2020 Year End Workshops

Georgia Department of Education
Financial Review

July 2020
AGENDA

- Initial FY 2021 Budget
- AFY 19 School Security Grant
- Federal Grant Extensions
- Senate Bill 68
- Other 2020 Legislation
- CARES Act – ESSER Funds
- School District Deficit Reporting
- Chart of Accounts Updates
- Salary Survey Request
- Financial Reporting Deadlines and Resources
- GASB 84
- GASB 87
- DOAA Presentation
- Questions
Initial FY 2021 Budget
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>HB 793 Signed by Governor</td>
<td>June 30, 2020</td>
</tr>
<tr>
<td>QBE Regular Earnings</td>
<td>$10,552,819,923</td>
</tr>
<tr>
<td>Funded enrollment growth</td>
<td>$141,714,801</td>
</tr>
<tr>
<td>Decreased TRS Employer Rate</td>
<td>-$160,096,745</td>
</tr>
<tr>
<td>Charter System Grant</td>
<td>$229,109</td>
</tr>
<tr>
<td>State Commission Charter Schools Supplement</td>
<td>$32,040,622</td>
</tr>
<tr>
<td>Decreased Math &amp; Science Supplement</td>
<td>-$904,191</td>
</tr>
<tr>
<td>Austerity Reduction – 10.37% Reduction</td>
<td>-$950,243,063</td>
</tr>
<tr>
<td>Initial FTE Count</td>
<td>1,754,930</td>
</tr>
</tbody>
</table>
### Amended FY 2021 Budget – State Commission Charter Supplement

- **FY 2018 HB 787**
- Allows for projections if enrollment is estimated to increase at least 2%
- Allows for increased funding projections for T&E (If 2019-1 CPI was at least 2% greater than 2018-1 CPI, the growth was funded)
- If enrollment actually declined or growth was less than 2%, the State charters were held harmless and the Initial Allotments restored.
- If growth increase is more than 2%, enrollment growth was funded just as it is for all school districts.
- If there was growth more than 2%, just not at the level of the projections, then funding was allotted at the October 2018 level.
Initial FY 2021 – Amendment #1

• Amendment Dated July 10, 2020
• Amended the QBE Regular Earnings and State Commission Charter Supplement

Amendments

• Regular Earnings Increase - $19,958,930
• Local 5 Mill Share Increase – ($1,379,413)
• State Charter System Supplement - $25,021,743
• Austerity Increase – ($1,926,808)
• FTEs Increase – 4,998
FY 2021 – Local Five Mill Share (LFMS)

LFMS NET Increase of $71,258,470

Formula calculated based on property values and exemptions for 2018 calendar year, FY 2019

Adjusted per O.C.G.A. §20-2-164

• LFMS cannot be more than 20% of the calculated QBE earnings
FY 2021 Austerity and LFMS Calculations

Reduction in LFMS:
LFMS – (LFMS * 3.71%) = Adjusted LFMS

Austerity Reduction:
(QBE Earnings less Adjusted LFMS) * 10.37% = Austerity
Additional Grants – FY 2021

- Agriculture Education – ($804,295)
- Charter Schools Facility Grants - $200,000
- CTAE Audit Visual Grant – ($2,000,000)
- Sparsity – Enrollment Decline - $1,019,060
- Feminine Hygiene Grant – ($700,000)
- Technology/Career Education – ($1,123,384)
- Tuition for Multiple Disabilities – ($155,195)
## Initial FY 2021 Budget – Non-Categorical Formula Grants

<table>
<thead>
<tr>
<th>Grant Type</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Preschool Disabilities Grant</strong></td>
<td>Updated declining FTEs ($207,898) and reduction in formula by 11% ($4,205,510)</td>
</tr>
<tr>
<td><strong>GNETS</strong></td>
<td>Updated declining FTEs ($3,775,973) and reduction in formula by 11% ($6,115,272)</td>
</tr>
<tr>
<td><strong>RESAs</strong></td>
<td>$220,949 Enrollment Growth</td>
</tr>
<tr>
<td></td>
<td>($58,437) TRS reduction</td>
</tr>
<tr>
<td></td>
<td>($160,000) Consulting funding</td>
</tr>
<tr>
<td></td>
<td>($1,322,514) Reduction in formula by 11%</td>
</tr>
</tbody>
</table>
Initial FY 2021 Budget – Equalization

• **Equalization Increase - $32,090,818**
  • Overall allotment - $725,171,447
  • FY 2021 Statewide Average - $159,046.69
  • FY 2020 Statewide Average - $151,228.61
  • FY 2019 Statewide Average - $144,820.85
  • 60 total did not receive funding
Initial FY 2021 Budget – TRANSPORTATION

• Transportation Funds - $134,154,523
  • Enrollment Growth - $927,142
• Bus bonds of $20,000,000
• Additional bonds of $1,250,000 for alternative fuel school buses
FY 2021 Transportation Allotments

• Individual letters distributed to transportation directors and finance officers.
• Bus Bonds have been sold.
• Invoices for FY 2021 Bus Bonds must be dated after July 1, 2020 to be eligible for reimbursement.
• Bus Bonds allot $77,220 for each bus.
• Driver Salaries and Bus Liability detail included.
Bonds – Initial 2021 Budget

- Capital Outlay – Regular - $172,380,000
- Capital Outlay – Regular Advance - $17,860,000
- Capital Outlay – Low Wealth - $73,560,000
- Capital Outlay – Additional Project Specific Low-Wealth - $77,060,000 (includes $3.5M for Tattnall County School Consolidation)
- Agriculture Education Equipment - $1,110,000
- Vocational Equipment - $7,830,000
- Renovations to FFA/FCCLA Camps - $5,000,000
- Georgia State Schools Facility - $3,000,000
Amended FY 2019
School Security Grants
### Amended FY 2019 Budget – School Security Grants

- $69,240,000 for School Security Grants
- $30,000 for each school
- Email notification from GaDOE on March 18, 2019
- Districts must submit a budget using the Consolidated Application (Con App)
- Invoice Application will be utilized for reimbursement
- Grant award period: April 1, 2019 – June 30, 2020
- Email from Ted (GaDOE CFO) on April 12, 2019 with directives for submitting a budget within the Con App
Amended FY 2019 School Security Grants

Refer to Email from Rusk Roam on July 15, 2020

• Reimbursement Request Deadline – September 30, 2020
• NO Budget Amendments after June 30, 2020
• Plan should already be in place
• Extension to alleviate for delays in completing the contracts
Federal Grant Extensions
Federal Grant Extensions

- All federal grants received extensions to September 30, 2021.
- Title I – 85% threshold for carryover is waived for the 2020 grant award.
- Title I 2020 grant award will close as normal on September 30, 2020.
- Completion reports due October 30, 2020.
- All remaining funds (100%) will be awarded as carryover and included with the 2021 grant award.
Title IV – SSNAE Critical Updates—FY20 Budget

FY20 budget to remain open until September 2021

- Waivers applicable to meet evolving needs
  - CLIP amendments not required
  - “20/20/Portion”
  - 15% cap on infrastructure
- Maintain clarity between FY20/FY21 accounting
- Facilitate Equitable Services—no need to request carryover
- Funds expire 9/2021
- Includes funds carried from FY19

- Completion Reports may be submitted once 100% of funds are expended

Title IV, Part A - Flexibility Waivers Approved by the U.S. Department of Education

In April 2020, the U.S. Department of Education (ED) approved Georgia’s waiver requests based on flexibilities outlined in the CARES Act. This request directly impacted the Title IV, Part A grant in that statutory minimums and expenditure caps were waived for FY20. Due to these flexibilities that apply only to the FY20 grant, LEAs will keep this grant open and wait to submit a completion report on October 31, 2021. This will allow the district to continue to expend the funds with the approved flexibilities that apply only to the FY20 grant through the period of availability—September 2021. This adjusted process should not interfere with the district’s internal fiscal year closeout responsibilities.
Title IV – SSAE Critical Updates—FY20 Budget

FY20 funds must be allocable and allowable to the grant

- Improving student academic achievement
  - CARES vs IVA
- Assigned a Focus Area
- Budget Summary Workbook required *(Pending Con App enhancements)*
- FY19 Carryover Workbook required (for LEAs that have not submitted it—see Area Specialist)
- Program Monitoring/Effectiveness Measurement data required *(Pending Con App enhancements)*
- Completion Reports may be submitted once 100% of funds are expended

- FULL vs Partial Consolidation of Funds **
Title IV – SSAE Critical Updates—FY20 Budget

Information communicated to finance directors
Email dated June 26, 2020

• There will be two different Title IV, Part A grant awards that are operating simultaneously in the same grant award period and fiscal year.

• School systems should either implement the flip-funds process or another mechanism to ensure the grant award activity is not comingled.

• Expenditures charged to each grant award must be identified separately.

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Senate Bill 68
SB 68 – Signed by Governor June 29, 2020

……To strengthen provisions relating to the financial management of local school systems; to provide training for local board of education members and local school superintendents on financial management; to provide for monthly reporting to the local board of education on the financial stability of the local school system; to provide for designation by the Department of Audits and Accounts of high-risk local school systems and moderate-risk local school systems based on annual audits; to provide for financial management provisions in flexibility contracts and system charters……
SB 68 – Signed by Governor June 29, 2020

§ 20-2-49
Adds financial management to Board member duties

§ 20-2-51
Board members up for reelection must have completed all prior annual training requirements established by §20-2-230

§ 20-2-58
Monthly review by board of the financial status of the local school system.

GaDOE will create a template for school systems to use to review the financial status, which shall include, at a minimum, a statement of revenues, expenditures, and encumbrances.

§ 20-2-61
Local board of education requesting and reviewing financial data and documents shall not constitute micromanaging
§ 20-2-67

The Department of Audits and Accounts shall designate local school systems that have had reported irregularities or budget deficits for three or more consecutive years as high-risk local school systems and shall designate local school systems that have had reported irregularities or budget deficits for one year or two consecutive years as moderate-risk local school systems.
SB 68 – Signed by Governor June 29, 2020

§ 20-2-67
State Board of Education shall inform the superintendent of the local school system of the irregularities or budget deficits, including if a local school system has been designated as a high-risk local school system or moderate-risk local school system.

Superintendent shall submit a corrective action plan approved by the board at a board meeting within 120 days of receiving notice of designation as a high-risk or moderate-risk local school system.
§ 20-2-82
Flexibility contract shall require that a local school system has not been designated as a high-risk system by DOAA, or if it is, the system has a written corrective action plan in place and appropriate personnel participate in required training to address the deficiencies.

§ 20-2-83
Flexibility contract shall include specific requirements relating to maintaining or achieving financial stability of the local school system.
SB 68 – Signed by Governor June 29, 2020

§ 20-2-84.2
The department shall monitor each local school system’s financial stability and provide support and guidance to local school systems that are designated as high-risk or moderate-risk by the Department of Audits and Accounts pursuant to §20-2-67.

§ 20-2-109
Local school superintendent shall report monthly to the local board the financial status of the school system. Each local board of a system designated as high-risk or moderate-risk shall require the superintendent to complete training on financial management and governance.
SB 68 – Signed by Governor June 29, 2020

§ 20-2-230
Requires newly elected board members to receive guidance and training regarding their specific local school system’s most recent audit findings and risk status, as determined by DOAA or GaDOE.

Training must be completed with either DOAA or GaDOE

§ 20-2-2063.2
A charter for a charter system shall require the local school system to have a corrective action plan if designated high-risk, and training for appropriate personnel.
§ 20-2-2063.3
State Charter Schools Commission will include in the code of principles and standards the monitoring of high-risk charter schools.
Other Legislation
HB 755 – Pending Governor Signature

• Requires school systems to provide local charter schools with preliminary annual allotment sheets for state/local/federal allocations within 45 calendar days of receipt by the local school system of the system allocations from Department of Education.

• Requires 30 days notice to local charter if the allotment requires an adjustment.

• Requires school systems to publish the allocations to local charters on their website.
FY 2018 - HB 329 – Signed by Governor May 3, 2018 – Effective July 1, 2019

- TAVT as passed in FY 2018:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>State Share</th>
<th>Local Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 and subsequent</td>
<td>35%</td>
<td>65%</td>
</tr>
</tbody>
</table>

- Portion of Local Share, beginning in FY 2020, for school districts is 49%. (49% of the local portion 65%)

- The “true up” to the 2012 values is eliminated.
HB 779 – Signed by Governor June 29, 2020

• Revised percentages to county governing authority and municipality.

• Revised percentage to county governing authority and municipality and school district when there is an independent school district in the municipality (i.e., city school systems).

<table>
<thead>
<tr>
<th>Situation</th>
<th>County Governing Authority Share</th>
<th>Municipality Share</th>
<th>Independent School District Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>No City School District</td>
<td>23%</td>
<td>28%</td>
<td>49%</td>
</tr>
<tr>
<td>City School District</td>
<td>23%</td>
<td>34%</td>
<td>43%</td>
</tr>
</tbody>
</table>
CARES Act – ESSER Funds
## CARES Act ESSER Funds - Allocations

<table>
<thead>
<tr>
<th>Grant Allocation</th>
<th>Amount</th>
<th>Program Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Allocation – Based on Title I Allocations</td>
<td>$411,452,867</td>
<td>4155</td>
</tr>
<tr>
<td>Allocation - Unfunded State Charters, Residential Treatment Centers, Ag Camps, State Schools</td>
<td>$6,196,706</td>
<td>4156</td>
</tr>
<tr>
<td>Allocation - offset Equitable Services</td>
<td>$14,033,355</td>
<td>4156</td>
</tr>
<tr>
<td>Allocation - CTAE and Ag Ed Programs</td>
<td>$1,809,347</td>
<td>To Be Determined</td>
</tr>
<tr>
<td>Connectivity Allocation - GaDOE</td>
<td>$3,000,000</td>
<td>Not distributed directly to systems</td>
</tr>
</tbody>
</table>
CARES Act ESSER Funds

Chart of Accounts

• **Fund 420** – CARES Act Funding

• **Program Code 4155** – CARES Act – ESSER Funds – Elementary and Secondary School Emergency Relief Fund – CFDA 84.425D – Federal grant provided to support schools with the effects of the COVID-19 pandemic. Fund 420

• **Program Code 4156** – CARES Act – ESSER Funds – SEA Reserve Grant – CFDA 84.425D – Funding to school districts and education facilities that were not included in the original allocation methodology. Fund 420

• **Revenue Source Code 4535** – Federal funds passed through other entities to support schools with the effects of the COVID-19 pandemic.
CARES Act ESSER Funds

Chart of Accounts


- **Program Code 2722** – Georgia Family Connection Partnership grant to provide services in support of the response to the COVID crisis. Fund 536. Effective FY 2020.
CARES Act ESSER Funds

CPI Reporting of Salaries Funded with ESSER Funds

Salaries should be reported on the CPI report as they typically would be reported based on the job assignment of the employee.

No separate Fund Code to report within CPI. Salaries/Benefits Expenditures will be reported in Fund 420 on financial ledger.
CARES Act ESSER Funds

Nutrition Expenditures

• Planning for and coordinating during long-term closures, including for how to provide meals to eligible students.

• Other activities that are necessary to maintain the operation of and continuity of services in LEAs and continuing to employ existing staff.

• Does **not** include any costs eligible for reimbursement through the U.S.D.A. program.
CARES Act ESSER Funds

Accounting for Expenditures

• Expenditures charged to the CARES Act ESSER funds must be recorded in Fund 420.
• Cannot transfer cash out of Fund 420 into any other fund.
School District Deficit Reporting
<table>
<thead>
<tr>
<th>School District Deficit Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>O.C.G.A. §20-2-67 – When an audit reports a budget deficit or irregularity:</strong></td>
</tr>
<tr>
<td>• <em>Deficit Elimination Plan</em> signed by Board Members</td>
</tr>
<tr>
<td>• Publication of <em>Statement of Actual Operations</em> in legal news organ</td>
</tr>
<tr>
<td>• Monthly reporting of deficit balance to GaDOE</td>
</tr>
</tbody>
</table>
School District Deficit Reporting

How is Law Applied:

- If Audit reports a finding in the Statement of Revenues, Expenditures, and Changes in Fund Balance – **Publish in Newspaper**

- Monthly Reporting until GaDOE is satisfied deficit is eliminated

- If deficit in Capital Projects or School Nutrition, and transfer is made to eliminate deficit, monthly reporting will be required to ensure the district has eliminated the CAUSE of the deficit

- If DE 46 reports a deficit, GaDOE will investigate to determine if Deficit Elimination Plan and monthly reporting is necessary
School District Deficit Reporting

DE 46 Reporting:

- Check the School System DE 46 NOW
- If General Fund, Capital Projects, or School Nutrition report a Deficit on the FY 2020 DE 46, the superintendent will receive notification requesting additional information.
- When considering SFS Deficit, the Inventory Non-Spendable Inventory Balance (0751) is not included in total Fund Balance. The Fund Balance – Restricted for Continuation of Federal Programs is the balance considered.
Chart of Accounts and Coding Updates
Chart of Accounts Updates

FY 2021 Code Relationship Updates

QBE Instructional Program Codes will be restricted to function 1000, with the exception of the QBE Special Education Program Codes.

Special Education QBE Program Codes will continue to be allowable with function 2100.

Please ensure the FY 2021 Budget is updated.
Chart of Accounts Updates – Active Status

USING the CHART OF ACCOUNTS to SEARCH for ACTIVE CODES

The chart of accounts has recently been updated to display the active / inactive status of the account code from the "Search" option tab.

Type in the code to be selected, and if desired, select the code type (Function, Object, Revenue Source, Balance Sheet, Job Codes, All) and any result meeting the criteria will be displayed. In the far-right field, the status of the code will be displayed for the CURRENT Fiscal Year. If the code is Active, “Yes” will be displayed. If not, “No” will be displayed.
### Chart of Accounts Updates – Active Status

**Privacy and security**

- **Clear browsing data**
  - Clear history, cookies, cache, and more

- **Cookies and other site data**
  - Third-party cookies are blocked in Incognito mode

- **Security**
  - Safe Browsing (protection from dangerous sites) and other security settings

- **Site Settings**
  - Controls what information sites can use and show (location, camera, pop-ups, and more)
Salary Survey Requests
FY 2021 Salary Survey Requested

• Furloughs?
• Reduction in force?
• Reduced calendar days for academic or instructional calendar?
• What options for instruction for 2020-2021 school year? Virtual/In-Person/Hybrid
• How are school nurses impacted?
• How are CARES Act – ESSER funds utilized?

• Expect survey in August
Financial Reports and Final Statements
Deadlines

**July 6, 2020**
- Open the Portal for Year End Transmissions

**August 31, 2020**
- FY 2020 Final Budget Report

**September 30, 2020**
- FY 2020 Financial Analysis Report

**October 30, 2020**
- FY 2021 Initial Budget Report

**December 31, 2020**
- Completed Financial Statements
  - Include Exhibits, Schedules, Notes to Financial Statements, MD&A (if applicable)
Errors and Warnings Transmission - ⚠ Uses and Information

• **WHAT**:  
  - Pre-DE46 uploads to determine code relationship discrepancies, out of balance accounts, account code input errors, etc.  
  - Used to compare the DE106 monthly reported values from the School Nutrition Program against a school district’s general ledger data in Fund 600, School Nutrition (*DE106-DE46 Comparison Report*).

• **WHY**:  
  - Ensures the DE46 uploads at year-end will be error-free and in compliance.

• **WHEN**:  
  - Monthly; same as annual DE 46 Upload process.

• **USEFUL TIP**: Use 🔴
GASB 84
Fiduciary Funds
GASB 84 – Fiduciary Funds

Effective July 1, 2020 (FY 2021)

- Clarifies definition of custodial funds (agency funds through FY 2019)
- Activity must meet **all** of the following criteria (per GASB Statement No 84):
  1. The assets associated with the activity are controlled by the government.
  2. The assets associated with the activity are not derived either:
     - Solely from the government’s own-source revenues or
     - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants for which the government does not have administrative involvement or direct financial involvement.
GASB 84 – Fiduciary Funds

Effective July 1, 2020 (FY 2021)

3. The assets associated with the activity have one or more of the following characteristics:
   • The assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legal protected from the creditors of the government.
   • The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. Additionally, the assets are not derived from the government’s provision of goods or services to those individuals.
   • The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. Additionally, the assets are not derived from the government’s provision of goods or services to those organizations or other governments.
GASB 84 – Fiduciary Funds

Review your district’s school activity policy manual

• Who assigns the faculty advisor of the activities?

• Who approves all fundraising/field trips?

• Who approves all purchasing decisions?

• Who can remove or replace faculty/advisor?
GASB 84 – Fiduciary Funds

How does this change school district reporting?


2. Expenditures for extra-curricular activities such as clubs and class organizations are generally charged to function 1000 or 2100.

3. Revenues for Club Dues recorded to 1215.

4. Revenues for Sales by the Club recorded to 1225 – Fundraising/Miscellaneous Sales.
GASB 84 – Fiduciary Funds

Extension to Implementation

• Financial Statements should reflect policy in place

• If school activity policy/procedures have been updated for FY 2020, ensure financial statements correctly report activity

• Early implementation for FY 2020 is encouraged
GASB 87 - Leases
GASB 87 - Leases

**Effective July 1, 2021 (FY 2022)**

- Draft Implementation Guide released for comments through April 30, 2019
- Changes criteria for leases, essentially eliminates operating leases and considers all leases capital
- Applied to exchange and exchange-like transactions
- Must capitalize the lease as an asset, but not subject to capitalization thresholds
- Additional costs for maintenance and supplies are not included when determining lease liability
GASB 87 - Leases

How to Start Preparing for Lease Standard:

• Evaluate all lease agreements entered by the district and schools

• Determine what portion of the lease is not for the actual lease agreement but for maintenance, toner, paper, etc.

• Work with vendors to separate the components of the lease agreement

• Be prepared to track so the liability can be posted in FY 2022
Contact Information

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Atlanta, GA 30334
404-656-6754
| ✔️ COVID-19 Impacts to Audit Process |
| ✔️ COVID-19 Federal Compliance Issues |
| ✔️ COVID-19 Accounting and Reporting Issues |
| ✔️ GASB Updates |
COVID-19 Audit Impacts
COVID-19 Audit Impacts

**FAQs: State and Local Government Financial Statement Accounting and Auditing Matters and Auditor Reporting Issues Relating to COVID-19**

Access to Books and Records

What if the Auditor Has Trouble Gaining Access to the Client’s Books and Records During the Pandemic?

During the pandemic, accessing client books and records may present hurdles for some auditors, especially in cases in which clients still maintain mostly paper records. Auditors may be able to obtain client-prepared copies or scans of key records, but auditors need to consider the authenticity of those records and perhaps perform additional audit procedures to be satisfied that those records are complete, accurate, and authentic.

In cases in which auditors are unable to access client books and records, auditors may have to inform clients that audits cannot be completed until books and records can be accessed and discuss the potential impact on any relevant filing deadlines. (See the “Managing Filing Deadlines” section later for further discussion.)
Internal Control Over Financial Reporting

What Should Auditors Be Thinking About in the Financial Statement Audit With Regard to a Client’s Internal Control Over Financial Reporting?

• Controls and procedures may have changed dramatically to accommodate remote workforces and process flows. There are likely different systems of internal control that have been in effect and operating during the audit period.

• The length of time that new controls may have been in place and the level of activity that occurred during that time will drive the importance of gaining an understanding of the new controls and determining the controls relevant to the audit.

• If working remotely, walk-throughs and certain tests of internal control will be challenging. Use videoconferencing technology to make inquiries and observe certain controls. For example, an auditor can ask client personnel to enter passwords to access the accounting system. Using a video feed, the auditor can still observe whether those passwords were successful or locked out the employee.
Management Representation Letters

Should Auditors Be Adding Additional Representations Related to the COVID-19 Pandemic to the Management Representation Letter?

During this pandemic, additional representations may be added to the management representation letter, depending on the particular circumstances of an engagement. Those additional representations may relate to subsequent events, going concern, claims and judgments, termination benefits, fraud, and significant estimates, among others.
Management Representation Letters

What if My Client Is Unable to Provide the Signed Original Management Representation Letter With an Original Signature on Company Letterhead?

Using electronic means to obtain signed management representation letters is acceptable if auditors can obtain appropriate evidence of management’s receipt and acknowledgment of the representations — in other words, confirmation that the signatory knowingly and willingly signed the representation letter.

DOAA uses DOCUSIGN technology to meet these needs.
Emphasis-of-Matter Paragraphs and Types of Auditor’s Reports

Should Auditors Be Including Emphasis-of-Matter Paragraphs Related to the COVID-19 Pandemic in Their Audit Reports?

Auditors may conclude that an event has such a material impact on an opinion unit that it would be appropriate to include an emphasis-of-matter (EOM) paragraph in the auditor’s report to direct the reader’s attention to the event and its effects.

DOAA considers the COVID-19 pandemic to have had such an effect to require an EOM paragraph for any effects noted on the financial statements.
Emphasis-of-Matter Paragraphs and Types of Auditor’s Reports

What if the Auditor Encounters Situations in Which an Unmodified Opinion on an Opinion Unit is Not Appropriate? What Type of Opinion Should Be Issued?

<table>
<thead>
<tr>
<th>Nature of Matter Giving Rise to the Modification</th>
<th>Auditor's Professional Judgment About the Pervasiveness of the Effects or Possible Effects on the Financial Statements</th>
</tr>
</thead>
</table>
| Financial statements are materially misstated | Material but Not Pervasive: Qualified opinion  
Material and Pervasive: Adverse opinion |
| Inability to obtain sufficient appropriate audit evidence | Material but Not Pervasive: Qualified opinion  
Material and Pervasive: Disclaimer of opinion |
Fraud Inquiries

What About Fraud Risk During These Uncertain Times?

Auditors should be on higher alert for fraud risks given these uncertain times. For governments that have laid off key personnel, and with workforces moving out of the typical office environment, there could be a breakdown in internal control. Auditors may need to adjust audit procedures as necessary to help appropriately address any potential fraud risks that could have a material effect on the financial statements.
Fraud Inquiries

What if the Auditor Is Unable to Conduct Fraud Interviews in Person With the Client Due to the Impacts of the COVID-19 Pandemic?

Fraud inquiries of management and others within the entity are generally most effective when they involve an in-person discussion. However, due to the current circumstances related to the pandemic, these inquiries could be done via videoconferencing technology. The key consideration is whether the manner in which the inquiries are made allows the auditor to “read the body language” of the person to whom the inquiries are directed. So, when fraud interviews cannot be performed in person, use of videoconferencing would be preferable to audio-only conferencing because auditors would be able to see body language.
COVID-19 Federal Compliance Issues
The Largest 4 COVID-19 Programs

**Paycheck Protection Program Loan Program** (59.073). Some not-for-profit (NFP) organizations may have received these loans. Not subject to the Uniform Guidance or single audit rules.

**Provider Relief Funds** (93.498). These funds are generally being provided to hospitals and other healthcare providers that may be governmental entities, NFPs, or for-profit entities.

**Coronavirus Relief Funds** (21.019). These funds are being provided directly to states, larger local governments, and tribal entities. Further, many of these direct recipients have already or will be passing down some of the funds to other non-federal entities.

**Education Stabilization Fund** (84.425). These funds are being provided to states, schools, and institutions of higher education. Within this large program are various subprograms that Education is delineating with the addition of a letter after the CFDA number (e.g., 84.425A, 84.425B, etc.).
Education Stabilization Fund (84.425)

- Education Stabilization Fund Discretionary Grants
  - 84.425B - Rethink K12 Education Models Grants
  - 84.425G - Reimagining Workforce Preparation Grants
- Governor’s Emergency Education Relief Fund (84.425C)
- Elementary and Secondary School Emergency Relief Fund (84.425D)
- Higher Education Emergency Relief Fund
- Student Portion (84.425E)
- Institutional Portion (84.425F)
- Historically Black Colleges and Universities (84.425J)
- American Indian Tribally Controlled Colleges and Universities (84.425K)
- Minority Serving Institutions Strengthening
2020 OMB Compliance Supplement Status

OMB has indicated that the 2020 Supplement will likely be issued in 2 parts this year. The first part, which is currently in the OMB clearance process, will be primarily what was developed prior to the COVID-19 pandemic. However, it is expected to include some limited information related to the COVID-19 pandemic including a summary of new COVID-19 programs.

The second part of the Supplement will be an addendum that will address new COVID-19 programs in more detail. OMB staff has stated that the addendum will be issued in late summer or early fall.

- Changes to the single audit submission extensions previously provided including a reversal of position by OMB on the 6-month extension for certain year-ends;
- Clarification that "double-dipping" is not appropriate; and
- A new requirement for separate presentation of "COVID Emergency Acts funding" on the schedule of expenditures of federal awards (SEFA).
Changes to Submission Extensions

The previous 6-month audit submission extension for year-ends after December 31, 2019, and through June 30, 2020 year-ends, has been rescinded (i.e., 2020 year-ends in January, February, March, April, May, and June). These single audits will now have to be submitted to the FAC within the normal due date provisions of the Uniform Guidance.

Double-Dipping Not Permitted

The memo clarifies that payroll costs paid with Paycheck Protection Program (PPP) loans or any other federal CARES Act programs must not be also charged to current federal awards as it would result in the federal government paying for the same expenditures twice.

Separate SEFA Identification

The memo states that in order to provide adequate oversight of the COVID-19 Emergency Acts funding and programs, recipients and subrecipients must separately identify the "COVID-19 Emergency Acts expenditures" on the SEFA and in audit report findings.
COVID-19 Accounting and Reporting Issues
Subsequent Events

Financial Reporting Considerations Related to COVID-19 Pandemic

Governmental entities may need to evaluate whether the consequences of the COVID-19 pandemic represent subsequent events depending on the timing of their year-ends. Subsequent events are defined as those events or transactions that occur subsequent to the statement of net position date but before the financial statements are issued. Some of those events and transactions (referred to as recognized events) require adjustments to the financial statements, and others (referred to as nonrecognized events) may require disclosure in the notes to the financial statements.

Recognized events are those that provide additional evidence with respect to conditions that existed at the date of the statement of net position and affect the estimates inherent in the process of preparing financial statements. Financial statements should be adjusted for any change in estimates as a result of evidence obtained subsequent to the date of the statement of net position.
Subsequent Events

Financial Reporting Considerations Related to COVID-19 Pandemic

*Nonrecognized events* are those that provide evidence with respect to conditions that did not exist at the date of the statement of net position but arose subsequent to that date. Those nonrecognized events may be of such a nature that their disclosure is essential to a user's understanding of the financial statements.

*Fair Value Declines*

Another common consideration is whether declines in the fair value of an asset subsequent to the date of the statement of net position should result in the adjustment of the financial statements given the recent stock market volatility.
Management’s Discussion and Analysis

Financial Reporting Considerations Related to the COVID-19 Pandemic

Governments may have a responsibility to discuss pandemic-related matters in management’s discussion and analysis (MD&A). The pandemic will generally affect analysis throughout MD&A, including discussions on financial position, results of operations, balances and transactions of specific funds, capital assets, and long-term debt activity, as well as the budget and currently known facts, decisions, or conditions.
Management’s Discussion and Analysis

Looking for Example COVID-19 Pandemic MD&A Discussion, Financial Statement Disclosures, and Event-Based Disclosures?

The Municipal Securities Rulemaking Board (MSRB) has published a summary of disclosures submitted to the Electronic Municipal Market Access (EMMA) system made by issuers that reference the COVID-19 pandemic, which will be updated weekly. This document, “Municipal Securities Market COVID-19 Related Disclosure Detailed Spreadsheet,” may serve as a resource to practitioners looking for examples of MD&A, financial statement subsequent event disclosures, and event-based disclosures, and may be accessed at http://www.msrb.org/News-and-Events/COVID-19-Information.aspx. Refer to the items listed in the Continuing Disclosures tab and disclosure subcategories “Audited Financial Statements or CAFR (Rule 15c2-12)” and “Event-Based Disclosures.”
Loss Contingencies and Claims and Judgments

Financial Reporting Considerations Related to the COVID-19 Pandemic

Contingencies that may be affected by the current economic environment include loss contingencies associated with the collectability of receivables, guarantees of debt, unemployment compensation claims, and — subject to the guidance in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* — property tax appeals and tax refund claims.

Claims and judgments that may also be affected include the risk of loss from damage or destruction of assets, business interruption, and insurance recoveries, including recoveries associated with capital asset impairment.
Noncompliance With Finance-Related Legal or Contractual Provisions

Financial Reporting Considerations Related to the COVID-19 Pandemic

The COVID-19 pandemic and subsequent downturn in the economy may have various effects on governmental entities’ compliance with legal and contractual provisions. For example, entities may violate the following:

- Debt covenants
- Minimum fund balance regulations
- State investment regulations
- Pension or other post-employment benefits (OPEB) funding requirements
- Continuing disclosure requirements, including event disclosures, as reported through EMMA
- Budgetary policies and regulations
- Provisions of federal financial assistance programs, which may be significantly increased due to pandemic-related federal funding
Noncompliance With Finance-Related Legal or Contractual Provisions

Financial Reporting Considerations Related to the COVID-19 Pandemic

Paragraph 9 of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, requires governmental entities to disclose significant violations of finance-related legal or contractual provisions and any actions taken to address these violations.

Are There Other Matters an Auditor Should Consider Related to a Government’s Debt Other Than Debt Covenant Compliance?

Although each situation is different and should be evaluated based on its own specific facts and circumstances, the current environment has affected the debt securities market and may raise various issues pertaining to a government’s credit rating. Auditors should consider whether a risk exists that the government’s credit rating could be lowered and, if a risk exists, obtain an understanding of the effects that a reduced credit rating would have on the government’s ability to fund its operations, or whether a reduced rating would affect the government’s outstanding debt obligations or derivative instruments.
Capital Asset Impairment Considerations

Given the impact of the COVID-19 pandemic (operations disruptions, economic downturn), governmental entities may conclude that they should test their capital assets for impairment.

Identifying Potential Impairments

Certain prominent events or changes in circumstances affecting a capital asset may indicate potential impairment. GASB Statement No. 42 describes common indicators of impairment. Several of these indicators may be relevant in the pandemic environment as follows:

- A change in the manner or expected duration of use of a capital asset
- Construction stoppage or development stoppage
Extraordinary and Special Items

Financial Reporting Considerations Related to the COVID-19 Pandemic

Many have asked whether events related to the COVID-19 pandemic constitute extraordinary or special items. Special items differ from extraordinary items in two ways. Special items should be within the control of management and are required to be only unusual in nature or infrequent in occurrence, but not both. Conversely, extraordinary items are not required to be within the control of management but are required to be both unusual in nature and infrequent in occurrence.
Paraphrased text:

Paragraphs 45–50 of GASB Statement No. 62 provide guidance for special and extraordinary items and include the following criteria that should be met to classify an event or transaction as either unusual in nature or infrequent in occurrence.

- **Unusual in nature.** The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the government, taking into account the environment in which the government operates.

- **Infrequent in occurrence.** The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates.
GASB Updates – Effective Immediately
GASB 95 – Postponement of Authoritative Guidance

GASB Statement No. 95 “Postponement of the Effective Dates of Certain Authoritative Guidance”

• Provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.
Implementing the new Standards- What do I need to show my auditor?
GASB Statement No. 84 “Fiduciary Activities”

• Establishes criteria for identifying fiduciary activities of all state and local governments

• Focus of the criteria generally is on
  (1) whether a government is controlling the assets of the fiduciary activity and
  (2) the beneficiaries with whom a fiduciary relationship exists.
GASB Statement No. 84 “Fiduciary Activities”

• Describes four fiduciary funds that should be reported, if applicable:
  • Pension (and other employee benefit) trust funds
  • Investment trust funds
  • Private-purpose trust funds
  • Custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria
• Note that Agency funds have been now been removed and included in Custodial funds
What documentation do I need?

• Analysis of Activity accounts to determine which are Custodial as defined by GASB 84
  • A custodial fund is used to account for assets belonging to private organizations, other governments, or individuals.
  • Remember the concept of “Administrative Involvement”
“Administrative involvement” by the government is key to determination of fiduciary activities

(a) monitors compliance with the requirements of the activity that are established by the government or by a resource provider that does not receive the direct benefits of the activity,

(b) determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity, or

(c) has the ability to exercise discretion over how assets are allocated. A government has direct financial involvement with the assets if, for example, it provides matching resources for the activities.
Q—A school district holds the funds raised by various student clubs, which are not legally separate from the school district. The funds are used to pay for various club activities during the year. There is no school board or school administration policy related to how the resources of the club can be spent. The disbursements from the aggregated club account are approved by the faculty advisor (who is representing the school district) assigned to each club. Approval, rejection, or modification of the spending is strictly at the discretion of the faculty advisor. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?
A—Yes. The school district does have administrative involvement. The school district’s role is considered to be substantive because in the absence of an approved policy, the faculty advisor (who is acting in the capacity of a school district representative) has the ability to reject, modify, or approve how the resources are spent. The faculty advisor’s approval is more than just a formality and is analogous to the example provided in footnote 1 of Statement 84 regarding the determination of eligible expenditures that are established by the government.
Q—A school board establishes and approves a policy related to the disbursement of funds for various student clubs that are not legally separate from the school district. The policy includes specific guidelines related to how the funds raised by the clubs can be spent. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?
A—Yes. The school district does have administrative involvement. The school district’s role is considered to be substantive because the school has established specific guidelines on how the resources can be spent in an approved policy.
GASB 87 – Leases

GASB Statement No. 87 “Leases”

- A lease is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.

- A lessee is required to recognize a lease liability and a right-to-use lease asset.

- Establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.
GASB 87 – Leases

What documentation do I need?

• Analysis of Lease agreements
• Policy for recording “right to use” asset
• Policy documenting threshold for which lease liabilities will be recorded
When establishing thresholds consider this guidance:

Q—A government adopts a capitalization threshold and expenses acquisitions, including lease assets, that fall below that threshold. Can the government apply a similar threshold to lease liabilities?
When establishing thresholds consider this guidance:

A—Lease liabilities that are significant, either individually or in the aggregate, should be recognized. Authoritative pronouncements do not provide specific guidance related to a determination of capitalization threshold amounts. However, governments often establish capitalization thresholds. (See Question 7.9.8 of Implementation Guide No. 2015-1.) When applying a capitalization threshold to leases, lessees should consider the quantitative and qualitative significance of the lease liability, in addition to the significance of the lease asset in accordance with the guidance provided in Question 7.4.1 of Implementation Guide 2015-1, as amended.
Q—A government obtains the right to use land, which has a market rent of $100,000 per year, for $1 per year. Should the government apply the requirements in Statement 87 to that transaction?
A—No. The definition of a lease in paragraph 4 of Statement 87 specifies that the Statement should be applied only to exchange or exchange-like transactions. Paragraph 1 of Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, classifies all transactions of state and local governments into two categories: (a) exchange and exchangelike and (b) nonexchange. The government’s right to use land for $1 does not meet the description of an exchange or exchange-like transaction because each party does not receive or give up essentially equal value or not quite equal value.
Q—A government enters into a multiyear agreement for the right to use a facility. The government has exclusive use of the facility three days a week. Other parties use the facility on the other days. To meet the definition of a lease, is the government required to have uninterrupted control of the right to use the facility?
A—No. In determining whether a contract conveys control of the right to use an underlying asset, a government should assess whether it has (a) the right to obtain the present service capacity from use of the underlying asset and (b) the right to determine the nature and manner of use of the underlying asset “as specified in the contract” (paragraph 5 of Statement 87). If the contract specifies that the government has control of those rights during three days of each week, the control criterion is met. The provision in the lease definition that the contract be for a period of time does not require uninterrupted control of the right to use the facility.
Q—A contract allows the vendor to replace the underlying asset with an essentially identical asset. Does that substantive right of substitution affect the evaluation of whether the contract conveys control of the right to use the asset?
A—No. A lease conveys control of the right to use another entity’s asset. That right is distinct from the underlying asset. That is, the right-to-use asset relates to the service capacity associated with an underlying asset, rather than the underlying asset itself. Substitution with an essentially identical asset allows the lessee to maintain control of the right to use the service capacity of another entity’s underlying asset and is consistent with the definition of a lease in paragraph 4 of Statement 87.
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