NRV REGIONAL
WATER AUTHORITY

COMMENTS ON INTERNAL CONTROL
AND OTHER SUGGESTIONS
FOR YOUR CONSIDERATION

June 30, 2019

CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND OTHER SUGGESTIONS 1

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

Segregation of Duties 3

Auditor Adjustments 4

Travel and Credit Card Expenses 5

Fixed Asset Management Software 5

ACCOUNTING AND OTHER MATTERS 6

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT
ON COMMENTS AND OTHER SUGGESTIONS

To the Board of Directors of the NRV
Regional Water Authority
Radford, Virginia

In planning and performing our audit of the financial statements of the NRV Regional Water Authority (the "Authority") as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements and to comply with *Government Auditing Standards*, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as presented in this letter, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The material weakness identified is labeled as such in the attached report.

During our audit, we also became aware of certain other matters that provide opportunities for improving the Authority's accounting system and/or operating efficiency. Our comments and suggestions regarding these matters are included in the attached report. Since our audits are not designed to include a detailed review of all systems and procedures, these comments should not be considered as being all inclusive of areas where improvements might be achieved. It is our hope that these suggestions will be taken in the constructive light in which they are offered.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. A review of the status of our prior year comments and suggestions is included on pages 3-6.

319 McClanahan Street, S.W. • Roanoke, Virginia 24014-7705 • 540-345-0936 • Fax: 540-342-6181 • www.BEcpas.com

The Authority's responses to our recommendations are included in this report. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Board, management, and the appropriate state and federal regulatory agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 24, 2019

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

SEGREGATION OF DUTIES (Material Weakness)

A properly designed and implemented system of internal control assists in preventing and detecting errors in financial reporting and fraud. A fundamental concept of internal control is the separation of duties. The basic premise of this concept is that no one individual should have access to both physical assets and the related accounting records, or to all phases of a transaction, including authorization. Such access may allow errors or irregularities to occur and either not be detected or be concealed. Due to the limited size of the Authority's accounting staff, a proper separation of duties has not been established and maintained. While we realize that any internal control system must be cost effective, steps should be taken to eliminate performance of conflicting duties where possible, such as the following:

- The accounting assistance consultant has the ability to prepare payroll checks, review and authorize electronic payroll disbursements, resolve employee payroll inquiries, and edit the payroll master file. In addition, payroll registers are not being reviewed after processing, reconciled to control totals, or approved by an appropriate level of management. Management should design a monitoring process by which payroll activities are reviewed for reasonableness and to detect errors.
- Journal entries are not reviewed or approved before posting by the accounting assistance consultant. Lack of review and approval increases the risk for unauthorized entries remaining undetected. Accounting transactions and financial reports should be reviewed by a member of management, or the Board, with appropriate expertise to detect errors, omissions, or misstatements.
- Bank statements are not opened or reviewed by the Executive Director before they are sent to the accounting assistance consultant. Bank reconciliations are performed by the accounting assistance consultant, who is also in charge of the general ledger functions, receives unopened bank statements, prepares checks, edits the vendor master file, and is also an authorized check signer. The Executive Director should receive bank statements, unopened, and should critically review balances, transactions, and cancelled checks for unusual or improper activity.
- Only the accounting assistance consultant is entering information into the accounting system. This reduces the effectiveness of system controls with the accounting system as rights within the software are not able to maintain segregation of duties.
- Both the Executive Director and Administrative Assistant have the ability to initiate wires at the bank. In addition, there is no support or approval of wires done throughout the year. To the extent possible, wires should be initiated and approved by two different individuals.
- During our review of a sample of credit card and travel transactions, we noted instances where there is no formal document or support to note the name of the person traveling, their title, and name and title of approver. We recommend the Authority implement a travel form to formally document this information and approval. To overcome some of the risk associated with this weakness, we also recommend that a member of the Board review and approve the Executive Director's travel and credit card expenses, and document that review on this form. The Executive Director should review and approve all travel and credit card expenses submitted by his subordinates on this form.

Current Year Status: *Condition still present.*

SEGREGATION OF DUTIES (Material Weakness) (Continued)

Management's Response:

While we acknowledge the size of our Organization prevents us from fully segregating all duties, we have added the following controls to reduce, but not eliminate, the risks associated with this weakness:

- *Management has changed payroll procedures with the new accounting assistance consultant that provides review of the payroll information given to the accounting assistance consultant prior to payroll processing. Additionally, the accounting assistance consultant is providing management copies of all files associated with payroll.*
- *Processes and procedures have been changed with the review and approval of journal entries made by the accounting assistance consultant. Management, along with a representative of the Board, reviews and approves the journal entries prior to processing by the accounting assistance consultant.*
- *Processes and procedures with the bank statements and check signing authority have been changed. Management is opening and reviewing all bank statements prior to sending a copy to the accounting assistance consultant. Check signing authority has been changed to include the Executive Director, Chairman of the Board, Vice-Chairman of the Board, and Treasurer of the Board.*
- *Both the accounting assistance consultant and management can access the Authority's financials. Both management and the accounting assistance consultant work to ensure the Authority's files are current and accurate.*
- *Wires are placed on the Invoice Summary batch that is reviewed and approved by both the Executive Director and Treasurer of the Board prior to execution.*

AUDITOR ADJUSTMENTS (Material Weakness)

Due to size of the organization and number of employees, the Authority does not currently have on staff an employee who is trained to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The result is that material adjustments to financial statement items, including restatements to prior year balances, were made as part of the audit. The Executive Director and Administrative Assistant possess adequate skills, knowledge, and experience related to day to day accounting, recording, and processing of transactions but not the expertise for accurate financial reporting. To address this, the Authority has outsourced some of its accounting functions to a local CPA firm (accounting assistance consultant) who performs monthly and year-end bookkeeping services. We recommend the Authority consider implementing the following best practices to enhance financial reporting:

Cash and Investments

- Bank statements are received and reviewed by a responsible person other than the person who reconciles the bank account before being submitted for reconciliation to identify unusual transactions.

Accounts Receivable

- The accounts receivable aging/subledger should be reviewed and reconciled to the general ledger.

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION (Continued)

AUDITOR ADJUSTMENTS (Material Weakness) (Continued)

Capital Assets

- Periodically, capital asset listings are routed to the appropriate managers to determine whether the assets still physically exist.
- The capital assets subledger should be reviewed and reconciled to the general ledger.
- Capital asset depreciation charges and remaining useful lives should be reviewed for reasonableness by management.
- Management should review and approve write-offs or other adjustments to capital asset accounts.
- Recorded capital assets should be reviewed for impairment.

Accounts Payable and Expenditures

- Accounts payable aging/subledger should be reviewed and reconciled to the general ledger.

Payroll and Related Liabilities

- The payroll system master file change log, showing all changes made to payroll information, should be reviewed by management to ensure it reflects accurate and complete information.
- Payroll registers should be reviewed after processing, reconciled to control totals, and approved by an appropriate level of management.

Debt and Debt Service Expenditures

- A reconciliation of outstanding debt instruments to the general ledger should be prepared and reviewed timely.

The result of these procedures should be the provision of accurate information for the accounting assistance consultant to prepare complete and accurate financial reports.

Current Year Status: *Condition cleared during the current year.*

TRAVEL AND CREDIT CARD EXPENSES

During our review of a sample of credit card and travel transactions, we noted where no documentation was provided for the purpose of the expense or trip. We recommend that information be documented on credit card receipts or on the travel expense form so that the purpose can be determined if it is appropriate and reasonable.

Current Year Status: *Condition still present.*

Management's Response: *Receipts are provided to management for all credit card transactions. All receipts turned in will have appropriate documentation noted for determining if the expense is appropriate and reasonable.*

FIXED ASSET MANAGEMENT SOFTWARE

The Authority has engaged in significant capital asset acquisitions and modernization projects in recent years. We recommend investing in fixed asset management software that allows the Authority to efficiently and accurately track the depreciation and net book value of these assets.

Current Year Status: *Condition still present.*

Management's Response: *Management is currently working on acquiring fixed asset management software.*

ACCOUNTING AND OTHER MATTERS
June 30, 2019

NEW GASB PRONOUNCEMENTS

In this section, we would like to make you aware of certain confirmed and potential changes that are on the horizon that may affect your financial reporting and audit.

The GASB issued **Statement No. 84**, ***Fiduciary Activities*** in January 2017. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirements of this Statement are effective for periods beginning after December 15, 2018.

(Continued)

NEW GASB PRONOUNCEMENTS (Continued)

The GASB issued **Statement No. 87**, ***Leases*** in June 2017. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Definition of a Lease

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

Lease Term

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

a. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option.
b. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option.
c. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.
d. Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

Lessees and lessors should reassess the lease term only if one or more of the following occur:

a. The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.
b. The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.
c. An event specified in the lease contract that requires an extension or termination of the lease takes place.

(Continued)

NEW GASB PRONOUNCEMENTS (Continued)

Statement No. 87, *Leases* (Continued)

Short-Term Leases

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

Lessee Accounting

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

Lessor Accounting

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

Contracts with Multiple Components and Contract Combinations

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

NEW GASB PRONOUNCEMENTS (Continued)

Statement No. 87, *Leases* (Continued)

Lease Modifications and Terminations

An amendment to a lease contract should be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

Subleases and Leaseback Transactions

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease.

A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

The requirements of this Statement are effective for periods beginning after December 15, 2019.

(Continued)

NEW GASB PRONOUNCEMENTS (Continued)

The GASB issued **Statement No. 88**, ***Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*** in March 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for periods beginning after June 15, 2018.

NEW GASB PRONOUNCEMENTS (Continued)

The GASB issued **Statement No. 90**, ***Major Equity Interests, an amendment of GASB Statements No. 14 and No. 61*** in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

(Continued)

NEW GASB PRONOUNCEMENTS (Continued)

The GASB issued **Statement No. 91**, ***Conduit Debt Obligations*** in May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements – often characterized as leases – that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

(Continued)

NEW GASB PRONOUNCEMENTS (Continued)

Statement No. 91, ***Conduit Debt Obligations*** **(Continued)**

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for periods beginning after December 15, 2020.

(Continued)

NEW GASB PRONOUNCEMENTS (Continued)

CURRENT GASB PROJECTS

GASB currently has a variety of projects in process. Some of these projects discussed below.

Conceptual Framework – Recognition. The project's objective is to develop recognition criteria for *whether* information should be reported in state and local governmental financial statements and *when* that information should be reported. This project ultimately will lead to a Concepts Statement on recognition of elements of financial statements. The project is currently in deliberations with an exposure draft expected in February 2020, and concepts Statement draft in November 2021.

Conceptual Framework – Disclosure. The project's objective is to develop concepts related to a framework for the development and evaluation of notes to financial statements for the purpose of improving the effectiveness of note disclosures in government financial reports. The framework will establish criteria for the Board to use in evaluating potential note disclosure requirements during future standards-setting activities and in reexamining existing note disclosure requirements. Those concepts also will provide governments a basis for considering the essentiality of information items for which the GASB does not specifically provide authoritative disclosure guidance. This project is currently in deliberations with an exposure draft expected in March 2021, and a Concepts Statement draft in April 2022.

Financial Reporting Model. The objective of this project is to make improvements to the financial reporting model, including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other reporting model-related pronouncements (Statements No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and No. 46, *Net Assets Restricted by Enabling Legislation, and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*). The objective of these improvements would be to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government's accounting and address certain application issues, based upon the results of the pre-agenda research on the financial reporting model. The project is currently in deliberations with an exposure draft expected in February 2020, and a final Statement draft in November 2021.

Public-Private Partnerships and Availability Payment Arrangements. The project's objective is to address accounting and financial reporting for public-private partnerships (PPPs) and availability payment arrangements (APAs). The project will consider: (1) potential amendments to Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and potential amended or new implementation guidance to better address accounting and financial reporting for service concession arrangements (SCAs) within its scope, (2) potential additional accounting and financial reporting guidance for other types of public-private partnerships not with the scope of Statement 60, or subject to the provisions of Statement No. 87, *Leases,* and (3) APAs. The project is currently in the exposure draft comment period with a final Statement draft expected in February 2020.

Revenue and Expense Recognition. The objective of this project is to develop a comprehensive application model for the classification, recognition, and measurement of revenues and expenses. The purpose for developing a comprehensive model is (1) to improve the information regarding revenues and expenses that users need to make decisions and assess accountability, (2) to provide guidance regarding exchange and exchange-like transactions that have not been specifically addressed, (3) to evaluate revenue and expense recognition in the context of the conceptual framework, and (4) to address application issues identified in practice, based upon the results of the pre-agenda research on revenue for exchange and exchange-like transactions. The project is currently in deliberations with an exposure draft expected in September 2021, and a final Statement draft in December 2022.

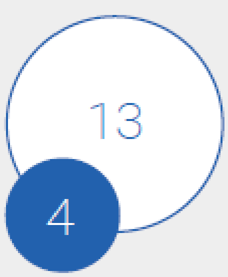
(Continued)

CPAs and cybersecurity: Helping you build trust and transparency

Stolen data. System shutdowns. Widely publicized breaches.
High-dollar lawsuits.

Is your organization prepared for a cybersecurity attack? Boards of directors, senior management and other stakeholders are requesting more information than ever before about organizations' cybersecurity risk management programs.

Using the AICPA's SOC for Cybersecurity framework, CPAs can provide assurance over the effectiveness of controls within your organization's cybersecurity risk management program, helping build trust and transparency for customers, investors and leadership.



4 of the leading 13 information security and cybersecurity consultants are CPA firms.

CPA firms deploy multidisciplinary teams composed of licensed CPAs and information technology and security specialists to ensure a comprehensive and thorough evaluation of your cybersecurity risk management program and its effectiveness in meeting your organization's cybersecurity objectives.

(Continued)

What is SOC for Cybersecurity?

The SOC for Cybersecurity examination provides an independent, entity-wide assessment of your organization's cybersecurity risk management program.

- Appropriate for businesses, not-for-profits and virtually any other type of organization
- Helps reduce uncertainty and build resilient organizations by evaluating effectiveness of existing cybersecurity processes and controls
- Permits flexibility by not constraining management to a particular security management framework or control framework
- Results in a general use report on whether:
  - The description of an entity's cybersecurity risk management program is presented in accordance with description criteria and
  - The controls within that program were effective in achieving the entity's cybersecurity objectives

62%

of executives expect to see an increase in reporting requests from their board of directors on cybersecurity program effectiveness.

(Source: Deloitte, 2018. "Corporate Boards May Be More Likely Than Regulators to Scrutinize Cybersecurity Program Effectiveness This Year.")

(Continued)

AICPA cybersecurity risk management reporting framework

The AICPA cybersecurity risk management reporting framework helps organizations communicate about the effectiveness of their cybersecurity risk management programs via three components:

- Description Criteria for Management's Description of an Entity's Cybersecurity Risk Management Reporting Program — This is used by management to provide transparency regarding its cybersecurity risk management program and used by CPAs to report on management's description. Management's description provides users of the report with information that can help them understand the entity's cybersecurity risks and how it manages those risks. Description criteria includes considerations on the nature of an entity's business and operations, factors affecting inherent cybersecurity risk, risk governance and assessment process and the monitoring of the cybersecurity program, among other criteria.

- 2017 Trust Services Criteria for Security, Availability, Processing Integrity, Confidentiality and Privacy — This is used by management to evaluate the effectiveness of controls and used by CPAs providing advisory or attestation services to evaluate and report on the effectiveness of controls within the cybersecurity risk management program.

- AICPA Guide Reporting on an Entity's Cybersecurity Risk Management Program and Controls — This attestation guidance assists CPAs engaged to examine and report on an entity's cybersecurity risk management program (SOC for Cybersecurity). This guide also contains information that can assist management in understanding the SOC for Cybersecurity engagement and its responsibilities with respect to the engagement.

(Continued)

Why CPA firms? Education. Experience. Expertise.

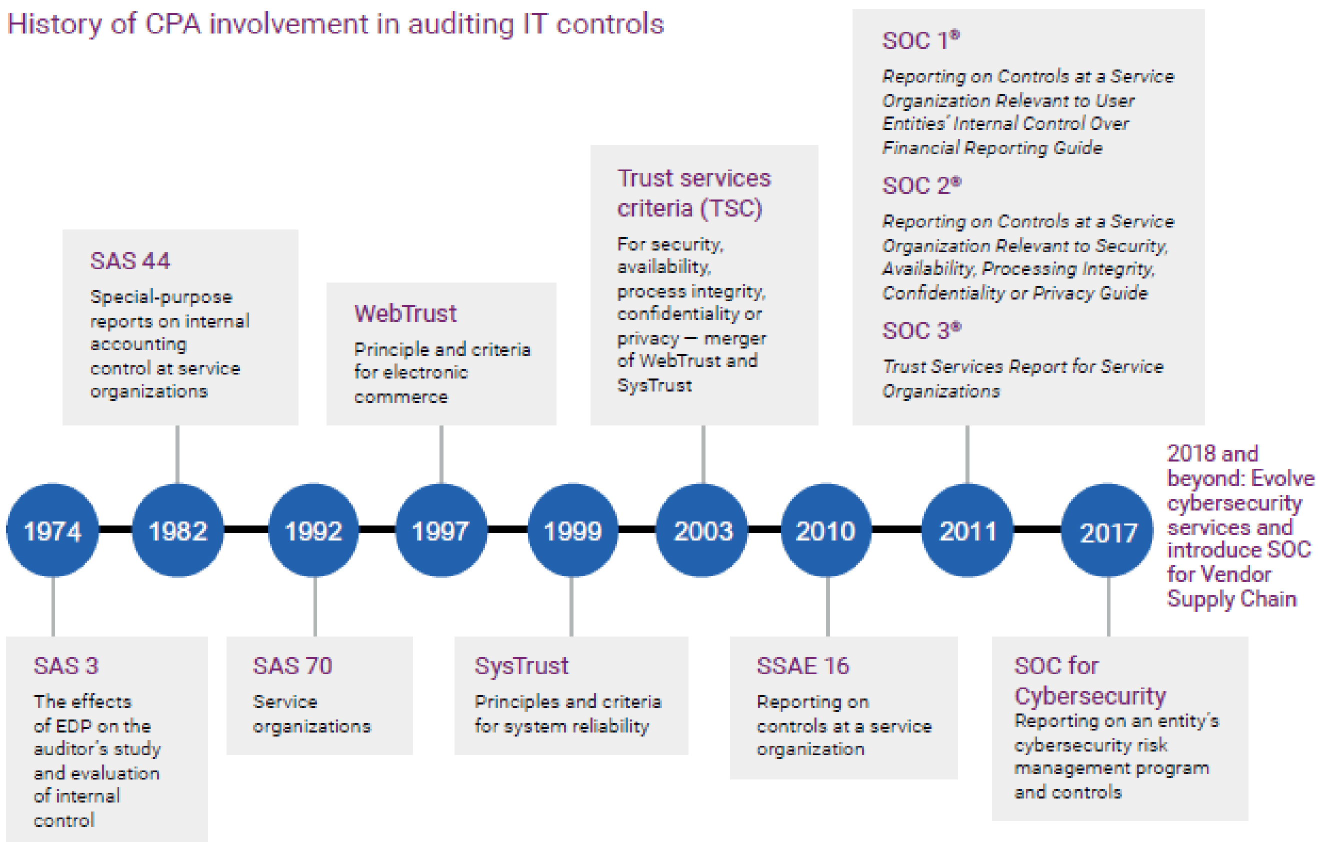
The education, experience and expertise of CPAs position them as the premier providers of SOC for Cybersecurity services.

- Knowledge of relevant IT systems and technology, including mainframes, networking, firewalls, network management systems, security protocols and operating systems
- Understanding of IT processes and controls — such as management of operating systems, networking and virtualization software and related security techniques; security principles and concepts; software development; and incident management and information risk management
- Experience with common cybersecurity publications and frameworks (NIST CSF, ISO 27001/27002, 2013 COSO *Internal Control — Integrated Framework*, COBIT 5, etc.)
- Expertise in evaluating processes, control effectiveness and providing advisory services relating to these matters
- Multidisciplinary teams that incorporate certified information security professionals such as Certified Information Systems Security Professionals (CISSP), Certified Information Systems Auditors (CISA) and Certified Information Technology Professionals (CITP®)
- Proficiency in measuring performance against established criteria, applying appropriate procedures for evaluating against those criteria and reporting results
- Strict adherence to service-specific professional standards, professional code of conduct and quality control requirements
- Holistic understanding of entity's industry and business, including whether the industry in which the entity operates is subject to specific types of or unusual cybersecurity risks and uses specific industry technology systems
- Objectivity, credibility and integrity
- Independence, professional skepticism and commitment to quality
- Strong analytical skills
- International perspective for global organizations

(Continued)

CPAs: Forerunners in the cybersecurity movement

History of CPA involvement in auditing IT controls



1970s – CPAs required to consider effects of electronic data processing on the evaluation of internal control in financial statement audits.

1990s – CPAs begin performing SAS 70 audits to report on the effectiveness of internal control over financial reporting.

2000s – CPAs begin using the trust services criteria for evaluating controls relevant to security, availability, processing integrity, confidentiality and privacy and issuing SOC reports to address vendor management needs related to outsourced services.

2017 – Introduction of SOC for Cybersecurity attestation services for CPAs to report on the effectiveness of controls within an organization's cybersecurity risk management program.

2018 and beyond – Continue to evolve cybersecurity services and introduce SOC for Vendor Supply Chain to enable users of products produced, manufactured and distributed by an entity to better understand and manage risks, including cybersecurity risks, arising from their business relationships with the entity.