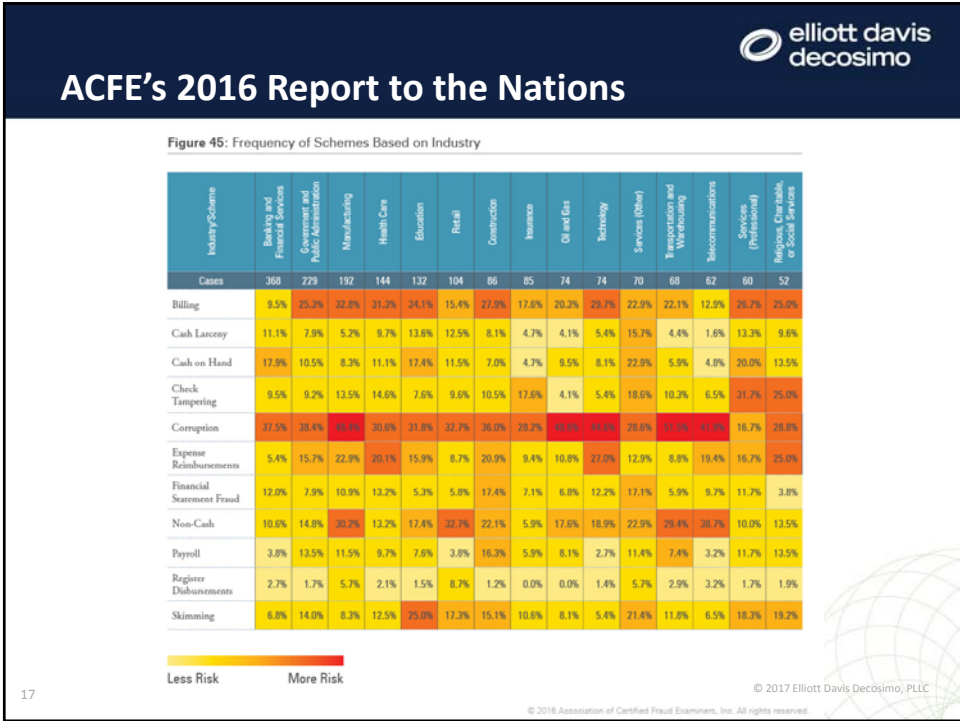
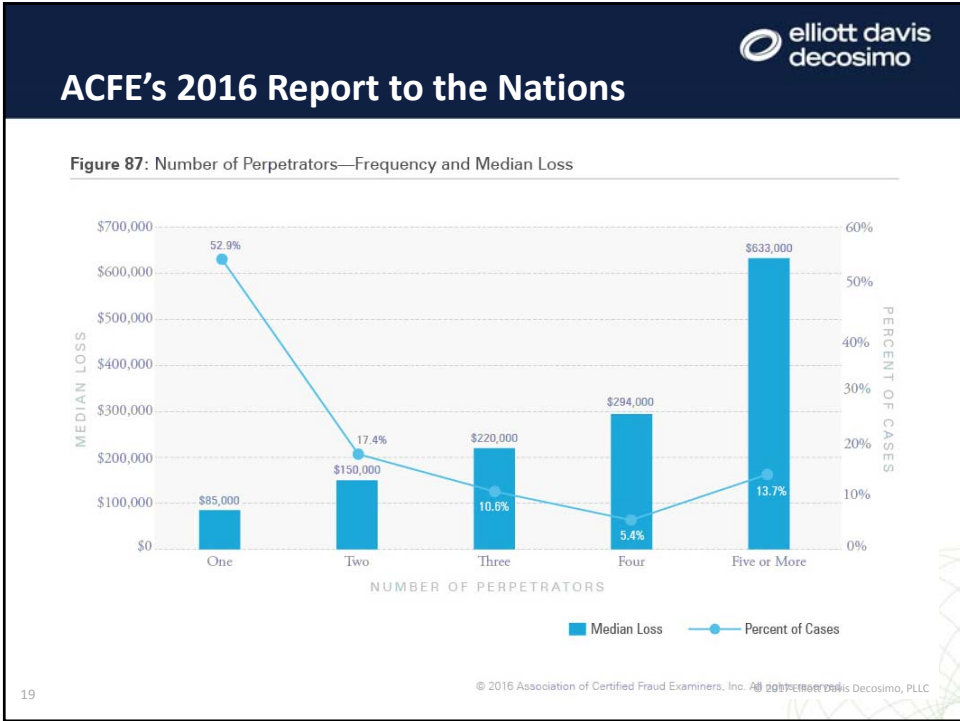


Figure 44: Industry of Victim Organizations (Sorted by Median Loss)

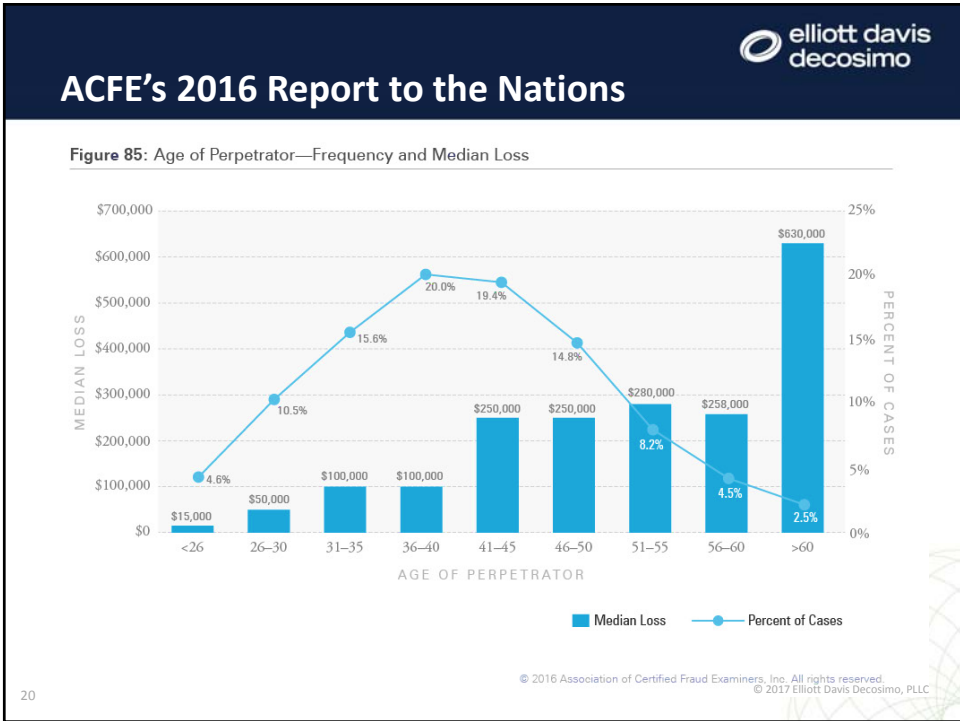
Industry	Number of Cases	Percent of Cases	Median Loss
Mining	20	0.9%	\$500,000
Wholesale Trade	36	1.6%	\$450,000
Services (Professional)	60	2.7%	\$310,000
Agriculture, Forestry, Fishing, and Hunting	44	2.0%	\$300,000
Oil and Gas	74	3.4%	\$275,000
Construction	86	3.9%	\$259,000
Technology	74	3.4%	\$235,000
Communications and Publishing	16	0.7%	\$225,000
Real Estate	41	1.9%	\$200,000
Manufacturing	192	8.8%	\$194,000
Telecommunications	62	2.8%	\$194,000
Banking and Financial Services	368	16.8%	\$192,000
Transportation and Warehousing	68	3.1%	\$143,000
Government and Public Administration	229	10.5%	\$133,000
Health Care	144	6.6%	\$120,000
Insurance	85	3.9%	\$107,000
Utilities	40	1.8%	\$102,000
Other	153	7.0%	\$100,000
Services (Other)	70	3.2%	\$100,000
Retail	104	4.8%	\$85,000
Religious, Charitable, or Social Services	52	2.4%	\$82,000
Arts, Entertainment, and Recreation	27	1.2%	\$75,000
Education	132	6.0%	\$62,000

© 2016 Association of Certified Fraud Examiners, Inc. All rights reserved. © 2017 Elliott Davis Decosimo, PLLC

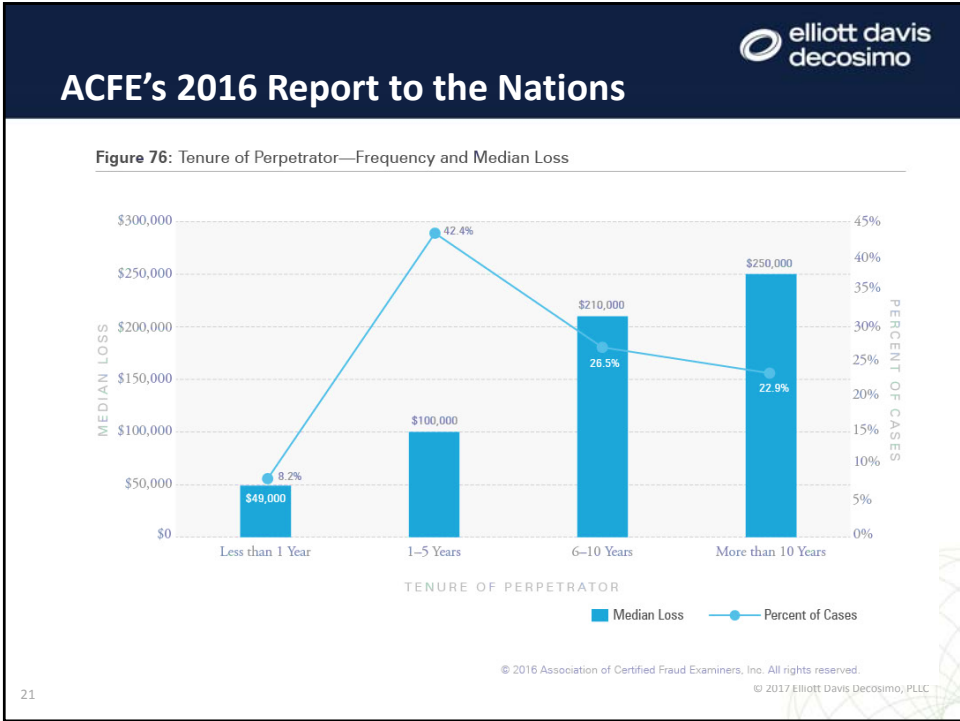




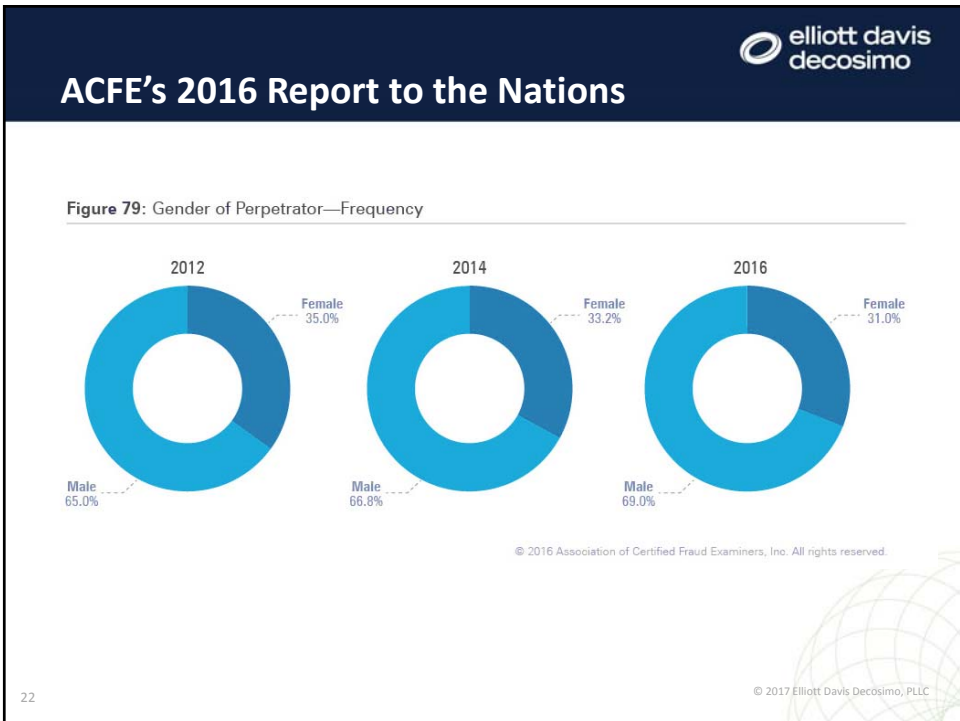
19



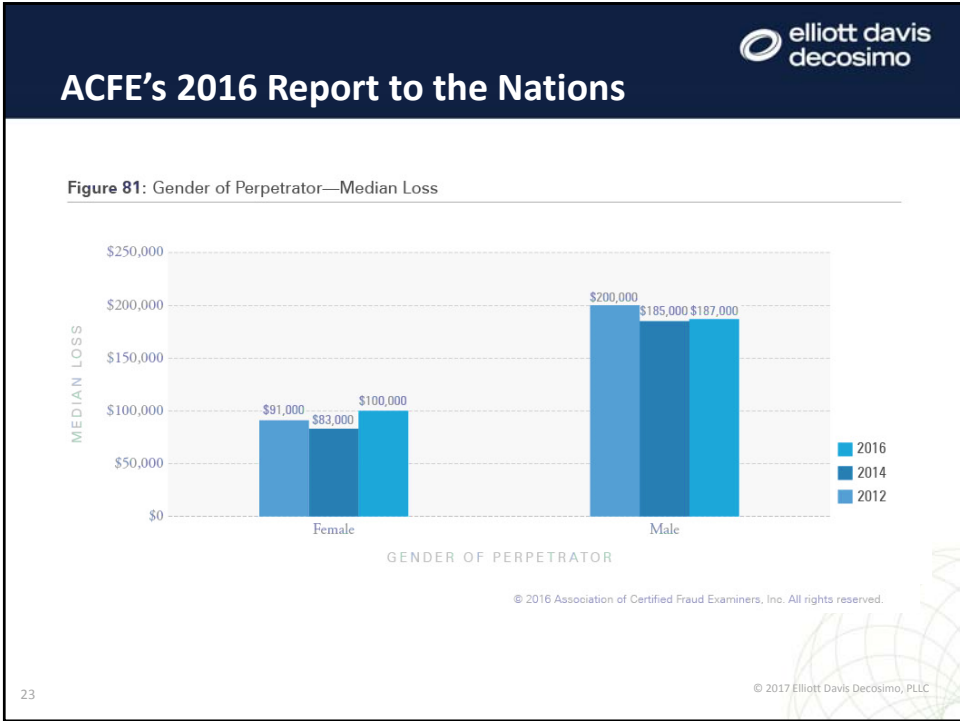
20



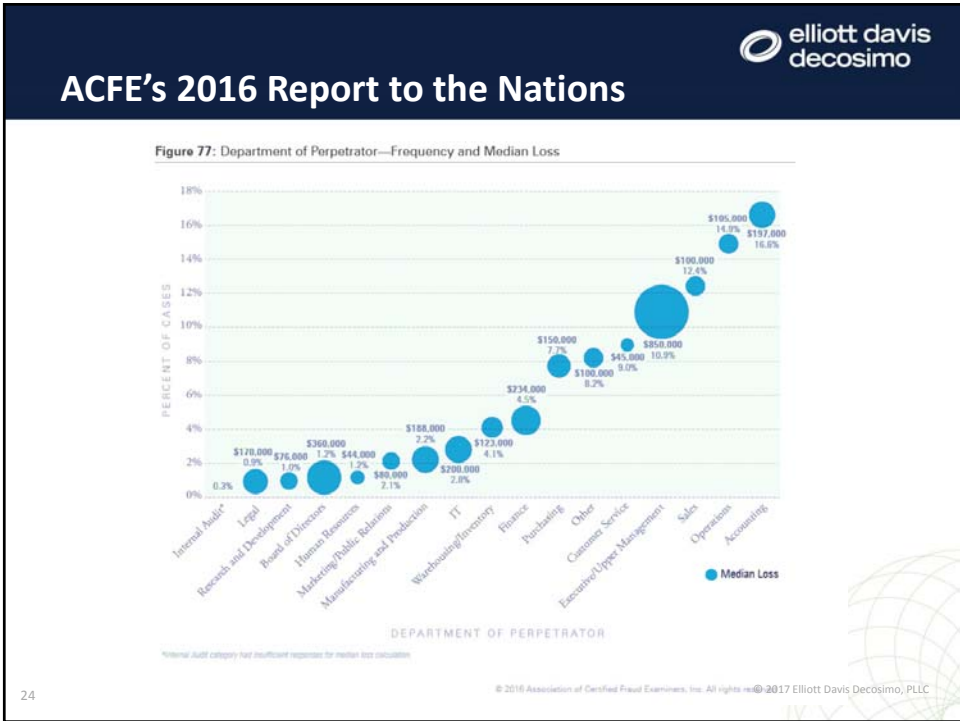
21



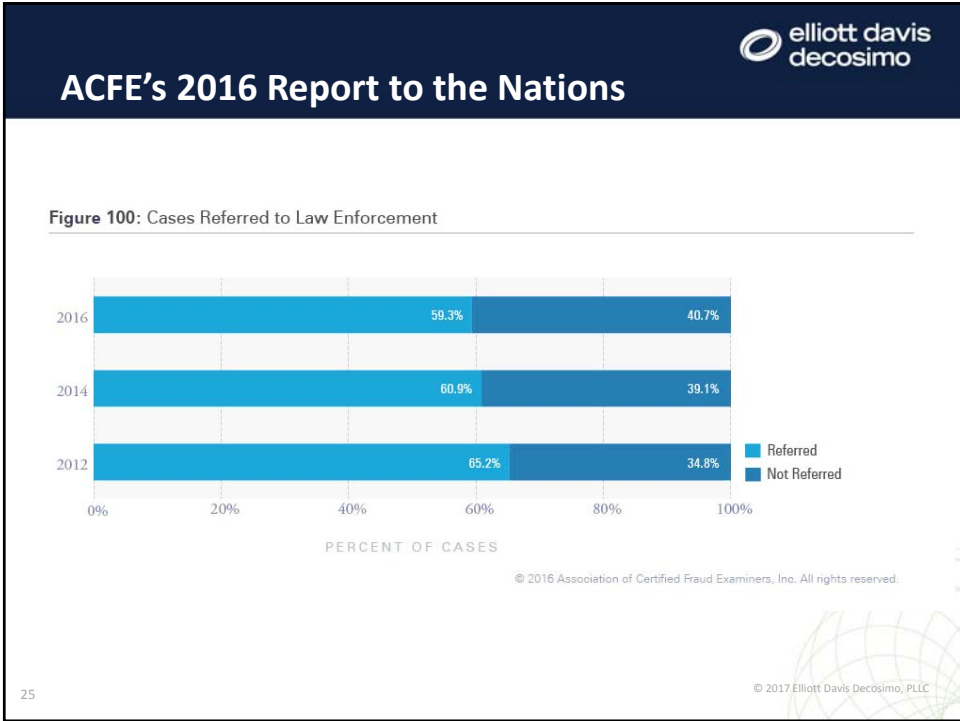
22



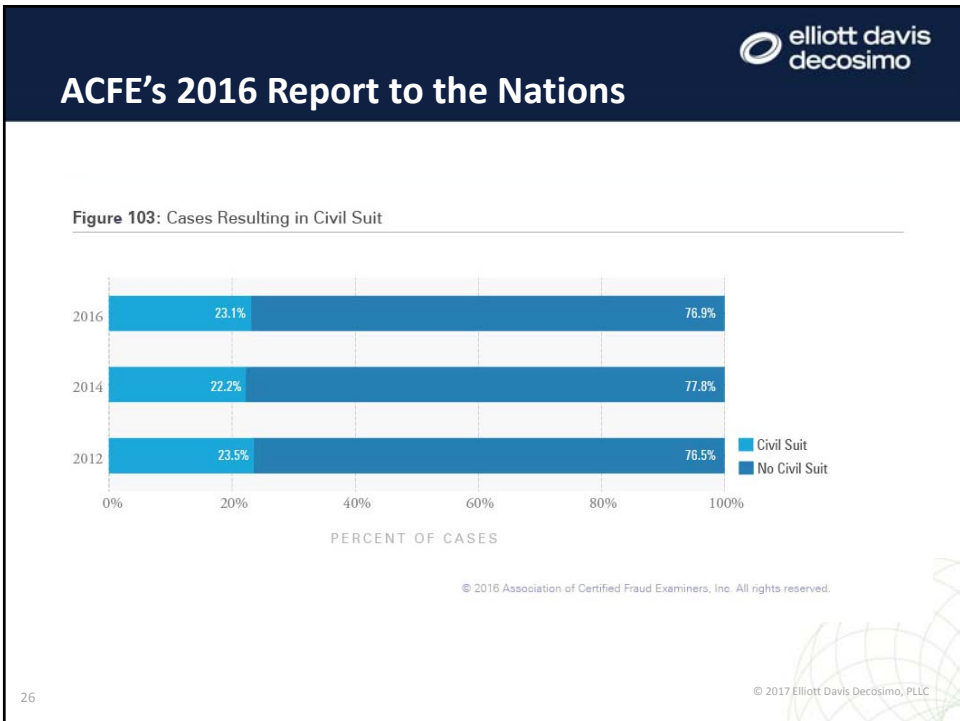
23



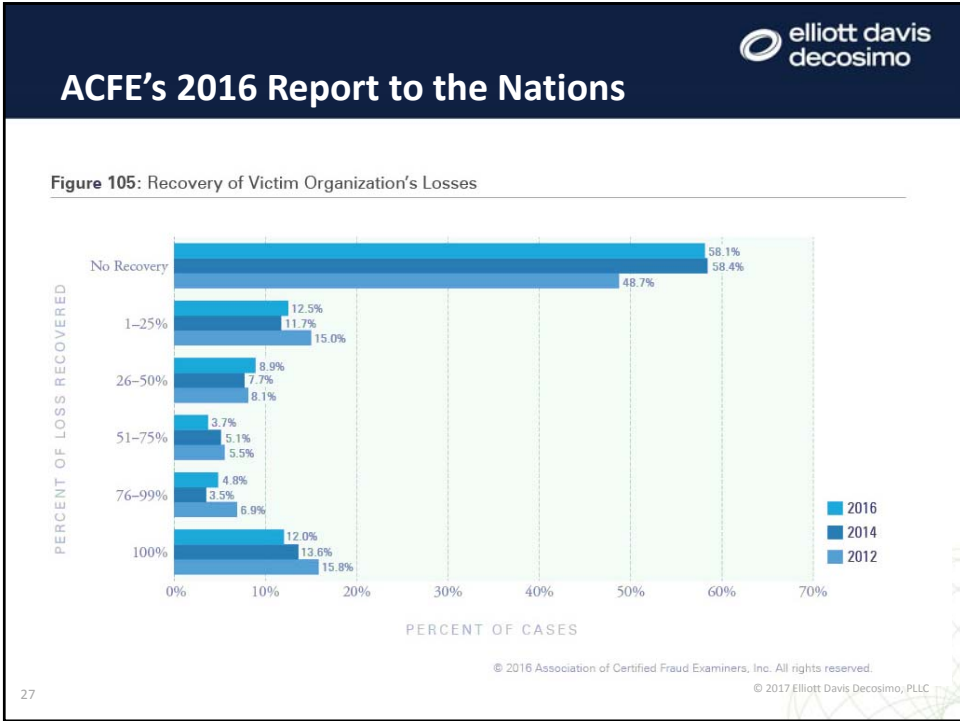
24



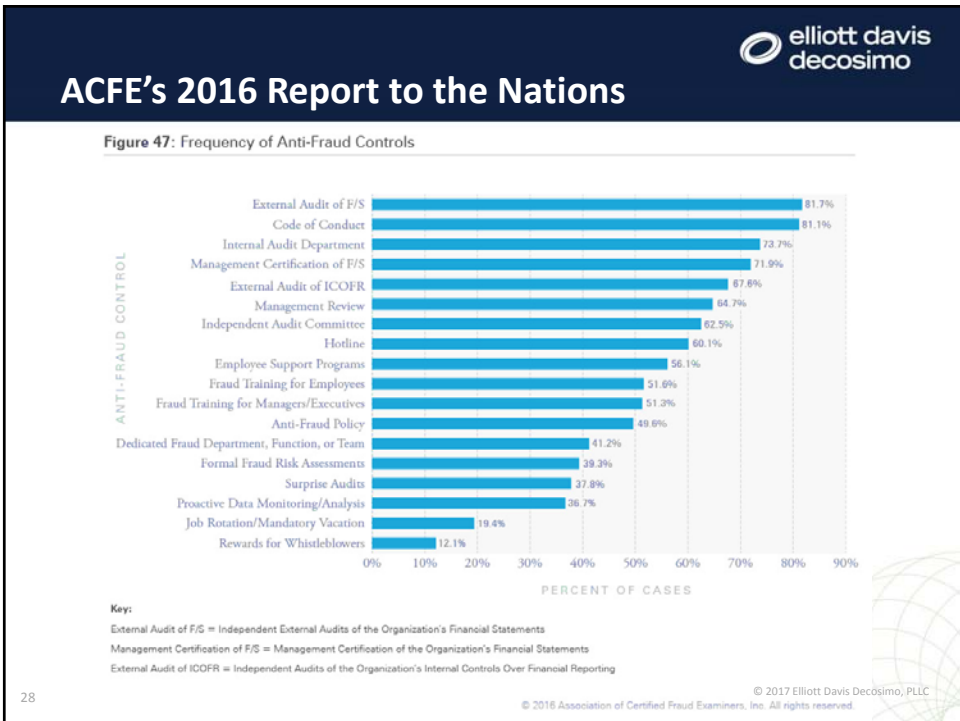
25



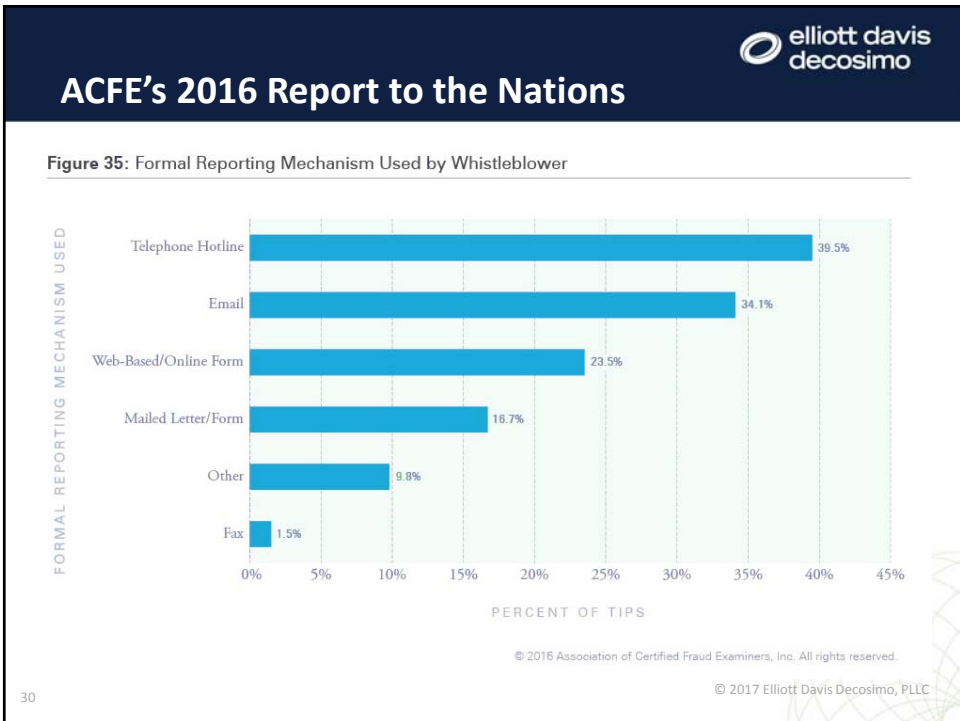
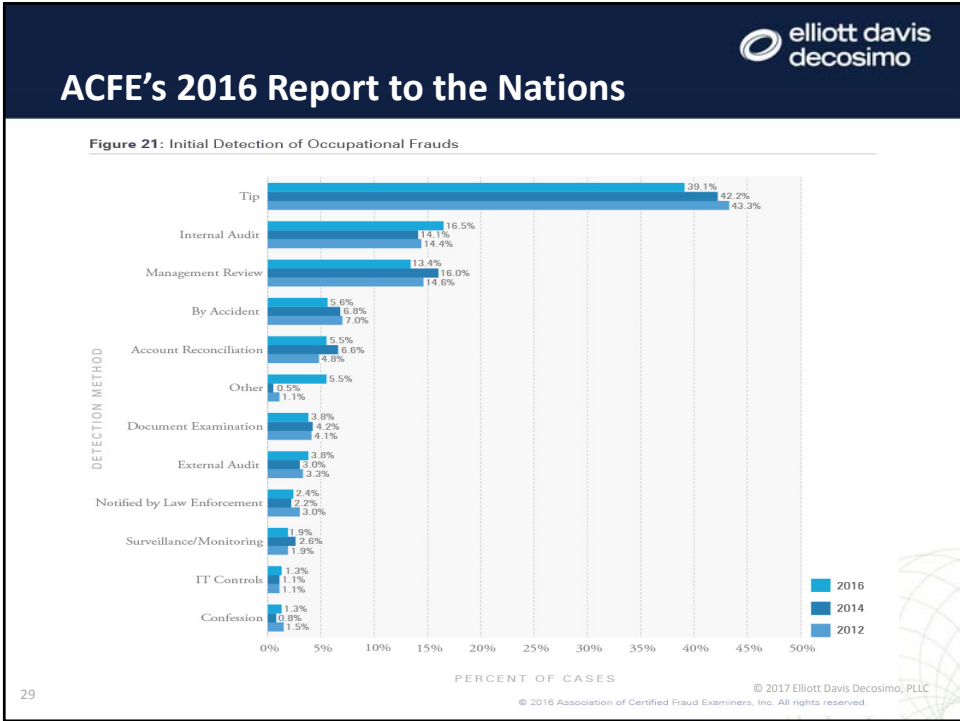
26

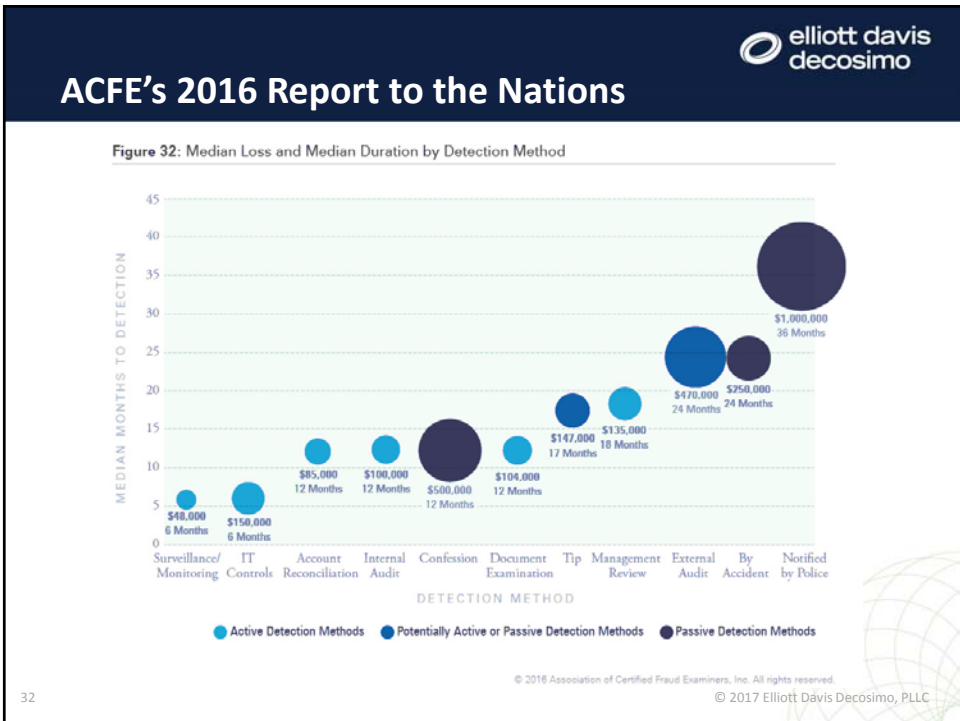
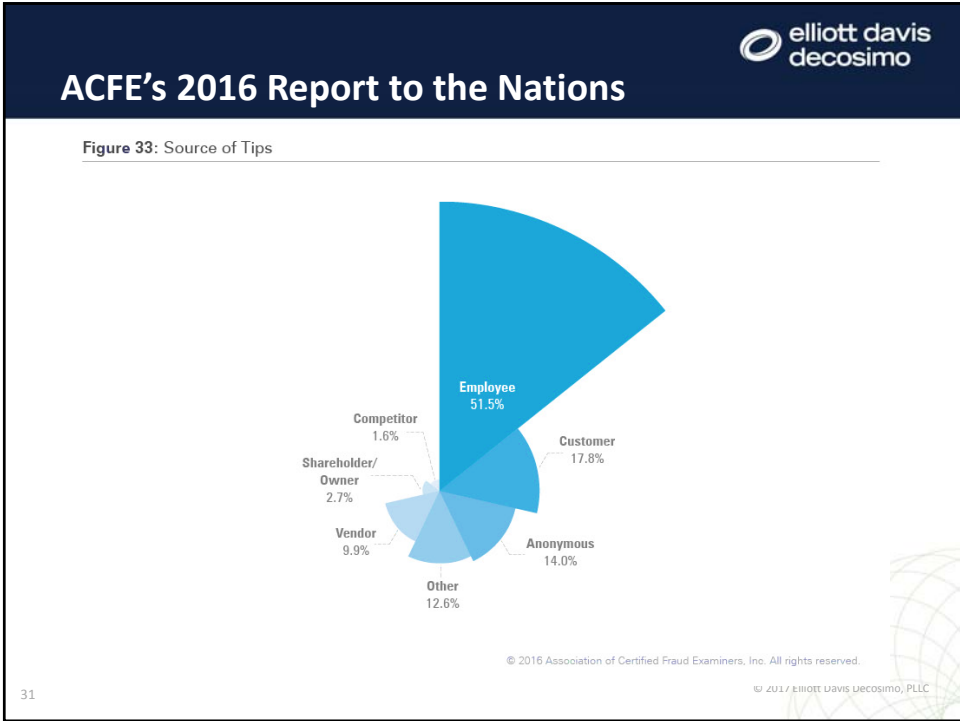


27



28





ACFE's 2016 Report to the Nations

Figure 59: Median Loss Based on Presence of Anti-Fraud Controls

Control	Percent of Cases	Control in Place	Control Not in Place	Percent Reduction
Proactive Data Monitoring/Analysis	36.7%	\$92,000	\$200,000	54.0%
Management Review	64.7%	\$100,000	\$200,000	50.0%
Hotline	60.1%	\$100,000	\$200,000	50.0%
Management Certification of Financial Statements	71.9%	\$104,000	\$205,000	49.3%
Surprise Audits	37.8%	\$100,000	\$195,000	48.7%
Dedicated Fraud Department, Function, or Team	41.2%	\$100,000	\$192,000	47.9%
Job Rotation/Mandatory Vacation	19.4%	\$89,000	\$170,000	47.6%
External Audit of Internal Controls over Financial Reporting	67.6%	\$105,000	\$200,000	47.5%
Fraud Training for Managers/Executives	51.3%	\$100,000	\$190,000	47.4%
Fraud Training for Employees	51.6%	\$100,000	\$188,000	46.8%
Formal Fraud Risk Assessments	39.3%	\$100,000	\$187,000	46.5%
Employee Support Programs	56.1%	\$100,000	\$183,000	45.4%
Anti-Fraud Policy	49.6%	\$100,000	\$175,000	42.9%
Internal Audit Department	73.7%	\$123,000	\$215,000	42.8%
Code of Conduct	81.1%	\$120,000	\$200,000	40.0%
Rewards for Whistleblowers	12.1%	\$100,000	\$163,000	38.7%
Independent Audit Committee	62.5%	\$114,000	\$180,000	36.7%
External Audit of Financial Statements	81.7%	\$150,000	\$175,000	14.3%

33

© 2017 Elliott Davis Decosimo, PLLC
© 2016 Association of Certified Fraud Examiners, Inc. All rights reserved.

ACFE's 2016 Report to the Nations

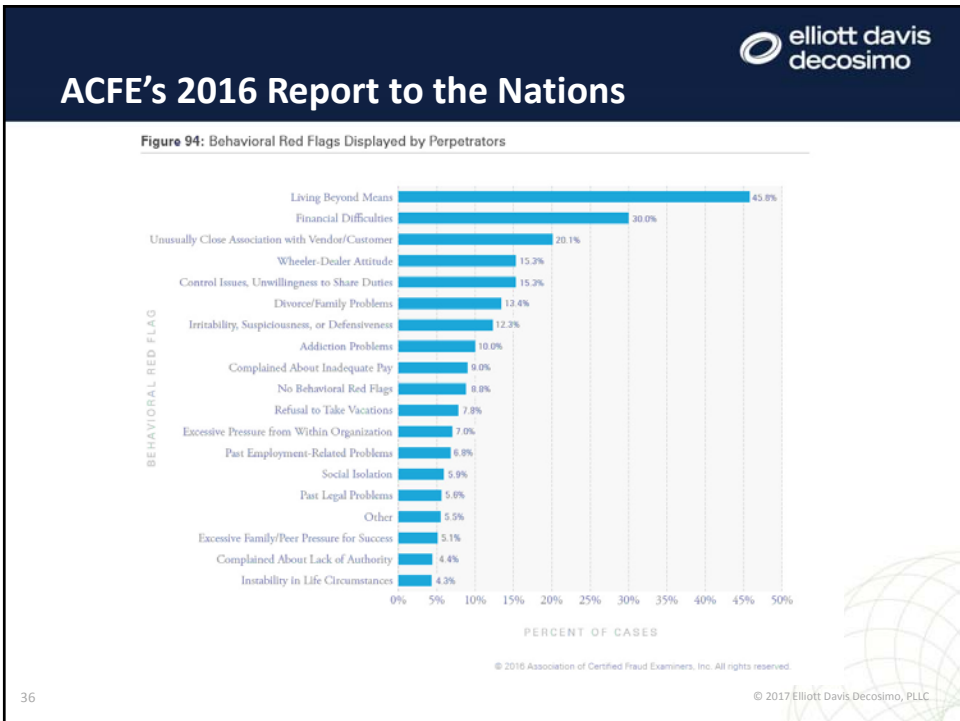
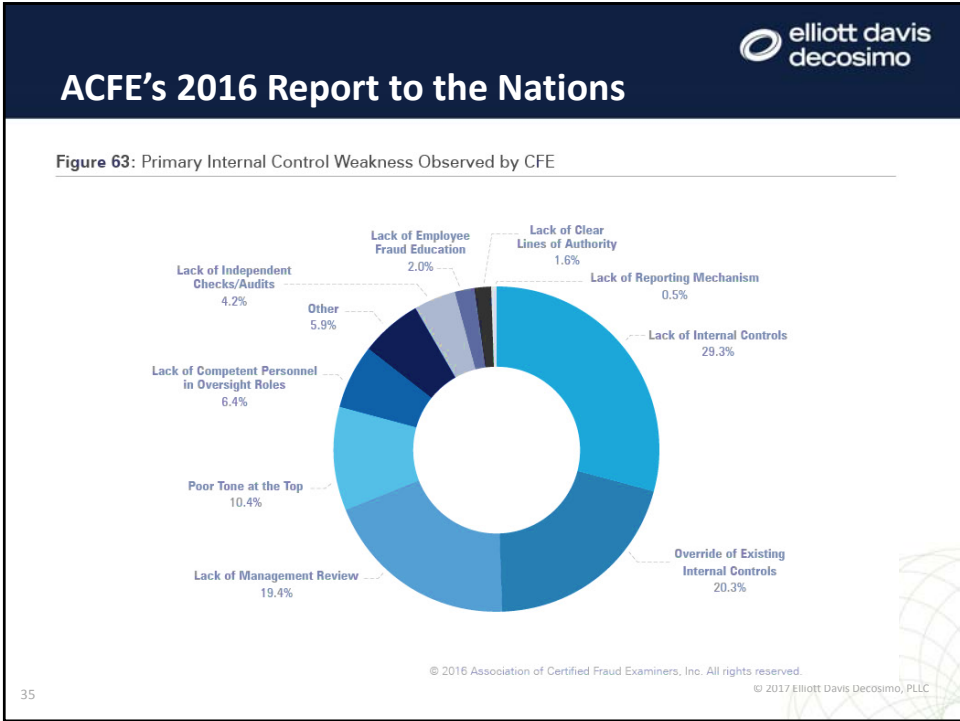
Figure 49: Change in Implementation Rates of Anti-Fraud Controls

Control	2010 Implementation Rate	2016 Implementation Rate	Change from 2010–2016
Hotline	51.2%	60.1%	8.9%
Fraud Training for Employees	44.0%	51.6%	7.6%
Anti-Fraud Policy	42.8%	49.6%	6.8%
Code of Conduct	74.8%	81.1%	6.3%
Management Review	58.8%	64.7%	5.9%
Surprise Audits	32.3%	37.8%	5.6%
Fraud Training for Managers/Executives	46.2%	51.3%	5.2%
Independent Audit Committee	58.4%	62.5%	4.1%
Management Certification of Financial Statements	67.9%	71.9%	4.0%
Rewards for Whistleblowers	8.6%	12.1%	3.5%
Job Rotation/Mandatory Vacation	16.6%	19.4%	2.8%
External Audit of Internal Controls over Financial Reporting	65.4%	67.6%	2.2%
Employee Support Programs	54.6%	56.1%	1.5%
External Audit of Financial Statements	80.9%	81.7%	0.8%

34

© 2016 Association of Certified Fraud Examiners, Inc. All rights reserved.

© 2017 Elliott Davis Decosimo, PLLC





elliott davis decosimo

Fraud Risk Management

Risk Assessment

- 6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives
- 7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
- 8. The organization considers the potential for fraud in assessing risks to the achievement of objectives
- 9. The organization identifies and assesses changes that could significantly impact the system of internal control.

2. The organization performs comprehensive fraud risk assessments to identify specific fraud schemes and risks, assess their likelihood and significance, evaluate existing fraud control activities, and implement actions to mitigate residual fraud risks.

39

© 2017 Elliott Davis Decosimo, PLLC

elliott davis decosimo

Fraud Risk Management

Control Activities

- 10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- 11. The organization selects and develops general control activities over technology to support the achievement of objectives.
- 12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

3. The organization selects, develops, and deploys preventive and detective fraud control activities to mitigate the risk of fraud events occurring or not being detected in a timely manner.

40

© 2017 Elliott Davis Decosimo, PLLC

 **elliott davis decosimo**

Fraud Risk Management

Information & Communication

- 13. The organization obtains or generates and uses relevant, quality information to support the functioning of other components of internal control.
- 14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
- 15. The organization communicates with external parties regarding matters affecting the functioning of other components of internal control.

- 4. The organization establishes a communication process to obtain information about potential fraud and deploys a coordinated approach to investigation and corrective action to address fraud appropriately and in a timely manner.



© 2017 Elliott Davis Decosimo, PLLC


 **elliott davis decosimo**

Fraud Risk Management

Monitoring Activities

- 16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
- 17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

- 5. The organization selects, develops, and performs ongoing evaluations to ascertain whether each of the five principles of fraud risk management is present and functioning and communicates Fraud Risk Management Program deficiencies in a timely manner to parties responsible for taking corrective action, including senior management and the board of directors.



© 2017 Elliott Davis Decosimo, PLLC



Resources

Evaluate your Fraud Program

- <http://www.acfe.com/coso-scorecard-home.aspx>

Point of Focus	Score
MAKING AN ORGANIZATIONAL COMMITMENT TO A FRAUD RISK MANAGEMENT PROGRAM	
SUPPORTING FRAUD RISK GOVERNANCE	
ESTABLISHING A COMPREHENSIVE FRAUD RISK MANAGEMENT POLICY	
ESTABLISHING FRAUD RISK GOVERNANCE ROLES AND RESPONSIBILITIES THROUGHOUT	
DOCUMENTING THE FRAUD RISK MANAGEMENT PROGRAM	
COMMUNICATING FRAUD RISK MANAGEMENT AT ALL LEVELS OF THE ORGANIZATION	

44

© 2017 Elliott Davis Decosimo, PLLC

Resources

Risk Assessment Template

- <http://www.ace.com/fraudrisktools/tools.aspx>

Fraud Risk Assessment as of [DATE]										
ID Number	Identified Fraud Type and Scheme	Likelihood (1-5)	Exp of Future (1-5)	Fraud Risk Rating	People and/or Departments	Existing Anti-Fraud Controls	Prevention (1-5) or Detective (0)	Controls (1) (Prevention Assessment) (1-5)	Residual Risk	Fraud Risk Response
AM4	Fraudulent Disbursements - Check Tampering & Expense Reimbursement Schemes	5	5	25	Check tampering Accounting & Finance staff (including Treasury) Purchasing Operations manager Senior executives (e.g. Sales, Marketing, IT, Legal), General managers of remote locations, CEO, COO Expense Reimbursement All staff (especially sales personnel and management or remote locations)	Personal access controls, dual signatures on checks, review by supervisor and requirement that any like statement made on any expense report could be grounds for dismissal Awareness of process/practices as all levels that might drive inappropriate financial behavior as well as education, inquiry, and other activities that focus on family, family, and personal financial issues of personnel in these departments.	0	1	Medium (5 by senior mgmt) Low (0 by other employees)	Rotation of responsibilities in Accounting & Finance function, (e.g. mandatory vacations) Awareness of lifestyle and other personal issues such as divorce, stress, bereavement, and departed employees who might want to get back at the organization

© 2017 Elliott Davis Decosimo, PLLC

Resources

Risk Assessment Template

© 2017 Elliott Davis Decosimo, PLLC

Resources

elliott davis decosimo

Data Analytics Tests

- <http://www.acfe.com/fraudrisktools-tests.aspx>

47

© 2017 Elliott Davis Decosimo, PLLC

Resources

elliott davis decosimo

- *Using Data Analytics to Detect Possible Fraud: Tools and Techniques.*
 - Authored by Pam Mantone, Elliott Davis Decosimo Director specializing in forensic accounting and fraud examination
 - Published by Wiley 2013

48

© 2017 Elliott Davis Decosimo, PLLC

Case Studies and Anecdotes - 1

“The Chief was a Thief”

- Richard Fowler Jr. – Fire Chief, Farmington, New Hampshire

49

© 2017 Elliott Davis Decosimo, PLLC

The Chief was a Thief

- Background Info:
 - Hired as first full-time fire chief mid 2006; led the police and fire departments, and volunteer fire fighters
 - \$65,000 salary
 - Farmington Firefighters Relief Association (FFRA) founded in 1976 to raise funds to cover costs associated with training, certification and equipment (Fowler was an active member)
 - In 2006 when Fowler was hired, Farmington took over the control and funding of the fire department
 - Confessed to having a drug and gambling addiction

50

© 2017 Elliott Davis Decosimo, PLLC

elliott davis decosimo

The Chief was a Thief

- Drug addiction
- Gambling habit

He deserved more money for the amount of responsibility

Lack of oversight and lack of segregation of duties

51 © 2017 Elliott Davis Decosimo, PLLC

elliott davis decosimo


The Chief was a Thief

```
graph TD; A1[Town ambulance responds with no hospital paramedic] --> B1[COMSTAR (town contractor) bills patient or insurance]; B1 --> C1[Remits funds (less 7 percent fee) to town of Farmington]; C1 --> D1[Checks deposited into town bank account]; A2[Town ambulance responds with hospital paramedic] --> B2[Hospital bills patient or insurance]; B2 --> C2[Remits funds (per patient) to town of Farmington]; C2 --> D2[Checks deposited into Firemen's Relief Association bank account];
```

Per town agreement

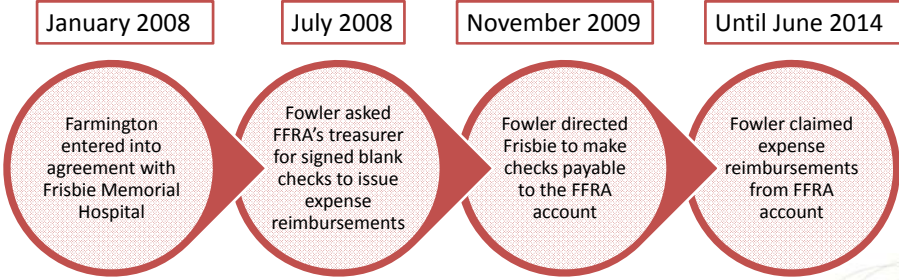
In practice

52 © 2017 Elliott Davis Decosimo, PLLC



The Chief was a Thief

- How did he do it?



The diagram consists of four red circular nodes connected by arrows pointing from left to right. Each node is associated with a date in a red-bordered box above it. The first node is labeled 'January 2008' and contains the text 'Farmington entered into agreement with Frisbie Memorial Hospital'. The second node is labeled 'July 2008' and contains 'Fowler asked FFRA's treasurer for signed blank checks to issue expense reimbursements'. The third node is labeled 'November 2009' and contains 'Fowler directed Frisbie to make checks payable to the FFRA account'. The fourth node is labeled 'Until June 2014' and contains 'Fowler claimed expense reimbursements from FFRA account'.

53 © 2017 Elliott Davis Decosimo, PLLC



The Chief was a Thief

- How did he get away with it?
 - Poor (or altogether nonexistent) segregation of duties allowed Fowler complete control over FFRA and Farmington finances
 - Fowler made bank deposits without second signature or authorization
 - Fowler had access to signed check stock
 - Access to FFRA bank accounts
 - Lack of management review of operational and financial performance

54 © 2017 Elliott Davis Decosimo, PLLC

The Chief was a Thief

- How was he caught?
 - Mid-2014 Fowler left Farmington to work for a larger fire department
 - Deputy fire chief discovered financial discrepancies when attempting to reconcile the financial records
 - Town chief of police and deputy fire chief met with county criminal prosecutor in July 2014

55

© 2017 Elliott Davis Decosimo, PLLC

The Chief was a Thief

- What was the fall-out?
 - Fowler pled guilty to the theft of approximately \$270,000
 - Sentenced to three to six years in state prison and \$216,000 in restitution

56

© 2017 Elliott Davis Decosimo, PLLC

Case Studies and Anecdotes – 2

elliott davis decosimo

“When Major League Money Meets Little League Controls”

- Kansas University – athletic ticket scam
- Losses of up to \$3 million during 2005 through 2010
- Involved collusion of high ranking employees

57

© 2017 Elliott Davis Decosimo, PLLC

When Major League Money Meets Little League Controls

elliott davis decosimo

Policy permits:

- Employees get two complimentary tickets per event. No resale permitted
- Complimentary tickets to potential donors
- Tickets for Charitable Organizations

What actually happened:

- Received more than two, resale encouraged
- Officials used many more than “reasonably” needed
- Improperly used or resold tickets intended for charity

58

© 2017 Elliott Davis Decosimo, PLLC

When Major League Money Meets Little League Controls



- How did they do it?
 - Theft was concealed by charging tickets to fictitious accounts such as “Rodney Jones Donor Discretionary”
 - Destroyed tickets records

59

© 2017 Elliott Davis Decosimo, PLLC

When Major League Money Meets Little League Controls



What Controls Could Have Prevented This?

60

© 2017 Elliott Davis Decosimo, PLLC

When Major League Money Meets Little League Controls



- Internal control concerns:
 - Lack of oversight:
 - “Controls are only as effective as the people who use them.”
 - Independent oversight needed to maintain effectiveness of controls
 - Lack of transparency:
 - Disclosures and reporting of athletic data should come from central financial administrations
 - Should be provided via internet to promote openness and transparency
 - Safeguarding employee tickets

61

© 2017 Elliott Davis Decosimo, PLLC

When Major League Money Meets Little League Controls



- The Fall Out
 - Seven employees indicted including three assistant athletic directors
 - Combined restitution totals \$7,113,840
 - Combined prison time 20 years 3 months
 - Athletic Director forced into retirement; replacement hired at 10% of his salary

62

© 2017 Elliott Davis Decosimo, PLLC

Case Studies and Anecdotes – 3

“Georgetown Embezzlement”

- Georgetown University – Pedro Paulo dos Santos, Associate Director and Program Coordinator of the University’s Brazilian Studies Program
- Losses of \$311,000 from 2001 through 2005

63


© 2017 Elliott Davis Decosimo, PLLC

Georgetown University Embezzlement

- What did he do?
 - dos Santos set up a fictitious consultant using the credentials of a former lecturer
 - He filled out 118 fraudulent expense vouchers for consulting services from this fictitious lecturer
 - He endorsed the checks using the name of the fictitious vendor
 - The funds were deposited into dos Santos’ personal account, and the accounts of relatives


64


© 2017 Elliott Davis Decosimo, PLLC

 **elliott davis decosimo**

Georgetown Embezzlement


- How was he caught?
 - The bank notified the University that dos Santos was depositing the checks into his account
 - Internal audit investigation uncovered the full crime.

65  © 2017 Elliott Davis Decosimo, PLLC

 **elliott davis decosimo**

Georgetown Embezzlement

- What was the fall-out?
 - dos Santos admitted to embezzling \$311,000 from October 2001 through January 2005
 - Charged with 10 counts of bank fraud, mail fraud, money laundering and theft
 - After being confronted by the auditors dos Santos fled the Country.
 - Faces a total of 30 years in prison and \$1,000,000 if he is extradited to the US

66  © 2017 Elliott Davis Decosimo, PLLC

Take Aways and Lessons Learned

- Importance of anti-fraud controls at every organization!
 - From ACFE's Report to the Nations, how are most frauds discovered?
 - Employee tips
 - Management review
 - Internal audit
 - By accident
 - What about external financial statement audits?

67

© 2017 Elliott Davis Decosimo, PLLC

Take Away's and Lessons Learned

- Anti-fraud controls:
 - Formal fraud policy and annual training to all employees
 - Fraud risk assessment procedures, at least annually
 - Tip or whistleblower hotline
 - Ongoing monitoring and data analytics
 - Mandatory vacations and surprise audits
 - Regular review of segregation of duties and IT system access

68

© 2017 Elliott Davis Decosimo, PLLC

 **elliott davis decosimo**

Questions and Open Discussion



69 © 2017 Elliott Davis Decosimo, PLLC

 **elliott davis decosimo**

Rochelle Friend, CPA, CFE
Email: Rochelle.friend@elliottdavis.com
Phone: 919.783.7073
Website: www.elliottdavis.com

Elliott Davis Decosimo provides comprehensive assurance, tax and consulting solutions to diverse businesses, organizations and individuals. With a network of forward-thinking professionals in major U.S. markets and alliance resources across the globe, the firm ranks among the top 30 and fastest-growing accounting firms in the U.S. Visit elliottdavis.com for more information.

70 © 2017 Elliott Davis Decosimo, PLLC



Providing Additional Resources to Meet Your Needs



360° INSIGHTS. FOCUSED ON YOU.

Receive Important News and Alerts
Customized to Your Interests

Subscribe at www.elliottdavis.com/subscribe

© Elliott Davis Decosimo, PLLC





Cybersecurity Update - State and Local Governments and Related Entities



Bonnie Bastow

Director – Risk Advisory Services
bonnie.bastow@elliottdavis.com
704.808.5275

Fellen Yang

Manager – Risk Advisory Services
fellen.yang@elliottdavis.com
704.808.5290

June 14, 2017

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



This material was used by Elliott Davis Decosimo during an oral presentation; it is not a complete record of the discussion. This presentation is for informational purposes and does not contain or convey specific advice. It should not be used or relied upon in regard to any particular situation or circumstances without first consulting the appropriate advisor. No part of the presentation may be circulated, quoted, or reproduced for distribution without prior written approval from Elliott Davis Decosimo.

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

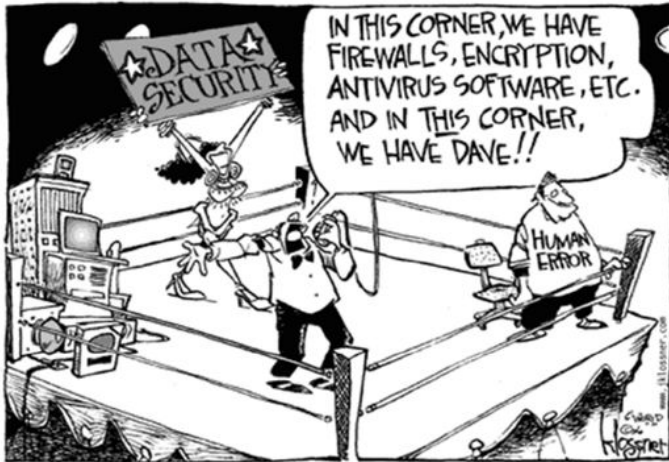


Agenda


1. Cybersecurity Defined, Background And Risks
2. Resources Available
3. Recommendations
4. Latest Update on Cybersecurity Risk

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Cybersecurity Defined, Background And Risks Agenda Item # 1




Information Security Defined



- Information security refers to the discipline of and processes for protecting the confidentiality, integrity and availability of all your information, regardless of form
 - Cybersecurity is a subset of information security and applies to digital data

CIO Magazine, March 27, 2017



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC


Cybersecurity Defined



Cybersecurity are the efforts and resources deployed by an organization to protect its digital information assets.




© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC




Critical Infrastructure

- Secretary Jeh Johnson – Department of Homeland Security (DHS)
 - There are 16 critical infrastructure sectors
 - January 2017 - the election infrastructure was classified as ‘critical’ infrastructure subsection under the government facilities sector, previously called an ‘allowable expense’

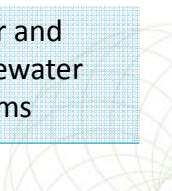


© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



Critical Infrastructure (continued)

Chemical	Defense Industrial Base	Food and Agriculture	Nuclear Reactors, Materials and Waste
Commercial Facilities	Emergency Services	Government Facilities	Sector Specific Agencies
Critical Manufacturing	Energy	Healthcare and Public Health	Transportation
Dams	Financial Services	Information Technology	Water and Wastewater Systems



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Cybersecurity Risk to Local Governments

- County and municipal cybersecurity
 - Massive organizational risk
 - County and municipal executives often unaware of the risks, wrongfully assuming IT director or CIO has it 'covered'
- Municipal/County networks contain valuable data to a cybercriminal
 - High value of data AND ease of obtaining

Cybersecurity Risk to Local Governments (continued)

- Local governments are attractive targets because they are connected to state systems or other large networks
- One of the biggest problems facing the public sector is the lack of security professionals

RSA Conference 2017



- “The myriad smaller governments/entities across the US have major cyber-security problems”
 - Cybersecurity experts panel
- “Challenging to figure out whether there is a single optimal model to govern state cyber-security”
 - Branch Chief for partnerships and engagement at the U.S. Department of Homeland Security
- Data rich environments

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



RSA Conference 2017 – What’s Next



- Prioritize cybersecurity
- Education should be a starting point for most smaller government organizations
- Resource and budget issues
- Elections have elevated the cyber threats and needs

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

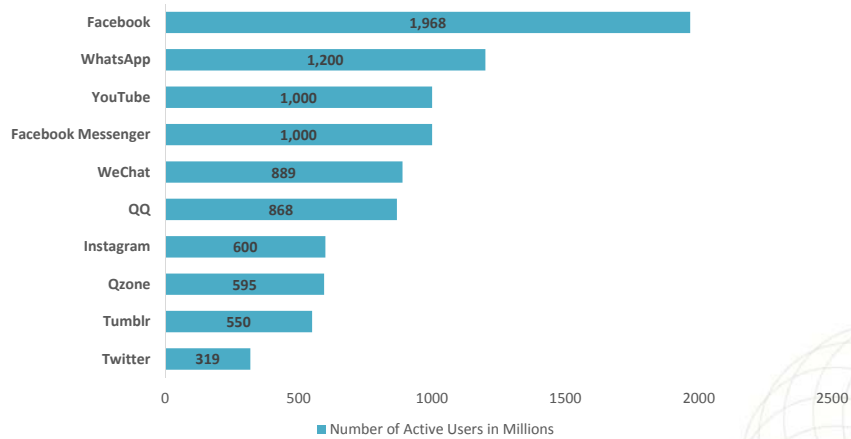


Three core cyber liability risks

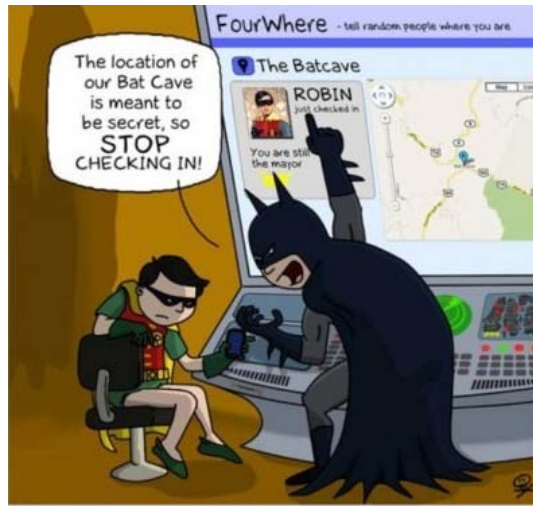
- Technology errors and omissions
 - Network architecture error (i.e. misplaced firewall, unauthorized access), software and hardware do not function properly (i.e. data corruption)
- Social media/e-publishing liability
 - Content ownership (i.e. social media policy), awareness and training
- Data breach of sensitive information
 - HIPAA, negligent/fraud, excessive privilege access, social engineering

Social Networks Scale

- Leading social networks as of April 2017



Social Media Cyber Risks



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Ransomware in Government

- Phishing attacks with malicious link
- Brute force attack



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Ransomware in Government (continued)

- Education and Government – two top industries affected
 - “Education has the highest rate of ransomware of all industries examined...these institutions have over three times the rate of ransomware found in healthcare”
 - “Of six industries examined, Government had the second lowest security rating and the second-highest rate of ransomware – ransomware in this sector more than tripled over the last 12 months”

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

5 Challenges for Governmental Organizations

- Personnel
- Regulations
- Organizational structures
- Budget
- Tech versus strategic thinking and approaches
 - Most security problems are internal
 - Think in terms of a business problem and apply technology to help if applicable
 - Don't think in terms of technology

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC




Technical Solution Reliance

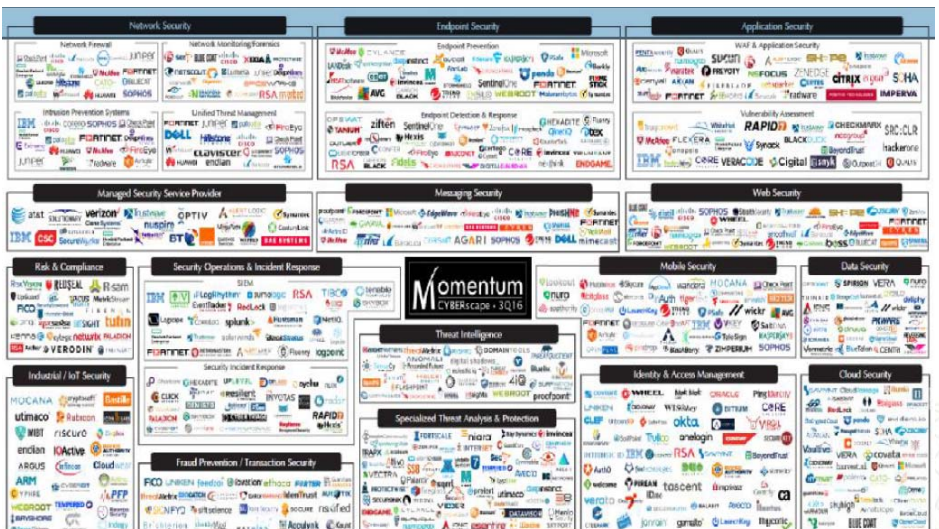
Cybersecurity Landscape

1- Network Security	9- Managed Security Services
2- Endpoint Security	10- Security Operation & Incident Response
3- Web Security	11- Threat Intelligence
4- Cloud Security	12- Identity and Access Management
5- Messaging Security	13- Individual/IoT Security
6- Mobile Security	14- Fraud Prevention/Transactional Security
7- Application Security	15- Risk and Compliance
8- Data Security	16- Specialized Threat Analysis & Protection

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

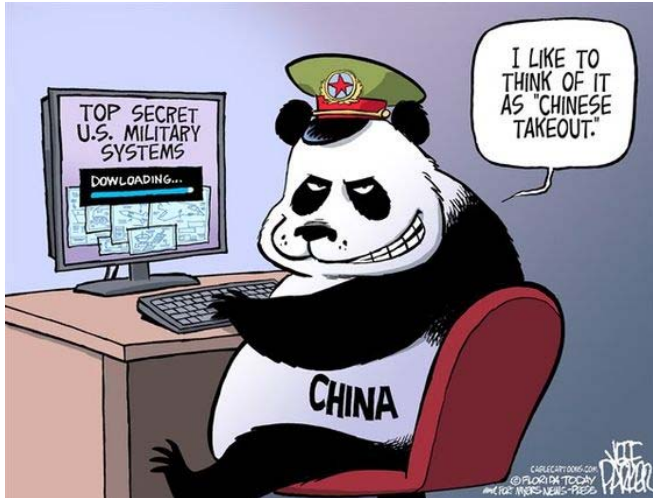


Technical Solution Reliance



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Resources Available Agenda Item # 2



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



Resources

- North Carolina Department of Information Technology
 - OneIT website <https://it.nc.gov/oneit>
- DHS
 - Grants
- Center for Internet Security (CIS)
 - MS-ISAC
- Various other resources

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



NC – OneIT Website Resources

ESRMO: North Carolina’s Tech Security


The Enterprise Security and Risk Management Office works with state agencies to protect North Carolina’s IT assets against unauthorized, use, disclosure, modification, damage or loss.



NC – State IT Resources at a Glance

Resource	#
Servers	5000+
Agency Applications	1100+
IT Contracts over \$25k	591
Data Centers	40+
Unique title for >2000 staff	285
IT Projects that exceeded budget and schedule	74%





 **Department of Homeland Security (DHS)**

DHS role in cybersecurity

- DHS is the leading federal department for the protection of critical infrastructure and the furthering of cybersecurity
 - U.S. Secret Service and U.S Immigration and Custom Enforcement also have dedicated divisions


© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



 **DHS – Role in Cybersecurity**

- Has provided a range of cybersecurity services for states and local governments
 - Funding for Multi-State ISAC
 - Cyber resilience reviews
 - On-site support
- Problem is – many states (local/agencies) don't have a foundational security architecture and therefore can't use the DHS services effectively

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



Nationwide Cybersecurity Review - NCSR

- NCSR – Voluntary self-assessment survey
 - Designed to evaluate cybersecurity management
- Who can participate?
 - All States (and agencies), Local governments and departments, Tribal and Territorial governments
- Who are the partners?
 - U.S Department of Homeland Security (DHS)
 - MS-ISAC, a division of CIS, is the focal point for cyber threat prevention, protection, response and recovery

Center for Internet Security (CIS)

- <https://www.cisecurity.org>
- Home to Multi-State – Information Sharing and Analysis Center (MS-ISAC)
- Cybersecurity Best Practices
 - CIS Controls
 - CIS Benchmarks
- Cybersecurity Tools
- Cybersecurity Threats

More about MS-ISAC

- Mission

- To improve the overall cybersecurity posture of state, local, tribal and territorial governments.
- Collaboration and information sharing among members, private sector partners and the U.S. Department of Homeland Security are the keys to success

- Role

- MS-ISAC is the focal point for cyber threat prevention, protection, response and recovery for the nation's state, local, tribal and territorial governments
- 24x7 cybersecurity operations center

State and Local Cybersecurity Funding

- President's Commission on enhancing national cybersecurity – released December 2, 2016

- 70 recommendations, yet one KEY recommendation is missing >> Dire cybersecurity funding needs for state and local governments
- Department of Homeland Security Grant Program (HSGP) >> \$1billion/yr
- Still, federal cybersecurity funding for states has been overlooked
 - President Obama requested a 37% increase for the 2017 budget

State and Local Cybersecurity Funding (continued)

- Cybersecurity has been upgraded to a “core capability” (previously considered an “allowable expense”); however no new incentives or accountability for states to spend federal grant money on cybersecurity has resulted
- Most states cyber budgets are between 0-2% of their overall IT budget, compared with an average of more than 10% in large companies

New Bi-Partisan Proposed Bill

- State Cyber Resiliency Act
 - Introduced early March 2017
 - Introduced by both parties of the House and Congress
 - Grant program to increase resources to state and local government bodies for strengthening their cyber plans, develop a stronger cybersecurity workforce and fight threats

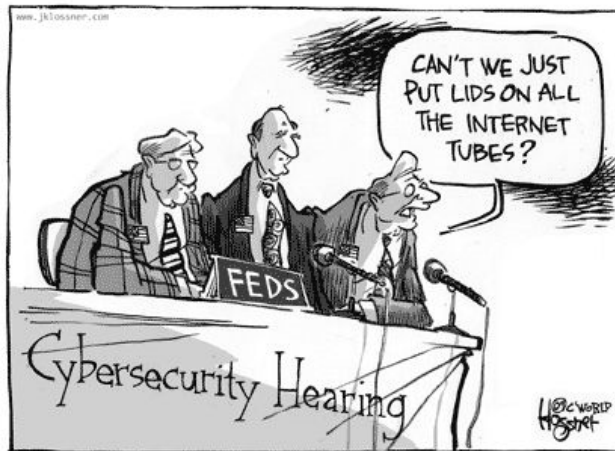
New Bi-Partisan Proposed Bill

- Why

- Bill sponsors claim less than 2% of IT budgets are dedicated to cybersecurity
- 2015 report cited 50% of state and local governments had experienced over six breaches the previous two years
- 2016 had 200,000 personal voter records compromised > prompting the Department of Homeland Security to label the state voting infrastructure as 'critical infrastructure'

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Recommendations Agenda Item # 3



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Questions to Consider

- Do you have an Information Security Program?
- Does your Information Security Program include adequate coverage for cybersecurity?
- Do you know all the resources available to leverage?
- Is cybersecurity risk receiving executive level attention?
- How does your agency/entity/organization work with and utilize the NC Department of Information Technology, DHS, others?
- Is everyone engaged?

RSA Conference 2017 – 3 Ways

3 Ways State and local governments can beef up cybersecurity


1. Take employees home networks into account
2. Data sharing is key to mitigating future attacks
3. States need to be security trailblazers

1 - Home Networks

- Smart home technology is making government networks more vulnerable.
- Does your cybersecurity architecture or plan take this into account?
- Can't rely on policy alone, will need to lock-down the workforce.
- Can your employees access the VPN using their own devices?

2 – Data Sharing


- Vast majority of cyberattacks still go unreported, leaving others vulnerable to the same attack
- U.S. Representative Michael McCaul of Texas – Chairman of House Committee on Homeland Security > “Cyber is a team sport – We need a strong offense and a strong defense”
- Michigan has launched a multilayered cybersecurity plan that focuses on data-sharing partnerships and data analytics




3 – States as Security Trailblazers

- ‘It is up to the governors of this country to lean in and take the lead” – Virginia Governor Terry McAuliffe
- “We need the private sector” McAuliffe is calling on state governments to partner with IT vendors

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

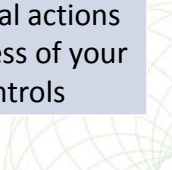





How to Evaluate Cybersecurity Risks

What To Do	Why
1- Know your current security posture	<ul style="list-style-type: none"> • Need to know existing gaps • Allow for proper project prioritization
2- Do a risk assessment using a framework	<ul style="list-style-type: none"> • Walks you through many considerations • Provides you threats to consider • Requires cross functional involvement
3- Have a periodic independent assessment	<ul style="list-style-type: none"> • Validation of internal actions • Test the effectiveness of your current security controls

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC






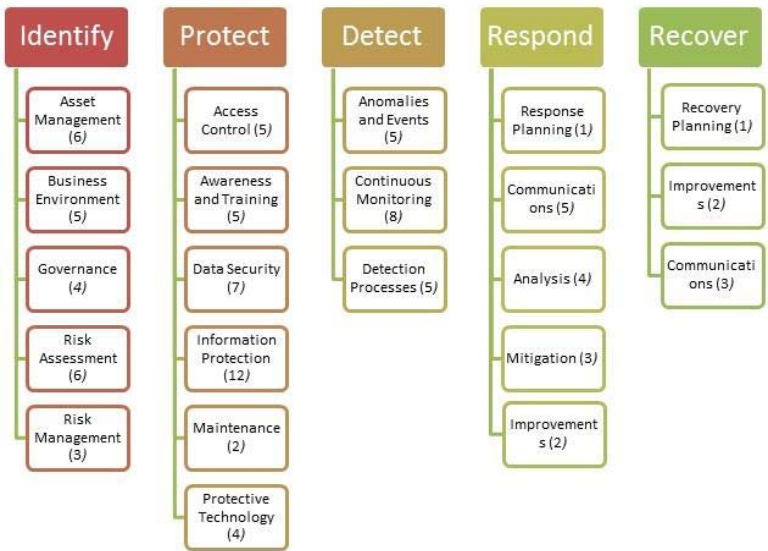
How to Evaluate Cybersecurity Risks (continued)

What To Do	Why
4 - Avoid these Pitfalls	<ul style="list-style-type: none"> • Cybersecurity is NOT an IT problem • Can't spend your way to safety • Don't reinvent the wheel – use all the resources available • Not knowing your boundaries and where data resides • Over-focus on inbound access – ignoring controls to monitor data egress • Thinking you are not a target – need to understand who and why others are interested in your data

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



NIST Cybersecurity Framework



Identify	Protect	Detect	Respond	Recover
Asset Management (6)	Access Control (5)	Anomalies and Events (5)	Response Planning (1)	Recovery Planning (1)
Business Environment (5)	Awareness and Training (5)	Continuous Monitoring (8)	Communications (5)	Improvements (2)
Governance (4)	Data Security (7)	Detection Processes (5)	Analysis (4)	Communications (3)
Risk Assessment (6)	Information Protection (12)		Mitigation (3)	
Risk Management (3)	Maintenance (2)		Improvements (2)	
	Protective Technology (4)			

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

Know Your Current Security Posture

- Tools to use
 - FCC – Small Biz Cyber Planner 2.0 (October 2012)
 - <https://www.fcc.gov/cyberplanner>

How to Evaluate Your Cybersecurity Risks

- Key Take-Aways
 1. Take a strategic top-down approach
 2. Know your current security posture
 3. Utilize existing resources and framework
 4. Test and validate your information security program
 5. Ensure full executive engagement and support




Latest Update on Cybersecurity Risk
Agenda Item # 4




Verizon 2017 Data Breach Investigations Report
Contributor

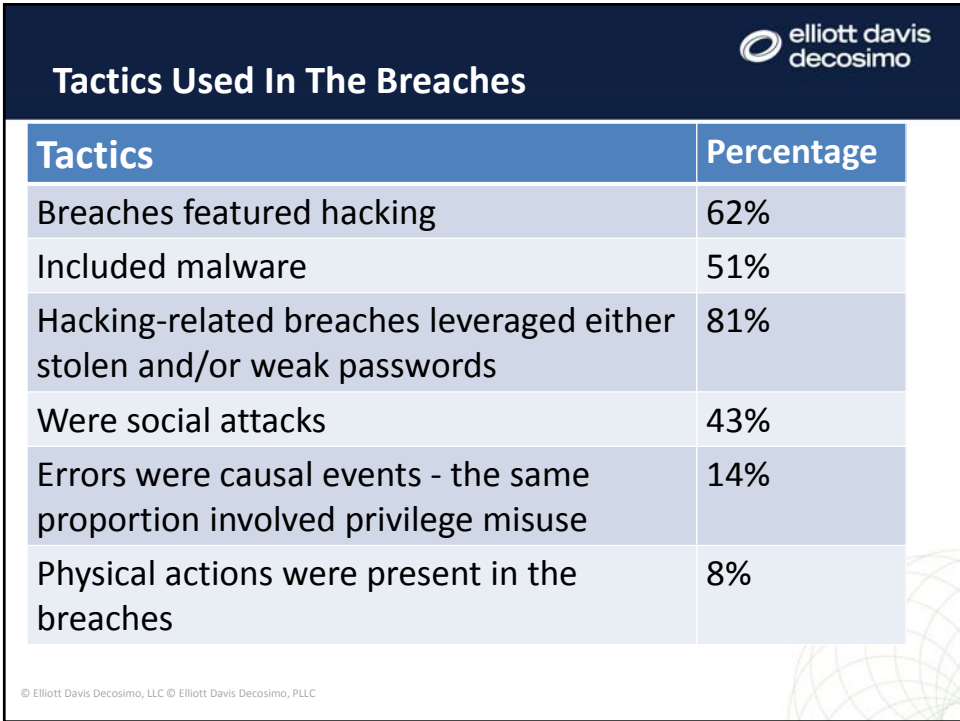
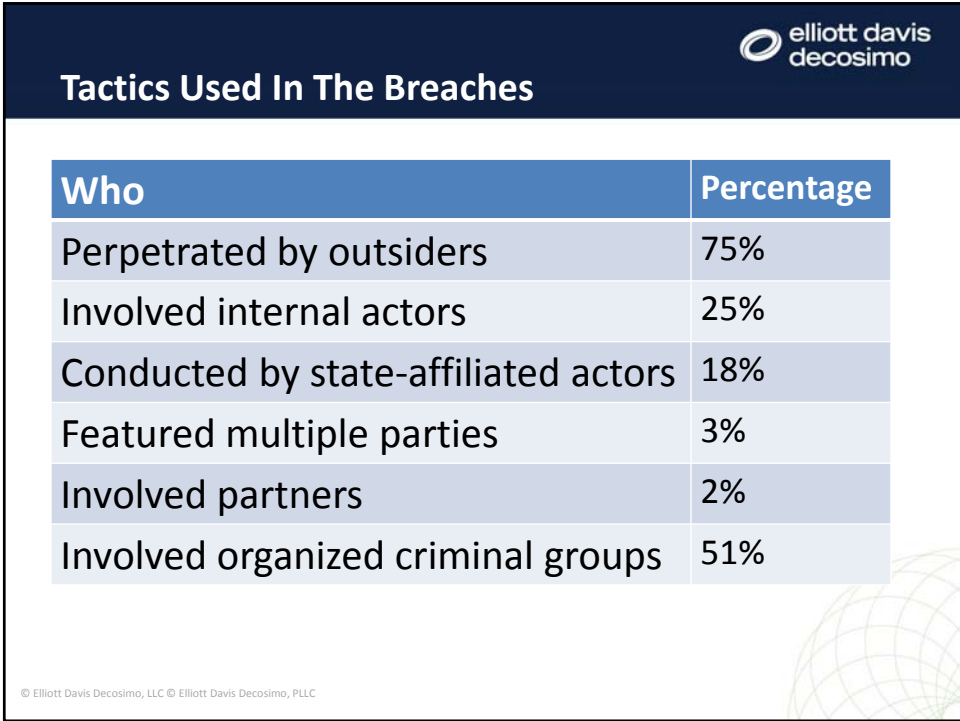
© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

2017 Verizon Data Breach Investigation Report  **–10th edition**

- **Incident:**
 - A security event that compromises the integrity, confidentiality or availability of an information asset.
- **Breach:**
 - An incident that results in the confirmed disclosure—not just potential exposure—of data to an unauthorized party



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC







Who Are The Victims

Victims	Percentage
Financial organizations	24%
Healthcare organizations	15%
Public sector entities	12%
Retail and accommodations	15%

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC







What Else Is Common

Commonalities	Percentage
Malware that was installed via malicious email attachments	66%
Breaches that were financially motivated.	73%
Breaches that were related to espionage	21%
Breaches that were discovered by third parties.	27%

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC







Sharing Information

- Verizon report highlights that sharing of information, security breaches, incident trends, etc – is critical to ‘staying ahead’ (if that is possible)
- Do you information security professionals in your organization have a forum to share information?
- National Council of Information Sharing and Analysis Centers (ISAC)
 - <https://www.nationalisacs.org/>

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC








Sharing Information, continued

ISACs	
Automotive, Aviation	Multi-state
Communication	National Health
Defense (multiple)	Oil & Gas
Electrical & Gas	Real Estate
Emergency Management	Research & Education
Financial Services	Retail Cyber intelligence
Healthcare	Supply Chain
Information Technology	Surface transportation, public transportation and over the road bus
Maritime	

© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC



Questions



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

53

Bonnie Bastow, Director
Email: bonnie.bastow@elliottdavis.com
704.808.5275

Fellen Yang, Manager
Email: fellen.yang@elliottdavis.com
704.808.5290

Website: www.elliottdavis.com

Elliott Davis Decosimo provides comprehensive assurance, tax and consulting solutions to diverse businesses, organizations and individuals. With a network of forward-thinking professionals in major U.S. markets and alliance resources across the globe, the firm ranks among the top 30 and fastest-growing accounting firms in the U.S. Visit elliottdavis.com for more information.



© Elliott Davis Decosimo, LLC © Elliott Davis Decosimo, PLLC

2017 Governmental Accounting Update June 14, 2017

Attendees by Last Name (326)

Kathryn Alexander-Forsyth Technical Community College
Robert Alford-Office of the State Controller
Shelly Alman-Gaston College
Stephanie Alsay-Department of Justice
Greg Alvord-Department of Health and Human Services
Lewis Andrews-Department of State Treasurer
Art Andrews-Johnston Community College
Lamees Asad-UNC - Chapel Hill
Kristina Autio-Office of the State Auditor
Khalid Awan-Department of Public Safety
Bruce Baird-Office of the State Auditor
Jessica Balazsi-North Carolina Community College System
Matthew Banko-Alamance Community College
Kendal Banks-NC Community College System
Alicia Bartosch-UNC - Charlotte
Rodney Bass-NC General Assembly
Bonnie Bastow-Conference Speaker
Kim Battle-Office of the State Controller
Sharon Bell-Appalachian State University
Eric Berman-Conference Speaker
Thomas Berryman-Health and Human Services
Jeannie Betts-Department of Health and Human Services
Linda Blackmon-Office of the State Controller
Judy Blount-Department of Public Instruction
Michael Bonner-UNC Hospitals
Dee Bowling-East Carolina University
Amy Bowman-North Carolina Department of Military and Veteran Affairs
Bryan Brannon-Department of Administration
Jack Brinson-Department of Labor
Robert Brinson-Department of Public Safety
Gena Brock-Office of the State Auditor
Jessica Brooker-Department of Administration
Sharon Brooks-NC State University
Tonia Brown-North Carolina Department of Insurance
Barry Brown-Office of the State Controller
Leon Browning-UNC General Administration

Miranda Brownlow-UNC - Chapel Hill
Helen Buck-North Carolina A&T State University
Anita Bunch-Department of Revenue
Katherine Burckley-NC A&T State University
Jean Burke-Department of Public Safety
James Burke-Department of State Treasurer
George Burnette-UNC School of the Arts
Mary Ellen Burns-Department of Commerce
Joannie Burtoft-Office of the State Controller
Ashley Byrd-Office of the State Auditor
Edith Cannady-Office of the State Controller
Wynona Cash-Office of the State Controller
Susan Cassano-Economic Development Partnership of NC
Mark Causey-UNC Healthcare
Susan Charlton-Department of Public Safety
Steve Chase-NC Wildlife Resources Commission
James Cherokee-Department of Public Safety
Tommy Clark-Secretary of State
Elizabeth Colcord-Office of the State Controller
Bruce Cole-Gaston College
Cynthia Collie-North Carolina Community College System
Jennifer Coltrane-NC State University
Lindsay Cooley-Cape Fear Community College
Lauren Cox-UNC - Greensboro
Joy Darden-Office of the State Controller
Ross Davidson-NC Education Lottery
Cheryl Davis-Department of Commerce
Steven Davis-Department of Public Safety
Rod Davis-Department of Health and Human Services
Angela Davis-UNC - Chapel Hill
Robin Deaver-Fayetteville Technical Community College
Yolanda Deaver-North Carolina Central University
Joseph DeBragga-Department of Natural and Cultural Resources
John Del Greco-Department of Public Safety
Irene Deng-UNC - Chapel Hill
John Dennis-UNC Rex Healthcare
Dana Denton-Department of Transportation
Mike Dickerson-NC State University
Arnetha Dickerson-Office of State Budget and Management
Gandy Dorsainvil-Economic Development Partnership of NC

Carol Dorshimer-UNC Healthcare
Debbie Dryer-UNC General Administration
Dana Dupree-UNC School of the Arts
Mike Edwards-NC State University
Bivian Ejimakor-NC A&T STATE UNIVERSITY
Jolene Elkins-Department of Health and Human Services
Leah Englebright-NC School of Science and Math
Michael Euliss-Office of the State Controller
Laresia Everett-Department of Insurance
Bonaventure Ezewuzie-Office of the State Controller
Vincent Falvo-East Carolina University
Joanne Ferguson-UNC - Wilmington
Daniel Finley-Fayetteville State University
Steve Fleeman-NC A&T State University
Jaime Fleisher-Department of State Treasurer
Cliff Flood-UNC General Administration
Susan Flowers-Department of Natural & Cultural Resources
Joyce Flowers-Office of State Auditor
Jason Forlines-North Carolina Community College System
Denise Foutz-Appalachian State University
Elaine Freeman-Department of Commerce
Susan Freeman-North Carolina Housing Finance Agency
Rochelle Friend-Conference Speaker
Samiel Fuller-Department of Public Instruction
Linda Garr-UNC Rex Healthcare
Namid Gates-Fayetteville State University
Derek Gee-Department of Natural & Cultural Resources
A.J. Gentile-UNC Hospitals
Susan Gentry-College of The Albemarle
Tami George-Robeson Community College
Anne Godwin-Office of the State Controller
Christina Greene-Cape Fear Community College
Martha Greene-Forsyth Technical Community College
Laura Greenwood-North Carolina Department of Agriculture
Amber Greiner-UNC Rex Healthcare
Larna Griffin-State Education Assistance Authority
Paul Grosswald-UNC Health Care
Sean Gutowski-Office of the State Controller
Providence Hakizimana-Office of State Budget and Management
Michelle Hall-Fayetteville Technical Community College

Jennifer Hamm-Catawba Valley Community College
Keith Hammonds-Department of State Treasurer
Jennifer Harkness-Economic Development Partnership of NC
Ellen Harris-UNC - Charlotte
Kim Hartsfield-NC Education Lottery
Elizabeth Haynes-USS NC Battleship Commission
Thomas Henry-Halifax Community College
Freda Hilburn-Department of Commerce
Denise Hill-Conference Speaker
Shannon Hobby-Department of Natural & Cultural Resources
Simuel Hodges-NC Housing Finance Agency
Mark Hoffman-UNC Health Care System
Susan Holton-NC State University
Tereasa Hopkins-East Carolina University
James Horne-North Carolina General Assembly
Heather Horton-Department of Commerce
William Hosterman-UNC Hospitals
John House-Centennial Authority
Tammy Hubbell-Department of Revenue
Cindy Hucks-UNC - Wilmington
Kris Hudson-Department of Insurance
Scott Hummel-North Carolina A&T State University
Chrissy Hurst-Craven Community College
Elwanda Hyman-Farrow-Department of Commerce
Heather Iannucci-UNC - Wilmington
Suzanne Imboden-East Carolina University
Michael Jackson-North Carolina A&T State University
Ibreta Jackson-Robeson Community College
David Jamison-Appalachian State University
Shivani Jani-Office of the State Auditor
Cassandra Jenkins-Fayetteville State University
Bryan Jenkins-NC Community College System
Baker Jesse-UNC - Chapel Hill
Jane Johansen-UNC - Charlotte
Elizabeth John-NC Administrative Office of the Courts
Ashley Johnson-Fayetteville State University
Brad Johnson-Office of the State Controller
Angela Johnston-Office of the State Controller
Sarah Joyce-NC State University
Tamara Joyner-Central Carolina Community College

Christine Jumalon-Fayetteville State University
Susan Kearney-NC Dept of Agriculture & Consumer Services
Amy Kepley-Davidson County Community College
Wardell Kerson-UNC - Charlotte
Ginger King-Bladen Community College
Gloria King-Department of Health and Human Services
Bliss Kite-NC Utilities Commission
Anastrasia Kizzie-North Carolina Central University
Andrew Kleitsch-Durham Technical Community College
Laura Klem-Office of the State Controller
Heidi Kozlowski-NC State University
Ariana Kudlats-NC Housing Finance Agency
Karin Langbehn-Pecaut-UNC - Chapel Hill
Darlene Langston-Department of Public Safety
Fran Lawrence-Department of State Treasurer
Kizzy Lea-Rowan-Cabarrus Community College
Judy LeDoux-UNC - Chapel Hill
Tracey Lemming-UNC - Chapel Hill
Lauren Lemons-Office of the State Controller
John Leskovec-Office of State Budget and Management
Jennifer Leung-UNC - Greensboro
Peizhu Liu-UNC Hospitals
Cathy Lively-Department of Information Technology
Christopher Long-Department of Revenue
Matthew Longobardi-Department of Justice
Frank Lord-Winston-Salem State University
Felecia Lucas-Department of Health and Human Services
Tami Luckwaldt-Department of Insurance
Kathleen Lukens-UNC - Greensboro
Theresa Lynch-Forsyth Technical Community College
Rory Mackin-Department of Health and Human Services
Charles Maimone-UNC - Greensboro
Evelyn Makatiani-UNC - Chapel Hill
Arun Malik-UNC - Chapel Hill
Cheryl Manning-Office of the State Controller
Jessica Mapes-Office of the State Auditor
Marcus McAllister-Office of the State Controller
Beth McAndrew-UNC - Chapel Hill
Lisa McClinton-UNC School of the Arts
Nicole McCoy-UNC - Chapel Hill

Benjamin McGilvray-Department of State Treasurer
Luke McHale-North Carolina Central University
Jackie McKoy-Department of Revenue
Ben McLawhorn-Office of the State Controller
Angela McNeill-Department of Commerce
Tom McNeish-Conference Speaker
John Meese-NC Housing Finance Agency
Erwin Mialkowski-NC Education Lottery
Jasheen Midgette-UNC School of the Arts
Marvin Miller-Department of Public Safety
Laketha Miller-Department of Health and Human Services
Peter Miller-Office of the State Auditor
Matt Miller-UNC General Administration
Mary Mims-NC A&T State University
Firoza Mistry-UNC Hospitals
Kim Mitchell-Department of Information Technology
Cynthia Modlin-East Carolina University
LaTasha Moore-James Sprunt Community College
Pattie Moore-Boyette-UNC Health Care System
Tim Morris-East Carolina University
Patsy Morton-Department of Revenue
Jo Wanna Mosley-NC General Assembly
Dannie Moss-East Carolina University
Clayton Murphy-Office of the State Controller
Lettie Navarrete-Robeson Community College
Lisa Neal-Bladen Community College
Debra Neal-Department of Public Safety
Robert Newby-Vance-Granville Community College
Tony Norwood-Department of Administration
Gwen Norwood-UNC - Chapel Hill
Amechi Nwosu-North Carolina Central University
Sheri Olson-UNC - Chapel Hill
Debbie Oneill-Nash Health Care Systems
Jennifer Pacheco-Office of the State Controller
Kim Padfield-Department of Transportation
Cindy Patterson-Craven Community College
Tracy Patty-NC State University
Martha Pendergrass-UNC - Chapel Hill
Karen Peng-NC Dept of Public Instruction
Malinda Peters-Department of State Treasurer

Phyllis Petree-UNC - Chapel Hill
Meera Phaltankar-Department of Public Instruction
Tina Pickett-Department of Health and Human Services
Rick Pieringer-Office of the State Controller
Gregory Plemmons-Western Carolina University
Jason Pollard-Department of Information Technology
Terra Poole-Fayetteville State University
Tiesha Pope-Department of Justice
Lynn Powell-Department of Transportation
Ellen Preston-NC Partnership for Children
Jan Prevo-Office of the State Controller
David Price-NC State University
Chandrika Rao-UNC - Chapel Hill
Monica Reid-Department of State Treasurer
Steven Rhew-UNC - Greensboro
Priscilla Roberts-Secretary of State
Ellen Rockefeller-Office of the State Controller
Wayne Rogers-Department of Transportation
Barbara Roper-NC Wildlife Resources Commission
Elizabeth Ross-Western Carolina University
Elizabeth Rozakis-NC State Education Assistance Authority
Janet Rupert-UNC - Chapel Hill
Charlene Ryan-UNC - Chapel Hill
Camilla Sandlin-NC Education Lottery
Joan Saucier-Department of Public Safety
Michael Schertzinger-Office of the State Auditor
Elizabeth Schiavone-UNC - Chapel Hill
William Schmidt-Department of Natural & Cultural Resources
Troy Scoggins-Office of the State Controller
Kimberly Seamans-UNC - Charlotte
Charlene Shabazz-Office of State Human Resources
Peta-Gaye Shaw-Department of Administration
Teresa Shingleton-Office of the State Controller
Kim Simmons-Office of the State Auditor
DP Singla-UNC General Administration
Vanessa Singletary-Robeson Community College
Laurie Smith-Department of Transportation
Betty Smith-Fayetteville Technical Community College
Charles Smith-Fayetteville Technical Community College
Debra Smith-NC Community College System

Jonathan Smith-Winston-Salem State University
Kathy Sommese-Department of Health and Human Services
Susan Soques-NC Wildlife Resources Commission
Joan Spencer-N C Central University
Tabatha Springer-Western Carolina University
Jay Stanley-Bladen Community College
Jennifer Starsick-Davidson County Community College
Faye Steele-East Carolina University
Kathleen Stefanick-NC State University
Jeffrey Stevens-UNC Rex Healthcare
Danny Stewart-Department of Health and Human Services
Justin Stiles-UNC - Chapel Hill
John Storment-UNC Hospitals
Bill Sturmer-UNC - Charlotte
Hannah Sullivan-Department of Health and Human Services
Michael Sullivan-UNC Rex Healthcare
Justin Swann-UNC School of the Arts
Dawei Tang-UNC - Chapel Hill
Marla Tart-Wake Technical Community College
Wesley Taylor-NC General Assembly
Nancy Thomas-Office of the State Controller
Roy Thompson-Bladen Community College
Aimee Turner-UNC - Chapel Hill
David Tyeryar-Department of Transportation
Pam Tyson-Office of the State Auditor
Alvenia Uitenham-North Carolina A&T State University
Vernon Utley-Office of the State Auditor
Kim Van Metre-Department of Environmental Quality
Robert Vickery-UNC General Administration
Prabha Vijayaraghavan-Department of Public Instruction
Karen Visnosky-NC State University
Helen Vozzo-Office of the State Controller
Darlene Waddell-NC Global TransPark Authority
Pam Wade-Office of the State Auditor
Megan Wallace-Office of the State Controller
Yiwen Wang-UNC - Chapel Hill
Gary Ward-North Carolina central University
Lily West-Department of Public Safety
Mary Jane Westphal-NC Global TransPark Authority
Rex Whaley-Department of Environmental Quality

Jamelle White-Department of Public Safety
Joseph Wilson-Department of Transportation
Steve Woodruff-Rockingham Community College
Fellen Yang-Conference Speaker
Cheryl Yanik-NC State University
Laura Yarbrough-Davidson County Community College
David Yokley-Department of Revenue
Yelena Zaytseva-Office of the State Auditor
Fenge Zhang-Department of Commerce
Ling Zhu-Department of Administration

2017 Governmental Accounting Update June 14, 2017

Attendees by Agency (326)

Matthew Banko-Alamance Community College
Sharon Bell-Appalachian State University
Denise Foutz-Appalachian State University
David Jamison-Appalachian State University
Ginger King-Bladen Community College
Lisa Neal-Bladen Community College
Jay Stanley-Bladen Community College
Roy Thompson-Bladen Community College
Lindsay Cooley-Cape Fear Community College
Christina Greene-Cape Fear Community College
Jennifer Hamm-Catawba Valley Community College
John House-Centennial Authority
Tamara Joyner-Central Carolina Community College
Susan Gentry-College of The Albemarle
Bonnie Bastow-Conference Speaker
Eric Berman-Conference Speaker
Rochelle Friend-Conference Speaker
Denise Hill-Conference Speaker
Tom McNeish-Conference Speaker
Fellen Yang-Conference Speaker
Chrissy Hurst-Craven Community College
Cindy Patterson-Craven Community College
Amy Kepley-Davidson County Community College
Jennifer Starsick-Davidson County Community College
Laura Yarbrough-Davidson County Community College
Bryan Brannon-Department of Administration
Jessica Brooker-Department of Administration
Tony Norwood-Department of Administration
Peta-Gaye Shaw-Department of Administration
Ling Zhu-Department of Administration
Mary Ellen Burns-Department of Commerce
Cheryl Davis-Department of Commerce
Elaine Freeman-Department of Commerce
Freda Hilburn-Department of Commerce
Heather Horton-Department of Commerce
Elwanda Hyman-Farrow-Department of Commerce

Angela McNeill-Department of Commerce
Fenge Zhang-Department of Commerce
Kim Van Metre-Department of Environmental Quality
Rex Whaley-Department of Environmental Quality
Greg Alvord-Department of Health and Human Services
Jeannie Betts-Department of Health and Human Services
Rod Davis-Department of Health and Human Services
Jolene Elkins-Department of Health and Human Services
Gloria King-Department of Health and Human Services
Felecia Lucas-Department of Health and Human Services
Rory Mackin-Department of Health and Human Services
Laketha Miller-Department of Health and Human Services
Tina Pickett-Department of Health and Human Services
Kathy Sommese-Department of Health and Human Services
Danny Stewart-Department of Health and Human Services
Hannah Sullivan-Department of Health and Human Services
Cathy Lively-Department of Information Technology
Kim Mitchell-Department of Information Technology
Jason Pollard-Department of Information Technology
Laresia Everett-Department of Insurance
Kris Hudson-Department of Insurance
Tami Luckwaldt-Department of Insurance
Stephanie Alsay-Department of Justice
Matthew Longobardi-Department of Justice
Tiesha Pope-Department of Justice
Jack Brinson-Department of Labor
Susan Flowers-Department of Natural & Cultural Resources
Derek Gee-Department of Natural & Cultural Resources
Shannon Hobby-Department of Natural & Cultural Resources
William Schmidt-Department of Natural & Cultural Resources
Joseph DeBragga-Department of Natural and Cultural Resources
Judy Blount-Department of Public Instruction
Samuel Fuller-Department of Public Instruction
Meera Phaltankar-Department of Public Instruction
Prabha Vijayaraghavan-Department of Public Instruction
Khalid Awan-Department of Public Safety
Robert Brinson-Department of Public Safety
Jean Burke-Department of Public Safety
Susan Charlton-Department of Public Safety
James Cherokee-Department of Public Safety

Steven Davis-Department of Public Safety
John Del Greco-Department of Public Safety
Darlene Langston-Department of Public Safety
Marvin Miller-Department of Public Safety
Debra Neal-Department of Public Safety
Joan Saucier-Department of Public Safety
Lily West-Department of Public Safety
Janelle White-Department of Public Safety
Anita Bunch-Department of Revenue
Tammy Hubbell-Department of Revenue
Christopher Long-Department of Revenue
Jackie McKoy-Department of Revenue
Patsy Morton-Department of Revenue
David Yokley-Department of Revenue
Lewis Andrews-Department of State Treasurer
James Burke-Department of State Treasurer
Jaime Fleisher-Department of State Treasurer
Keith Hammonds-Department of State Treasurer
Fran Lawrence-Department of State Treasurer
Benjamin McGilvray-Department of State Treasurer
Malinda Peters-Department of State Treasurer
Monica Reid-Department of State Treasurer
Dana Denton-Department of Transportation
Kim Padfield-Department of Transportation
Lynn Powell-Department of Transportation
Wayne Rogers-Department of Transportation
Laurie Smith-Department of Transportation
David Tyeryar-Department of Transportation
Joseph Wilson-Department of Transportation
Andrew Kleitsch-Durham Technical Community College
Dee Bowling-East Carolina University
Vincent Falvo-East Carolina University
Tereasa Hopkins-East Carolina University
Suzanne Imboden-East Carolina University
Cynthia Modlin-East Carolina University
Tim Morris-East Carolina University
Dannie Moss-East Carolina University
Faye Steele-East Carolina University
Susan Cassano-Economic Development Partnership of NC
Gandy Dorsainvil-Economic Development Partnership of NC

Jennifer Harkness-Economic Development Partnership of NC
Daniel Finley-Fayetteville State University
Namid Gates-Fayetteville State University
Cassandra Jenkins-Fayetteville State University
Ashley Johnson-Fayetteville State University
Christine Jumalon-Fayetteville State University
Terra Poole-Fayetteville State University
Robin Deaver-Fayetteville Technical Community College
Michelle Hall-Fayetteville Technical Community College
Betty Smith-Fayetteville Technical Community College
Charles Smith-Fayetteville Technical Community College
Kathryn Alexander-Forsyth Technical Community College
Martha Greene-Forsyth Technical Community College
Theresa Lynch-Forsyth Technical Community College
Shelly Alman-Gaston College
Bruce Cole-Gaston College
Thomas Henry-Halifax Community College
Thomas Berryman-Health and Human Services
LaTasha Moore-James Sprunt Community College
Art Andrews-Johnston Community College
Joan Spencer-N C Central University
Debbie Oneill-Nash Health Care Systems
Bivian Ejimakor-NC A&T State University
Steve Fleeman-NC A&T State University
Mary Mims-NC A&T State University
Elizabeth John-NC Administrative Office of the Courts
Kendal Banks-NC Community College System
Bryan Jenkins-NC Community College System
Debra Smith-NC Community College System
Susan Kearney-NC Dept of Agriculture & Consumer Services
Karen Peng-NC Dept of Public Instruction
Ross Davidson-NC Education Lottery
Kim Hartsfield-NC Education Lottery
Erwin Mialkowski-NC Education Lottery
Camilla Sandlin-NC Education Lottery
Rodney Bass-NC General Assembly
Jo Wanna Mosley-NC General Assembly
Wesley Taylor-NC General Assembly
Darlene Waddell-NC Global TransPark Authority
Mary Jane Westphal-NC Global TransPark Authority

Simuel Hodges-NC Housing Finance Agency
Ariana Kudlats-NC Housing Finance Agency
John Meese-NC Housing Finance Agency
Ellen Preston-NC Partnership for Children
Leah Englebright-NC School of Science and Math
Elizabeth Rozakis-NC State Education Assistance Authority
Sharon Brooks-NC State University
Jennifer Coltrane-NC State University
Mike Dickerson-NC State University
Mike Edwards-NC State University
Susan Holton-NC State University
Sarah Joyce-NC State University
Heidi Kozlowski-NC State University
Tracy Patty-NC State University
David Price-NC State University
Kathleen Stefanick-NC State University
Karen Visnosky-NC State University
Cheryl Yanik-NC State University
Bliss Kite-NC Utilities Commission
Steve Chase-NC Wildlife Resources Commission
Barbara Roper-NC Wildlife Resources Commission
Susan Soques-NC Wildlife Resources Commission
Helen Buck-North Carolina A&T State University
Scott Hummel-North Carolina A&T State University
Michael Jackson-North Carolina A&T State University
Alvenia Uitenham-North Carolina A&T State University
Katherine Burckley-North Carolina A&T State University
Yolanda Deaver-North Carolina Central University
Anastrasia Kizzie-North Carolina Central University
Luke McHale-North Carolina Central University
Amechi Nwosu-North Carolina Central University
Gary Ward-North Carolina central University
Jessica Balazsi-North Carolina Community College System
Cynthia Collie-North Carolina Community College System
Jason Forlines-North Carolina Community College System
Laura Greenwood-North Carolina Department of Agriculture
Tonia Brown-North Carolina Department of Insurance
Amy Bowman-NC Department of Military and Veteran Affairs
James Horne-North Carolina General Assembly
Susan Freeman-North Carolina Housing Finance Agency

Joyce Flowers-Office of State Auditor
Arnetha Dickerson-Office of State Budget and Management
Providence Hakizimana-Office of State Budget and Management
John Leskovec-Office of State Budget and Management
Charlene Shabazz-Office of State Human Resources
Kristina Autio-Office of the State Auditor
Bruce Baird-Office of the State Auditor
Gena Brock-Office of the State Auditor
Ashley Byrd-Office of the State Auditor
Shivani Jani-Office of the State Auditor
Jessica Mapes-Office of the State Auditor
Peter Miller-Office of the State Auditor
Michael Schertzinger-Office of the State Auditor
Kim Simmons-Office of the State Auditor
Pam Tyson-Office of the State Auditor
Vernon Utley-Office of the State Auditor
Pam Wade-Office of the State Auditor
Yelena Zaytseva-Office of the State Auditor
Robert Alford-Office of the State Controller
Kim Battle-Office of the State Controller
Linda Blackmon-Office of the State Controller
Barry Brown-Office of the State Controller
Joannie Burtoft-Office of the State Controller
Edith Cannady-Office of the State Controller
Wynona Cash-Office of the State Controller
Elizabeth Colcord-Office of the State Controller
Joy Darden-Office of the State Controller
Michael Euliss-Office of the State Controller
Bonaventure Ezewuzie-Office of the State Controller
Anne Godwin-Office of the State Controller
Sean Gutowski-Office of the State Controller
Brad Johnson-Office of the State Controller
Angela Johnston-Office of the State Controller
Laura Klem-Office of the State Controller
Lauren Lemons-Office of the State Controller
Cheryl Manning-Office of the State Controller
Marcus McAllister-Office of the State Controller
Ben McLawhorn-Office of the State Controller
Clayton Murphy-Office of the State Controller
Jennifer Pacheco-Office of the State Controller

Rick Pieringer-Office of the State Controller
Jan Prevo-Office of the State Controller
Ellen Rockefeller-Office of the State Controller
Troy Scoggins-Office of the State Controller
Teresa Shingleton-Office of the State Controller
Nancy Thomas-Office of the State Controller
Helen Vozzo-Office of the State Controller
Megan Wallace-Office of the State Controller
Tami George-Robeson Community College
Ibreta Jackson-Robeson Community College
Lettie Navarrete-Robeson Community College
Vanessa Singletary-Robeson Community College
Steve Woodruff-Rockingham Community College
Kizzy Lea-Rowan-Cabarrus Community College
Tommy Clark-Secretary of State
Priscilla Roberts-Secretary of State
Larna Griffin-State Education Assistance Authority
Lamees Asad-UNC - Chapel Hill
Miranda Brownlow-UNC - Chapel Hill
Angela Davis-UNC - Chapel Hill
Irene Deng-UNC - Chapel Hill
Baker Jesse-UNC - Chapel Hill
Karin Langbehn-Pecaut-UNC - Chapel Hill
Judy LeDoux-UNC - Chapel Hill
Tracey Lemming-UNC - Chapel Hill
Evelyn Makatiani-UNC - Chapel Hill
Arun Malik-UNC - Chapel Hill
Beth McAndrew-UNC - Chapel Hill
Nicole McCoy-UNC - Chapel Hill
Gwen Norwood-UNC - Chapel Hill
Sheri Olson-UNC - Chapel Hill
Martha Pendergrass-UNC - Chapel Hill
Phyllis Petree-UNC - Chapel Hill
Chandrika Rao-UNC - Chapel Hill
Janet Rupert-UNC - Chapel Hill
Charlene Ryan-UNC - Chapel Hill
Elizabeth Schiavone-UNC - Chapel Hill
Justin Stiles-UNC - Chapel Hill
Dawei Tang-UNC - Chapel Hill
Aimee Turner-UNC - Chapel Hill

Yiwen Wang-UNC - Chapel Hill
Alicia Bartosch-UNC - Charlotte
Ellen Harris-UNC - Charlotte
Jane Johansen-UNC - Charlotte
Wardell Kerson-UNC - Charlotte
Kimberly Seamans-UNC - Charlotte
Bill Sturmer-UNC - Charlotte
Lauren Cox-UNC - Greensboro
Jennifer Leung-UNC - Greensboro
Kathleen Lukens-UNC - Greensboro
Charles Maimone-UNC - Greensboro
Steven Rhew-UNC - Greensboro
Joanne Ferguson-UNC - Wilmington
Cindy Hucks-UNC - Wilmington
Heather Iannucci-UNC - Wilmington
Leon Browning-UNC General Administration
Debbie Dryer-UNC General Administration
Cliff Flood-UNC General Administration
Matt Miller-UNC General Administration
DP Singla-UNC General Administration
Robert Vickery-UNC General Administration
Paul Grosswald-UNC Health Care
Mark Hoffman-UNC Health Care System
Pattie Moore-Boyette-UNC Health Care System
Mark Causey-UNC Healthcare
Carol Dorshimer-UNC Healthcare
Michael Bonner-UNC Hospitals
A.J. Gentile-UNC Hospitals
William Hosterman-UNC Hospitals
Peizhu Liu-UNC Hospitals
Firoza Mistry-UNC Hospitals
John Storment-UNC Hospitals
John Dennis-UNC Rex Healthcare
Linda Garr-UNC Rex Healthcare
Amber Greiner-UNC Rex Healthcare
Jeffrey Stevens-UNC Rex Healthcare
Michael Sullivan-UNC Rex Healthcare
George Burnette-UNC School of the Arts
Dana Dupree-UNC School of the Arts
Lisa McClinton-UNC School of the Arts

Jasheen Midgette-UNC School of the Arts
Justin Swann-UNC School of the Arts
Elizabeth Haynes-USS NC Battleship Commission
Robert Newby-Vance-Granville Community College
Marla Tart-Wake Technical Community College
Gregory Plemmons-Western Carolina University
Elizabeth Ross-Western Carolina University
Tabatha Springer-Western Carolina University
Frank Lord-Winston-Salem State University
Jonathan Smith-Winston-Salem State University