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## Members in Government, May 1997

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# Members in Government

May 1997

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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## Major Changes Drawing Near for Single Audits of Federal Awards

The year 1997 will likely be remembered as the time when single audit policy underwent a massive overhaul. Several major changes have already taken place and others continue to be finalized. This article summarizes the changes as of April 11, 1997. Both governmental auditors and governmental entities that are recipients of federal awards should continue to follow developments in this area.

The section below summarizes the status of four key pieces of guidance that have been or are currently being revised for single audits of federal awards.

1. *Single Audit Act Amendments of 1996 (1996 Amendments)*. Last July, President Clinton signed into law legislation amending the Single Audit Act of 1984 (Public Law 104-156), which is effective for fiscal years beginning after June 30, 1996 (see the Sep. 1996 *CPA Letter*). Even though federal regulations, regulatory agreements, contracts or grants may not yet have been revised to incorporate the 1996 Amendments, auditors should be aware that the 1996 Amendments are already in effect. Therefore, auditors should follow the 1996 Amendments and be aware of any changes to the compliance requirements applicable to federal programs that are to be included in a single audit.

2. *OMB Circular A-133*. A revised U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, applicable only to not-for-profit organizations, was issued on Apr. 22, 1996 (see the June 1996 *CPA Letter*). Once the 1996 Amendments were passed, it became necessary for OMB to propose another revision to Circular A-133 to add states and local governments to the scope of the Circular and to comply with certain other aspects of the 1996 Amendments. This proposed revision was

issued Nov. 5, 1996, and a final document is expected to be issued in May and be effective for fiscal years beginning after June 30, 1996. OMB intends to rescind Circular A-128, *Audits of State and Local Governments*, the existing regulation governing audits of federal awards for states and local governments, once Circular A-133 is issued in final form. See the Mar. *CPA Letter* for instructions on how to obtain a copy of the AICPA's comment letter on the proposed revisions.

3. *Compliance Supplement*. The OMB Compliance Supplement sets forth the material compliance requirements that are to be included in an audit in accordance with Circular A-133. OMB is expected to issue a Provisional Compliance Supplement this month to replace the existing Compliance Supplements titled, *Compliance Supplement for Single Audits of State and Local Governments*, and *Compliance Supplement for Institutions of Higher Learning and Other Non-Profit Institutions*, which are no longer current. It will cover states, local governments, and not-for-profit organizations. A notice will be provided in the *Federal Register* of the Provisional Supplement's availability, along with a request for public comment in May. Once issued, more detailed guidance on how to obtain copies of the Provisional Supplement will be included in *The CPA Letter*. Auditors should use the Provisional Supplement until the public comment process is completed and OMB issues a Final Supplement. OMB anticipates issuing a Final Supplement in 1998.

The most significant changes to the Compliance Supplement will include:

- A compliance matrix which provides an overview of the compliance requirements applicable to the programs listed in the supplement.

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- Replacement of the classifications of general requirements and specific requirements with 14 types of compliance requirements. The auditor's opinion on compliance covers all of the 14 types of compliance requirements.
- Audit objectives and suggested audit procedures for each type of compliance requirement.
- Detailed guidance on how to determine applicable compliance requirements, control objectives, and audit procedures for programs not listed in the Compliance Supplement.
- Characteristics of internal controls over compliance presented in the format included in *Internal Control—Integrated Framework* (the COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission.

Initially, the Provisional Supplement will include approximately 25 federal programs. This is far less than what was included in the Compliance Supplements that are being replaced. However, the OMB has made a commitment to continue working on the Provisional Supplement and to include additional programs in the Final Supplement.

The AICPA was recently asked to comment and testify on a draft of the Provisional Supplement. Among other comments, the AICPA asked OMB to recognize the Compliance Supplement as a

“safe harbor” for auditors, encouraged OMB to include more federal programs in the Compliance Supplement, and encouraged OMB to keep the Compliance Supplement up-to-date for new program requirements. A copy of the AICPA's comment letter on the draft Provisional Supplement can be obtained from the AICPA's fax hotline; dial 201/938-3787, document no. 326.

4. *AICPA Statement of Position (SOP)*. With the changes described in paragraphs 1-3 above, SOP 92-9, *Audits of Not-for-Profit Organizations Receiving Federal Awards*, and certain sections of the Audit and Accounting Guide, *Audits of State and Local Governmental Units* (the Guide), have become outdated. In response the AICPA is in the process of developing a new SOP that will supersede SOP 92-9 and the sections of the Guide that are outdated. The new SOP is expected to be issued in late summer (assuming that the above-described OMB guidance is issued on the dates planned) and will provide auditors with guidance on the work performed and reports issued for audits under the 1996 Amendments and Circular A-133. It will also include revised simplified illustrative audit reports.

As noted above, items 2, 3, and 4 have not yet been completed. Information on the ongoing status of these documents will continue to be published in *The CPA Letter*.

## What's New With the President's Council on Integrity and Efficiency

The President's Council on Integrity and Efficiency (PCIE) was created by Executive Order of the President on Mar. 26, 1981, to coordinate government-wide efforts to combat fraud, waste, and abuse in government programs and operations. Chaired by the Deputy Director of the OMB, the PCIE membership includes 27 statutory Inspectors General (IGs), the Deputy Attorney General, the Assistant Director of the Criminal Investigative Division of the Federal Bureau of Investigation, the Special Counsel of the Office of Special Counsel, and the Director of the Office of Personnel Management. The current vice-chair is the IG at the Department of Health and Human Services.

The PCIE is one vehicle that IGs use to work cooperatively. Since its creation, PCIE members have worked on numerous projects focusing on the twin themes of management improvement and dollar savings. These projects have allowed member offices to explore areas of common concern and to develop effective plans of action to address them. Some of the PCIE's more recent projects include:

- The PCIE Audit Committee has issued an audit risk alert and formed a task force to study its out-of-date 1993 Federal Financial Statement Audit Manual. The alert includes a chart of all changes in the financial statement audit environment since 1993. It is located on the IGs' Web site, IGnet, at:

<http://www.sbaonline.sba.gov/ignet/internal/pcie/aualert1.html>

- In Mar., the PCIE issued a report titled, *Proposed Strategy for Procurement of Fleet, Travel, Purchase, and Integrated Card Services*. Overall, the report found that the planned procurement strategy of the General Services Administration (GSA) was sound. The report also includes recommendations designed to further strengthen GSA's procurement strategy. It is located on IGnet at:

<http://www.sbaonline.sba.gov/ignet>

- In Jan., the PCIE issued a report titled, *Inspection and Evaluation Units: Examples of Impact*. The report contains abstracts that show the varied nature of Office of Inspector General (OIG) inspections and evaluations and the impact they have had—ranging from correcting employee ethics problems to saving millions of taxpayer dollars. The report is located on IGnet at:

<http://www.sbaonline.sba.gov/ignet/internal/pcie/impact.html>

- In Dec. 1996, the PCIE issued the *Combined Report on the Federal Civilian Aircraft Fleet*, which presents an assessment of the current management of the federal civilian airfleet. The document is located on IGnet at:

<http://www.sbaonline.sba.gov/ignet/internal/pcie/pciefnlp.html>

- In Nov. 1996, the PCIE and the CFO Council established two working groups to facilitate communication. One group addresses issues regarding audited federal financial statements (both government-wide and agency) and the second group addresses implementation issues associated with the Government Performance and Results Act. The Dept. of Education OIG facilitates these work groups.

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## FASAB Update

### Social Insurance

The Federal Accounting Standards Advisory Board (FASAB) is developing an accounting standard for social insurance. Currently, Statement of Federal Financial Accounting Standards (SFFAS) No. 1, Accounting for Selected Assets and Liabilities, requires entitlement benefits applicable to the period but not yet paid to be recognized as liabilities. Due to the long-term nature of social insurance programs, FASAB is considering what supplementary information must be provided to meet the objectives of federal financial reporting.

Tentatively, FASAB has reaffirmed its earlier decision that the amount recognized as a liability under SFFAS No. 1 is the appropriate liability amount. For the next several months, the Board will be evaluating information on each social insurance program, and deciding whether and how the information contributes to meaningful reporting on the programs. The Board decided on a program-by-program approach because of the many differences between social insurance programs. Information relevant to the financial results and position of one program might not be relevant to another program. At the Feb. and Mar. meetings, the Board reviewed draft disclosures for the Social Security Old-Age, Survivors, and Disability Insurance Program.

The Board will continue discussions of social insurance programs in the coming months. Because of the magnitude of the programs and complexity of the issues, the Board has not established a target date for issuance of an exposure draft.

### Cost of Capital Research Effort

The Board has begun a long-term research project on accounting for

the cost of capital. The Board's Invitation for Views on this subject brought many favorable responses but also raised concerns regarding the use of this information by government decision makers. The Board is forming a task force to conduct the research through two major lines of effort—a survey and case studies.

The survey will be directed to entities currently using cost of capital information. Entities surveyed will include foreign governments, private sector entities, as well as federal, state and local governments that account for or use cost of capital information in decision making. The survey is expected to cover: (a) methods of measuring cost of capital, (b) how the information is used, and (c) budgeting and decision-making uses of the information.

The case studies will be conducted with federal government entities. The programs selected for studies will include both governmental- and commercial-type activities. The task force is expected to begin with one case study and follow up with at least three additional cases.

Anyone having an interest in the project should contact Richard Mayo at 202/512-7356 or Lucy Lomax at 202/512-7359.

### New Address for FASAB

FASAB has relocated to: 441 G Street, NW, Suite 3B18, Washington, DC 20548. All phone numbers remain the same.

### Future Meeting Dates

FASAB will meet May 30th, June 19th, July 25th, and Aug. 29th. Topics will include accounting for internal use software, cost of capital, expense/expenditure, and management's discussion and analysis. As a reminder, comments are due on the exposure draft on Management's Discussion and Analysis by May 18th (*The CPA Letter* Government Supplement, Apr.).



## Six Federal Agencies Receive Unqualified Audit Opinions

Six Federal agencies received unqualified audit opinions for fiscal year 1996. The agencies are the Department of Energy, the Small Business Administration, the Social Security Administration, the General Services Administration, the Nuclear Regulatory Commission, and the National Aeronautics and Space Administration. This accomplishment represents a step forward in meeting the requirements of the Chief Financial Officers Act (as amended) and in supporting the strategic planning initiatives embodied in the Government Performance and Results Act.

This is the first time the Department of Energy has received an unqualified opinion. When asked what the key to Energy's success in obtaining an unqualified opinion was, Deputy Controller James E. Reid indicated that having "a dedicated staff that refused to believe we couldn't get one," was absolutely essential. In addition, Reid noted that the planning and organization done by both the Chief Financial Officer's staff and the Inspector General's staff were crucial.

## Performance Auditing Report Available

Performance auditing has become a popular topic within the profession, particularly in the governmental environment. The AICPA has responded to this increased focus in several ways. For example, its governmental conferences now offer presentations on performance auditing, performance measures and related subjects. Also, the AICPA Members in Government Committee formed a Performance Auditing Task Force to evaluate the current definition of performance auditing and the existing related professional standards.

The task force researched six specific performance auditing issues: (1) the definition of performance auditing, (2) existing standards, (3) current developments in the profession, (4) available training and education, (5) other existing literature and texts, and (6) acknowledged organizations experienced in performance auditing. Upon completion of its research in 1995, the task force developed a comprehensive report titled, *Report on the Status and Conduct of Performance Auditing in the Accounting Profession*. Government members who are interested in reviewing this report can access it through the AICPA's fax hotline or home page:



201/938-3787, document no. 1568



[www.aicpa.org/members/div/washingt/report.htm](http://www.aicpa.org/members/div/washingt/report.htm)

## GASB Issues Exposure Draft on Nonexchange Transactions

In conjunction with its financial reporting model projects for basic financial statements (*The CPA Letter Government Supplement*, Mar.), the GASB determined that specific guidance would be needed for nonexchange transactions, particularly in the entity-wide financial statements. As a result, the GASB recently released an exposure draft (ED) of a proposed statement titled, *Accounting and Financial Reporting for Nonexchange Transactions*.

Nonexchange transactions are those in which a government gives (or receives) value without directly receiving (or giving) equal value in exchange. The ED identifies four classes of nonexchange transactions: derived tax revenues (for example, sales and income taxes), imposed nonexchange transactions other than derived tax revenues (for example, property taxes and fines); government-mandated nonexchange transactions (for example, federal programs that state or local governments are mandated to perform); and voluntary nonexchange transactions (for example, certain grants and private donations).

Under the proposal, state and local governments would be required to recognize nonexchange transactions in their

Source: GASB ED, *Accounting and Financial Reporting for Nonexchange Transactions*, Appendix C.

Class	Recognition
<b>Derived tax revenues</b> <i>Examples:</i> sales taxes, personal and corporate income taxes, motor fuel taxes, and similar taxes on earnings or consumption	<b>Assets*</b> Period when underlying exchange has occurred or when resources are received, whichever is first. <b>Revenues</b> Period when underlying exchange has occurred. (Report advance receipts as deferred revenues.) When modified accrual accounting is used, resources also should be "available."
<b>Imposed nonexchange revenues (other than derived tax revenues)</b> <i>Examples:</i> property taxes, most fines and forfeitures	<b>Assets*</b> Period when an enforceable legal claim has arisen or when resources are received, whichever is first. <b>Revenues and Expenses or Expenditures</b> Period when resources are required to be used or first period that use is permitted (for example, for property taxes, the period for which levied). When modified accrual accounting is used, resources also should be "available." (For property taxes, apply NCGA Interpretation 3, as amended.)
<b>Government-mandated nonexchange transactions</b> <i>Examples:</i> federal government mandates on state and local governments	<b>Assets* and liabilities</b> Period when all eligibility requirements, including time requirements, have been met. <b>Revenues</b> Period when all eligibility requirements, including time requirements, have been met. (Report advance receipts or payments as deferred revenues or advances, respectively.) When modified accrual accounting is used for revenue recognition, resources also should be "available."
<b>Voluntary nonexchange transactions</b> <i>Examples:</i> certain grants and entitlements, most donations	<b>Assets* and liabilities</b> Period when all eligibility requirements, including time requirements, have been met. (Report advance receipts or payments as deferred revenues or advances, respectively.) When modified accrual accounting is used for revenue recognition, resources also should be "available."

\* If there are purpose restrictions, report restricted net assets.

financial statements when an enforceable legal claim arises or when certain eligibility requirements are met, depending on the class of nonexchange transaction. The above chart summarizes the four classes of nonexchange transactions established and the timing of recognition required for each class. Readers should refer to the ED for more detailed—and

authoritative—guidance.

The provisions of the proposed statement would be effective for financial statements for periods beginning after June 15, 2000, although earlier application is encouraged. The comment deadline for written responses is June 20. See page 5 of *The CPA Letter* for instructions on how to obtain a copy of the ED.

### Mark Your Calendars for the Annual Governmental Accounting and Auditing Conference

The AICPA will hold its fourteenth annual National Governmental Accounting and Auditing Update Conference on Aug. 25–26, in Washington, D.C., and again on Sep. 29–30, in Denver. This high-level conference is designed for officials working in federal, state, or local governmental auditing, finance, and accounting, and recipients of federal financial assistance. It is the premier forum for the discussion of important governmental accounting and auditing developments. Participants will receive up-to-date guidance and practical advice from experts on recently issued pronouncements, including those from the GASB, OMB, and AICPA. Major changes in single audit policy will be covered in detail (see the article on p. G1).



AICPA, 800/862-4272, for registration/information

### How to Obtain Other Supplements

To obtain other May *CPA Letter* supplements—or the supplements published in Apr.—via fax, dial 201/938-3787 from a fax machine and key in the numbers below at the prompt (documents remain on faxback for two months after publication). All supplements are also posted on the AICPA home page ([www.aicpa.org/pubs/cpaltr/index.htm](http://www.aicpa.org/pubs/cpaltr/index.htm)); this month look for them after May 15.

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Members who want a copy of Practice Alert 97-2, *Audits of Employee Benefit Plans*, issued in May, should key in document number 1566 at the prompt.