

# 2024 Financial Management Conference

## Accounting Updates Panel

Moderator:

**Rodney Sommers**, Principal, Novogradac

Panelists:

**Tracy Teale**, Partner, Aprio LLP

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# Agenda

## Today's Topics

1. Uniform Guidance Audits
2. Fraud Concerns
3. CECL
4. Going Concern
5. Staffing and Recruiting

# Continuing Professional Education (CPEs) Requirements for CPAs

- Please find the **SESSION HOST** to **SIGN IN** at the beginning and **SIGN OUT** at the end of every session using the **QR code**. We use that attendance log to verify your participation for CPE credits.
- Please **submit all conference evaluations**. Evaluation links are emailed to registrants daily. Please see the session host (the person monitoring the sign-in process) if you prefer a paper evaluation.
- For more information on CPE credits, contact Lindsay Wells at [consult.lwells@gmail.com](mailto:consult.lwells@gmail.com).

# Questions

- We will pause during presentation and again at the end for Q&A.

# 2024 Financial Management Conference

## Uniform Guidance Audits

Tracy Teale, Partner, Aprio LLP

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# Uniform Grant Guidance

- Applies to organizations receiving federal funding
- Threshold increases to \$1 Million for fiscal years beginning on or after October 1, 2024

# Polling Question #1

Will the change in threshold affect you or the clients you audit?

- a) We don't get federal funding
- b) We will be under the \$1 Million threshold
- c) Our federal funding exceeds the new \$1 Million threshold

# Federal Funding Accountability and Transparency Act - FFATA

- Recipients of federal funds exceeding \$30,000
- Must report subawards and executive compensation
- Report by the end of the month following the funding



# Procurement

- Procurement policy
- Build American Buy American Act

# Additional threshold changes

	Current UG	Revised UG (eff. 10/1/24)
Equipment threshold	\$5,000	\$10,000
MTDC – subawards threshold	\$25,000	\$50,000
Supplies threshold	\$5,000	\$10,000

# MTDC - Changes

- The application of indirect costs under MTDC basis moved from the first \$25,000 of Subaward costs to the first \$50,000 of subaward costs
- Application based on lifetime of the subaward and not on annual basis

# Equipment / Supply Threshold

- Changes the equipment and supply thresholds from \$5,000 to \$10,000

Equipment means tangible person property have a useful life of more than one year and a per-unit acquisition cost that equals or exceeds the lesser of the capitalization level established or \$10,000.

# Uniform Grant Guidance – compliance supplement

Requirement	A	B	C	E	F	G	H	I	J	L	M	N
Program Number	Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
14.275	Y	Y	N	Y	N	Y	N	N	Y	N	N	Y
14.850	Y	Y	N	Y	N	N	N	Y	N	N	N	Y
14.862	Y	Y	Y	N	Y	N	N	Y	N	Y	N	Y
14.866/14.889 (HOPE VI Cluster)	Y	Y	N	N	N	Y	N	Y	Y	Y	N	Y
14.867	Y	Y	N	Y	N	N	N	Y	N	Y	N	Y
14.871/14.879 (Housing Voucher Cluster)	Y	Y	N	Y	N	N	N	N	N	Y	N	Y
14.872	Y	Y	Y	N	N	N	Y	N	N	Y	N	N
14.873	Y	Y	N	Y	N	N	Y	Y	N	Y	N	Y

# 2024 Financial Management Conference

## Fraud Concerns

Kelly Perlman, Partner, Plante Moran

# Single Audit Process



## Risk Assessment & Planning

- Identification of Risk
- Control Testing
- MPD
- D&M Compliance Requirements
- PACE



## Execution

- Compliance Testing
- Sampling



## Reporting

- SEFA
- Evaluation and reporting findings
- Opinion
- DCF

# Internal Control Responsibilities – the Client

Uniform Guidance (2 CFR Part 200) requires recipients of grants subject to single audit to:

Establish and maintain effective internal control over the federal award that provides reasonable assurance that the recipient is managing the federal award in compliance with federal law, regulations, and the terms of the award. (§ 200.303)



# Control vs Compliance

## Control

What are the checks/balances the client put in place to make sure they were following the grant requirements?

## Compliance

Did they actually get it right?

# Control vs Compliance

## Internal Controls

- Tests whether KEY controls are operating as designed

## Compliance

- Tests are prescribed by the compliance supplement requirements for each program

# Internal Control Responsibilities - the Auditor

Uniform Guidance (2 CFR 200.514.c) REQUIRES auditors to:

- Perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs.
- Plan the testing of internal controls over compliance requirements for major programs to support a low assessed level of control risk for assertions relevant to the compliance requirement.
- Perform testing of internal control, as planned
- Report on internal control over compliance

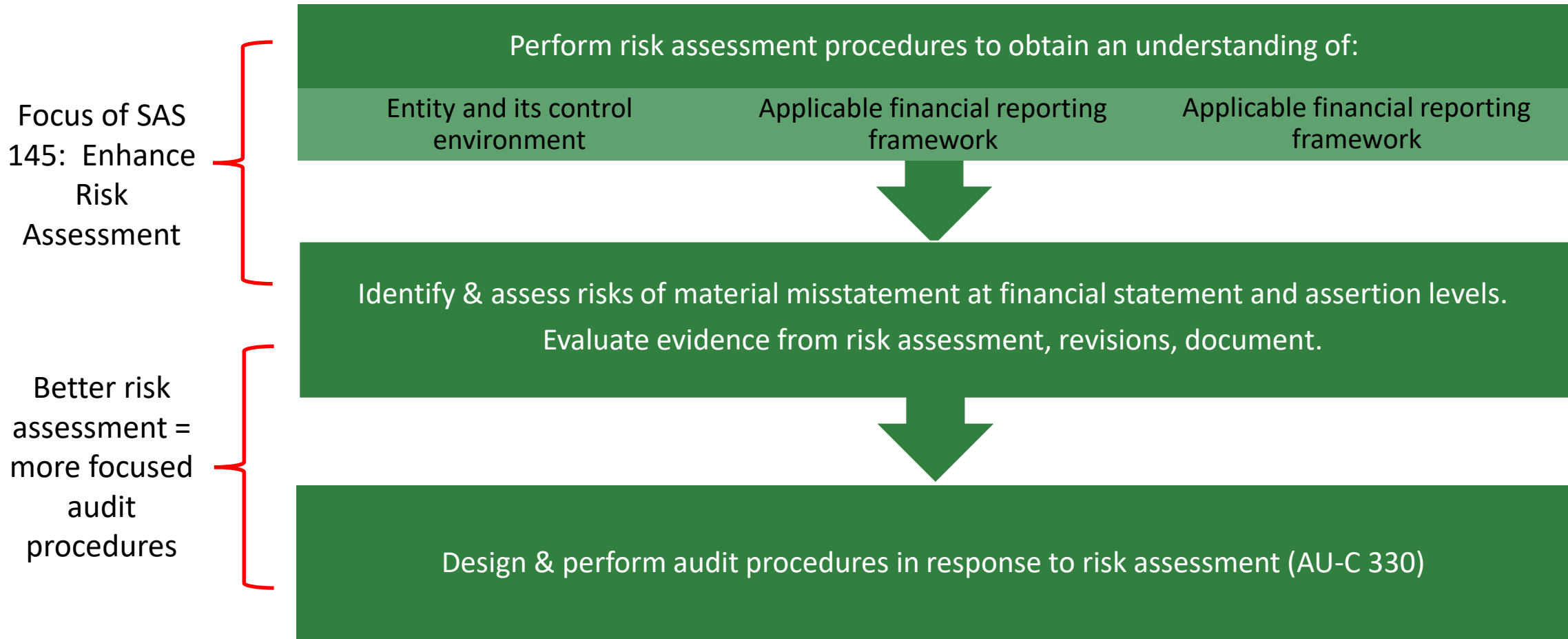
# SAS 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

Enhances guidance and requirements primarily related to:

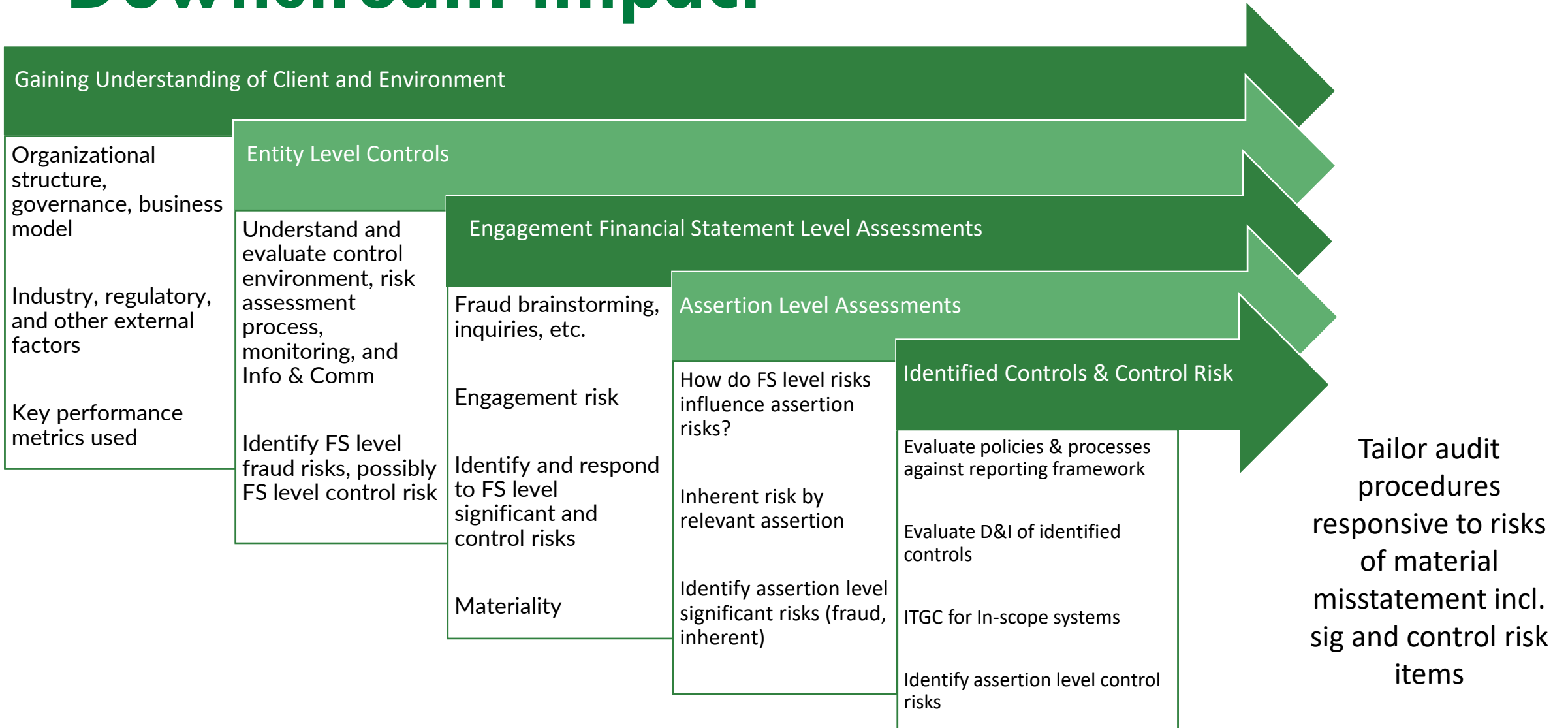
- Obtaining an understanding of entity's system of internal controls
- Evaluation of design and implementation of certain controls within the "controls activity" component, including general IT controls
- Separate assessment of inherent risk (IR) and control risk (CR)
- Revises the definition of a significant risk
- New guidance on maintaining professional skepticism
- New "stand-back" requirement to evaluate completeness of auditor's risk assessment

Effective for audits of periods ending on or after December 15, 2023

# Risk Assessment Procedures and Related Activities



# Downstream impact



# Assessing Inherent Risk for Relevant Assertions

Consider how (likelihood), and the degree to which (magnitude):

- a) Inherent risk factors affect the susceptibility of relevant assertions to misstatement
- b) Risk of material misstatement at the FS level affect the assessment of inherent risks at the assertion level

# What leads us to conclusion about inherent risk?



Engagement level risk assessments, including FS level significant risks



Risk assessment analytics



Inquiries with management and others, including fraud



Other risk assessment procedures



# Definitions from SAS 145

## Significant Risk

- Identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the:
  - Combination of the likelihood of a misstatement occurring
  - The magnitude of the potential misstatement should that misstatement occur
- that is to be treated as a significant risk in accordance with the requirements of other AU-C sections

# Inherent Risk Factors

- Complexity
- Subjectivity
- Change
- Uncertainty
- Susceptibility to management bias or other fraud

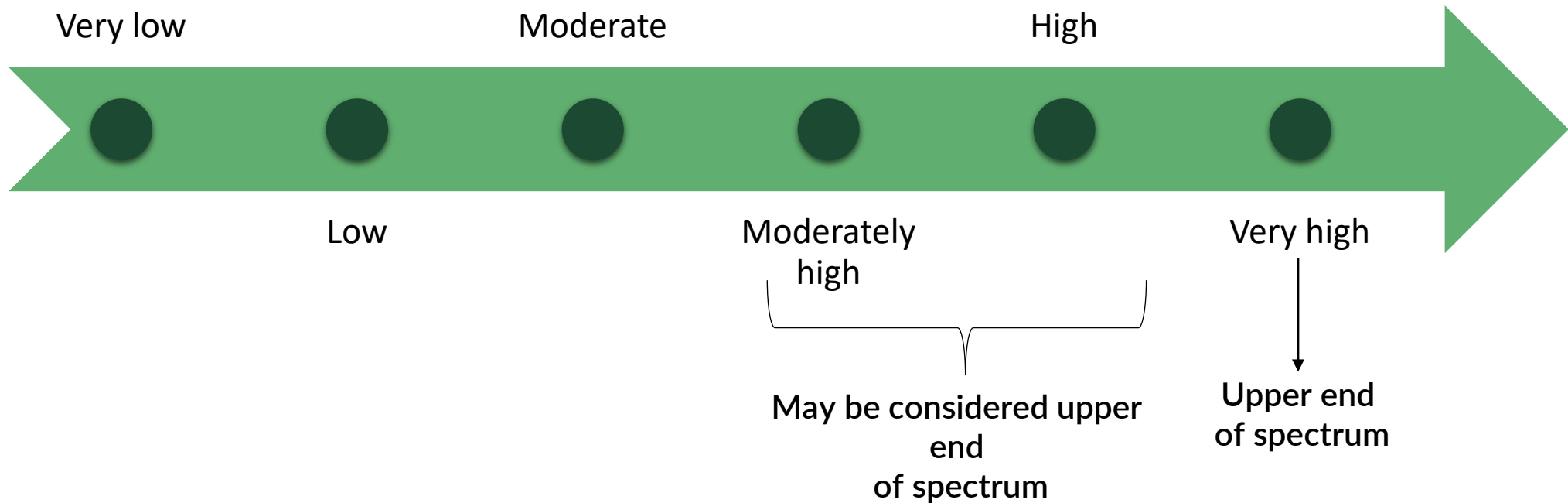
Other factors:

- Quantitative and qualitative significance of balance/transactions
- Volume or lack of uniformity in composition of balance/transactions

# Spectrum of Inherent Risk

Significance of the combination of:

- Likelihood - possibility that a misstatement may occur based on considerations of inherent risk factors
- Magnitude - qualitative and quantitative aspects of possible misstatement



# Identified Controls

## Identified Control per SAS 145 (para 27):

- a) Control that addresses a significant risk
- b) Controls over journal entries and other adjustments (AU-C 240, fraud)
- c) Controls the auditor plans to test for operating effectiveness
- d) Other controls, based on auditor's professional judgment, considers appropriate to enable an assessment of risks of material misstatements at the assertion level and to design further audit procedures

## Para 27(d) “Other Controls”: A187 in Application Guidance:

- Controls addressing risks assessed as higher on spectrum of inherent risk but have not been determined to be a significant risk
- Controls related to reconciling detailed records to the general ledger
- Controls related to accounting estimates
- Complementary user entity controls, if using a service organization (i.e., SOC-1)

# Definitions from SAS 145

## Risks Arising From the Use of IT

- Susceptibility of information-processing controls to ineffective design or operation, or risks to the integrity of information in the entity's information system, due to ineffective design or operation of controls in the entity's IT processes.

# Definitions from SAS 145

## IT Environment

- Susceptibility of information-processing controls to ineffective design or operation, or risks to the integrity of information in the entity's information system, due to ineffective design or operation of controls in the entity's IT processes. The IT applications and supporting IT infrastructure, as well as the IT processes and personnel involved in those processes, that an entity uses to support business operations and achieve business strategies.

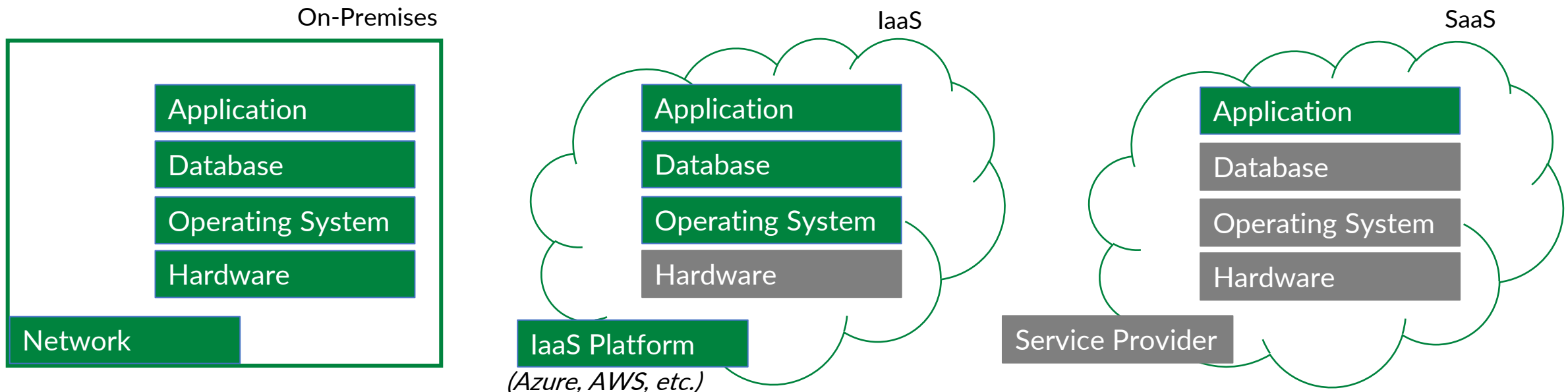
# Definitions from SAS 145

## IT Environment

- an **IT application** is a program or a set of programs that is used in the initiation, processing, recording, and reporting of transactions or information. IT applications include data warehouses and report writers.
- the **IT infrastructure** comprises the network, operating systems, and databases and their related hardware and software.
- the **IT processes** are the entity's processes to manage access to the IT environment, manage program changes or changes to the IT environment, and manage IT operations.

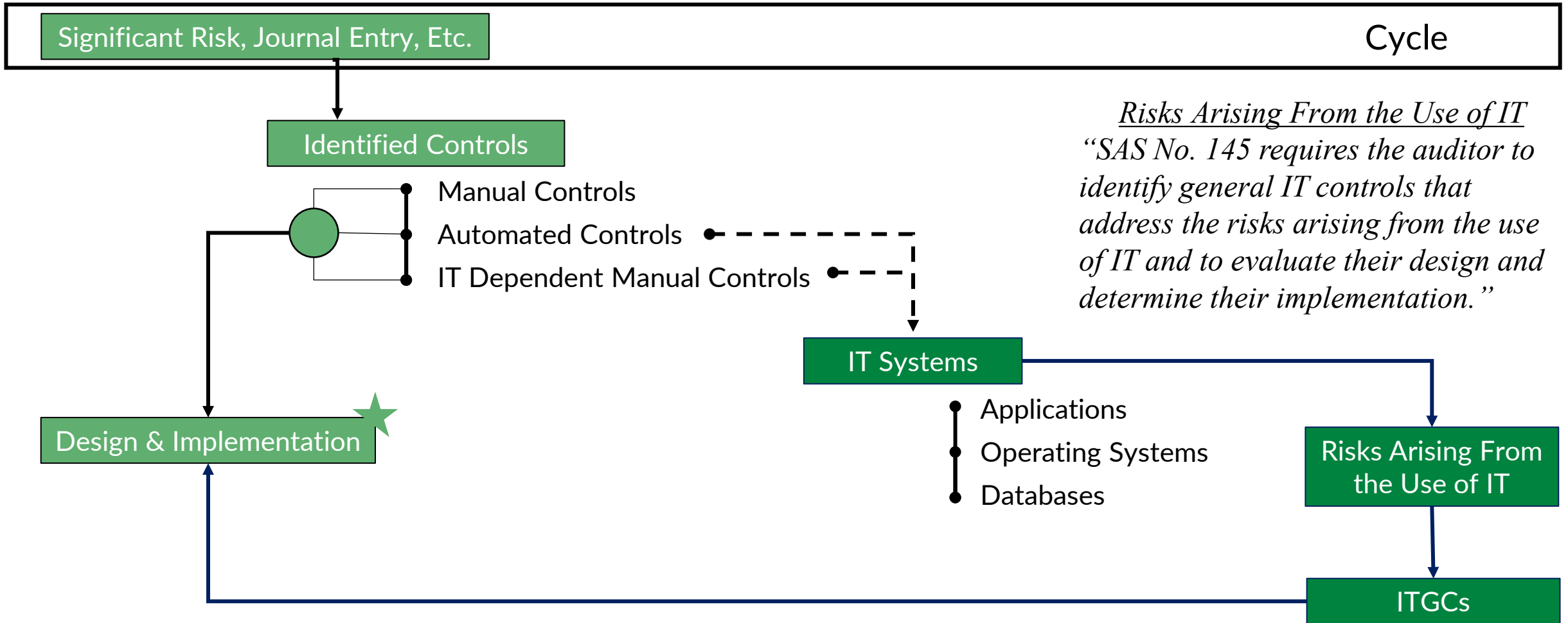
# Information Technology (IT) Environment

IT Environment: The **IT applications and supporting IT infrastructure**, as well as the IT processes and personnel involved in those processes, that an entity uses to support business operations and achieve business strategies (AICPA, SAS 145).





# Identifying and Testing Controls



# Identified Controls

- General IT controls that address risks related to identified controls per SAS 145 (para 28-30)
  - For **identified controls**, the auditor is required to identify the **related IT applications** and other **aspects of the IT environment** that are subject to the **risks arising from the use of IT**
  - Then, the auditor is required to identify **general IT controls** that address such **risks**
    - This is the set of ITGCs for which the auditor is required to evaluate design and determine implementation
    - **This is not ALL ITGCs for ALL applications and environment aspects – so how do we determine what needs to be included in this**

# Trends in Information Security

Targets — victims of opportunity:

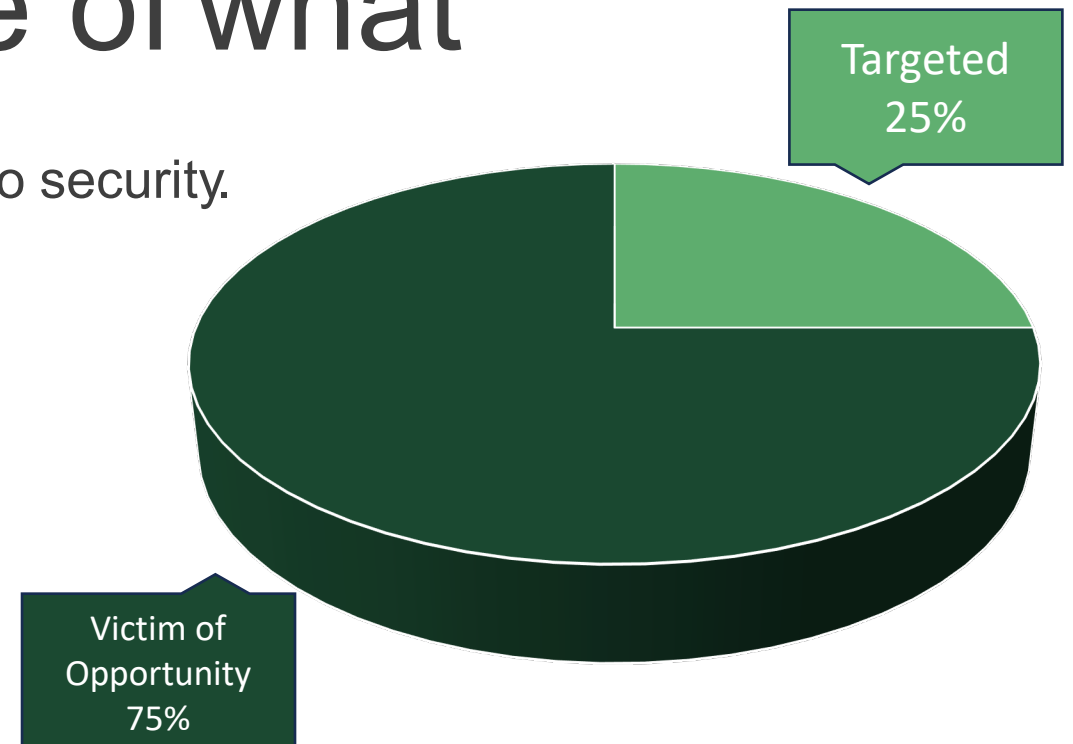
Some will be **a target** regardless of what they do, but

most become a target **because of what**

**they don't do** related to security.

“We don't have anything anyone would want!”

“We are not a large company, why would anyone target us?”



# Polling Question # 2

Control testing and compliance testing are the same thing?

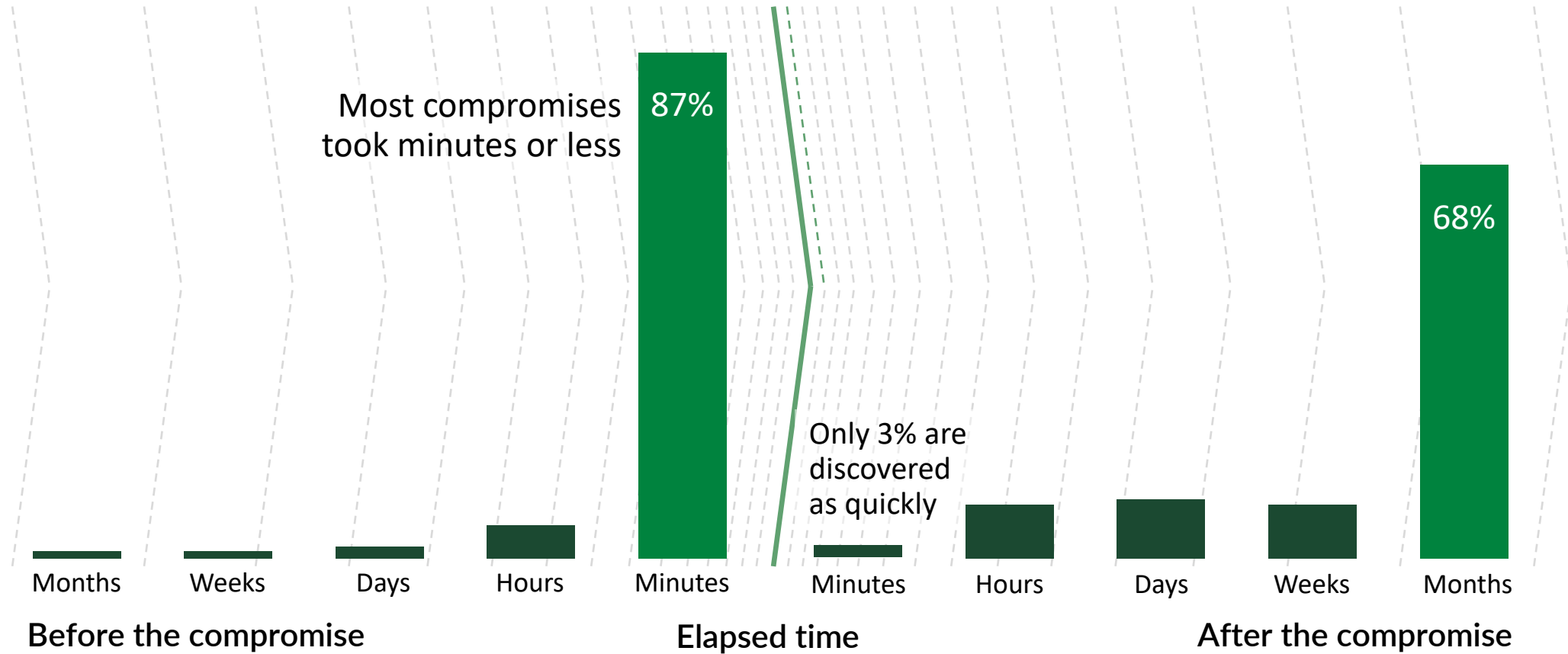
- a) True
- b) False

**“Of course I talk to myself, sometimes I need an expert opinion!” - Carl Spackler, Caddyshack**

Through 2020, **99%** of vulnerabilities exploited will be known by security and IT professionals for at least one year Source = Gartner

“My IT guys are top notch, I trust them... They told me we are all good!”

# Timeliness of Detection



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## Current Expected Credit Losses

Andrew Walton, Manager, Novogradac

# Overview

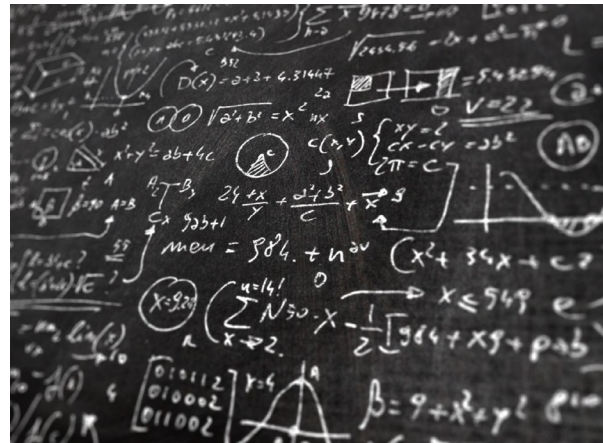
- Understand the history of the current expected credit loss model (CECL).
- Principles of CECL
  - Included vs excluded financial assets
  - CECL building blocks
- Acceptable models for evaluating expected credit loss
- Enhanced Disclosure Requirements



# First a History Lesson!

- FASB and IASB create the FCAG due to the 2008 financial crisis
- FCAG identified the incurred loss model as flawed
  - Only used historical data
  - Did not reflect credit losses in a timely manner
- FCAG proposes using a model that includes forward looking data

# Movie Montage!



# The ASU's

- ASU 2016-13 Financial Instruments-Credit Losses (Topic 326) Measurement of Credit losses on Financial Instruments
- Amendments
  - ASU 2019-04
  - ASU 2019-05
  - ASU 2019-10
  - ASU 2019-11
  - ASU 2020-02
  - ASU 2022-02

# What's within the scope of CECL?

- Trade receivables
- Notes receivable
- Contract assets
- Debt securities measured at amortized cost
- Net investment in leases
- Guarantee Contracts
- Loan commitments
- Some off-balance sheet credit exposures

# What's not within the scope of CECL?

- Contributions or pledges receivable
- Receivables between entities under common control
- Operating lease receivables
- Financial assets measured at fair value
- Available-for-sale debt securities (326-30)
- Held-for-sale loans reported at the lower of amortized cost or fair value
- Participant loans in defined contribution plans under Topic 962
- Investments in insurance contracts not accounted for at amortized cost

# CECL Building Blocks

- The basics for assessing impairment
  - Historical data
  - Current conditions
  - Reasonable and supportable forecasts \*NEW\*
- The information can be internal and/or external
- Quantitative and qualitative factors

# Developing the Estimate

- Can not rely solely on past events
- The estimate must be adjusted based on current conditions and reasonable and supportable forecasts
- The adjustments can be qualitative in nature
  - Changes in employment rates
  - Property values
  - Commodity values
  - Other factors associated with credit loss for the financial asset

# Other Issues

- Some may be able to develop and support a reasonable forecast over the entire contractual term
  - This is not a requirement
- For periods beyond which the entity can make reasonable and supportable forecasts, the entity will revert to historical information for the remainder of the contractual term
- Zero loss expectation
- Pooling



# Polling Question # 3

What do the letters in CECL stand for?

- a) Cat Enthusiast Conference League
- b) Chickens Escaping Culinary Limbo
- c) Clowns Entertaining Corporate Lawyers
- d) Current Expected Credit Losses

# Acceptable Methods

The allowance for credit losses may be determined using various methods. For example, an entity may use

- Discounted cash flows
- Loss rate
- Roll-rate
- Probability of default
- Aging Schedule

# Discounted Cash Flows

- An entity is not required to utilize a discounted cash flow method to estimate expected credit losses.
- Similarly, an entity is not required to reconcile the estimation technique it uses with a discounted cash flow method.
- If the discounted cash flow method is used, you must use the asset's effective interest rate
- Allowance would equal the difference between the amortized cost basis and the present value of expected cash flows

# Loss Rate

- Expected credit losses are determined by applying an estimated loss rate to the asset's amortized cost basis.
- Loss rate approach uses historical rate of loss of the financial assets
- Portfolio should be segmented based on shared credit risk characteristics
- Historical credit loss trends should be adjusted for current and future conditions

# Roll Rate

- Expected credit losses are determined by using historical trends in credit quality indicators (e.g., delinquency, risk ratings).
- Roll rates are determined by predicting credit losses by segmentation of a portfolio of financial assets.
- Once a roll rate is determined for each segment, it is applied to the balance in each category to estimate the amount that will migrate to the next category
- The total migrations across all categories are aggregated to determine the estimate of credit losses.

# Probability of Default

- Expected credit losses are determined by multiplying the probability of default (i.e., the probability the asset will default within the given time frame) by the loss given default (the percentage of the asset not expected to be collected because of default).
- Exposure at default is the total value exposed when a loan defaults.
- The probability of default is the likelihood that someone will default.
- The loss given default is the loss that will be incurred if there is a default.
- A discount factor is applied to discount the future to today.

# Aging Schedule

- Expected credit losses are determined on the basis of how long a receivable has been outstanding (e.g., under 30 days, 31–60 days).
- This method is commonly used to estimate the allowance for bad debts on trade receivables.
- The historical loss rates for each respective age bucket are then adjusted for current conditions using reasonable and supportable forecasts.
- Based on the aging categorization and the adjusted loss rate per category, an allowance for credit losses is calculated.

# Disclosure Requirements

- Disclosures should enable a user of the financial statements to understand the following:
  - The credit risk inherent in a portfolio and how management monitors the credit quality of the portfolio
  - Management's estimate of expected credit losses
  - Changes in the estimate of expected credit losses that have taken place during the period



# 2024 Financial Management Conference

## An Entity's Ability to Continue as a Going Concern & Impairment Considerations

Winell Belfonte, Partner, CohnReznick

# LEARNING OBJECTIVES

- Going concern has emerged in recent years, particularly amid the COVID-19 pandemic, as a focal point of increased consideration. When conditions or events raise substantial doubt, effectively addressing these issues is of noticeable importance. Gain insight into the techniques and thought processes necessary to appropriately address going concern.
  - Learn the background of and how to apply FASB going concern standards
  - Learn the background of and how to address going concern from an audit perspective

# GOING CONCERN – GAAP Requirements

Extracted from ASC 205-40-50 (emphasis added)

- Management shall evaluate whether relevant conditions and events, considered in the aggregate, indicate that it is **probable** that an entity will be unable to meet its obligations as they become due within one year after the date **that the financial statements are issued.**
- The evaluation initially **shall not take into consideration the potential mitigating effect of management's plans that have not been fully implemented as of the date that the financial statements are issued** (for example, plans to raise capital, borrow money, restructure debt, or dispose of an asset that have been approved but that have not been fully implemented as of the date that the financial statements are issued).

# GOING CONCERN

- Going concern is not an anecdotal exercise
- There is a well-organized set of considerations and defined terms
- Responsibility under AICPA: Conclude, based on the audit evidence obtained, whether substantial doubt exists about an entity's ability to continue as a going concern for 1 year beyond the date of issuance
- Literature:
  - US GAAP - FASB ASC 205-40 (only 21 paragraphs long)
  - AICPA audits - AU-C 570 (only 31 paragraphs long)
  - PCAOB audits - AS 2415 (only 17 paragraphs long)

# NEW GOING CONCERN SECTION (no longer an EOM)

## ***Substantial Doubt About the Company's Ability to Continue as a Going Concern***

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note X to the financial statements, the Company has suffered recurring losses from operations, has a net capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note X. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

# Management's Responsibility

- In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

# Auditor's Responsibility

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time

# Possible High-Level Considerations – Working Capital

- Current Assets less Current Liabilities – does the entity have enough assets available in the next year to meet its obligations that come due in the next year.



# Possible High-Level Considerations – Negative Cash Flows from Operations

- Is the entity losing cash from its operations?
- Note that cash flows from operations may be different from net income due to various noncash items such as depreciation, amortization, etc.

# CONDITIONS OR EVENTS

- **Conditions or events which raise substantial doubt:**
  - Factors may include, but are not limited to:
    - declines in revenue/ increasing accounts receivable
    - declines in cash inflows
    - unexpected cash outflow
    - GP/sponsor funding
    - uncertainty as to access of needed financing
    - maturing debt
  - The various factors in US GAAP (ASC 205-40) and US GAAS (AU-C 570) or PCAOB (AS 2415) may also be considered, as well as other relevant factors.

# MANAGEMENT'S PLANS

**Evaluation of management's plans in relation to going concern and whether management's plans are probable of (1) being implemented and (2) mitigating the conditions or events that raise substantial doubt**

- What are management's plans? (there may not be any)
- Is it probable they will be implemented?
- Is it probable they will be effective if implemented?
- Do we have sufficient appropriate audit evidence? Ask “how do we know?”
- Management's projections may no longer be valid

# WHEN THIRD PARTY SUPPORT IS NECESSARY

When management's plans include financial support by third parties or the entity's owner-manager and such support is necessary in supporting management's assertions about the entity's ability to continue as a going concern, AU-C 570 indicates the auditor should obtain sufficient appropriate audit evidence about the following:

- The intent of such supporting parties to provide the necessary financial support, *including written evidence of such intent*, and
- The ability of such supporting parties to provide the necessary financial support

# THIRD PARTY SUPPORT - ABILITY

- Audit evidence of past support obtained from the supporting party when such support was needed.
- The solvency of the supporting party and the sufficiency of the evidence supporting the solvency assertion.
- Supporting evidence may include:
  - Financial statements of the supporting party audited by a reputable auditor.
  - If the financial statements have not been audited, the auditor may perform other procedures, such as obtaining bank statements and evidence regarding the valuation of assets held by the supporting party that may be used to provide the needed support.
    - However, these procedures might not provide evidence regarding other claims on the pledged assets that would limit the ability of the supporting party to use the assets to provide the support to the reporting entity.

# THIRD PARTY SUPPORT - ABILITY

- Given the nature of the continuing disruption surrounding COVID-19, the supporting party may not be able to provide sufficient appropriate evidence  
(e.g., evidence that the supporting party has the ability to provide the necessary support in a timely manner for the reporting entity to meet the reporting entity's obligations as they come due. See AU-C 570.A38.)
- In such a circumstance, it may be determined that substantial doubt exists about the entity's ability to continue as a going concern

# SUFFICIENT APPROPRIATE AUDIT EVIDENCE

When considering projections or analysis of the upcoming year, the following are examples of what may be considered:

- Revenues (how determined, how affected, how do we know)
- Third party industry estimates of the effects of the pandemic on specific industries
- Sensitivity on expenses (insurance, utilities, etc.)
- Results to date

# AUDIT DOCUMENTATION REQUIREMENTS

- Documentation that is both corroborating and contradictory evidence may include:
  - Memos that address the 1 year assessment period
    - Management's position
    - Auditor's documentation of auditing and accounting considerations
  - Projections with sensitivity analysis and audit evidence regarding inputs, as appropriate
  - Revenue contracts
  - Contracts of commitments (leases, etc.)
  - Debt agreements
  - Debt renewal agreements
  - Third party support
    - Evidence as to intent (such as a support letter or a contract, etc.)
    - Evidence as to ability of the third party to provide said support



# Polling Question # 4

When is the best time to assess going concern?

- a) Interim period before end of year
- b) When the auditors bring it up
- c) Never

# TIPS

- Address going concern situations early on.
- Often, businesses have a plan, written or unwritten, to stay afloat.
- Test projections, figuratively ask “how do we know?”
- Note that it may be appropriate to have expanded disclosure in the financial statements to describe why there is, or is not, substantial doubt about an entity’s ability to continue as a going concern.

# OTHER FAQs

## 1. Does the consideration of going concern still apply for a compilation or review?

Yes. The nature of procedures should be consistent with what is required for the level of service.

## 2. What if an entity says they want to have financials presented on a special purpose framework (SPF, f/k/a OCBOA), for example the cash or tax basis, does the consideration of going concern still apply?

Yes. Even if the SPF itself does not discuss going concern (cash basis, tax basis, etc.), the literature for all three levels of service requires consideration of going concern:

- audits (AU-C 570.03),
- reviews (AR-C 90.66), and
- compilations (AR-C 80.A20).

Presenting financials under SPF does not remove consideration of going concern.

# IMPAIRMENT CONSIDERATIONS

- Triggers
  - I. Negative NOI
  - II. Environmental
  - III. Natural disasters
- Valuations
- Permanent write down

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## Staffing and Recruiting

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# How are you handling staffing issues?

- Outsourcing specific functions (AP, Payroll etc.)
- Use of technology (system upgrades; automation of processes etc.)
  - Property management technology – automation of maintenance requests, lease applications etc.
- Shared functions/personnel with other organizations or departments
- Succession plans
- Documented procedures

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Q & A

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# Evaluation Reminder

- Please submit all conference evaluations. Use the electronic evaluation link in your email.
- Contact [consult.lwells@gmail.com](mailto:consult.lwells@gmail.com) if you do not receive the link.



# CONTACT INFORMATION

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