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Local Government Auditing and Accounting

Newsletter

Office of the Utah State Auditor

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2015 Legislative Update on Bills Effecting Local Governments

There were a number of bills that were passed in the 2015 Legislative Session that are of interest to our local governments. Below is a summary of some of those bills, along with their effect on local governments, which we compiled to make you aware of the changes in the law. **The effective date for these laws is May 12, 2015, unless otherwise noted.**

Posting to the Public Notice Website - HB117 – All local government entities are required to post their public meeting notices on the Public Notice Website at pmn.utah.gov. The public meeting notices must include an agenda and the date, time, and place of the public meeting. Prior to HB117, entities with annual budgets less than \$1 million were encouraged, but not required to post notice of public meetings to the website. This bill made this requirement mandatory for all local government entities.

The bill also provides for local government entities to receive technical assistance from State Archives if their limited resources make compliance with this law difficult. This assistance can be obtained by contacting Glen Fairclough of State Archives at 801-531-3841 or gfairclough@utah.gov.

Governance and Fiscal Procedures for Interlocal Entities - HB251 – Following is a list of notable changes and additions that have been made in the governance and fiscal procedures of interlocal entities created under *Utah Code* 11-13. This is not a comprehensive list.

Withdrawal of Member Entities (UCA 11-13-206) – The agreement creating the interlocal entity must include the process, conditions, and terms for withdrawal of a participating member and whether voting is based upon one vote per member or weighted. If weighted voting is allowed, the agreement must include the basis upon which the vote weight is determined.

Compensation of Board Members (UCA 11-13-403) – Compensation for members of the governing body is set by members of the governing body. The annual compensation for each board member must be specifically identified in the tentative budget and approved in the public meeting held for the purpose of adopting the budget. Compensation of board members may include participation in a group insurance plan. For a governing body member that is appointed to that governing body by a member entity, the compensation must be approved annually by the appointing member entity's governing body.

Application of Other Laws – Interlocal entities are subject to the Open and Public Meetings Act (UCA 11-13-404), the Utah Money Management Act (UCA 11-13-502), and the Government Records Access and Management Act (UCA 63G-2-103).

2015 Legislative Update on Bills Effecting Local Governments

Balanced Budgets (UCA 11-13-507) – All budgets adopted by interlocal entities must be balanced, meaning that total revenues must equal total expenditures.

Hearing to Consider Budget Adoption (UCA 11-13-509) – Notice of a public hearing for budget adoption must be published in a newspaper of general circulation in the counties in which the interlocal entity provides service to the public or in which its members are located at least 7 days prior to the public hearing. The notice must also be published on the Public Notice Website (pmn.utah.gov).

Deficit Fund Balance (UCA 11-13-513) – If an interlocal entity is running a deficit fund balance, they must take certain measures to eliminate the deficit.

Interfund Loan (UCA 11-13-523) – If the interlocal entity determines that a loan between two funds is necessary, the entity must hold a public hearing regarding the interfund loan and approve the interfund loan in an open meeting. This does not include loans from the entity's general fund to any other fund.

Quarterly Financial Reports (UCA 11-13-527) – The governing board must review a detailed quarterly financial report showing the financial position and operations of the interlocal entity for that quarter and the year-to-date status.

Notice of Public Hearing for Fee Increase (UCA 11-13-531) – Notice of a public hearing to impose or increase a fee charged by the interlocal entity must be posted on the Public Notice Website for at least 20 days before the date of the hearing, among other notification requirements.

We encourage interlocal entities to review this legislation carefully to understand the impact it has on their entity. We will be providing a training on this legislation for interlocal entities on July 15 via a webinar. Please look for an email advising you regarding this training, or contact our office for instructions on how to participate.

Increase in Audit Thresholds - SB132 – For entities with total annual revenues or expenditures greater than \$750,000, an audit conducted by an independent CPA is required to be performed and submitted to the Office of the State Auditor. This threshold was raised from \$500,000.

2015 Legislative Update on Bills Effecting Local Governments

NOTE: Nongovernmental nonprofit organizations (NGOs) have slightly different requirements, as noted below.

Reporting Thresholds for Nonprofits, including Nongovernmental Nonprofit Organizations (NGOs) - SB132 – SB132 changed the reporting requirements for nonprofits which are now based upon the total amount of federal pass through money*, state money*, and local money* received by the nonprofit entity rather than total revenues and expenditures of the nonprofit.

TOTAL COMBINED AMOUNT OF FEDERAL PASS-THROUGH*, STATE*, AND LOCAL MONEY*	TYPE OF REPORT REQUIRED (DUE WITHIN 6 MONTHS OF THE NONPROFIT'S FISCAL YEAR END. SUBMIT REPORTS TO OSA WEBSITE AT
More than \$750,000	An audit in accordance with Generally Accepted Auditing Standards (GAAS) with a State Compliance Audit (if state money received or spent exceeds \$750,000)
Between \$350,000 and \$750,000	A review conducted by an independent certified public accountant
Between \$100,000 and \$350,000	A compilation of their accounts (i.e., financial information) by an independent certified public accountant
Between \$25,000 and \$100,000	A copy of their Form 990 or an Online Financial Survey (Option 2 on the OSA website)
* Per HB132, federal pass-through money, state money, and local money does not include money used to buy goods or services from the nonprofit corporation.	

In addition, NGOs that receive federal pass-through or state money from a state agency, must enter into a written agreement with the state agency representing that they will disclose to the state agency the NGO's requirement to report to the Office of the State Auditor.

Reporting and Expenditure of Public Funds - HB312 – For state money appropriated by the Legislature to a state agency that is intended to be passed through the state agency to one or more local governments or nonprofits, the local government or nonprofit is required to enter into a written agreement with the state agency. This written agreement shall require the local government or nonprofit to provide the state agency with a written description and an itemized report, at least annually, detailing the expenditure of the state money, or the intended expenditure of any state money that has not been spent, and a final written itemized report when all the state money is spent.

Upcoming and On-Demand Webinars

Starting in May of this year, we began a weekly series of live training webinars. These live webinars are on Wednesday at 9:00 AM. We invite you to register for upcoming webinar training events at the following website: <https://events-na12.adobeconnect.com/content/connect/c1/1320456205/en/events/catalog.html>

Upcoming Webinars:

- Segregation of Duties between Clerk and Treasurer
- Inter-local Entity Reporting Requirements
- Auditor Independence
- Open & Public Meetings
- Government Records Access and Management (GRAMA)
- Budget Adoption and Budgeting for Funds

Each webinar has been recorded and is available to view on demand. Go to our training website for links to the recordings: <http://auditor.utah.gov/training/online-training-2015/>

Available On-Demand:

- [Cash Auditing](#)
- [Enterprise Fund Transfers](#)
- [Report Requirement & Thresholds for 2015](#)
- [Self-Evaluation Form](#)
- [Non-profit Reporting Requirements](#)
- [Internal Controls Overview](#)
- [Tax Increment Reporting](#)

Anticipated Revisions to Uniform Accounting Manual

Utah State Law requires the Office of the State Auditor to publish and update a Uniform Accounting Manual (UAM) to aid local governments in performing the financial requirements of state law. In 2013, the UAM underwent a major overhaul, combining separate manuals for each entity type into a single document. The UAM will undergo some additional revisions in 2015 that will reflect changes in report requirement and thresholds (covered in the March 2015 newsletter), financial requirements for inter-local entities, the addition of a sample budget document, the revised basic financial report/ financial survey, and the new self-evaluation form. Changes will also include the addition of an introductory section identifying additional informational resources for local governments, and a basic topic overview at the beginning of most sections. These overviews are intended to provide a high-level explanation of the topic for those who may be new to local government or governmental accounting before getting into the technical elements of each issue. The 2015 version of the Uniform Accounting Manual is anticipated to be released later this summer.



New Reporting Thresholds

The Office of the Utah State Auditor's 2015 State Compliance Audit Guide and 2015 Agreed-Upon Procedures (AUP) Guides for both LEAs and Local Governments are now available on our website at <http://auditor.utah.gov/local-government-2/publications/>. Listed in this article are the significant changes made to these Guides.

As noted in a previous Newsletter, due to recent changes in Legislation, the financial reporting requirements for local government entities has changed as follows:

- Local government entities (*excluding nonprofits*) with total revenues or expenditures less than \$350,000 are only required to submit an Online Financial Survey and completed Financial and Compliance Self-Evaluation Form (see Self-Evaluation Form Article on page 5).
- Local government entities (*excluding nonprofits*) with total revenues or expenditures less than \$750,000 but more than \$350,000 are required to have the agreed-upon procedures engagement specified in the *Agreed-Upon Procedures Guide for Local Governments* instead of an audit.
- Local government entities (*including nonprofits*) with total revenues or expenditures greater than \$750,000 are required to have a financial audit performed *and* a state compliance audit in accordance with the *State Compliance Audit Guide*.
- School districts and operating charter schools, regardless of total revenues or expenditures, are required to have a financial audit, a state compliance audit in accordance with the *State Compliance Audit Guide*, and an agreed-upon procedures engagement as specified in the *Agreed-Upon Procedures Guide for Local Education Agencies*.

Changes to the State Compliance Audit Guide

Each year our office publishes this guide to assist local government auditors in identifying and testing various state laws and regulations. Included in the Guide are compliance issues that are not necessarily significant enough to be considered in a regular financial statement audit, but that may be considered significant to others such as governing bodies, tax payers, regulators, etc. Please note, however, that this is not an all-inclusive list of laws and regulations entities should follow.

The following is a list of the significant changes to the 2015 Guide from the 2014 version:

Additions

- A section for “Planning Procedures” has been added to assist the auditor in properly considering internal controls and performing risk assessments in accordance with AU-C 935.
- LEAs are now subject to state grant testwork in addition to the MSP testwork performed in the past. This includes LEAs completing and submitting a Schedule of Expenditures of State Awards.
- A step was added directing the auditor to consider and test significant restricted taxes.
- Testwork was added regarding the proper accounting for tax increment consistent with Audit Alert 2014-03.

Modifications

- Due to issues noted statewide, testwork on the “Open and Public Meetings Act” was moved to Chapter 1 to be tested each year.
- “Deficit Fund Balance” testwork was modified to determine if the entity is properly addressing any deficit fund balances. Statutes require entities to appropriate revenues to retire the deficit in the subsequent year’s budget.
- For testwork related to the Schedule of Expenditures of State Awards, the threshold increased to \$750,000 for type A grants and \$350,000 for type B grants and the minimum coverage for testing of state grants was increased from 20% to 25%.

Deleted Sections

- Interlocal Agreement Entities – Recent legislation was passed to clarify the fiscal responsibilities of interlocals, and this was adequately addressed in other sections of the Guide.
- Assessing and Collecting Property Taxes.
- Utah Public Finance Website (At [transparent.utah.gov](http://www.utah.gov/transparency/index.html) or the following link: <http://www.utah.gov/transparency/index.html>).
- Uniform Chart of Accounts for Local Education Agencies.

Changes to the Agreed-Upon Procedures Engagement Guide for Local Governments

This guide is issued each year to assist CPAs in reviewing the financial information of our smaller local governments. Included in the Guide are the minimum procedures recommended by our office. Please note, however, that this is not an all-inclusive list and those charged with governance should consider other procedures as necessary. (Note: Due to recent legislation, this guide is no longer applicable to nonprofits.)

The following procedures were added to the 2015 version of the Guide:

- Select one month of purchasing card statements and determine if the statement was reconciled by someone other than the card holder.
- Determine if the bank reconciliation is performed by someone who does not have access to receipts or disbursements; or if that person does, determine if a separate individual reviews the reconciliation.
- Determine if the budget was approved before the start of the budget year and if it was presented in the proper form and properly noticed.

Other changes:

- The procedures to determine if the entity had any deficit fund balances were modified to determine if the entity took appropriate action to retire the deficit balance.
- For both revenues and disbursements, the scope of reviewing changes was modified from 10% of total revenues/expenses to 5% of total revenues/expenses, and from 15% of the individual line items to 10%.
- The procedure to review the design/implementation of internal controls was deleted. Due to the nature of auditing standards, this step was deemed too subjective to be included in an agreed-upon procedures engagement. Instead, other steps were added requiring the auditor to review specific procedures.

Changes to the Agreed-Upon Procedures Engagement Guide for LEAs

This guide is issued each year under the direction of the Utah State Office of Education (USOE). These procedures are used by the USOE to review school district and charter school data relating to aggregate student membership, enrollment and the Adult Education program. There were no significant changes to this guide for 2015.

To see a more complete listing of the changes to the Guides, please visit our website at <http://auditor.utah.gov/local-government-2/publications/>. Our office welcomes any questions, comments or suggestions on the Guides. Please feel free to contact Patricia Nelson, Audit Supervisor, Local Government Division, at patricianelson@utah.gov.

Small Entity Self-Evaluation Form

The governing body of each local government is charged with the responsibility to ensure that the resources of the entity are used in an efficient, effective and lawful manner. To aid governing bodies in monitoring financial conditions, for periods ending on or after June 30, 2015, entities with revenues or expenditures less than \$350,000 will need to complete a Financial and Compliance Self-Evaluation Form as part of their reporting package due to the Office of the Utah State Auditor (OSA). This form contains procedures and evaluation questions to assist the governing body with improving or implementing good business practices; complying with policies, procedures, and laws; and limiting the potential for misuse of resources.

The self-evaluation procedures **should be completed by a member of the governing body**, such as a town council member or district board member, **who is not also the entity's Clerk or Treasurer**. Before completing the form, the council or board member is directed to obtain various financial documents such as the year-end report and copies of the bank statements, meeting minutes and budgets, etc. The council or board member will then examine those documents and/or inquire with financial staff regarding related financial or compliance issues. The questions are designed so that "No" responses indicate that a weakness exists or noncompliance has occurred. In those instances, the weakness/noncompliance should be scrutinized with management and staff to determine what corrective action is needed to assure compliance going forward. The last section of the form is a certification by the member of the governing body who completed the form.

Our goal with this form is to introduce internal controls and financial review into every entity regardless of size. We appreciate those charged with governance taking a proactive role in monitoring and evaluating the entity's financial and compliance processes. The Financial and Compliance Self-Evaluation Form can be found on our website under the [Local Government] [Publications] tabs or at the following link: <http://auditor.utah.gov/local-government-2/>



New Pension Standard—GASB 68

By: Kim Kellersberger, Director of Finance, Utah Retirement Systems



In 2012, the Governmental Accounting Standards Board (GASB) released GASB Statement 68 pertaining to how governments account for and report defined benefit pension plans. The statement is effective and must be implemented by governments for the fiscal year ending June 30, 2015.

The accounting change resulting from the new GASB standard:

- WILL NOT alter the underlying fundamental that \$1,000 owed to a retired or active member in 10 years will still be \$1,000 owed.
- WILL NOT change how public employers fund the Utah Retirement Systems (URS) defined benefit pension plan (Plan).
- WILL NOT change the way employers currently budget for retirement contributions.
- WILL NOT change the amount employers remit to URS.

It will require employers in the State of Utah to report a pension liability in their financial statements for the first time. Please read on for more information.

Pension Funding vs. Pension Accounting

There is now going to be a disconnect between pension accounting and the pension funding measurements. In the past, the focus was on funding the Plan (the contributions being paid to the Plan). When employers are paying 100% of the actuarial required contributions to a pension plan, over time the plan will become fully funded. However, because not all plans around the country receive 100% of their required contributions, GASB decided a change was needed. GASB determined it cannot require employers to pay 100% of the required contributions, but it could require employers disclose their proportionate share of the retirement systems net pension liability (NPL) —which is the difference between the Plan’s “Net Position Restricted for Pensions” (assets) and the Plan’s total pension liability—in their financial statements rather than less prominently in the notes to the financial statements.

Going forward the focus will now be on reporting the employer’s NPL and/or net pension asset (NPA). **For the first time in the State of Utah, employers participating in the URS Plan will be showing a pension liability on their financial statements. This may be a large liability for individual employers.** The NPL which Utah employers will be reporting in 2015 will be approximately \$3.5 billion dollars. The NPL will fluctuate from year to year because it is going to be based on the market value of the assets rather than the smoothed actuarial value of assets (which defers gains and losses above or below the 7.5% investment earnings

GASB 68 (Continued)

GASB determined that a pension plan is responsible for employee pension benefits only to the extent the plan has assets to pay for those benefits. GASB also determined that the employer is responsible for the portion of the benefits that are not funded, noting that the employer incurred a “pension obligation” as a result of the exchange of employee services for compensation. As such, employers must report their proportionate share of the Plan’s NPL.

The New Employer Pension Expense

A public employer’s pension expense for financial statements will no longer be the statutorily required contributions (the actual amount paid to the URS based on URS contribution rates). Now, employers will recognize their proportionate share of a new actuarially calculated pension expense, which will fluctuate from year to year. The new actuarially calculated pension expense number will be the change in the NPL from the previous year, which will contain the following main components:

- Normal cost (annual cost of current service), plus
- Interest on total pension liability, plus
- Changes in plan benefits, plus
- Amortization of experience gains/losses, and changes in assumptions, less
- Expected return on plan assets

GASB 68 allows employers to continue to fund the Plan the way they always have, so employers won’t need to increase or decrease the amount budgeted for the retirement contributions remitted to URS. Employers will continue to budget and remit contributions based on the contribution rates provided by URS.

The New Employer Retirement Footnote Disclosures

As a result of GASB 68, most of the current employer disclosures will be replaced with information required by the new standard. The employer footnote disclosures will be expanded to include:

- Basic information about the pension plan.
- Classes of employees covered.
- Information disclosing pension liabilities, pension expense, and deferred outflows and inflows of resources related to pensions.
- Significant actuarial assumptions, including salary increases, inflation, discount rate (earning assumption rate), mortality, and experience studies.
- Target asset allocations and projected rate of return by asset class.
- Sensitivity of NPL to the discount rate.

GASB 68 (Continued)

Public employers and their auditors will be able to find their current year GASB 68 pension disclosure amounts—which will include the employer’s proportionate share of the NPL and NPA, deferred outflows of resources, deferred inflows of resources, and pension expense—in the GASB 68 schedules of the Employer Allocation and Pension Reporting section of the *URS Comprehensive Annual Financial Report*.

Upon request, URS will provide employers with a sample footnote disclosure that will have all of the information employers need to accurately report their current year GASB 68 pension disclosures. However, some of the required employer disclosures will be 10-year disclosures. URS will not provide prior year disclosure information. GASB allows employers to complete this disclosure over the next 10 years by adding subsequent years’ data to subsequent years’ financial statements.

If employers have any questions regarding the new GASB 68 reporting requirements, they should contact Kim Kellersberger (801-366-7457) or Rob Dolphin (801-366-7429) in the URS Finance Department, who will be happy to talk or meet with them to answer any questions about GASB 68.