

Audit Update

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Agenda

- What is an audit?
- Types of audits
- Trends in audit methodology
- Single audit update

Audit Overview and Types

- What is an audit?
- Types of audits

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What is an Audit?

- An objective examination and evaluation of the financial statements of an organization to make sure that the records are a fair and accurate representation of the transactions they claim to represent.



Types of Audits

- Financial statement audit
- Contract audit
- Vendor audit
- Site visit - location audit
- Payroll audit
- IRS audit
- Single audit (state or Uniform Guidance)
- OIG inspection
- Sales or other tax audit
- Self 'audit'
- Cybersecurity audit

Financial Statement Audit

MANAGEMENT RESPONSIBILITIES

- ▶ Preparation and presentation of financial statements
- ▶ Design, implement, maintain internal controls

AUDITOR RESPONSIBILITIES

- ▶ Express an opinion on statements
- ▶ Plan and perform audit
- ▶ Reasonable assurance
- ▶ Material errors
- ▶ Evaluate appropriateness of policies and estimates, financial statements



Audit Update and Trends

- RUS Audit Update
- Trends
- IS Assurance
- Cybersecurity

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RUS Audit Guidelines

- NOT yet issued, expected anytime
- Effective for fiscal years ending on or before December 31, 2017
- Peer review reporting and disclosure
- Non-discrimination considerations
- Expanded electronic filing options

RUS Training Resources

- RUS Borrower Accounting (Electric)
- Offered by The Graduate School USA (formerly known as The USDA Graduate School)
- Available now at <http://graduateschool.edu/rus>
Course code: ACCT8211A

Designed for persons who are now, or who intend to be, office managers, accountants, or bookkeepers in offices of electric utilities that have been financed by RUS. May also serve as a guide to directors, managers, Certified Public Accountants, lawyers, and engineers.

Trends: Commitments and Contingencies

- Disclosures
 - How specific? (names, etc.)
 - Multiple cases combined
 - How to develop disclosure
 - Remote or immaterial matters
 - Considering impact of insurance recoveries
- Documentation
 - Developing a legal status 'memo'

Trends: Non-Attest Services

- Independence of auditors
 - GAAS
 - Government Auditing Standards (GAS)
 - Discussion of 'management decision'
- Key considerations
 - Must be part of scope of work
 - Incorporate threats and safeguards
 - SKE: skills, knowledge and experience

Trends: Data Integrity and Analysis

- Availability of data
 - Details of transactions
 - Batched reporting
 - Integrity of evidence provided
- Analysis of data
 - Trends in customer and financial data
 - Can reduce audit detail testing



Information Systems Assurance

- Increased scrutiny of electronic controls
- Electronic calculations
- Access controls
- Change management controls
- Data integrity and manipulation
- Software conversions

Capture → Processing → Review → Reporting



Cybersecurity

PREPARATION → PREVENTION → RESPONSE → RECOVERY

<https://www.cooperative.com/public/bts/cyber-security/Pages/default.aspx>

Uniform Guidance and State Single Audit

- Applicability
- Internal Controls
- Procurement

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Uniform Guidance Overview

- On December 26, 2013, OMB issued Uniform Administrative Requirements, Cost Principles, and Administrative Requirements for Federal Awards
 - Consolidates regulations to provide consistent guidance for grant recipients and issuers

Key Dates

- Standards that apply directly to Federal agencies are already effective on 12/26/13.
- Federal agencies will simultaneously implement regulations applicable to recipients.
- Individual Federal agencies currently required to implement “SuperCircular” with regulations to be effective by 12/26/14.
 - Draft implementing regulations were submitted to OMB by 6/26/14.
- Administrative requirements and costs principles apply to new grant awards and additional (incremental) funding made after 12/26/2014.

Uniform Guidance and Internal Controls

Section 200.303 - Internal Controls:

The non-Federal organization must:

- Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal organization is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.
- These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States AND the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Uniform Guidance and Internal Controls

Section 200.303 - Internal Controls:

The non-Federal organization must:

- Comply with Federal statutes, regulations, and the terms and conditions of Federal Awards
- Evaluate and monitor the non-Federal entity's compliance with statute, regulations, and the terms and conditions of Federal awards.
- Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
- Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state, and local laws regarding privacy and obligations of confidentiality.

Uniform Guidance - Procurement

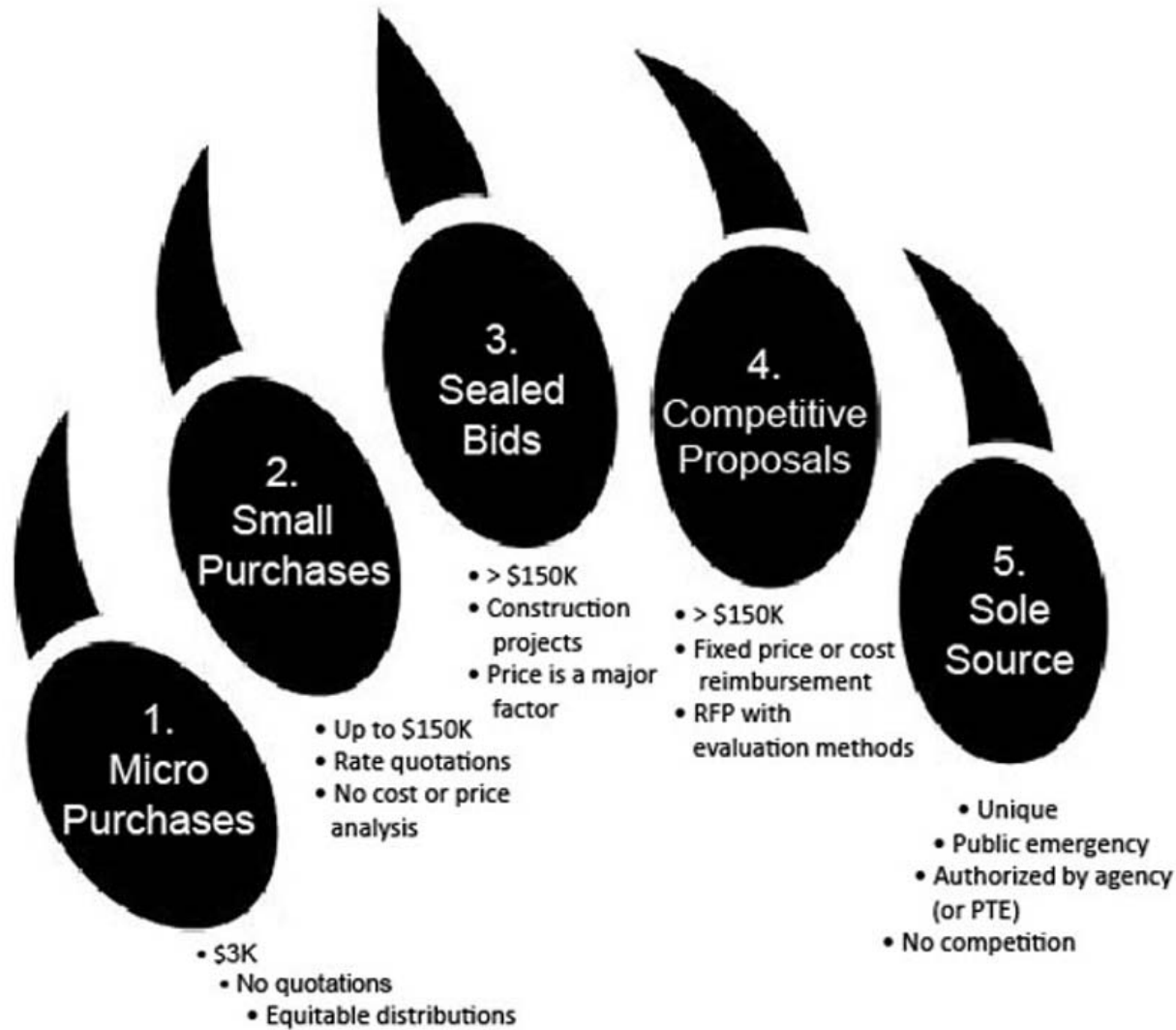
- Grantees shall adhere to the Procurement Standards as specified in 2 CFR §200.317-326, which prescribes consistent standards for use by recipients establishing procedures for the procurement of supplies and services with Federal funds.
- OMB has eliminated the less formal requirements previously set forth in A-110 and has applied the more stringent standards set forth in A-102 to mitigate risks of fraud, waste, and abuse.

Uniform Guidance - Procurement

Major Changes:

- Generally, expanded from A-110
- The use of “must” has been include in the overall guidance (“must” means “required”)
- New provisions covering conflict of interest with parent, affiliate, or subsidiary organizations
- Procurements records must be maintained to sufficiently detail the history of the procurement
- Adequate Competition (The words “to the maximum extent practical” are removed)

Procurement “Claw” (Section 200.320)



State Single Audit

- Single audit threshold raised from \$500,000 to \$750,000 for grantees whose fiscal years began on or after 04/01/2017
- Higher major program threshold

If the Total Adjusted Expenditures for <u>All</u> State Financial Assistance is:	(Fiscal years that began prior to 04/01/2017) The Major Program Threshold is:	(Fiscal years beginning on or after 04/01/2017) The Major Program threshold is:
Less than \$1 million	\$ 50,000	\$ 75,000
\$ 1 to \$ 5 million	\$ 75,000	\$150,000
\$ 5 to \$20 million	\$100,000	\$200,000
Greater than \$20 million	\$300,000	\$500,000



Questions?