Local Governmental Auditing and Accounting

Newsletter

Published by the Office of the Utah State Auditor

LOCAL GOVERNMENT DIVISION

Website address:
www.sao.state.ut.us

MacRay Curtis
Division Director
Counties
538-1335
macraycurtis@utah.gov

Richard Moon
Cities & Towns
538-1334
richardmoon@utah.gov

Kent Godfrey
School Districts
Non-Profit Corporations
538-1384
kgodfrey@utah.gov

Van Christensen
Special Districts
538-1394
vchristensen@utah.gov

Questions or Concerns?

If any entity has questions or concerns regarding budgeting, financial reporting, or compliance with state law or policy, please feel free to call any of the individuals listed above. If we don't have the answer, we can research the question or refer you to the office or individual that can help you! Outside the Salt Lake City area, feel free to use our toll-free telephone number: 1-800-622-1243. You can also e-mail us at the addresses shown above.

July 2004

THE STATE AUDITOR HAS MOVED!

With the completion of the two new buildings on Capitol Hill, the Utah State Auditor's Office has moved offices so that the Capitol can be re-modeled. We are now located in the newly completed east building, third floor, room 310. Our new address is:

Office of the State Auditor
Utah State Capitol Complex
East Office Building, Suite E310
P.O. Box 142310
Salt Lake City, Utah 84114-2310

Please be aware of this change for future correspondence with our office.

NEW AUDIT THRESHOLDS

HB 142- Audit Requirements for Political Subdivisions, passed this last legislative session. This new law changes the thresholds for when audits are required by political subdivisions. The new law requires governments (including non-profits with at least 50% of their revenues coming from governmental sources) with revenues or expenditures $350,000 or more to have an audit by a certified public accountant. Governments with revenues or expenditures greater than or equal to $200,000 but less than $350,000 must have a review by a certified public accountant. Governments with revenues or expenditures greater than or equal to $100,000 but less than $200,000 must have a compilation by a certified public accountant. Governments with revenues or expenditures less than $100,000 must submit a financial report on forms provided by the state auditor.

To better educate local governments on the differences between an audit, review, and compilation, we have included the following American Institute of CPAs (AICPA) definitions:

An **audit** is a systematic collection of sufficient, competent evidential matter needed to attest to the fairness of the financial statement presentation, in accordance with applicable generally accepted accounting principles. The auditor obtains this evidential matter through inspection, observation, inquiries and confirmations with third parties.

The AICPA defines a **review** of financial statements as performing inquiry and analytical procedures that provide the auditor with a reasonable basis for expressing limited assurance that there are not material modifications that should be made to the financial statements for them to be in conformity with the generally accepted accounting principles (GAAP), or if applicable, with another comprehensive basis of accounting. In performing a review, the auditor performs limited audit procedures to provide a basis for providing negative assurance on the presentation of financial statements in accordance with GAAP.

The AICPA defines the **compilation** of financial statements as presenting in the form of financial statements information that is the representation of management without undertaking to express any assurance on the statements.

One exception to the general threshold rule relates to charter schools. All charter schools not reported in a school district's financial statement, regardless of the amount of revenue or expenditures they have will be required to have an audit. The Utah State Auditor does have the power and authority by law to set higher threshold for certain entities. Charter schools have reporting requirement similar to school districts. The State Auditor feels that an audit is necessary to provide adequate financial oversight of charter schools. Therefore, it has been determined that charter schools should always have an audit, like all the other school districts in the Utah. Charter schools created by school districts must be reported as a major fund of the school district.

Please be aware of these changes and how they might affect your government. HB 142 became effective May 5, 2004. Reports due to the State Auditor's Office after this date should follow the new thresholds. (A government with a 12/31/03 year end is required to submit financial statements to the State Auditor's Office by 6/30/04. Since this is after May 5, 2004, the new thresholds would apply to governmental entities with a 12/31/03 year end.)

Please contact our office with any questions or concerns.

Accounting and Reporting for Compensated Absences

"Compensated absences" commonly describe paid time off made available to employees in connection with vacation leave, sick leave, and similar benefits. For financial reporting purposes, compensated absences are strictly limited to leave that 1) is attributable to se*rvices already rendered,* and 2) is *not contingent* on a specific event (such as illness) that is outside the control of the employer and employee. GAAP require that employers report a liability for compensated absences that meet both of these criteria. A government should recognize a liability for vacation leave if it meets two conditions: The vacation leave is related to employee services already rendered, and it is probable that the leave will be paid.

The term *vested* commonly describes employee benefits that are *not* dependent on continued employment. GAAP require that in addition to vested amounts, vacation leave also must be reported for *nonvested* amounts that are expected to vest.

The liability for vacation leave should include salary-related payments, which are payments *directly and incrementally related to the amount of salary paid* to the employee. Typical salary-related payments include the employer's share of Social Security, Medicare taxes, employer contributions to cost-sharing multiple-employer public employee retirement systems, and employer payments to defined contribution pension arrangements.

The liability for vacation leave should be calculated using pay or salary rates in effect at the date of the statement of net assets. Current salary costs are used for this purpose because they are considered "objective, easily measurable, and not affected by the timing of pay increases."

Sick leave does not qualify as a compensated absence because it is contingent on a future event (namely illness) that is beyond the control of both the employer and the employee. Accordingly, sick leave should not be accrued as a liability. It is common, however, for governments to make a payment to employees upon termination for a portion of their balance of unused sick leave. When unused sick leave is payable upon termination, it is no longer contingent on a future event outside the control of both the employer and the employee and, consequently, must be included as part of the liability for compensated absences. Either of two approaches can be taken to measure the amount of the liability for unused sick leave payable upon termination:

> *Termination payments method*. Under this approach, a government estimates the amount of sick leave that will be paid out upon termination based on its experience in making such payments.
>
> *Vesting method*. Financial statement preparers following this approach estimate the liability for sick leave payouts by calculating the amount of sick leave that is expected to become eligible for payment at termination. This calculation, of course, must take into account caps on the amount of sick leave eligible for payout (for instance, 30 days), as well as any special rates that apply to sick leave payouts (perhaps 30 percent of normal pay).

STATE AUDITOR'S LOCAL GOVERNMENT E-MAIL DATABASE

We have discovered that e-mail is the most effective way to quickly communicate governmental accounting/auditing issues to local governments and their CPAs.

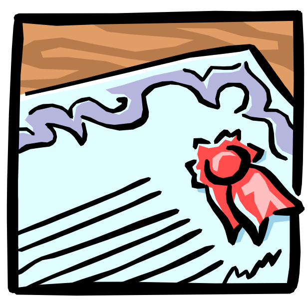
Keeping our e-mail database accurate is important. If you currently do not receive periodic e-mails from the Utah State Auditor's Office or have recently changed your e-mail address, please send your e-mail address to kgodfrey@utah.gov so we can update our database.

Thank you for all the work you do for local governments throughout the state.

JUST A NOTE

The State of Utah Legal Compliance Audit Guide has been updated and is available on our office's web site (www.sao.state.ut.us/sulcag/index.htm). Please note that the sample reports in the index have been updated to comply with requirements of GASB Statement 34.

YELLOW BOOK CPE



Many of you are already aware of a number of changes relating to Government Auditing Standards (GAGAS), commonly referred to as the Yellow Book. There has been some confusion about the changes made in the area of continuing professional education (CPE). Paragraph 3.45 of GAGAS states that "auditors planning, directing, performing field work, or reporting on an audit or attestation engagement **under GAGAS should complete at least 80 hours of CPE that directly enhance the auditor's professional proficiency to perform audits and/ or attestation engagements.** At least 24 of the 80 hours of CPE should be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates."

The confusion has arisen over the phrase "at least 80 hours of CPE that directly enhance the auditor's professional proficiency to perform audit and/ or attestation engagements" and what type of CPE does or does not "directly enhance the auditor's professional proficiency to perform audits and/ or attestation engagements. The General Accounting

Office (GAO), has issued the following interpretation regarding CPE:

> "In some cases, auditors must apply professional judgment in determining whether training qualifies under GAGAS. For example, **tax services, in general, are not related to the subject matter of audits performed under GAGAS, and, accordingly CPE related to tax would not normally qualify as CPE** for purposes of satisfying GAGAS requirements."

This interpretation is very clear in stating that tax related CPE does not qualify as GAGAS CPE. GAGAS does state that topics that contribute to auditor's proficiency in perform audits and/ or attestation engagements, such as development in auditing standards and methodology, accounting principles, assessment of internal controls, principles of management or supervision, information systems management, audit sampling, financial statement analysis, evaluation design, and data analysis would all count toward the 80 hour requirement. Most CPE will count toward the 80 hour requirement except for tax CPE. Remember that there is no change to the 24 hour requirement. Twenty-four of the 80 total CPE hours must be directly related to government auditing or the government environment.

The effective date of the CPE requirement for financial audits and attestation engagements is for periods ending on or after January 1, 2004. Please be aware of these changes so you can adequately plan to be in complete compliance with GAGAS. If you have any questions about the new GAGAS CPE requirement, you can contact Kent Godfrey at (801) 538-1384 or at kgodfrey@utah.gov.

Utah State Auditor's Office
Utah State Capitol Complex
East Office Building, Suite E310
P.O. Box 142310
SLC, Utah 84114-2310