



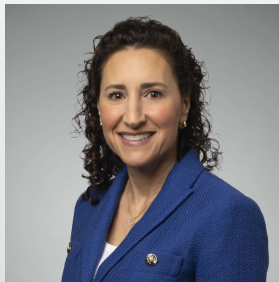
GASB Update & Lessons Learned + Internal Controls Review AGA Ozarks

October 24, 2024



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Meet the Presenter



Karen Kurtin, CPA, CFE, CGFO

Director, Government Outsourced Accounting
Services

Public Sector Advisory Services

karen.kurtin@us.forvismazars.com

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Agenda

1. Lessons learned from implementation of GASB 87, GASB 94, and GASB 96 statements
2. New Pronouncements
 1. GASB 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62
 2. GASB 101, *Compensated Absences*
 3. GASB 102, *Certain Risk Disclosures*
 4. GASB 103, *Financial Reporting Model Improvements*
3. Internal Controls Review



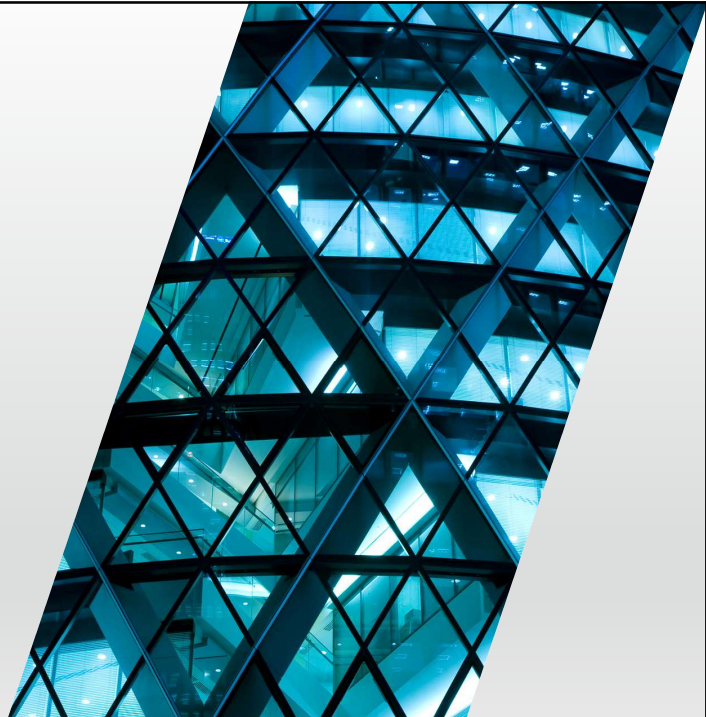
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Lessons Learned from GASB 87, GASB 94, & GASB 96 Implementations



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Lessons Learned – What Now?

Internal Control Considerations

- Consider Population Completeness
 - All new and amended agreements must be evaluated to determine which of the standards apply
 - Determine appropriate accounting treatment (consideration of materiality, measurement)

Reassessment of the Agreement Term if one or more of the following occurs:

- Either party elects to exercise an option even though originally determined that the lessee or lessor would not exercise that option
- Either party elects to not exercise an option even though previously determined that the lessee or lessor would exercise that option
- An event specified in the contract that requires an extension or termination of the agreement takes place

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Lessons Learned – What Now?

Don't just roll information to the next year!

Determine if existing agreement terms are still applicable:

- Any agreements terminated?
- Any agreement terms modified? If so, what type of modification?

What about assumptions used to evaluate options?

- Did assumption occur?
- Did assumption not occur?
- Did my basis of evaluation change materially?

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2024 Public Sector Seminar – GASB Update & Lessons Learned

August 23, 2024

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Lessons Learned – Year Two Considerations

Review Materiality for Year 2:

- Reminder materiality considerations by aggregate (Q4.23 of IG 2019-3)
- Receivables/Deferred inflows – lessor
- Capital Assets/Liabilities by lessee/subscriber

Capital Assets – (Q5.1 of IG 2021-1)

- Directing governments to capitalize the collective amount if material in total

Prior Year Agreements Determined to be Immaterial

- Consider prior and current year agreements not recognized in the aggregate
- Consider amounts by reporting unit as a preparer

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Lessons Learned - Disclosures

Revisit and refine disclosures

Seeing significant variability in the level of detail of disclosures

Consider materiality, users of the financial statements, and if there are logical ways to group certain types of leases and SBITAs

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No. 100, Accounting Changes & Error Corrections



Statement 100 Effective Date

Fiscal years beginning after June 15, 2023

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Classification


Accounting changes

- 1) Change in accounting principle
- 2) Change in accounting estimate
- 3) Change to or within the financial reporting entity

Correction of an error in previously issued financial statements

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1) Change in Accounting Principle

A change in accounting principle results from either

Implementation of new pronouncements

A **change** from one generally accepted accounting principle to another that is justified on the basis that *the newly adopted accounting principle is preferable*, based on the qualitative characteristics of financial reporting

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2) Accounting Estimates

Accounting estimates are

Amounts subject to measurement uncertainty that are recognized or disclosed in basic financial statements

Outputs determined based on inputs such as data, assumptions, & measurement methodologies

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2) Change in Accounting Estimates

A change in accounting estimate occurs when inputs change

Changes to inputs result from a change in circumstance, new information, or more experience

A change in **measurement methodology** should be justified on the basis that the new methodology is preferable, based on the qualitative characteristics of financial reporting

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3) Change to or Within the Financial Reporting Entity

A change to or within the financial reporting entity results from

Addition/removal of a fund that results from movement of **continuing** operations within the primary government, including its blended component units

A change in the fund presentation as major or nonmajor

Addition/removal of a component unit (except for acquisitions, mergers, & transfers of operations, & Statement 90 component units)

Change in presentation (blended or discrete) of a component unit

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Correction of an Error

An error results from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date

Facts that existed at the time the financial statements were issued are those that could reasonably be expected to have been obtained & taken into account at that time about conditions that existed as of the financial statement date

A change from (a) applying an accounting principle that is **not** generally accepted to transactions or other events to (b) applying a generally accepted accounting principle is an error correction

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Accounting

1) Change in accounting principle	Change in accounting estimate	Change to/within the reporting entity	Error correction
<ul style="list-style-type: none"> Reported retroactively by restating prior periods presented, if practicable If not practicable, restate beginning balances of current period 	<ul style="list-style-type: none"> Reported prospectively Recognized in current-period flows 	<ul style="list-style-type: none"> Reported by adjusting current period beginning balances 	<ul style="list-style-type: none"> Reported retroactively by restating prior periods presented

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Display

Aggregate amount of adjustments to & restatements of beginning balances should be displayed for each reporting unit

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Disclosures

Disclosures vary depending on the type of item, but common disclosures include

The nature of the change or error & its correction

Reason for the change

The effects on beginning net position, fund balance, or fund net position, as applicable, presented in a tabular format

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Required Supplemental Information (RSI) & Supplemental Information (SI)

The Statement addresses how to present in RSI & SI information that is affected by an accounting change or error correction

Changes in Accounting Principles:
Periods earlier than those presented in basic financial statements **should not be restated** for changes in accounting principles

Error Corrections:
Periods earlier than those presented in basic financial statements **should be restated** for error corrections, if practicable

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Implementation Guide Question

Upon completion of a capital project during the year, a government closes out a major capital projects fund and moves remaining resources to the general fund. Does this circumstance constitute a change to or within the financial reporting entity?

No. Even though the capital projects fund will no longer be included in the government's financial reports in future periods, it does not constitute a change to or within the financial reporting entity in this case, because the fund's removal does not result from a movement of continuing operations.


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No. 101, *Compensated Absences*



Statement 101 Effective Date

Fiscal years beginning after December 15, 2023

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New Definition

Definition – Compensated Absence	
Statement 16	Statement 101
<p>Absences for which employees will be paid, such as vacation, sick leave, & sabbatical leave</p>	<p>Leave for which employees may receive one or more</p> <ul style="list-style-type: none"> • Cash payments when the leave is used for time off • Other cash payments, such as payment for unused leave upon termination of employment which includes voluntary resignation or retirement • Noncash settlements, such as conversion to defined benefit postemployment plan

Examples include: Vacation & sick leave
 Paid time off (PTO)
 Holidays
 Parental leave
 Bereavement leave
 Certain types of sabbatical leave

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Recognition

Statement 101 provides recognition criteria for both of the following situations

- Leave used but not paid or settled
- Unused leave

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Recognition – Leave Used but Not Paid

A liability should be reported when leave is used for time off but has not yet been paid in cash or settled through noncash means – including unlimited leave & date-specific holiday leave. The liability should be measured at the amount of the cash payment or noncash settlement to be made for the use of the leave

- Pay Rate
 - In general: use employee's pay rate at the financial reporting date
 - Exception: if it is more likely than not the leave will be paid at a different rate
- Include Salary-Related Payments
 - Include in accrual payments that are directly and incrementally associated with leave
 - Defined *contribution* pension or OPEB should be recognized as leave is earned
 - Defined *benefit* pension or OPEB should be excluded from compensated absences liability

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Recognition – Unused Leave

A liability should be recognized for leave that has not been used if **all** of the following criteria are met

Leave is attributable to services already rendered

- Employee has performed the services required to earn the leave

Leave accumulates

- Can be carried forward from reporting period when earned to a future reporting period when it will be used or otherwise paid or settled

Leave is *more likely than not* to be used for time off or otherwise paid or settled

- Likelihood of more than 50 percent

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Disclosures – With Statement No. 34

- Refers to Statement No. 34 paragraphs 119b and 119d
- Paragraph 119 requires the following to be presented for long-term liabilities
 - Beginning and ending of year balances (119a)
 - Increases and decreases (separately presented, 119b)
 - Portion of each item due within one year (119c)
 - Governmental fund used to liquidate other long-term liabilities in prior years (119d)

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Disclosures – Changes with Statement No. 101

- Changes in Statement 101
 - Increases and decreases (~~separately presented, 119b~~)
 - For compensated absences, may present a net number
 - Disclose that the number is net
 - ~~Governmental fund used to liquidate other long-term liabilities in prior years (119d)~~
 - No longer required for compensated absences

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No. 102, Certain Risk Disclosures

Statement 102 Effective Date

Fiscal years beginning after
June 15, 2024

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Objective

To provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints

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Key Definitions

- Concentration

A lack of diversity related to an aspect of a significant inflow of resources or outflow of resources ¶5

- Constraint

A limitation that is imposed by an external party or by formal action of a government's highest level of decision-making authority ¶6

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Examples

Concentration: Composition of:

- Employers
- Industries
- Inflows of resources
- Workforce covered by collective bargaining agreements
- Providers of financial resources
- Suppliers of material, labor, or services

Constraint

- Limitation on raising revenue
- Limitations on spending
- Limitations on the incurrence of debt
- Mandated spending

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Disclosure Criteria

Assess for the primary government reporting unit and all other reporting units that report a liability for revenue debt

Disclose if **all** of the following are met:

- A concentration or constraint is *known* to the government prior to the issuance of the financial statements
- The concentration or constraint makes the reporting unit *vulnerable* to the risk of a substantial impact
- An *event* or events associated with the concentration or constraint that would cause a *substantial* impact
 - Have occurred
 - Have begun to occur, or
 - Are more likely than not to begin to occur within 12 months of the date the financial statements are issued

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Disclosure Criteria

Mitigating action taken by the government
prior to the issuance of the financial
statements cause any of the criteria not to be
met:

Disclosure is not required

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General Disclosure Principles

Comparative
Financials



Apply only to
the current
period

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General Disclosure Principles

A flowchart with two rounded rectangular boxes. The left box is dark blue with white text: "Supplement other required note disclosures". A dark blue arrow points from this box to the right box, which is light purple with white text: "Combine to avoid unnecessary duplication".

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General Disclosure Principles

A flowchart with two rounded rectangular boxes. The left box is dark blue with white text: "Information is the same for multiple reporting units". A dark blue arrow points from this box to the right box, which is light purple with white text: "Combine to avoid unnecessary duplication".

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General Disclosure Principles

Apply requirements of ¶63 of Statement 14, *The Financial Reporting Entity*, as amended



Encompass governmental and BTA, individual major funds, nonmajor in the aggregate; Major DPCU considering nature and significance of the DPCU

DPCU: Professional judgment on a component unit by component unit basis

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Disclosure for Each Concentration or Constraint

- Enough detail to allow users to understand the nature of the circumstances and the government's vulnerability to the risk of substantial impact
- Concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk

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No. 103, Financial Reporting Model Improvements



Statement 103 Effective Date

Fiscal years beginning after June 15, 2025


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Overview

MD&A improvements	Unusual or infrequent items clarification & combination	Operating & nonoperating revenues & expenses refined
Budgetary comparisons only as RSI, no longer a basic statement option	Budgetary variances should include original budget to final budget & final budget to actuals	Major component unit info can no longer use the option of disclosure in the notes to financials

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Internal Controls Review

- 30,000-foot view
 - Internal control
 - The COSO Cube-Basic concepts
 - Advantages of applying COSO
 - Challenges of applying internal controls to a small organization
 - Exploding some myths about internal controls
 - Types of controls
- Discussing details and examples on specific controls related to the following transaction cycles and areas within a government:
 - Cash receipts
 - Cash disbursements
 - Payroll
 - Purchasing cards



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30,000-Foot View



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Demystifying Internal Controls

- For years good internal controls were undefined, and you were just supposed to “know it when you see it”
- Enter COSO – Committee of Sponsoring Organizations – a joint venture of AICPA, FEI, IIA, AAA, and IMA
- Internal Control – Integrated Framework (Framework)

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Defining Internal Control

Internal control is a process, effected by an entity's board of directors, city council, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

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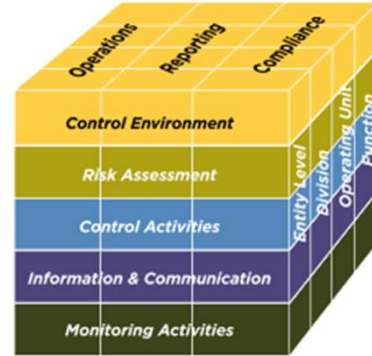
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The COSO Cube

- Objectives – what we strive to achieve
- Components – what is required to achieve the Objectives
- Principles – fundamental concepts associated with each component



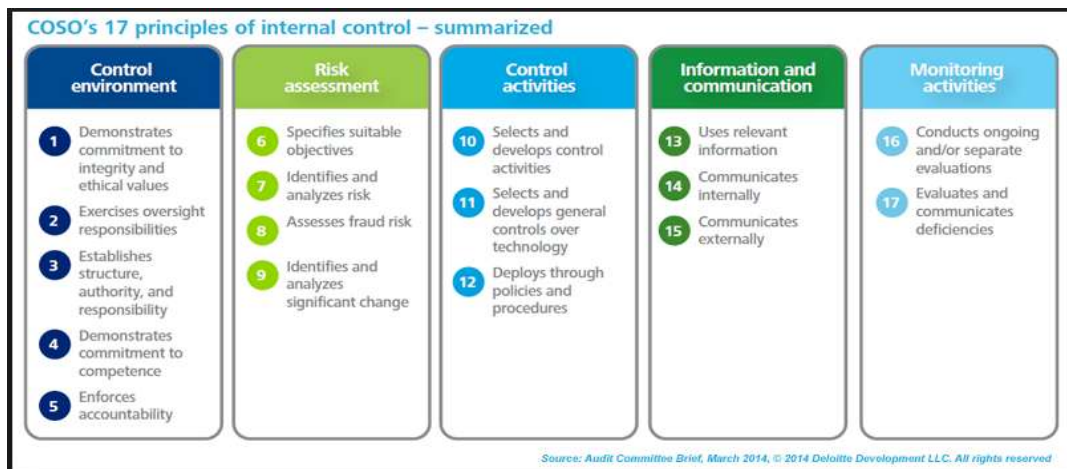
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COSO Principles



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Advantages of COSO

- It is comprehensive covering far more than finance and accounting
- It is simple
- It is scalable-just as applicable to a 5-employee small government as it is to a Fortune 500 company
- Its elements and principles cut across industries and sectors
- It is the recognized world-wide standard for internal control

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Disadvantages of COSO

It is a high-level map not GPS

- It is not tailored to government
- It will point you in the right direction but does not provide step by step detail on how to get there or when you've arrived
- It does not specifically address the challenges of small entities

It requires training and use of professional judgement

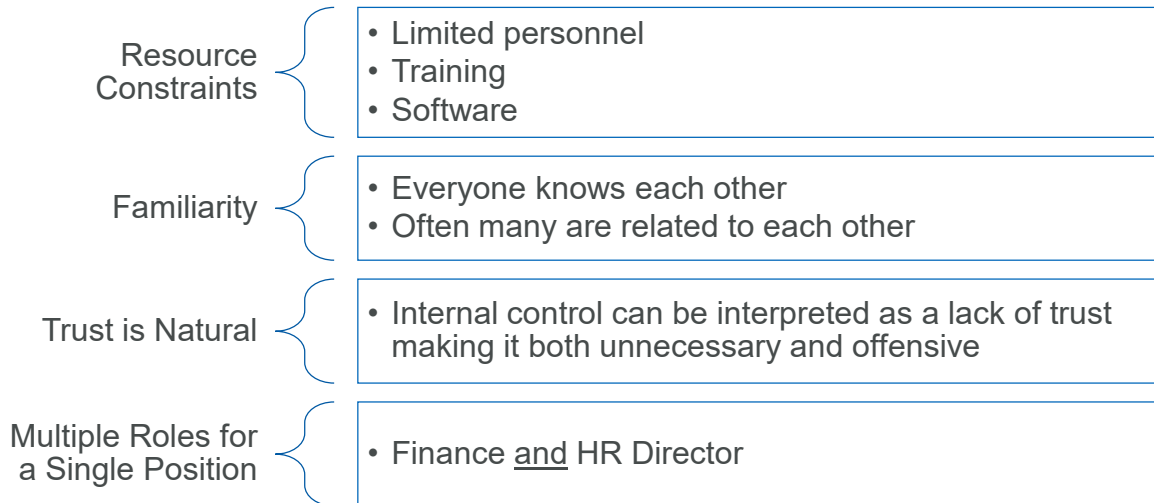
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Control Challenges of Small Governments



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Exploding the Myths - Trust

- Trusting your employees should be a given, but blind trust has burned many an organization.
 - The Association of Certified Fraud Examiners routinely report that the higher the position of the embezzler, the more trust the embezzler and the longer they have been with the organization, the greater the loss.
- Consider Dixon, Illinois – a town of 16,000 in the rural heartland
 - Rita Crundwell grew up in Dixon and had worked for the city since High School becoming controller in 1983 after 13 years of city service
 - She was beloved, trusted and a symbol of pride for her success in breeding Quarter Horses and winning Quarter Horse Championships.
 - In total she embezzled \$54 million from the city over 22 years
 - In 2008 when the city had a stated budget of \$8-9 million, she embezzled \$5.4 million

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Exploding the Myths - Fraud

- While every organization should have a goal of protecting assets, internal controls is about accomplishing ALL of an organization's goals
 - Risks of mistakes, lack of training, lack of timely information, inaccurate information, compliance violations and poor management occur more often than fraud and can have just as devastating an impact on the organization.
- Good internal controls should be viewed as both a tool and a protection to employees
 - A tool to help them accomplish the organizations objectives
 - A protection in that it both prevents bad things, but it also keeps innocent employees from being implicated

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Categories of Controls



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Specific Internal Controls

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Control Activities

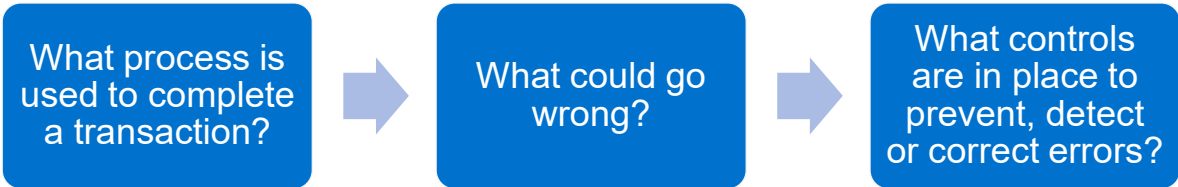
- Cash Receipts
- Cash Disbursements
- Payroll
- Purchasing Cards
- Information Technology

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Step Process to Understanding Internal Controls



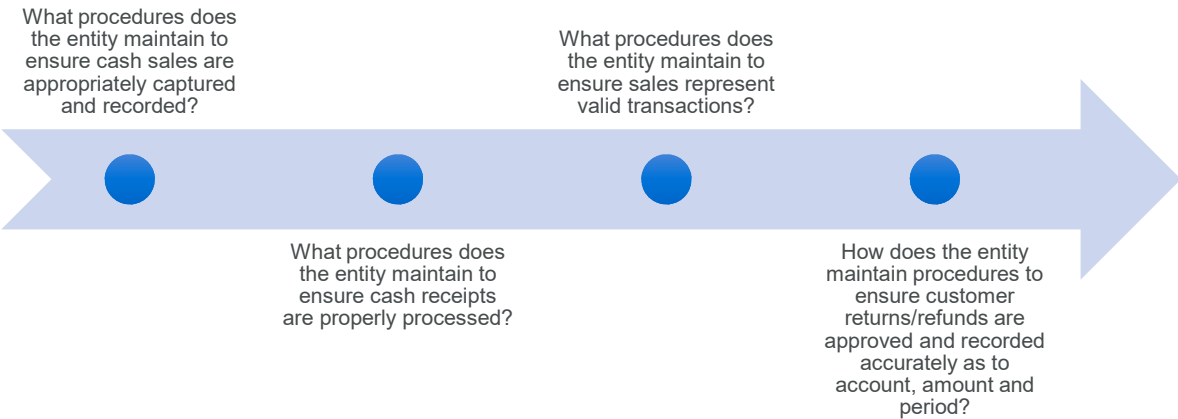
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Internal Controls over Cash Receipts



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Segregation of Duties Analysis – Cash Receipts

Sales, Cash Receipts and Accounts Receivable Cycle		Position Descriptions																									
		Net Accounts	Accounts Payables	UB Clerk 1	UB Clerk 2	Accountant I	Senior Accountant	Director of Finance & Administration Services	Finance Clerk	Finance Admin																	
ACCESS – ABILITY TO:	Create a manual shipping/delivery of service document																										
	Make a computer entry to generate shipping/delivery document	X																									
	Authorize shipping/delivery document prepared by others	X																									
	Change shipping/delivery instructions after initial preparation	X																									
RECORDING – ABILITY TO:	Receive payments in currency or checks																										
	Be custodian of currency or checks (including taking deposits to bank)																										
	Make a computer entry to generate an invoice																										
	Make a computer entry to generate a credit memo or billing adjustment																										
MONITORING:	Approve a credit memo or billing adjustment for issuance, including changes to standard prices or shipping terms																										
	Change computer billing or credit memo files, /# ... customer ledgers or receipts journals, after an invoice has been																										
	Add a customer to (delete a customer from) the master file																										
	Change master files affecting billings and credit memos																										
	Prepare cash receipts journal/list of receipts																										
	Make a computer entry to credit customer accounts for payments received																										
	Make a journal entry to:																										
	Adjust the Accounts Receivable general ledger account																										
	Adjust the Cash general ledger account																										
	Record bad debt write-offs																										
	Responsibility to reconcile:																										
	Shipping/delivery records to billing records	X																									
Cash receipts journal (list) to bank deposit records																											
Customer balances to general ledger/control account																											
Bank balances to general ledger/control account																											
Responsibility to issue monthly statements to customers																											
Responsibility to review:																											
Account reconciliations related to the Sales, Cash Receipts and Accounts Receivable cycle prepared by others																											
Bank reconciliations prepared by others																											

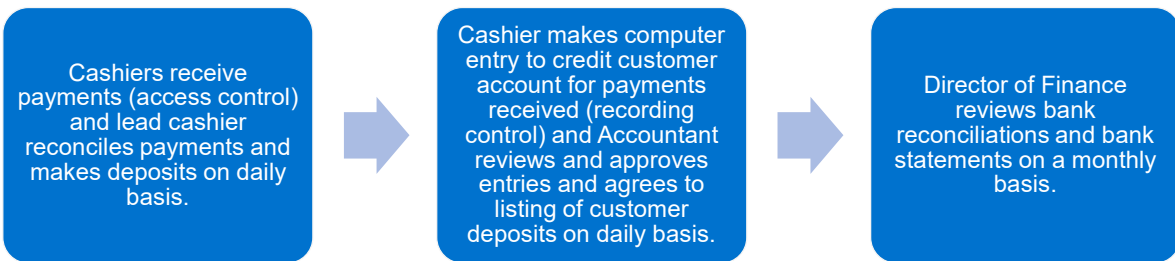
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Complementary/Mitigating Controls over Cash Receipts - Examples



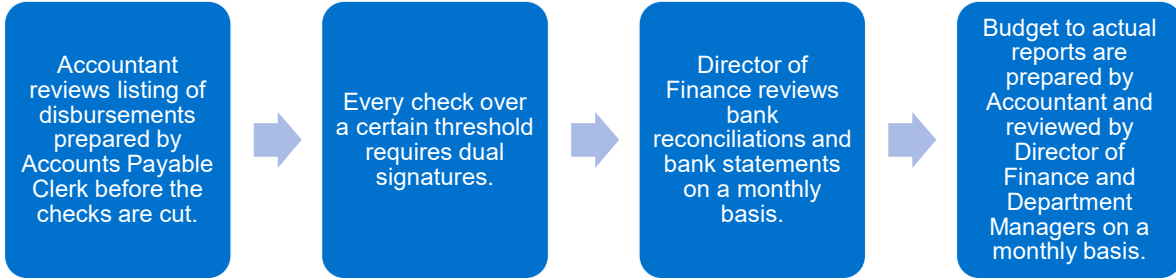
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Complementary/Mitigating Controls over Cash Disbursement - Examples



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Internal Controls over Payroll

How does the entity maintain appropriate authorization, approval and documentation procedures regarding changes in employment, in pay rates and in payroll deductions?

How does the entity maintain appropriate procedures to ensure payroll is disbursed to the appropriate employees and recorded accurately, completely and in the appropriate accounting period?



How does the entity maintain appropriate procedures to ensure payroll costs are accurately processed, approved and allocated to the appropriate accounts, programs and other functions?

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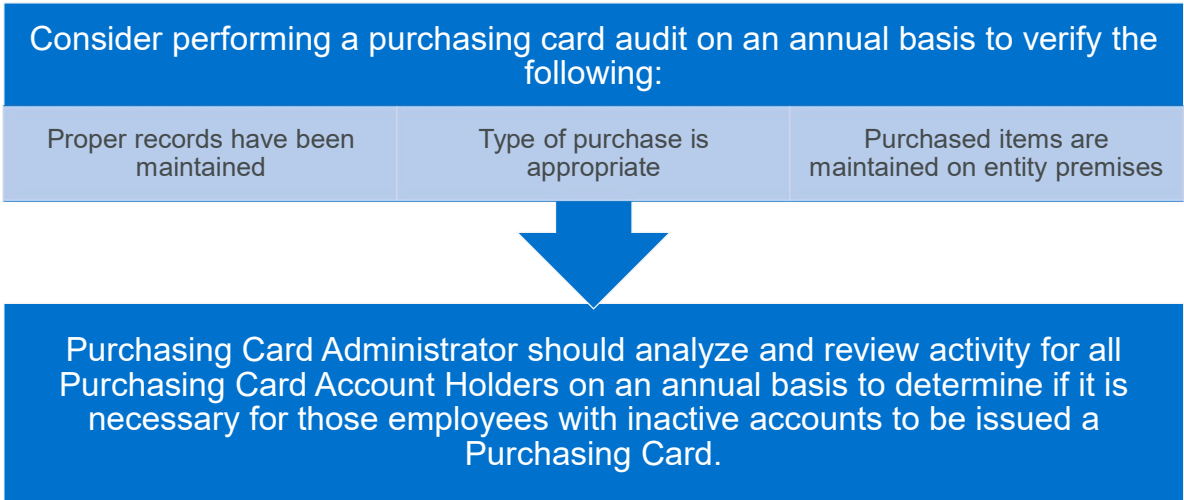


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Internal Controls over Purchasing Cards

- Ensure your entity has a purchasing card policies and procedures manual that has been adopted. Provide this manual to all employees with purchasing cards and require they sign an acknowledgement form that they've read and understand the policies and procedures.
- Ensure there are reasonable transaction limits for all cardholders. Consider having limits established by Finance Department and approved by City Manager.
- Ensure all cardholders complete a transaction log (expenditure listing) of all purchasing card charges for the month. A brief explanation for the charge or description should be included along with copies of all receipts and the monthly statement. The transaction log and monthly statement **MUST** balance. These should be submitted to the Purchasing Card Administrator by the end of the month.

Internal Controls over Purchasing Cards





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SEC's Joint Proposal Sets FDIA Data Standards



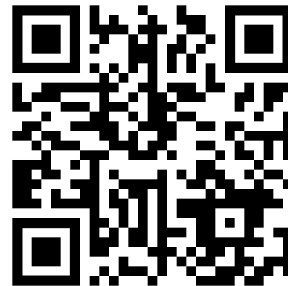
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Contact

Forvis Mazars
Karen Kurtin, CPA, CFE, CGFO
Director, Government Outsourced Accounting Services
Public Sector Advisory Services
karen.kurtin@us.forvismazars.com

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