



State of Arkansas
Annual Accounting & Audit Update Conference

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The Basics of Governmental Accounting & Reporting

Introduction

- Why are there differences from other accounting standards?
- Who sets the standards?
- What are the unique differences?
- Who are the users of the financial statements?

Some of the differences

- "Fund level" vs. "Entity-Wide"
- "Governmental" vs. "Business Type"
- Modified accrual vs. full accrual
- Focus on budget vs. actual
- Multiple opinion units
- "Very large" reports with many sections
- Other

The possible users

- Rating agencies
- City Council members
- Audit committee
- Internal audit
- Management
- Media
- Citizens
- Others

Primary governmental funds

- General fund
- Debt service
- Capital projects
- Special revenue
- Other

Primary enterprise funds

- Water & sewer
- Aviation
- Other

Common accounting practices/transactions

- Illustrations
 - Governmental
 - Enterprise

Reconciliation from “Fund-Level” to “Entity-Wide”

- Needed to convert to “Full-Accrual”
- Reconciling items typically relate to “governmental” activities
- Conforms to “1” basis of accounting
- “Some” comparability to other organizations

Other “Specialized” considerations

- A/R & allowance
- Fixed assets/classification/depreciation
- Public funds investment act
- Grant accounting & reporting
- Other

Other accounting matters

- Perform basic journal entries for the issuance, repayment, and refinancing of debt
- Determine when grant revenue should be recognized
- Perform basic journal entries for investments
- Determine the annual cost of compensated absences
- Account for the acquisition, improvement, impairment, and disposal of capital assets, including intangibles
- Determine the annual cost of pollution remediation
- Accounting for risk financing activities
- Accounting for arbitrage
- Food stamps
- Accounting for lotteries
- GASB update

Questions & answers





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Evaluating Organizational Business Risks

Today's Discussion

- The “Big” Picture
- Managing Risks:
 - Entity-Wide Business Risks
 - Integrity Risks
 - Best Practices – Fraud Prevention Matters
 - Documentation and Monitoring
- Slowing Economy – Staying on Your Toes

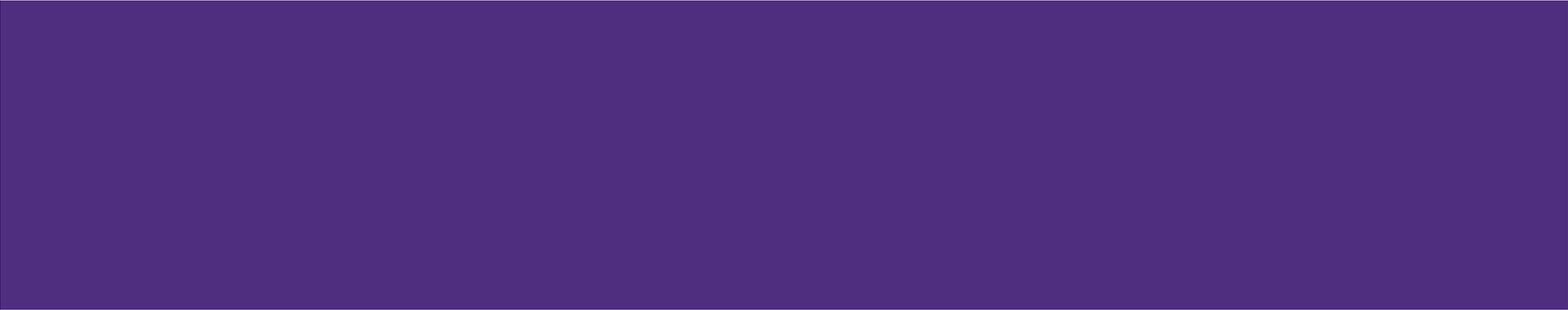
Today's Objectives

- Inform you
- Educate you
- Motivate you
- Encourage you to take action/change

Hopefully We Will Learn

“Insanity: doing the same thing over and over again and expecting different results.”

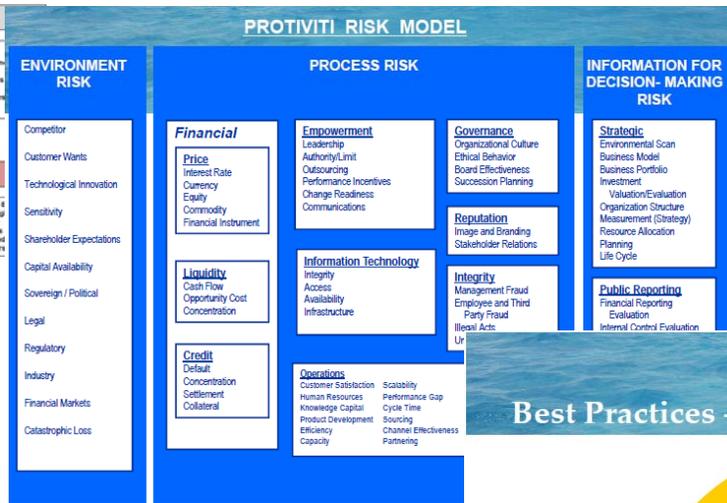
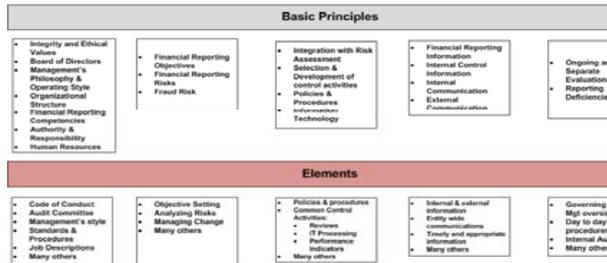
Albert Einstein



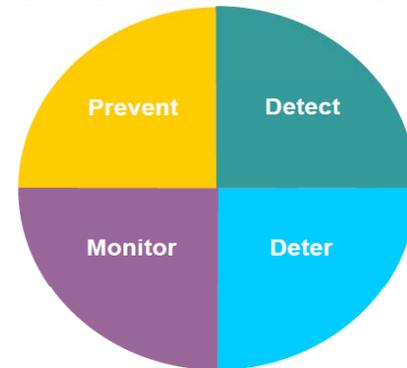
The Big Picture



Understanding and Addressing Fraud Risks



Best Practices – Fraud Prevention Matters



The Protiviti Risk Model was reprinted with permission to Webb Watch Corporation. www.knowledgeleader.com. © 2009 Protiviti

Formal Documented Procedures **Code of Ethics**

On-Going Communications

Corrective Actions

Internal Auditor

Control Environment

Internal Controls Framework

Governing Body Oversight

Compliance Monitoring

Conflict of Interest

QUESTION?

Enterprise Risk Management

Segregation of Duties

Code of Conduct

Audit Committee

Well Defined Policies

On-Going Training

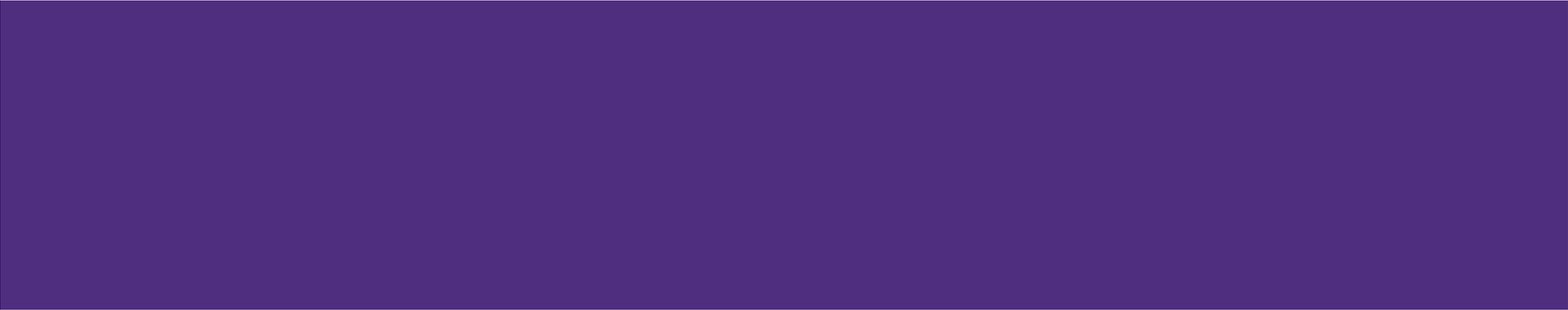
Risk Assessment

Antifraud Program

Independent Audit

What Concerns “Me” the Most in Today’s Environment

- Governing Body & Executive Management still are not connecting the “Dots”
- Management does not always have a solid basis for the representations being made to third parties
- Organizational “Brain Drain” with little or no documentation
- Over reliance on others with limited or no verification
- Not all people value their “Signature”
- Misconception – all employees know the difference between Right & Wrong
- Value of organizational data is not maximized
- Increase in the number of fraud related articles

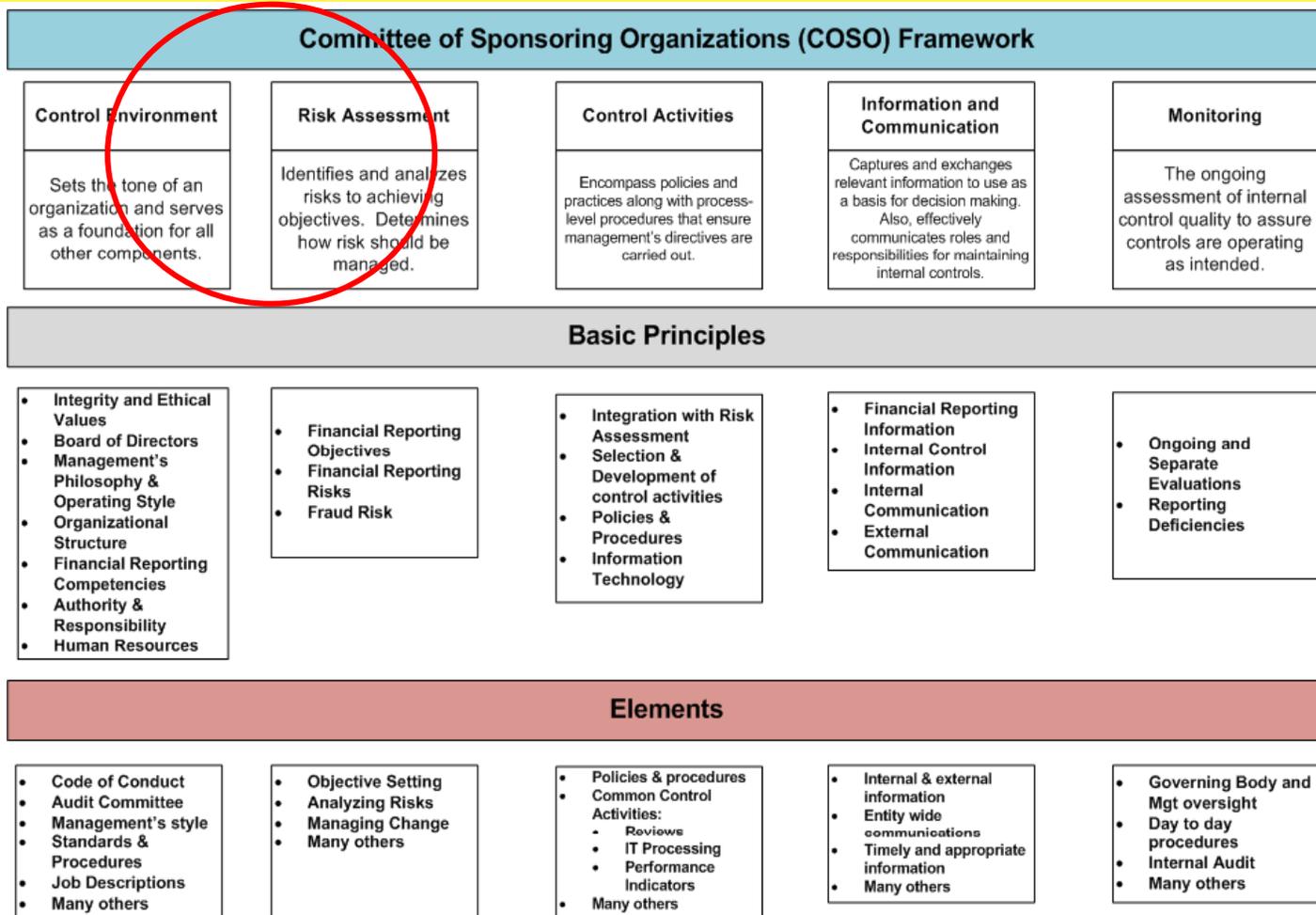


Entity-Wide Business Risks

Why Should You Care?

- Develop a timetable for timely completion of the business and fraud risk assessment and implementation of proper procedures to address the risks identified in the assessment.
- A comprehensive risk assessment process includes the following steps: identify risks, assess impact, prioritize risks, develop action plans, and implement, monitor and report on necessary changes. These procedures should be performed on a continual basis in order to minimize the following kinds of risk:
 - **Strategic Risk** – the risk that the organizational goals will not be achieved due to inadequate responses to external risk factors
 - **Operational Risk** – the risk that organizational goals will not be achieved due to the inability to implement effective business or operating decisions and practices.
 - **Financial Reporting Risk** – the risk that the objectives of adequate, timely and reliable financial reporting and disclosure will not be achieved.

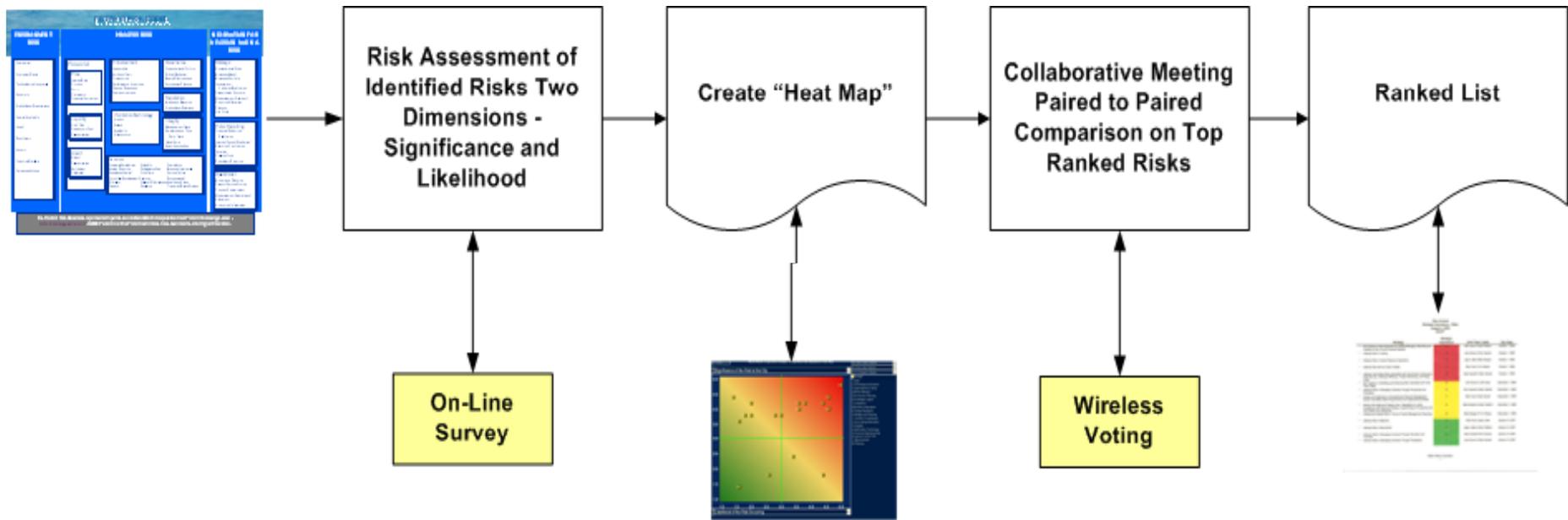
The Yard Stick – How Do You Measure Up?



Committee of Sponsoring Organizations (COSO) - Definition of Risk Assessment

Every entity faces a variety of **risks** from **external and internal** sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for **determining how the risks should be managed**. Because economic, industry, regulatory and operating conditions will continue to change, **mechanisms** are needed to **identify and deal** with the special risks associated with **change**.

Entity-Wide Risk Assessment Process



PROTIVITI RISK MODEL

ENVIRONMENT RISK

Competitor

Customer Wants

Technological Innovation

Sensitivity

Shareholder Expectations

Capital Availability

Sovereign / Political

Legal

Regulatory

Industry

Financial Markets

Catastrophic Loss

PROCESS RISK

Financial

Price

Interest Rate
Currency
Equity
Commodity
Financial Instrument

Liquidity

Cash Flow
Opportunity Cost
Concentration

Credit

Default
Concentration
Settlement
Collateral

Empowerment

Leadership
Authority/Limit
Outsourcing
Performance Incentives
Change Readiness
Communications

Information Technology

Integrity
Access
Availability
Infrastructure

Operations

Customer Satisfaction	Scalability	Compliance
Human Resources	Performance Gap	Business Interruption
Knowledge Capital	Cycle Time	Product/Service Failure
Product Development	Sourcing	Environmental
Efficiency	Channel Effectiveness	Health and Safety
Capacity	Partnering	Trademark/Brand Erosion

Governance

Organizational Culture
Ethical Behavior
Board Effectiveness
Succession Planning

Reputation

Image and Branding
Stakeholder Relations

Integrity

Management Fraud
Employee and Third Party Fraud
Illegal Acts
Unauthorized Use

INFORMATION FOR DECISION- MAKING RISK

Strategic

Environmental Scan
Business Model
Business Portfolio
Investment
Valuation/Evaluation
Organization Structure
Measurement (Strategy)
Resource Allocation
Planning
Life Cycle

Public Reporting

Financial Reporting
Evaluation
Internal Control Evaluation
Executive Certification
Taxation
Pension Fund
Regulatory Reporting

Operational

Budget and Planning
Product/Service Pricing
Contract Commitment
Measurement (Operations)
Alignment
Accounting Information

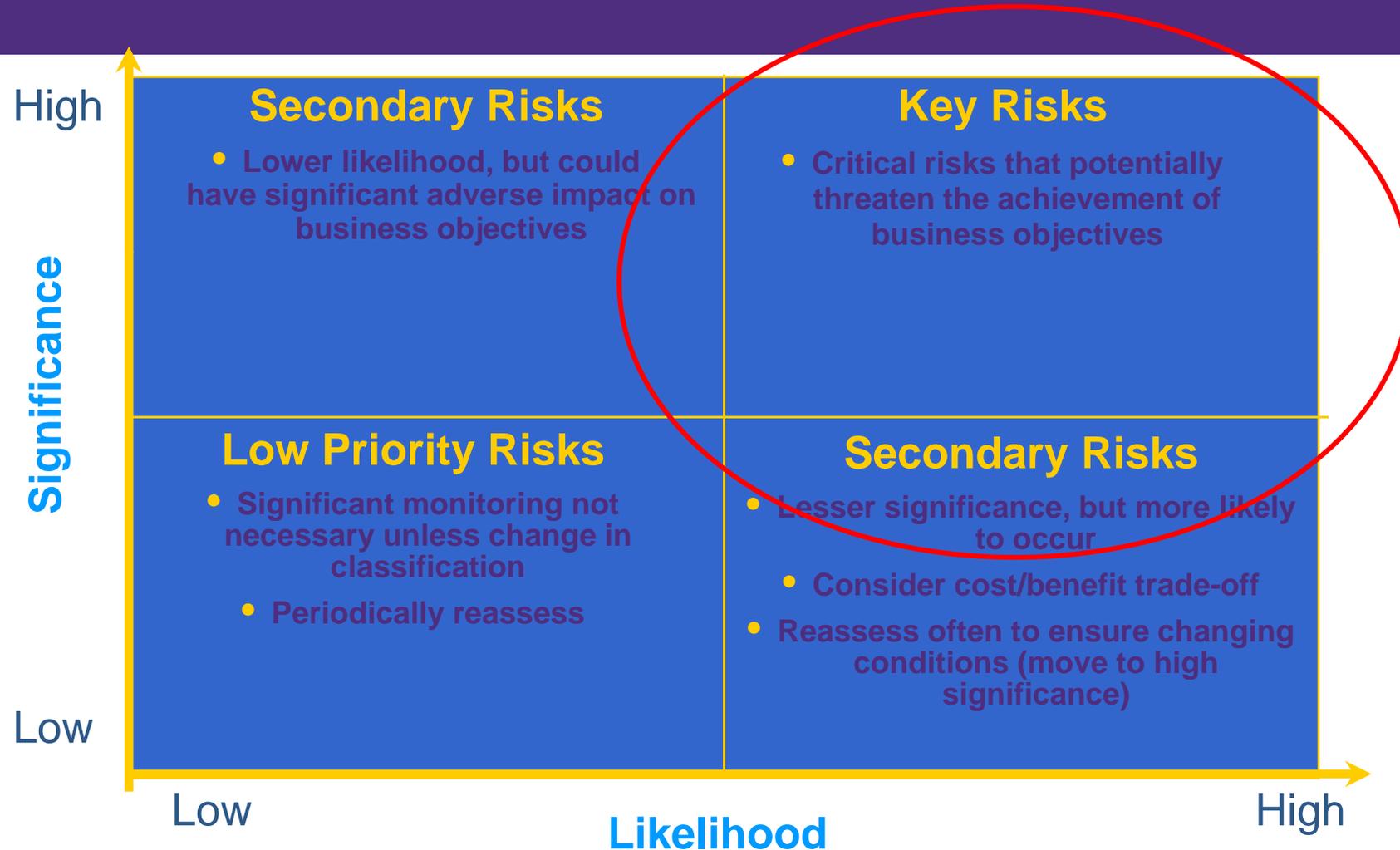
Prioritizing Risks

- Significance
 - How big of an impact would this risk have if it were to occur?
 - Impact could be in many areas, including financial, reputation, human resources, technology, etc.
 - Scale:
 - Not Significant at all
 - Somewhat Significant
 - Very Significant
 - Extremely Significant

Prioritizing Risks

- Likelihood
 - How likely it is that this risk would actually occur?
 - Scale:
 - Remote
 - Somewhat Likely
 - Very Likely
 - Probable

Risk Rating Interpretation



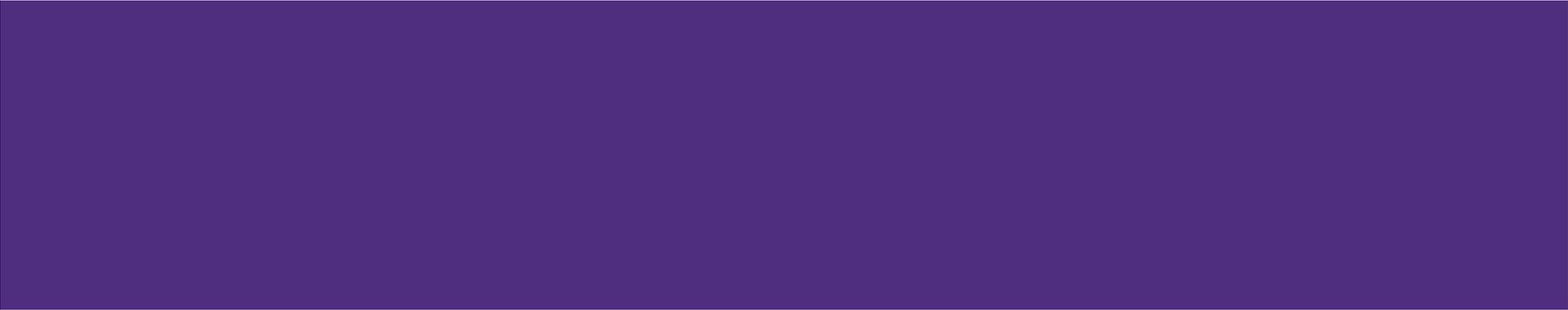
Who is Responsible for Risk?

- Finance Department?
- Department Heads?
- Manager / Administrator?
- Governing Body?

All of the above but in reverse order

Why Should You Care about Risks?

- It is the right thing to do
- You have a Fiduciary Responsibility
- Demonstrates Proactive Management Style
- Times are changing:
 - AICPA – Independent Auditors
 - Rating Agencies
 - Etc.
- Many Others



Integrity Risks

PROTIVITI RISK MODEL

ENVIRONMENT RISK

Competitor
 Customer Wants
 Technological Innovation
 Sensitivity
 Shareholder Expectations
 Capital Availability
 Sovereign / Political
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 Regulatory
 Industry
 Financial Markets
 Catastrophic Loss

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Financial Reporting
 Evaluation
 Internal Control Evaluation
 Executive Certification
 Taxation
 Pension Fund
 Regulatory Reporting

Operational

Budget and Planning
 Product/Service Pricing
 Contract Commitment
 Measurement (Operations)
 Alignment
 Accounting Information

Definition of Fraud

- Fraud is a type of illegal act involving the obtaining of something of value through willful misrepresentation. Whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond auditors' professional responsibility. (*GAO Yellow Book*)
- For purposes of the section, fraud is an intentional act that results in a material misstatement in financial statements that are the subject of an audit. (*AICPA – SAS No. 99*)

Definition of Fraud (con't)

- Deceit, trickery, sharp practice, or breach of confidence, perpetrated for profit or to gain some unfair or dishonest advantage (Dictionary.com)
- The term “occupational fraud” may be defined as: “The use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s **resources or assets**” (2008 Report to the Nation on Occupational Fraud and Abuse)
- Many Others

Fraud

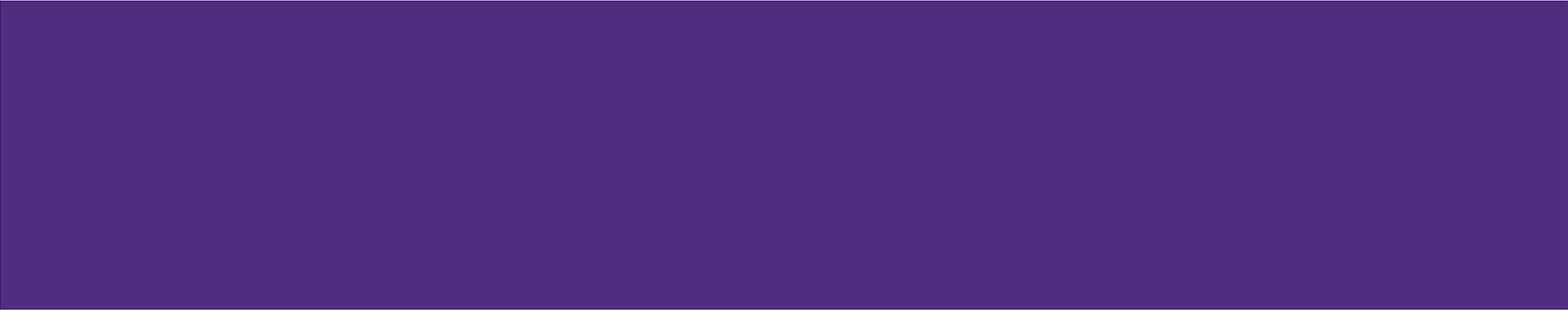
The Government World is Not Immune

- Bilked out of \$10 million
- Former Employee gets 10 years for Theft
- Employee Called Payroll Plan Foolproof
- Missing Funds Could Top One Million
- DA Asked to Find Out How \$260,000 was lost at Tax Office
- Sensitive Information Left in Recycle Bin
- Technology to Fool Auditors: From Colored Pens to Computer Scanners
- Police Warn of Utility Bill Scam
- 14 Indicted in Connection with Payroll Fraud

Fraud

The Government World is Not Immune (con't)

- Prosecutors weigh charges in payroll scandal
- Police union treasurer quits amid financial investigation
- Former commissioner pleads guilty to stealing county gasoline for personal use
- Two former employees face indictments
- Mayor investigated in theft of Harley Davidson motorcycle
- Councilman embezzlement case in hands of FBI
- Chief resigns in wake of payroll investigation
- Council discusses former employee accused of stealing money from city
- Former worker accused in bribe
- Construction company bills school \$90,000 for job it did not get
- Former contractor admits illegal campaign donations to council members, others



The Fraud Statistics

Association of Certified Fraud Examiners
(ACFE)

2006 and 2008 Reports to the Nation on
Occupational Fraud and Abuse

2008 ACFE Report to the Nation

- Available on ACFE.com
- Key points:
 - Lack of adequate internal controls was most commonly cited as the factor that allowed fraud to occur.
 - The most commonly cited behavioral red flags were perpetrators living beyond their apparent means (39% of cases) or experiencing financial difficulties at the time of the frauds (34%).
 - Small businesses are especially vulnerable to occupational fraud.
 - The implementation of anti-fraud controls appears to have a measurable impact on an organization's exposure to fraud.

2008 Detection of Fraud Government Agencies

Fraud schemes – Median length of time prior to detection is 24 months for all entity types

Initial detection method – In order of significance:

TIP (50.3%)

INTERNAL AUDIT (26.8%)

INTERNAL CONTROLS (19.7%)

BY ACCIDENT (16.6%)

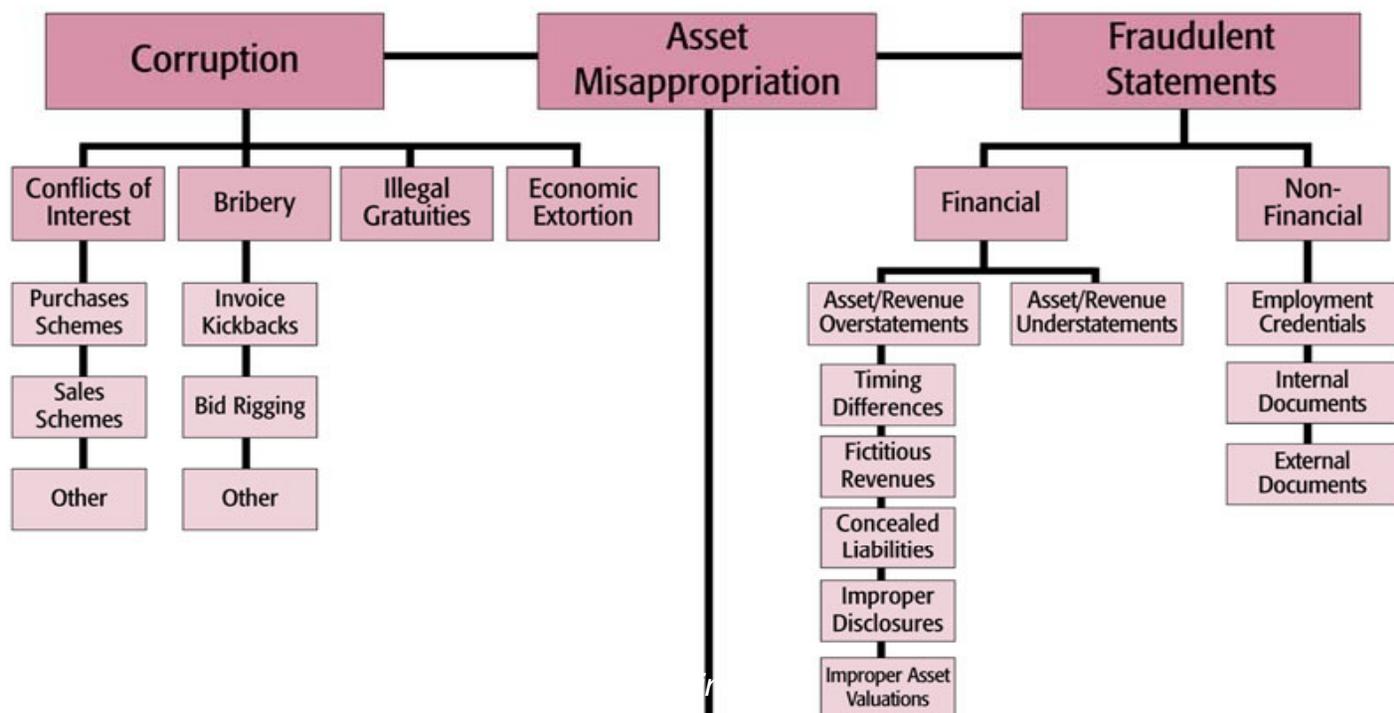
EXTERNAL AUDIT (9.6%)

NOTIFIED BY POLICE (5.1%)



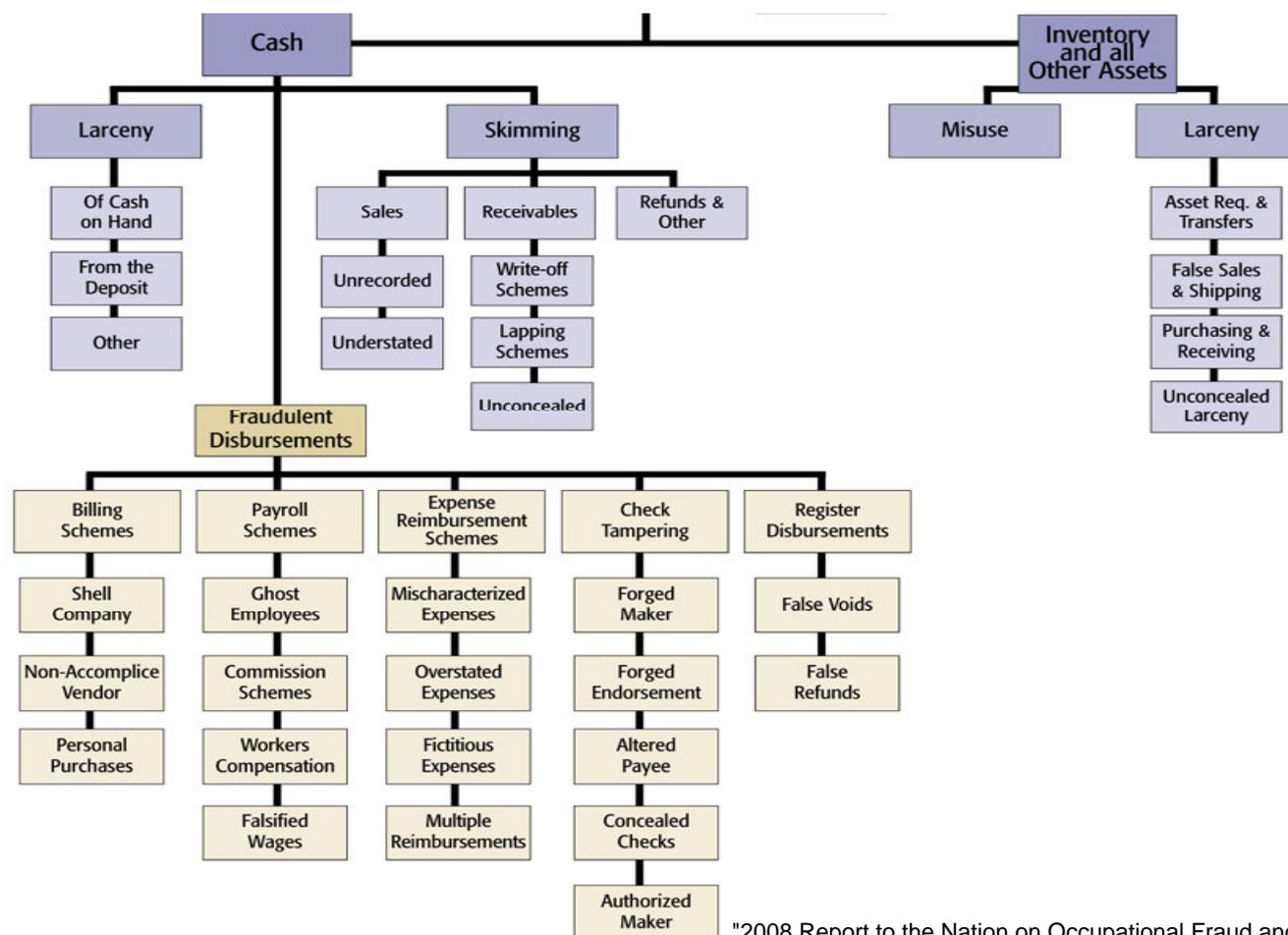
"2008 Report to the Nation on Occupational Fraud and Abuse. Copyright 2008 by the Association of Certified Fraud Examiners, Inc."

Occupational Fraud and Abuse Classification System



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Occupational Fraud and Abuse Classification System



ACFE 2006 / 2008 Report to the Nation Statistics

- Frequency by type of fraud:
 - Asset misappropriation – 88.7%
 - Corruption – 27.4%
 - Fraudulent statements – 10.3%
- Median Loss by type of fraud:
 - Fraudulent statements – \$2,000,000
 - Corruption – \$375,000
 - Asset misappropriations – \$150,000
- Approximately 85% of all asset misappropriation cases involve theft or misuse of cash

ACFE 2006 / 2008 Report to the Nation Statistics

- Governments rank 2nd in number of total cases (2008 2nd)
- Median dollar loss was \$82,000 in these cases (2008 \$93,000)

Occupational Frauds Based On Industry – Sorted By Frequency			
Industry	# Cases	% Cases	Med. Loss
Banking/Financial Services	148	14.3%	\$258,000
Government and Public Administration	119	11.5%	\$82,000
Manufacturing	101	9.7%	\$413,000
Health Care	89	8.6%	\$160,000
Insurance	78	7.5%	\$100,000
Retail	75	7.2%	\$80,000
Education	73	7.0%	\$100,000
Service (general)	60	5.8%	\$163,000
Service (professional, scientific or technical)	58	5.6%	\$300,000
Construction	35	3.4%	\$500,000
Utilities	34	3.3%	\$124,000
Oil and Gas	32	3.1%	\$154,000
Real Estate	30	2.9%	\$200,000
Wholesale Trade	30	2.9%	\$1,000,000
Transportation and Warehousing	27	2.6%	\$109,000
Arts, Entertainment and Recreation	22	2.1%	\$175,000
Communications/Publishing	16	1.5%	\$225,000
Agriculture, Forestry, Fishing and Hunting	8	.08%	\$71,000
Mining	1	.01%	\$17,000,000

ACFE 2006 / 2008 Report to the Nation Statistics

Government and Public Administration

- Billing schemes (procurement fraud) and non-cash theft were the most commonly reported forms of asset misappropriation in the government and public administration sector, each occurring in 26 of the 119 cases.
- 2008 – Billing, Skimming, Non-Cash, Check Tampering, Expense Reimbursement, Cash on Hand, Cash Larceny, Payroll, Register Disbursements

Govt. & Public Administration — 119 Cases		
Scheme	Cases	%
Billing	26	21.8%
Non-Cash	26	21.8%
Payroll	25	21.0%
Expense Reimbursements	23	19.3%
Skimming	22	18.5%
Check Tampering	14	11.8%
Cash Larceny	13	10.9%
Wire Transfers	3	2.5%
Register Disbursements	2	1.7%

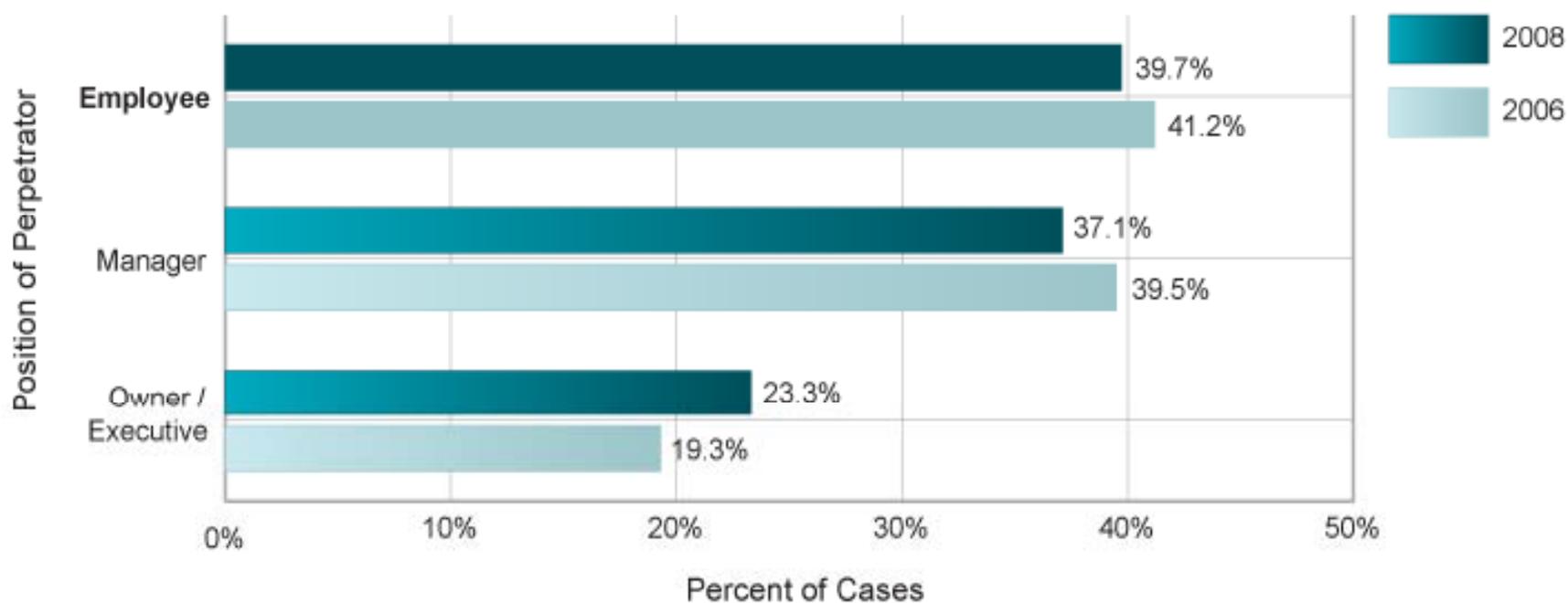
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Key Anti-Fraud Controls

- Surprise Audits
- Job Rotation / Mandatory Vacation
- Hotline
- Employee Support Programs
- Fraud Training for Managers / Executives & Employees
- Internal Audit / Fraud Examination Department
- Anti-Fraud Policy
- External Audit of Internal Controls over Financial Reporting
- Code of Conduct
- Management Review of Internal Controls
- External Audit of Financial Statements
- Independent Audit Committee
- Management Certification of Financial Statements
- Rewards for Whistleblowers

ACFE 2008 Report to the Nation Statistics

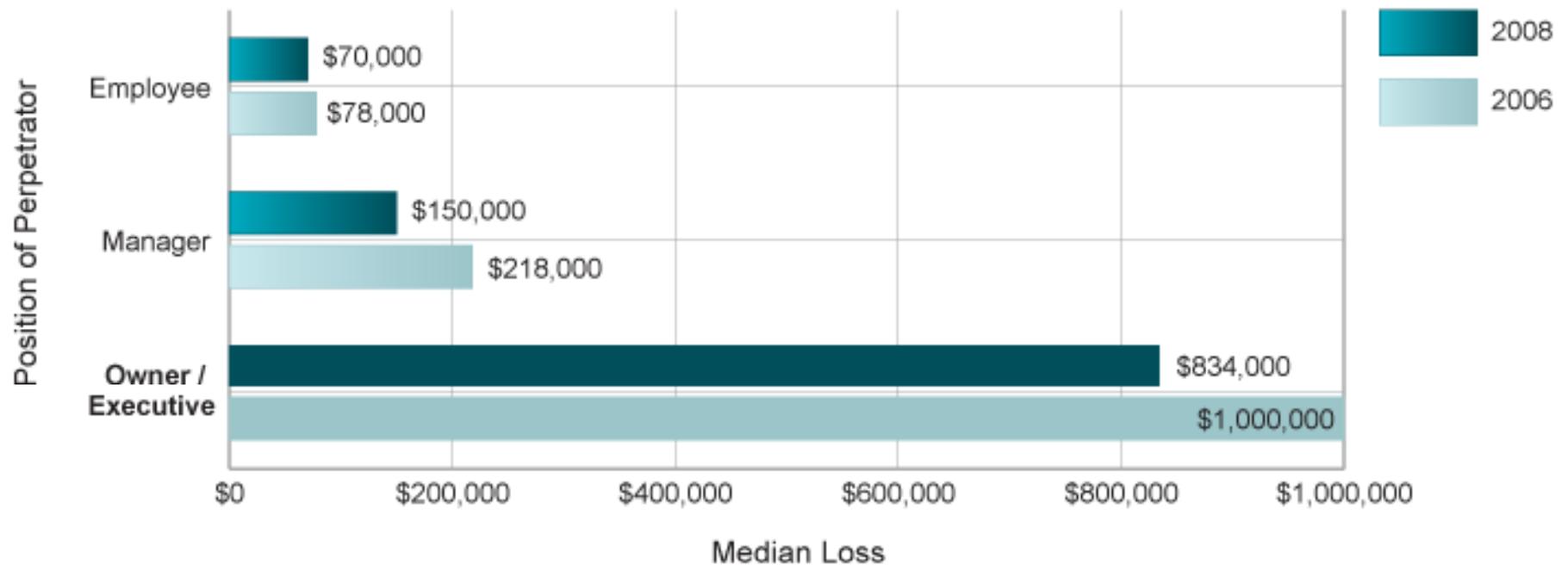
Position of Perpetrator — Frequency



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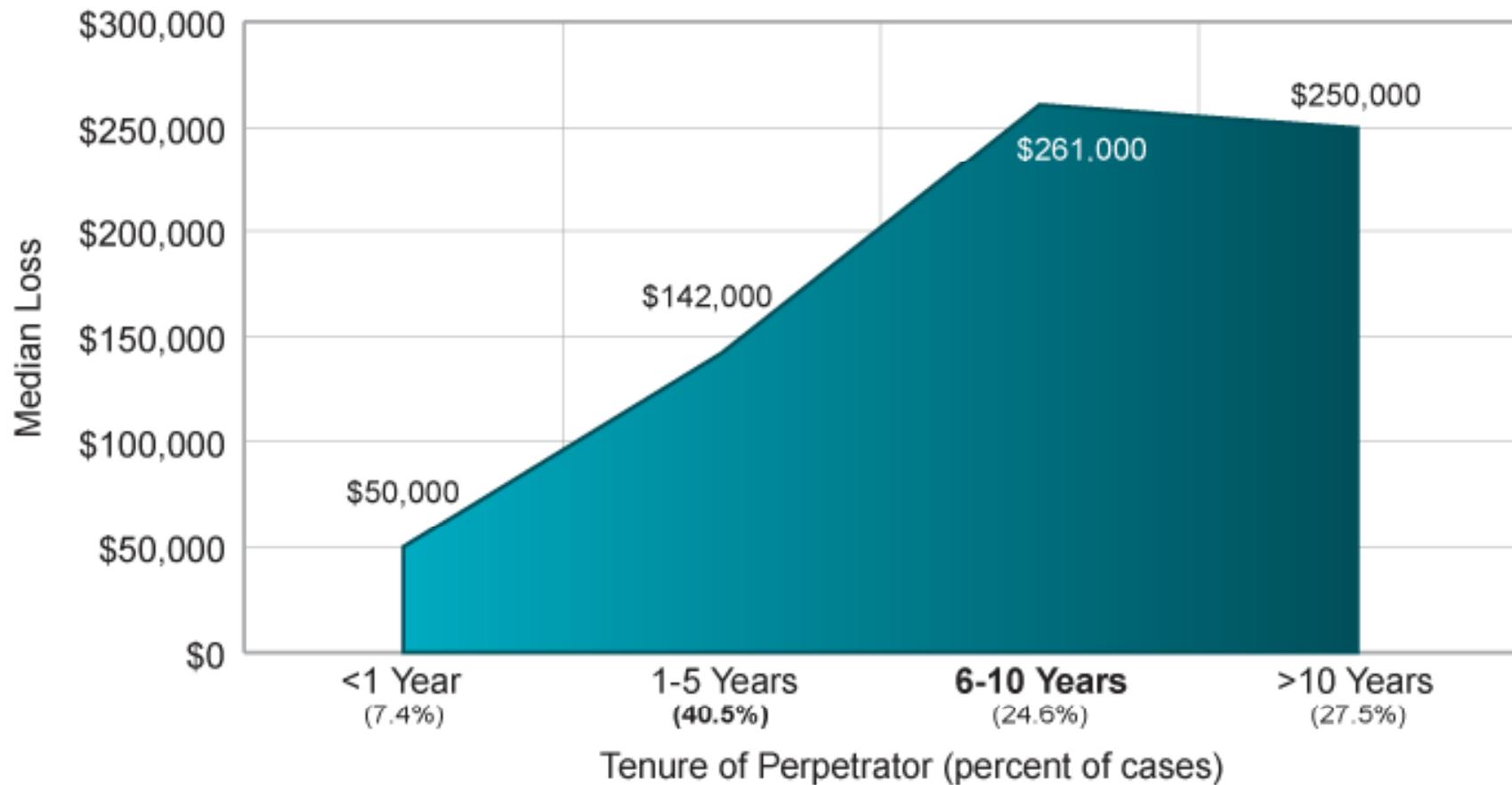
Position of Perpetrator — Median Loss



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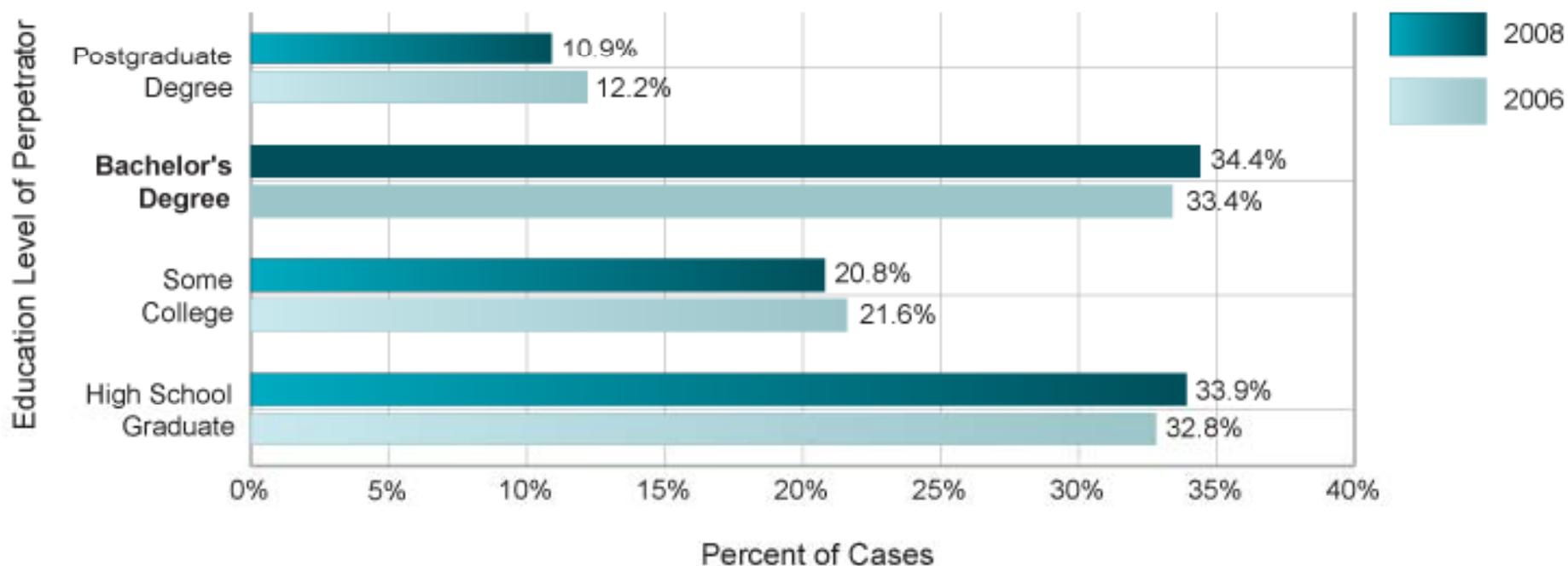
ACFE 2008 Report to the Nation Statistics

Tenure of Perpetrator — Frequency and Median Loss



ACFE 2008 Report to the Nation Statistics

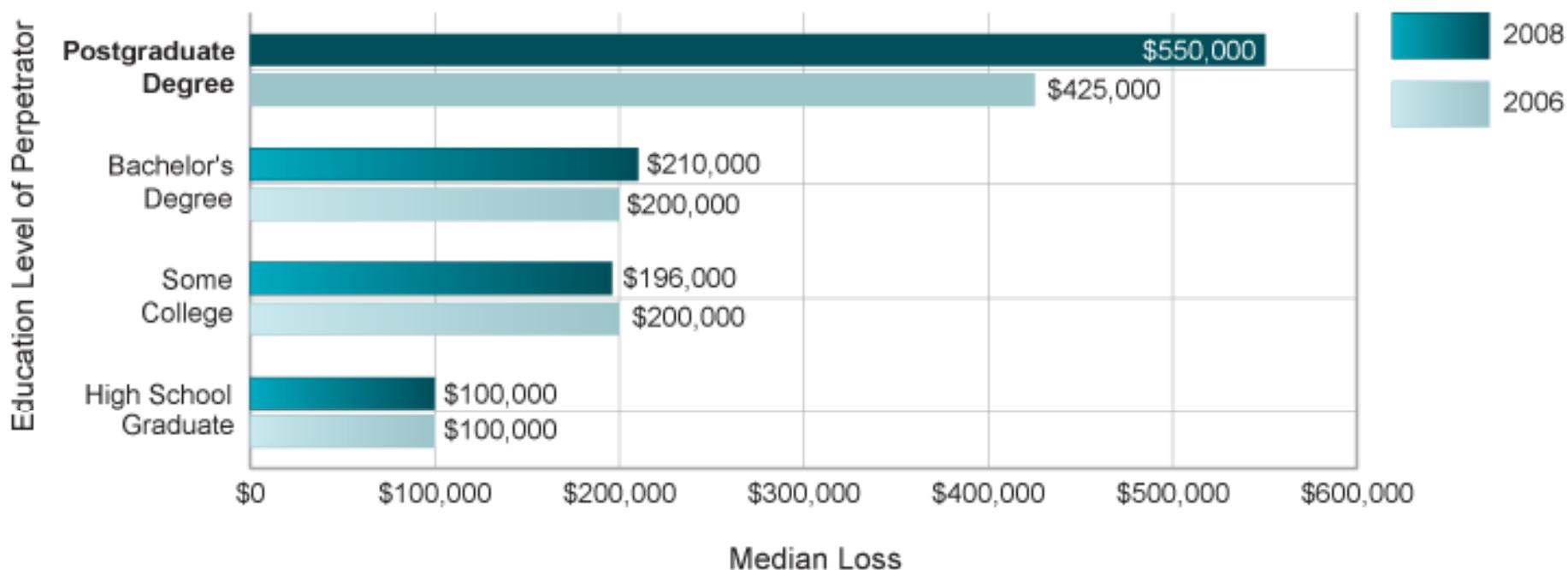
Education of Perpetrator — Frequency



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ACFE 2008 Report to the Nation Statistics

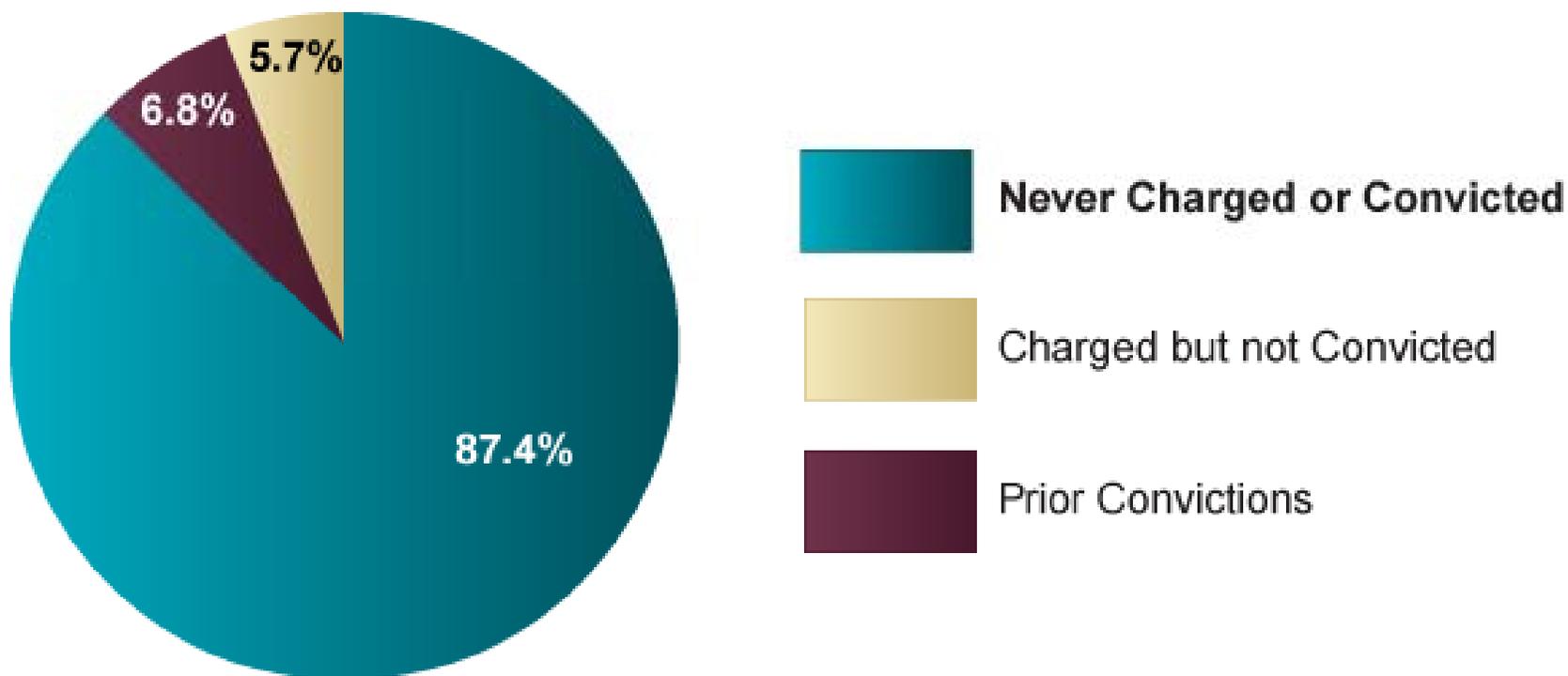
Education of Perpetrator — Median Loss



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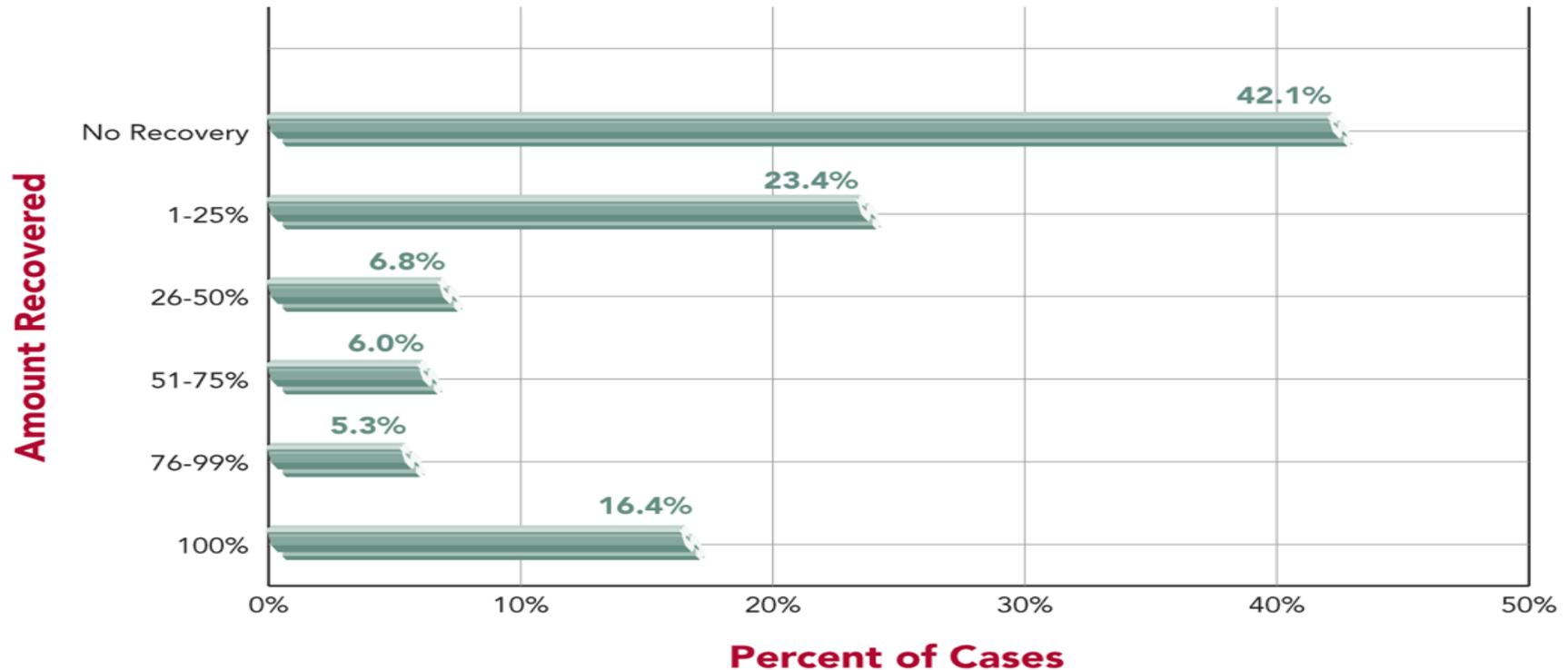
ACFE 2008 Report to the Nation Statistics

Perpetrator's Criminal History



ACFE 2006 Report to the Nation Statistics

Recovery of Losses in Occupational Fraud Cases



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What does the Data show?

- Fraud can happen at any level
- Employee length of service doesn't reduce Fraud
- Rarely do employees who commit Fraud have a criminal background
- More education doesn't equate to less Fraud
- Recovery from Fraud is rarely 100%
- A comprehensive Fraud Program **MUST** be in Place

2008 Victim Organizations That Modified Control After Discovery of Fraud

Victim Organizations That Modified Controls After Discovery of Fraud

Victim Organizations That Modified Controls After Discovery of Fraud



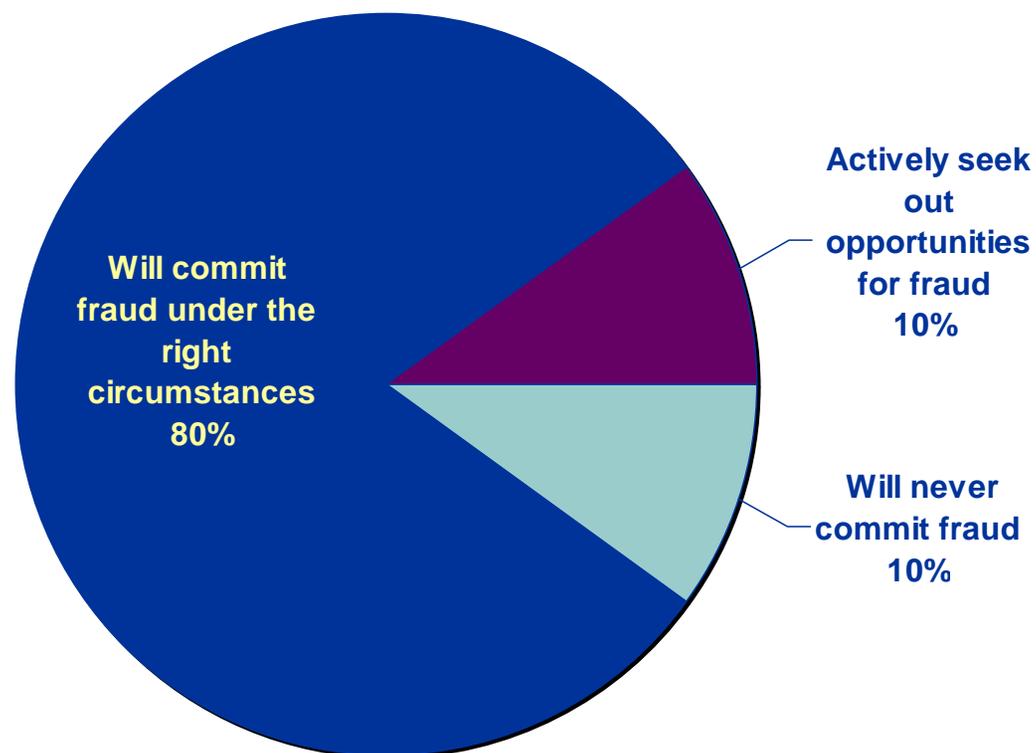
“Three-fourths of the victim organizations in our study altered their existing internal control system in direct response to the discovery of fraud, which shows that most organizations perceived the fraud to have occurred or succeeded, at least in part, due to a control weakness”.

"2008 Report to the Nation on Occupational Fraud and Abuse. Copyright 2008 by the Association of Certified Fraud Examiners, Inc."

The Costs of Fraud

- Reputation risk
- Association of Certified Fraud Examiners 2008 report to the nation: Participants estimated that U.S. organizations lose 7% of their annual revenues to fraud. Applied to the projected 2008 United States Gross Domestic Product, this 7% figure translates to approximately **\$994 billion** in fraud loss
- Job / Career

People's General Behavior



Source: Fraud Toolkit for ACL by David G. Coderre

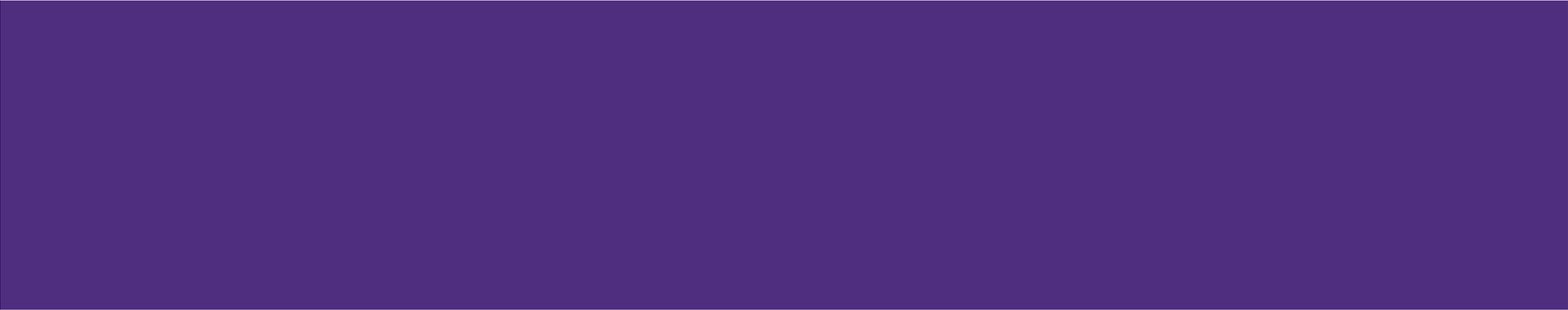
Fraud: How Does it Happen?



2008 Behavioral Red Flags Present During Fraud Scheme

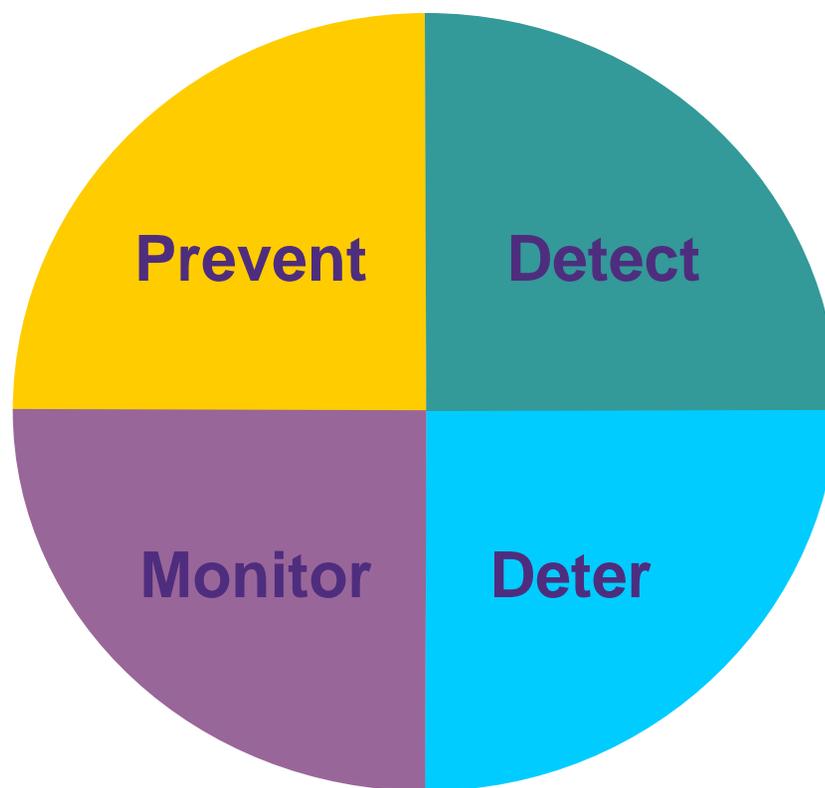
- Living beyond means
- Financial difficulties
- Wheeler-dealer attitude
- Control Issues, unwillingness to share duties
- Divorce / family problems
- Unusually close association with vendor / customer
- Irritability, suspiciousness, or defensiveness
- Addiction problems
- Past legal problems
- Past employment-related problems
- Complaining about inadequate pay
- Refusal to take vacation
- Excessive pressure from within organization
- Instability in life
- Excessive family / peer pressure for success
- Complaining about lack of authority

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Best Practices – Fraud Prevention Matters

Best Practices – Fraud Prevention Matters



Fraud - How To Prevent?

Prevent

- **Definition** - to keep from happening or existing
- Tone at the Top
- Effective communication to all employees
- Officer responsible for compliance
- Code of Conduct & Ethics Policies, tied to entity values
- Establish standards & operating procedures
- Well designed internal controls
- Proper screening of key employees and vendors
- Provide mechanism to report suspicious activity
- Fraud Policy
- Training & Education

Fraud – How to Detect?

- **Definition** - to discover or determine the existence, presence, or fact of
- Well designed Internal Audit function
- Effective audit procedures
- On-going background checks on key employees
- Well designed exit interviews
- Conflict of Interest Statements
- Anonymous Reporting Mechanism
- Data Mining
- Fraud Policy
- Training & Education

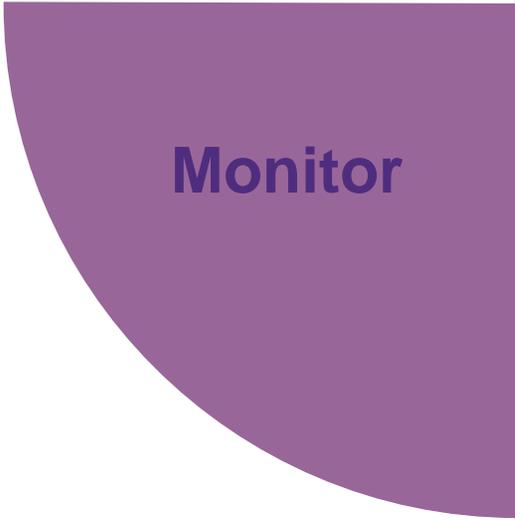
Detect

Fraud – How to Deter?

- **Definition** - to turn aside, discourage, or prevent from acting
- Proper disciplinary actions and disclosure
- Fair and consistent enforcement
- Prompt and skilled investigations
- Perception
- Fraud Policy
- Training & Education

Deter

Fraud – How to Monitor?



Monitor

- **Definition** – to close watch over
- Monitor employees performance & conduct
- Data Mining
- Workplace surveillance
- Fraud Policy
- Training & Education



Slowing Economy – Staying on Your Toes

Staying on Your Toes

- Tone at the Top – Code of Conduct
- Develop Fraud Policy
- Communicate – Communicate – Communicate!
- Stay “Current” on key controls:
 - Supervision
 - Review
 - Reconciliations
- All areas dealing with money (cash, checks, credit cards, etc.):
 - Reassess proper segregation of duties
 - Perform surprise visits and selective testing – let people know you are monitoring
- Be a “Dot” connector – Be Aware of your surroundings

Questions and Answers





State of Arkansas Annual Accounting & Audit Update Conference

Auditing and Accounting Update

AICPA audit risk alert

- Review of audit risk alert for state and local governments
- Audit Risk
- Understanding the entity and its environment and assessing the risks of material misstatement

Economic and industry developments

- The current economic crisis
 - Key economic indicators
- Government intervention to curtail the economic crisis
 - The American Recovery and Reinvestment Act (ARRA) of 2009
 - ARRA Compliance Requirements
 - Other government intervention

Economic and industry developments (cont.)

- The state of the States' economy
 - Local government bankruptcies
 - Municipal securities and challenges in the municipal market
 - The credit crisis and its potential impact on local government credit ratings
 - Tax exempt debt issues
 - Postemployment benefits other than pension, including retiree health care

Economic and industry developments (cont.)

- Securities lending losses
- Electronic commerce and privacy of data concerns

Legislative and regulatory developments

- Municipal securities rulemaking board activities
 - Electronic municipal market access
 - Continuing disclosure
 - Other EMMA features
 - Short-term obligation rate transparency system
 - Bank tying
 - Restrictions related to political contributions

Legislative and regulatory developments (cont.)

- New IRS regulation on required withholding
- “Red Flags” rule
- New guidance issued on public housing agencies completion of the financial data schedule and related auditor reporting
 - The status of the in-relation-to reporting requirement
 - Auditor subsequent event considerations
- Sales tax on internet sales

Audit and attestation issues and developments

- Audit risks arising from current economic conditions
- Structured investment vehicles
- Pension, OPEB, and the use of specialists
- Pollution remediation
- Information technology internal control issues
- Auditing accounting estimates

Audit and attestation issues and developments (cont.)

- Consideration of fraud in a financial statement audit
- Evaluating the existence of assets
- Communication with those charged with governance
- Communicating internal control related matters identified in an audit
 - Definitions of significant deficiency and material weakness

Audit and attestation issues and developments (cont.)

- The evaluation process
- The applicability of SAS No. 115 to Yellow Book and single audits

Accounting issues and developments

- GASB accounting standards upcoming implementation dates
 - GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans
 - GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

Accounting issues and developments (cont.)

- GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations
- GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets
- GASB Statement No. 52, Land and Other Real Estate Held as Investments by Endowments

Accounting issues and developments (cont.)

- Recently issued GASB pronouncements and related guidance
 - GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards
 - GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Accounting issues and developments (cont.)

- GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions
- GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments
- GASB TB 2008-1, Determining the Annual Required Contribution Adjustment for Postemployment Benefits

Accounting issues and developments (cont.)

- GASB Concepts Statement No. 5, Service Efforts and Accomplishments Reporting – an amendment of GASB Concepts Statement No. 2
- FASB Accounting Standards Codification™

Accounting issues and developments (cont.)

- Recent pronouncements
 - Recent auditing and attestation pronouncements and related guidance
 - Recent accounting pronouncements and related guidance
- Recent AICPA independence and ethics pronouncements

Accounting issues and developments (cont.)

- On the horizon
- Auditing and attestation pipeline – nonissuers
 - Auditing standards board clarity project
 - Compliance auditing
 - Exposure draft to revise standards for compilation and review engagements

Accounting issues and developments (cont.)

- Accounting pipeline
 - Current GASB projects
 - Comprehensive implementation guide update
- Resource central
 - Publications
- AICPA reSOURCE: accounting and auditing Literature
- AICPA audit committee toolkit for government entities

Accounting issues and developments (cont.)

- Continuing professional education
 - Online CPE
- Webcasts
- Member service center
- Hotlines
 - Accounting and auditing technical hotline
 - Ethics hotline

Accounting issues and developments (cont.)

- Industry conferences
- AICPA GAQC
- AICPA industry expert panel – State and local governments
- Industry web sites
- Additional web resources

Accounting Issues and Developments (OMB Circular A-133)

- Economic Developments
 - The State of the Economy
- Legislative and Regulatory Development
 - Report on Single Audit Quality
 - Response to the PCIE Report
 - GAOC director testifies at Senate Hearing on Single Audit Quality
 - AICPA and GAOC Single Audit Quality Task Forces
- GAO Developments
 - Single Audit Quality – GAO standing
 - 2007 revision of GAS
 - GAS implementation tool
 - Guidance on complying with GAS and the Sarbanes-Oxley Act of 2002
 - Other GAO Developments

Accounting Issues and Developments (OMB Circular A-133) (cont.)

- OMB Developments
 - OMB response to PCIE Report
 - OMB Single Audits and private information
 - Circular A-133 Compliance Supplement Update
 - OMB website and Federal Funding Accountability and Transparency Act
 - Pending revision of Federal Financial Report
- Federal Audit Clearinghouse Development
 - Submissions of the 2008-2010 DCF
 - Major programs and the DCF
 - DCF and reporting package not appropriate in compliance audits of for-profits
 - Using the FAC database

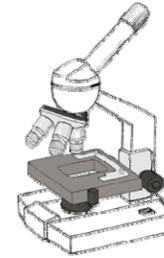
Accounting Issues and Developments (OMB Circular A-133) (cont.)

- HUD update
 - Consolidated Audit Guide revisions
 - Proposes an Independent Public Accountant Roster
- Audit and Attestation Issues and Developments
- AICPA Peer Review Checklist – A tool to help improve audit quality
- Common deficiencies found during peer review
- Recent AICPA independence and ethics pronouncements
- Independence requirements under AICPA, GAS and Circular A-133
- On the horizon
- Auditing pipeline (proposed revisions to SAS 74)
- Resource central
- AICPA GAOC
 - AICPA state and local government expert panel
 - AICPA not-for-profit organization expert panel
- Publications

Questions & answers



SN1



- Video
- Audio
- Slides

State of Arkansas Annual Accounting & Audit Update Conference Sharpening the Focus on Accountability

SN1 I added in some general external webcasting slides. General suggestions:

- 1) Less text - it would make the learning more effective and make the slides look cleaner. Move some text from slides to the notes section of the slides so audience could still reference your speaking point after the webcast.
- 2) Given the title of the webcast, it may be good to start out with the landscape slides (like you have), then go directly into the survey, and then circle back to the Form 990 section, as well as additional reserouces.
- 3) The rule for CPE is a minimum of 4 questions for each one hour of CPE, so we need at minimum of 8 questions (each with up to 6 multiple choices) for 2 CPE hours. Also, you should plan on positioning at least one question at the beginning and at the end of the presentation due to how NASBA (regulating body of CPA's CPE) counts CPE, so we've been asking for at least 5 questions per hour of CPE just to be on the safe side. Try to target these quesions to be marketing related type questions to find out more about your clients and prospect. After the webcast, LearnLive could pull a report on how the audience responded individually to provide you opportunities to reach out to clients.

Steven Ng, 1/8/2009

Grant Thornton's Sixth Annual National Board Governance Survey for Not-for-Profit Organizations



National Board Governance Survey for Not-for-Profit Organizations

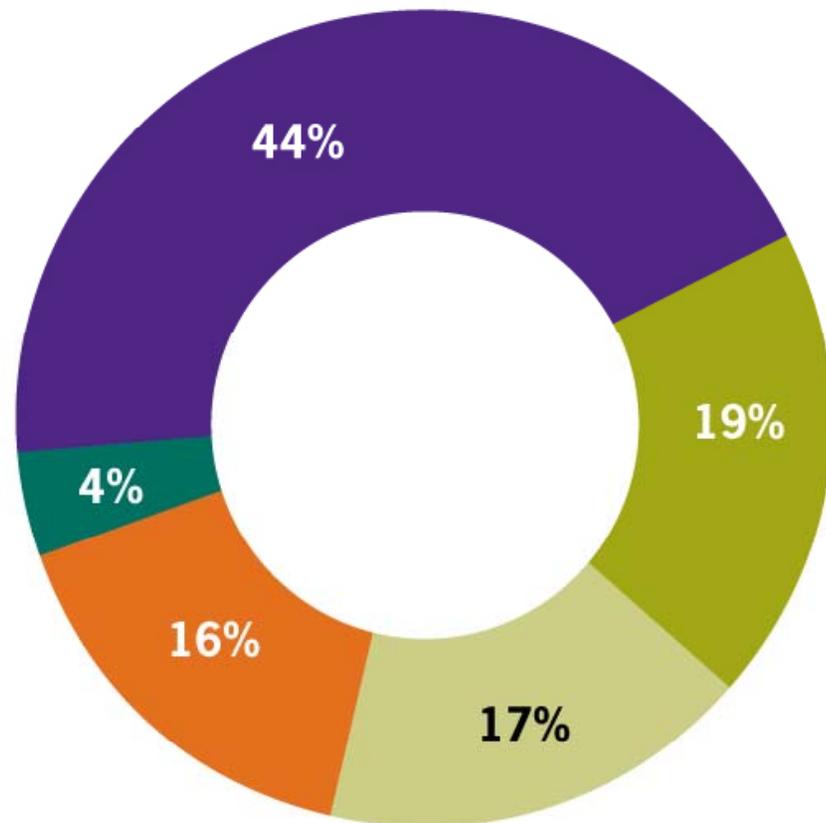
Sixth annual



Board's most important focus

Board's most important focus

- Strategic planning
- Fundraising
- Ensuring effective programs
- Management oversight
- Protecting reputation



Board's strength in these areas

- Strategic planning
- Fundraising
- Ensuring effective programs
- Management oversight
- Protecting reputation

Board's strength*

6.8

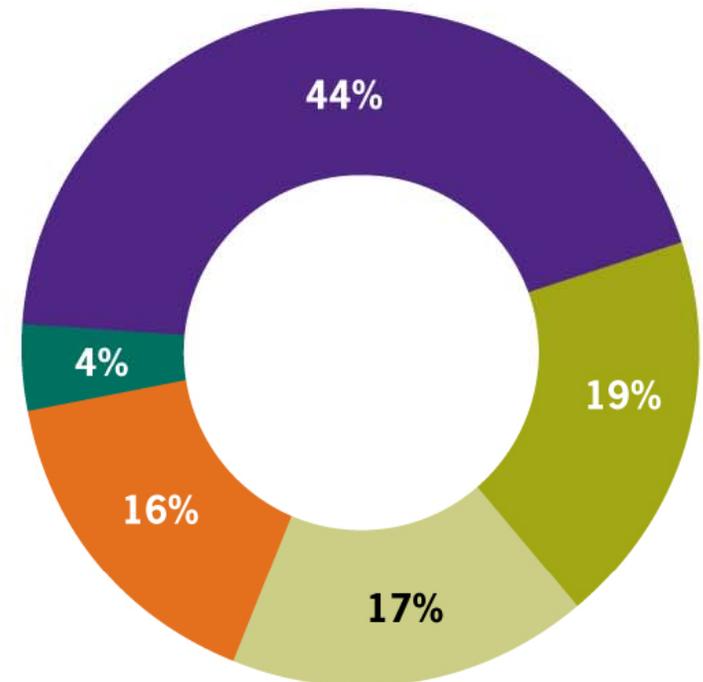
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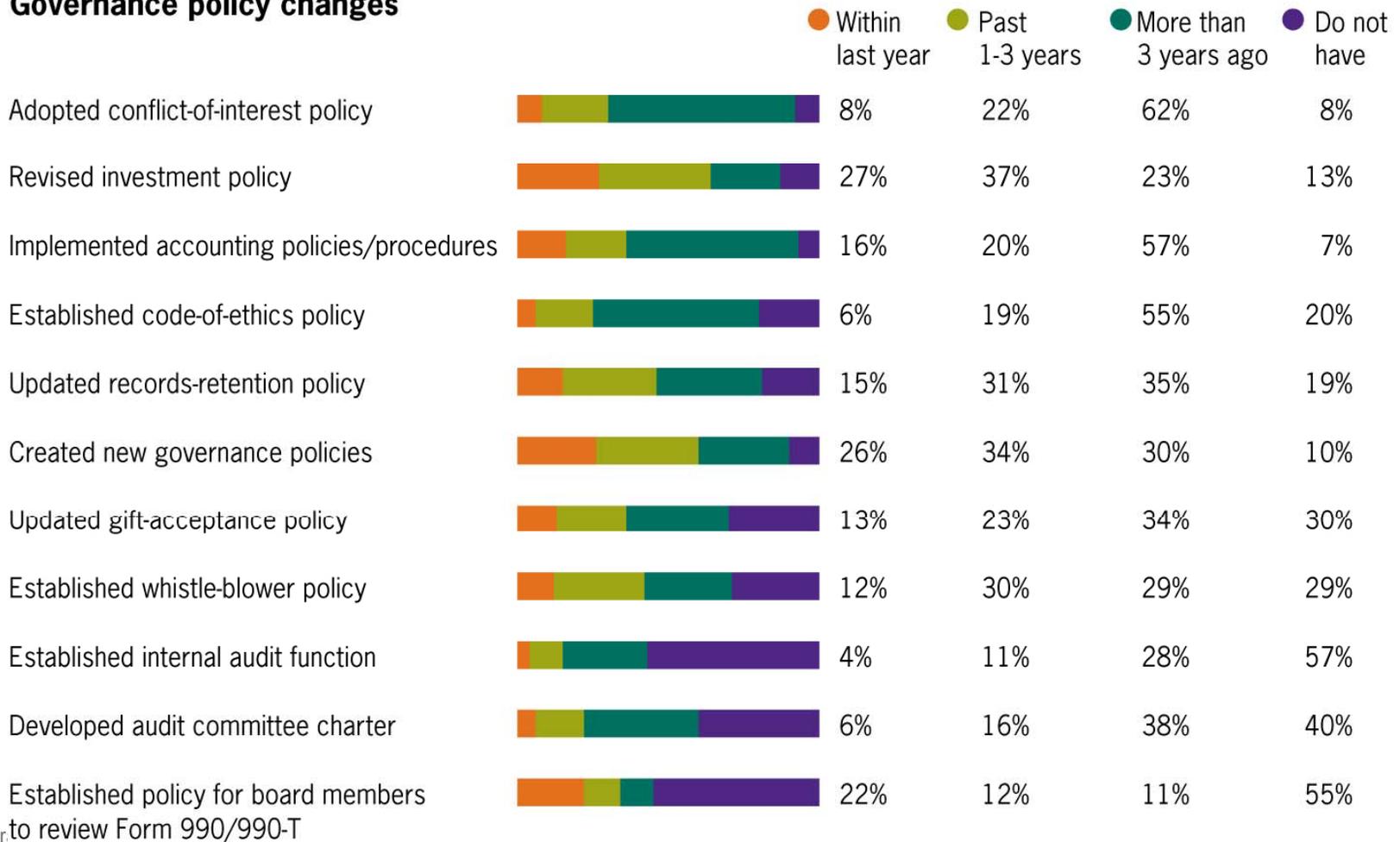
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*(Scale of 1-10,
10 being the highest)



Governance policy changes

Governance policy changes



Who signs the conflict of interest policy?

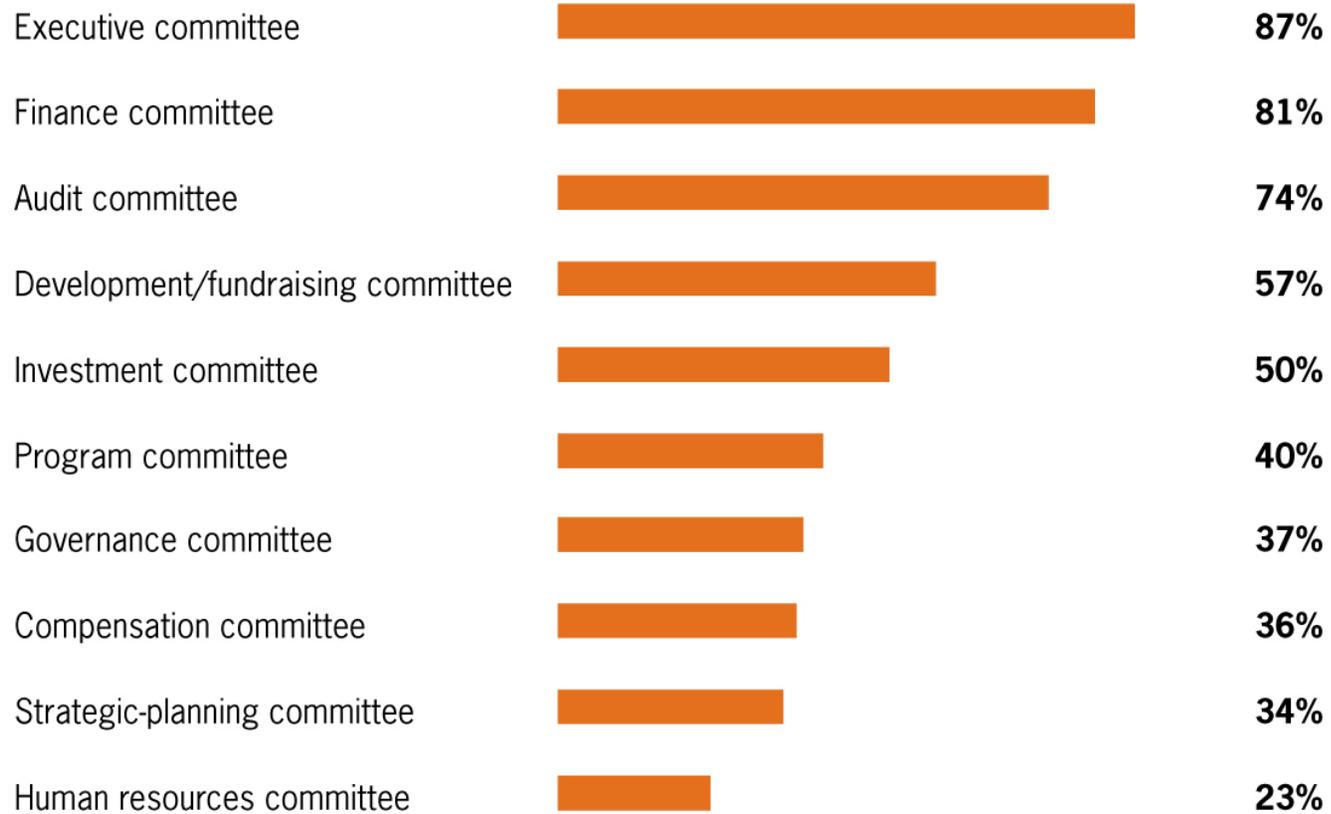
Who signs the conflict-of-interest policy? (By annual budget size)

	<\$20M	\$20-\$50M	\$50-\$100M	\$100-\$500M	>\$500M
Board members	92%	94%	94%	88%	91%
Executive management	56%	71%	75%	74%	85%
All employees	40%	25%	24%	35%	17%
Committee members	25%	36%	41%	56%	60%
Other management personnel (below executive management)	25%	35%	42%	51%	55%
Non-management employees	15%	7%	20%	19%	13%
Volunteers	12%	7%	6%	4%	6%



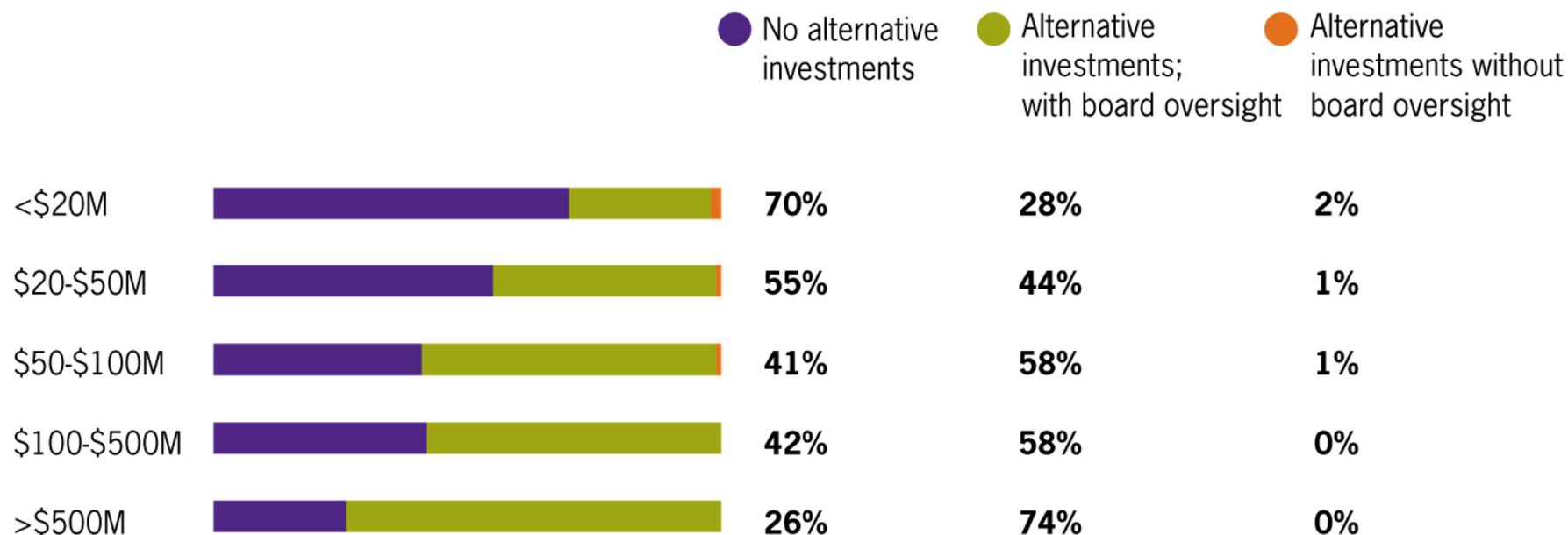
Board committees

Board committees



Board oversight of alternative investments

Board oversight of alternative investments (By annual budget size)



Executive compensation and benefits discussion by board

Executive compensation and benefits discussions (By annual budget size)

	<\$20M	\$20-\$50M	\$50-\$100M	\$100-\$500M	>\$500M
Two or more times a year	8%	19%	20%	23%	35%
Once a year	73%	67%	74%	73%	57%
Every two years or less	10%	10%	2%	1%	4%
Never	9%	4%	4%	3%	4%



Executive session

Executive session (By annual budget size)

	<\$20M	\$20-\$50M	\$50-\$100M	\$100-\$500M	>\$500M
Every meeting	21%	39%	38%	46%	47%
Most meeting	13%	18%	26%	21%	16%
Some meetings	56%	37%	35%	30%	35%
Never	10%	6%	1%	3%	2%



If you have an audit committee, does it include.....

If you have an audit committee, does it include... (By annual budget size)

	<\$20M	\$20-\$50M	\$50-\$100M	\$100-\$500M	>\$500M
Other business executives	80%	80%	82%	87%	89%
A certified public accountant	67%	58%	67%	69%	72%
A banker	40%	33%	51%	35%	57%
An attorney	37%	43%	54%	40%	61%



Frequency of auditor meeting with audit committee

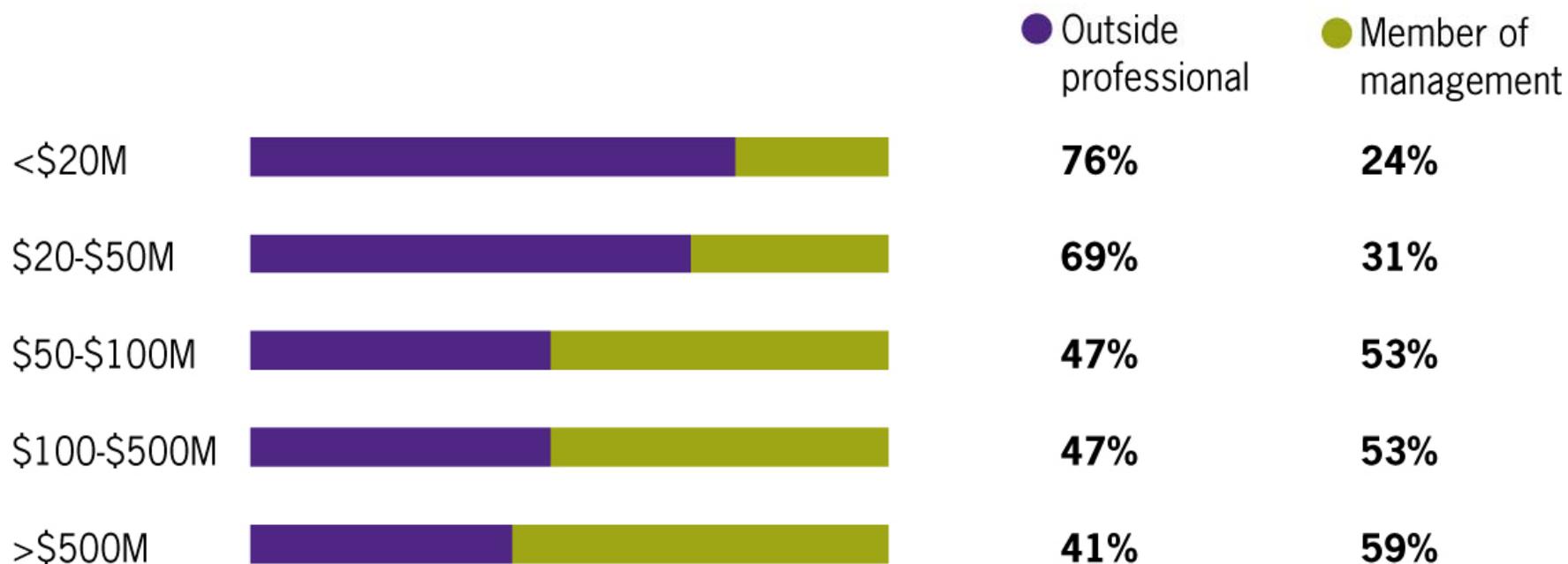
Auditor meets with the audit committee... (By annual budget size)

	<\$20M	\$20-\$50M	\$50-\$100M	\$100-\$500M	>\$500M
>3 times per year	6%	6%	10%	10%	32%
2-3 times per year	31%	58%	59%	67%	44%
Once a year	53%	33%	26%	19%	18%
Never	10%	3%	5%	4%	6%



Who prepares your organization's 990/990-T?

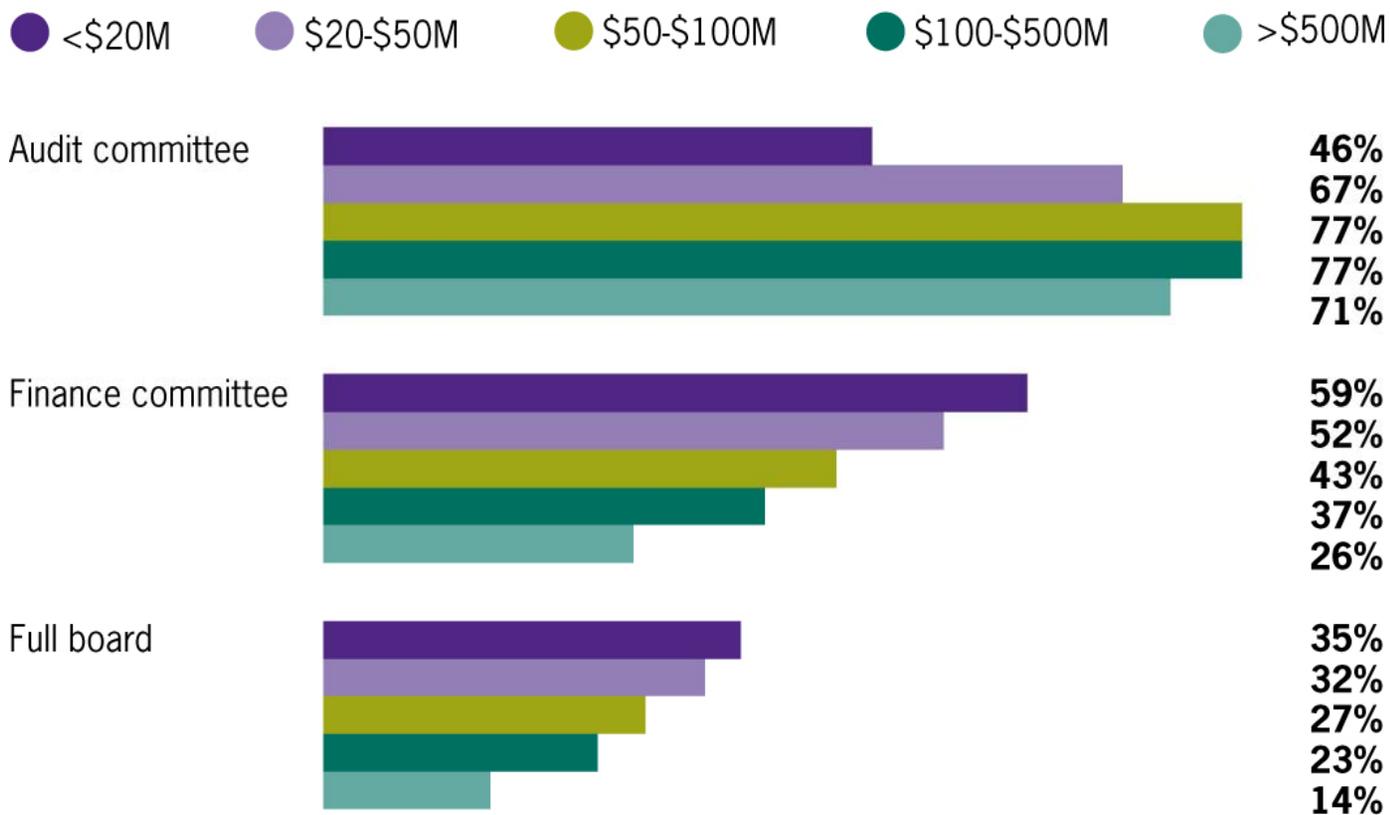
Who prepares your organization's Form 990/990-T? (By annual budget size)



Which groups review your 990/990-T?

(by annual budget size)

Which group(s) review your Form 990/Form 990-T? (By annual budget size)



Some results from other governance surveys in the past year

NACUBO* SOX Recommendations for Higher Education Follow-up Survey (in 2007)

- 91% have audit committees
- 83% have the external auditor report directly to the audit committee
- 50% have internal audit function
- 65% have whistleblower policy
- 67% have code of ethics

Some results from other governance surveys in the past year

NACD* 2007 Leading Not-for-Profit Governance Survey

- Top governance issues for boards are:
 - Strategic planning
 - Organizational performance
 - CEO succession
 - Board effectiveness
- 75% of boards met in executive session at least once a year

Comparison of NACD Results of Board Priorities for Not-for-Profit and For-Profit Boards

Not for Profit

- Strategic planning
- Organizational performance
- **Board leadership**
- CEO succession
- **Board effectiveness**
- **Board culture**

Items appearing on only one list are in **bold**

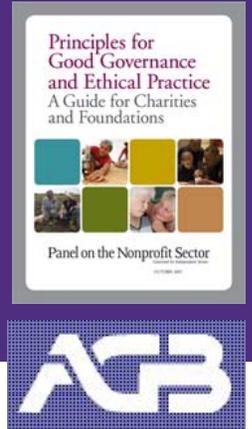
For Profit

- Strategic planning
- Corporate performance
- CEO succession
- **Relations with shareholders**
- **CEO compensation**
- **Information management/decision making**

Organizations with guidance on not-for-profit governance

- **Independent Sector** (www.independentsector.org) and Panel on the Nonprofit Sector (www.nonprofitpanel.org)
- **Association of Governing Boards of Universities and Colleges** (www.agb.org)
- **National Association of College & University Business Officers** (www.nacubo.org)
- **American Society of Association Executives** (www.asaenet.org/)
- **National Council of Nonprofit Associations** (www.ncna.org)
- **Evangelical Council for Financial Accountability** (www.ecfa.org)
- **Center for Philanthropy** (www.philanthropy.iupui.edu)
- **BoardSource** (www.boardsource.org)

Some excellent resources on not-for-profit governance



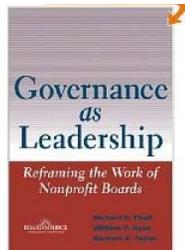
- **Independent Sector**, through the Panel on the Nonprofit Sector, issued *Principles of Good Governance and Ethical Practices: A Guide for Charities and Foundations* issued in 2007 (www.independentsector.org)
- **Association of Governing Boards of Universities and Colleges (AGB)** issued its *Statement on Board Accountability* in 2007 (<http://www.agb.org/wmspage.cfm?parm1=1501>)



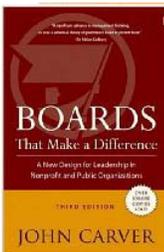
Some good books on not-for-profit governance



- **Good to Great and the Social Sectors: A Monograph to Accompany Good to Great**, by Jim Collins



- **Governance as Leadership: Reframing the Work of Nonprofit Boards**, by Richard Chait, William P. Ryan and Barbara Taylor



- **Boards That Make a Difference**, by John Carver



Grant Thornton Not-for-Profit Resources

- Publications for not-for-profit organizations
- Not-for-profit website at: www.grantthornton.com
- Grant Thornton Contact:

Issue No. 8

ForwardThinking

Best governance practices for not-for-profit executives and board members

Grant Thornton

Next practices: Enhancing fiscal transparency through public disclosure of management letters

By Frank Marx, National Managing Partner, Not-for-Profit Industry Practice

Recently, not-for-profit organizations have begun disclosing significantly more financial information to the public. This information is often disclosed on an organization's Web site – a cost-effective means to provide public disclosure. Organizations have disclosed audited financial statements, tax returns (Internal Revenue Service Form 990) and financial charts and ratios. Some organizations have also prepared “management discussion and analysis” to explain financial results in “lay” language.

Many organizations required to have an OMB Circular A-133 audit (Single Audit) recently have decided to disclose this information to the public, as well. These OMB audit reports often contain federal audit findings and management’s corrective action plan.

In the future, demand for fiscal transparency will continue to grow. Governance and the general public will continue to clamor for more disclosure, particularly of those not-for-profit organizations that solicit contributions from the public.

As part of enhancing transparency, not-for-profit organizations may one day be required to disclose publicly the annual management letter issued by the external auditor as a byproduct of the audit. These management letters typically indicate whether material weaknesses or significant deficiencies in internal controls and procedures were identified as part of the audit process. Management letters also include other observations and recommendations meant to enhance internal controls and procedures. These letters provide a unique window into management’s effectiveness in financial reporting.

Government funding sources and foundations typically request copies of management letters prior to the approval of contracts and grants. From time to time, significant donors, rating agencies and watchdog agencies have requested copies of these letters as well.

The demonstration of continued commitment to fiscal transparency and proper stewardship should remain at the forefront of all organizations.

Frank J. Marx

OnCourse

Business and financial insights for trustees and higher education administrators

Grant Thornton

Student loan scandal: Protecting the integrity of your institution's relationship with students and parents

by Lisa Ryan

In response to the high cost of a college education, almost all colleges and universities provide information to students and parents about financing options. The integrity of this important service is now in question, however, because of disclosure and allegations that some student loan providers' marketing efforts may have given – or appeared to give – inappropriate rewards to financial aid officers.

The attorney general of many states have now initiated investigations, led by the attorney general of New York. New York State has passed legislation on the issue and more than 20 colleges and universities, and several of the major loan providers, have signed settlements with the New York attorney general. The attorney general of California, Massachusetts, Minnesota and Ohio are also investigating the issue.

In addition, the U.S. Department of Education has launched its own investigation, the House Education Committee has held hearings, and federal legislation is likely to be enacted soon. The American Council on Education is considering new guidelines, and the National Association of Student Financial Aid Administrators has issued a substantial revision to its own code of conduct.

All of these activities and related media reports, whether true or not, have the effect of eroding the confidence that your students and parents should have in the integrity of your institution's practices and services.

Students, parents, donors and trustees are beginning to ask difficult questions. If they haven't already, they are likely to soon ask what you are doing at your institution, and you will need to assure parents and students that their confidence in your school's own practices will be placed.

An opportunity to demonstrate good governance

Good governance requires transparency in how a college or university operates. Whether public or private, all colleges and universities operate “for the public good,” with a core mission, means meaning that taxpayers are a major donor. And why do colleges exist? Not for private purposes at all, but for the good of students and the larger society, a good we serve by our teaching, research and public service.

These are the principles that we most keep in mind when we think about the student loan issue. From what I'm hearing from friends and colleagues, however, most leaders of colleges and universities feel they are already on the defensive and believe they are being unfairly treated by the state attorneys general and U.S. senators who keep the issue before the public.

If you haven't done so already, it's time to assure that administrators take proactive acts of good governance.

The issues

Press reports have alleged that the following relationships existed with certain student loan providers, and that these relationships may have impaired the independence and objectivity of financial aid professionals:

- Stock ownership in student loan providers by university employees, officers or trustees.

NFPerspectives

Providing vision and innovation for not-for-profit organizations

Grant Thornton

Organizations tap emerging markets to develop global strategies

Over the past decade, advances in technology have allowed not-for-profit organizations to reach out to more and diverse markets, members and donors. Coupled with opportunities in global emerging markets, these advances have made the possibility of “going global” increasingly a much more tangible reality.

According to results published in the Grant Thornton International Business Report (IBR), growth-led business are now starting to explore an opportunity to work with fast-growing BRIC economies (Brazil, Russia, India and China). These countries are expected to represent 40 percent of global gross domestic product (GDP) for 2015. For China alone, the growth of Brazil, Russia, India and China has been positive for businesses over the last two to three years.

Of all the BRIC countries, economic expansion in mainland China has had the greatest impact on global markets. China's expansion around the globe with a positive balance of +12% over the past two years, specifically U.S. exports to the BRIC, were up positive (+22%) above those impact in results of the economic expansion in mainland China.

Not-for-profit organizations are also experiencing the benefits of China's economic boom.

In 1990, The Association for Manufacturing Technology (AMT), which represents and promotes the interests of American providers of manufacturing machinery and equipment, opened its first international office in China.

“We recognized early on the benefits our members could realize by expanding our operations globally,” remarks AMT President John Boyd.

“When AMT began its international strategy, AMT reached possible markets’ size and saturation. “We focus our efforts on emerging markets, where our members can really have a level playing field.” In fact, noting that while members such as the European Union have more experience for manufacturing technology, they are already saturated with local competition.

AMT has done representative offices in China, Beijing, Guangzhou and Shanghai, as well as in Shanghai Technology and Service Center, two offices in Mexico (Monterrey and Queretaro) and offices in Korea, India, and Warsaw, Poland – all staffed by nationals and backed by the organization.

The representative offices help members establish operations in the country by providing education about local market procedures, trends and issues, manufacturing.

Grant Thornton's Board Governance Institute

Board Governance Institute Membership Form - Microsoft Internet Explorer provided by Grant Thornton LLP

http://surveys.gt.com/bgimembership

Board Governance Institute Membership Form



Home Careers Services Industries Press Grant Thornton Thinking Locations

Board Governance Institute

The Board Governance Institute is a resource tool exclusively for board members of our clients to keep you abreast of current and emerging business trends such as accounting, regulatory, legal and operational issues.

Join TODAY and you will have easy access to the following:

- Invitations to special seminars, symposia and roundtables held throughout the United States. Topics will cover best practices, governance issues, assurance, tax and business advisory matters.
- A subscription to *ForwardThinking*, Grant Thornton's not-for-profit industry newsletter that discusses current hot topics, new regulations and industry trends.
- A subscription to *OnCourse*, a newsletter focused around higher education business and financial insights for trustees and higher education administrators.
- Our Annual National Board Governance Survey for Not-for-Profit Organizations, which highlights governance implementation trends.
- NFP Alerts, providing information on emerging or urgent issues, as they arise.

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Local intranet 100%

Additional resources for trustees and audit committees

Not-for-profit board members direct the organization toward achieving its mission. As a board member, you have the opportunity to contribute...

Grant Thornton 



Not-for-profit
board member
handbook

Serving on the **audit committee of a not-for-profit organization** is an important undertaking. Recent scrutiny of financial responsibility in both the not-for-profit and for-profit...

Grant Thornton 



Audit committee
handbook for
not-for-profit
organizations

www.grantthornton.com/nfp



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For more information on how Grant Thornton's Not-for-Profit and Higher Education Advisory Services Practice can help:

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