Fall 2013 FOCUS Conference

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Discussion Topics

- Project Manager Assignments
- Issues Identified During Audits
- Changes in Pension Accounting
- Clarity Standards Changes
- Upcoming APA Projects
PROJECT MANAGER ASSIGNMENTS
Project Manager Assignments

- CNU – Staci Henshaw
- GMU, VMI – George Strudgeon
- JMU, W&M – LaToya Jordan
- LU, RU, UVA, VSU – Karen Helderman
- NSU, ODU, VCCS, VCU – Eric Sandridge
- UMW, VT – Mike Reinholtz
ISSUES IDENTIFIED DURING AUDITS

Issues Identified During Audits

• 7 institutions had audit reports with no internal control or compliance findings
Issues Identified During Audits

- eVA Internal Controls and Compliance
  - Annually designate Security Officer
  - Maintain signed acceptable use policy forms on file
  - Monitor access at a minimum quarterly
  - Annually review roles to ensure still active/appropriate
  - Promptly delete terminated employees

Issues Identified During Audits

• Improve Oracle Database Security
  – Student Information Systems
  – Data classified as sensitive under FERPA
  – Follow Center for Internet Security (CIS)

Oracle 11g Database best practices for:
  • Data confidentiality
  • Integrity
  • Availability

Issues Identified During Audits

• Improve Year-end Financial Reporting Process
  – Document the procedures followed
  – Use the system as much as possible
  – Consistency in methodology for estimates
  – Incorporate a review process
Issues Identified During Audits

• Improve/Follow Termination Procedures
  – Ensure documented procedures
  – Follow the procedures
    • Collection of items
    • Termination of access
    • Removal from payroll
Issues Identified During Audits

• Improve Reconciliation Processes
  – Properly reconcile bank accounts to University’s accounting system
  – Properly reconcile University systems to CARS
  – Properly reconcile federal activity reports to University’s accounting records
  – Ensure reconciling items are resolved

Issues Identified During Audits

- Properly Calculate and Return Title IV Funds
  - Identify students that withdraw
  - Use correct dates
  - Properly calculate the funds to return
  - Return funds timely – within 45 days of the determination date
CHANGES IN PENSION ACCOUNTING

Changes in Pension Accounting

• New pension standards take effect:
  – VRS for FY 2014
  – Employers for FY 2015
Changes in Pension Accounting

• Current
  – Most information is provided in the notes to the financial statements
  – Actuary calculates ARC and if that is paid, there is no liability
  – Annual expense is the ARC
  – References in Institutions’ notes to the CAFR for many disclosures
Changes in Pension Accounting

• New Standards
  – Net pension liability reported in the Institutions’ financial statements
  – Actuary will calculate difference in the liability between prior year and current year
    • Pension expense
    • Pension deferred outflows/inflows of resources

Changes in Pension Accounting

• New Standards, continued
  – Information previously referred to in the CAFR now included in the Institutions’ notes
    • Plan descriptions
    • Significant assumptions
    • 10 year schedules of RSI

Changes in Pension Accounting

Implementation Issues:
– Selection of measurement date
– Allocation of data to employers
– 10 year RSI

Changes in Pension Accounting

Measurement Date

– Elected to use the end of the employer’s prior fiscal year
– One year delay
– Must be consistently applied from period to period
Changes in Pension Accounting

Allocations

– Plan to use creditable compensation to allocate
– APA will work with VRS to provide assurance about the data
– Will be in a separately issued report due to timing constraints
Changes in Pension Accounting

RSI
– Information measured in accordance with the new standards
– If 10 years not available, present as much as is available and build up to the 10 years
CLARITY STANDARDS
CHANGES

Clarity Standards Changes

• Terms of Engagements
• Group Audits
• Wording, Format and Organization of Auditor’s Report
Clarity Standards - Terms of Engagements

– Obtain Managements’ acknowledgement of their responsibilities at the beginning of the audit:
  • Preparation and Presentation of F/S
  • Internal Controls
  • Giving auditor access
Clarity Standards – Major Elements of Group Audits

- Acceptance and continuance - group auditor; identify components; preconditions
- Understanding - group; components; component auditors; make reference?
- Materiality decisions and responding to risks of material misstatement
- Other procedures - consolidation process; subsequent events; evaluating evidence
- Communications - with component auditors; with group governance and management
Clarity Standards – Major Elements of Group Audits

• Acceptance and continuance -
  – Assume responsibility for component auditor?
    • Have to be involved in their audit work
  – **Not** Assume responsibility?
    • Just make reference to component auditor’s work
Clarity Standards – Major Elements of Group Audits

• Understanding- the Group, its Components, and the Environment
  – Identify and assess the risks of material misstatement through obtaining an understanding of the entity and its environment
  – How does the Group Auditor do this?
    • Understand both the group and its components, the environments and the group-wide controls
    • Understand the consolidation process
Clarity Standards – Major Elements of Group Audits

• Materiality decisions and responding to risks of material misstatement
  – Set materiality for each opinion unit
    • Business type activities
    • Component units
  – Set component materiality at a lower level than that of the opinion unit
Clarity Standards – Major Elements of Group Audits

• Other procedures–
  – Test management’s controls over consolidation process
  – Subsequent events between date of component financial information and date of Group auditor’s report
Clarity Standards – Major Elements of Group Audits

- Communications- with component auditors; with group governance and management
  - APA will sent a letter to the component auditors
  - Communication with Group management the results of the audit
  - Communication with those charged with governance
## Clarity Standards – Terminology Changes

<table>
<thead>
<tr>
<th>Prior Terminology</th>
<th>Clarified Terminology</th>
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<tbody>
<tr>
<td>• Clean opinion or unqualified opinion</td>
<td>• Unmodified opinion</td>
</tr>
<tr>
<td>• Explanatory paragraph</td>
<td>• Emphasis of matter or other matter paragraph</td>
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Clarity Standards – Report Outline

Report on Financial Statements
a. Management’s Responsibility for the Financial Statements
b. Auditor’s Responsibility
c. Opinion
d. Emphasis of Matter (if applicable)
e. Other Matters (if applicable)
   I. Report on Partial or Summarized Prior Period Information
   II. Required Supplementary Information
   III. Supplementary or Other Information
Clarity Standards – Report Outline cont.

Other Report Required by *Government Auditing Standards*
UPCOMING APA PROJECTS
Upcoming APA Projects

• **Higher Education Comparative Report**
  
  Intended to provide comparative financial information for four-year institutions utilizing financial information submitted to the Department of Accounts, and financial statement information compiled by the University. Timeframe: January – April 2014

• **Financing Study**
  
  Intended to be informational in nature, this study will look at the various financial arrangements between institutions and related parties, as well as third-parties, which are outside the typical higher education bond financing process. Timeframe: November 2013 – March 2014
Upcoming APA Projects

• **Subrecipient SEFA**

  VCU and ODU were selected to answer some questions as part of this study. This study only impacts those entities passing funds through to non-state entities. Auditors will contact staff at these institutions with questions prior to calendar year end 2013.
Upcoming APA Projects

Other Studies with Potential Impact for Universities:

• Statewide Travel
• Cell Phones (Follow-up)
• Teleworking Data Risks
• Capital Project Cash Flow Requirements
Questions

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