



# Administrative Remarks

Conference Planning Committee



# FASB Update: What Lies Ahead?

*Jeffrey D. Mechanick*



## FASB Update: What Lies Ahead?

**FICPA NFP Conference**  
**May 26 & 27, 2016**

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Chairman, FASB NFP Advisory Committee  
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*The views expressed in this presentation are those of the presenter. Official positions of the FASB are reached only after extensive due process and deliberations.*



## Agenda

- NFP Financial Statements project
- Revenue Recognition (implementation activities)
- Leases
- Other Recent ASUs/ Projects in the Pipeline
- Q&A



## NFP Financial Statements Project



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## NFP Financial Statements Project—Key Objectives (recommended by FASB's NFP Advisory Committee (NAC))


- Update, not overhaul, the current model
- Improve net asset classification scheme
- Improve information in financial statements and notes about:
  - Financial performance
  - Cash flows
  - Liquidity
- Better enable NFPs to “tell their financial story”



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Redeliberations Plan	
Phase I Aim: Final ASU by mid-2016, with effective date(s) TBD	Phase II
<b>Net Asset Classes:</b> <ul style="list-style-type: none"><li>Classification scheme</li><li>Disclosure of board designated net assets</li><li>Underwater endowments</li><li>Expirations of capital restrictions</li></ul>	<b>Operating Measures—all other elements of the proposal, including:</b> <ul style="list-style-type: none"><li>Whether to require intermediate measure(s)</li><li>Whether and how to define such measure(s), and what items should or should not be included in the measure(s)</li><li>Alternative disaggregation approaches suggested by stakeholders</li></ul>
<b>Expenses/Investment Return:</b> <ul style="list-style-type: none"><li>Expenses by nature; analysis of expenses by function and nature</li><li>Netting of investment expenses against investment return</li><li>Disclosure of netted investment expenses</li><li>Enhanced disclosures about cost allocations</li></ul>	<b>Statement of Cash Flows:</b> <ul style="list-style-type: none"><li>Realignment of certain items</li></ul>
<b>Operating Measures:</b> <ul style="list-style-type: none"><li>Modest improvements to disclosures for those that use an operating measure, especially about board appropriations, designations and similar transfers</li></ul>	<div>Phase 2: need to decide whether to wait to deliberate at same time as the <b>Financial Performance Reporting</b> project for business entities</div>
<b>Liquidity:</b> <ul style="list-style-type: none"><li>Quantitative disclosures</li><li>Qualitative disclosures</li><li>Consideration of alternatives suggested by stakeholders (e.g., classified balance sheet)</li></ul>	
<b>Statement of Cash Flows:</b> <ul style="list-style-type: none"><li>Methods of presenting operating cash flows (direct/indirect)</li></ul>	

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# Phase I

## Net Assets

Current  
GAAP

Unrestricted

Temp.  
Restricted

Perm.  
Restricted

Proposed  
GAAP

Without Donor  
Restrictions

With Donor Restrictions

+

Disclosures

Amount, purpose,  
and type of board  
designations \*

Nature and amount  
of donor restrictions

\* New disclosure requirement

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## “Underwater” Endowments

### Revised net asset classification

- To be reflected in net assets with donor restrictions rather than in net assets without donor restrictions

### Enhanced disclosures

- In addition to aggregate amounts by which funds are underwater (current GAAP), also disclose aggregate of original gift amounts (or level required by donor or law) for such funds, fair value, and any governing board policy or decision to reduce or not spend from such funds.

## Expiration of Capital Restrictions

- Gifts of cash restricted for acquisition or construction of PP&E
  - NFPs would be required to use the **placed-in-service** approach (*no more implied time restrictions*)

## Expense Reporting

- Report expenses, either on the face of financial statements or in the notes, by:
  - Function \*
  - Natural classification
  - Analysis (disaggregate function by nature)\*\*
  - \* **currently required in GAAP**
  - \*\* **Board may explore segment reporting instead for HC in Phase II**
- NFPs required to provide qualitative disclosures about methods used to allocate costs among program and support functions

## Reporting of Investment Returns

### How to present?

- **Net presentation** of investment expenses against investment return on the face of the statement of activities
  - Netting limited to external and **direct** internal expenses

### What to disclose?

- Disclosure of investment expenses **no longer required**
- No longer require disclosure of investment income **components**

## Liquidity and Availability of Resources

- NFPs required to provide:
  - **Qualitative** information on how an NFP manages its liquid available resources and its liquidity risk (in the notes)
  - **Quantitative** information that communicates the availability of an NFP's current financial assets at the balance sheet date to meet cash needs for general expenditures (on the face and/or in the notes)

## Cash Flow Statement

- Allow free choice between the **Direct Method** and the **Indirect Method**
  - Indirect reconciliation no longer required for Direct Method

## Operating Measure: Improved Disclosures

- For those NFPs that utilize an operating measure and show **governing board designations, appropriations, and similar actions** (internal transfers) in the measure
- These NFPs must report these types of internal transfers appropriately **disaggregated and described by type** (either on the face of the financial statements or in the notes)

## Effective Date, Early Adoption, and Transition

- Effective Date: For fiscal years beginning after 12/15/2017 (e.g., CY 2018, FY 2018-19)
  - Interim financials the following year
- Early Adoption: Permitted, but must apply the regular transition provisions.
- Transition:
  - For year of adoption: apply all provisions.
  - For comparative years presented: apply all provisions, except can choose not to present:
    - (1) Analysis of expenses by nature and function, and/or
    - (2) Disclosures around liquidity and availability of resources

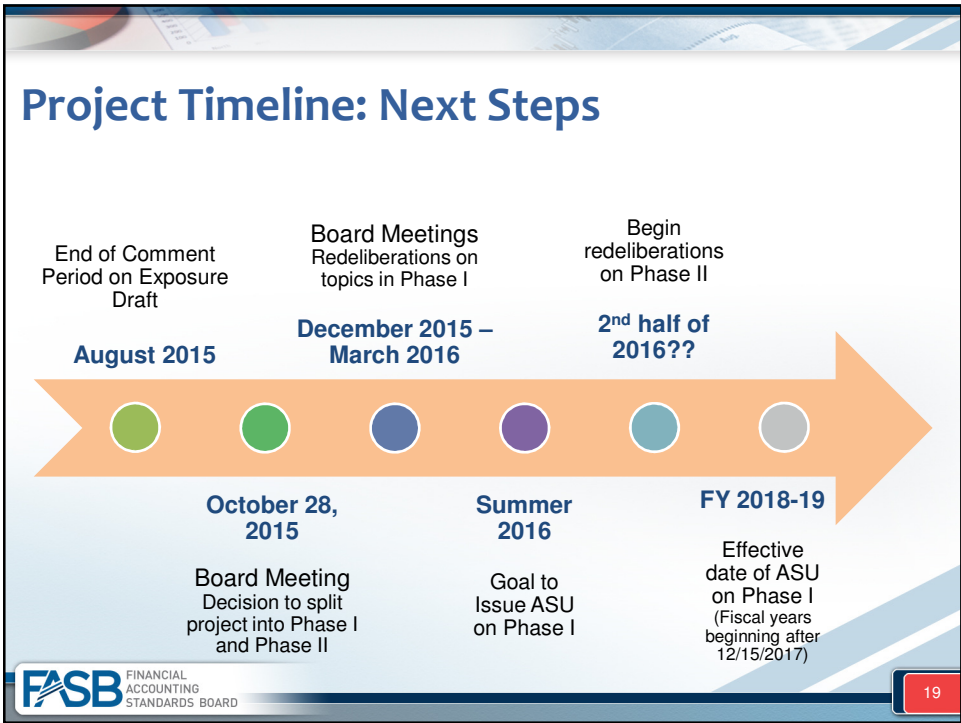
## Example of Early Adoption

- Choose to early adopt in FY 2015-16
  - Apply all provisions to FY 2015-16
  - If choose to present comparative financials for FY 2014-15, apply all provisions to FY 2014-15, except can choose not to present:
    - (1) Analysis of expenses by nature and function, and/or
    - (2) Disclosures around liquidity and availability of resources

## Important Notes

- NFPs are *already permitted* to incorporate many of the changes in the ASU
- The only changes that cannot be done without formally adopting the ASU are:
  - (1) Presenting one class of restricted net assets (consolidating temporarily and permanently restricted)
  - (2) Underwater endowment accounting
  - (3) Eliminated disclosures of investment return components and netted expenses
  - (4) Eliminated requirement to provide indirect reconciliation if using direct method for operating cash flows





## ASU 2015-14: Revenue - Effective Date

### Original effective dates

- **CY 2017** (FY 2017-18) for **public entities\*** (including interim)
- **CY 2018** (FY 2018-19) for **nonpublic entities** (no interim, just annual period; interims in subsequent years)
- Nonpublic entities may adopt early, but no earlier than public entities

### Deferred effective dates

- **CY 2018** (FY 2018-19) for **public entities\*** (including interim)
- **CY 2019** (FY 2019-20) for **nonpublic entities** (no interim, just annual period; interims in subsequent years)
- Early adoption permitted, but not before original effective date

\* Public entities include NFPs with publicly-traded conduit (or direct) debt

## FASB Recent Standard Setting (following discussions with TRG)

### Identifying Performance Obligations and Licensing<sup>1</sup>

- **Performance Obligations**
  - Distinct in the context of the contract
  - Immaterial promises
  - Shipping and handling
- **Licensing**
  - Nature of license: over time vs. point in time
  - Scope of constraint on sales-based and usage-based royalties

### Principal versus Agent (Reporting Revenue Gross versus Net)<sup>2</sup>

- Control principle: to provide (principal) vs. to arrange (agent)
- Unit of account
- Control principle in the context of services
- Control indicators
- Illustrative examples

### Narrow-Scope Improvements and Practical Expedients<sup>3</sup>

- **Narrow-Scope Improvements**
  - Noncash consideration
  - Collectibility
  - Completed contracts at transition
- **Practical Expedients**
  - Contract modifications at transition
  - Sales tax presentation (net)

<sup>1</sup>ASU 2016-10 (issued April 2016)

<sup>2</sup>ASU 2016-08 (issued March 2016)

<sup>3</sup>ASU 2016-12 (issued May 2016)

## Revenue Recognition – Some Areas of Focus for NFPs Being Discussed by AICPA Task Forces

### Government (and other) grants and contracts

- FASB staff has been doing pre-agenda research, working with AICPA NFP Rev Rec Task Force; project just added to FASB's technical agenda (next slides)

### Tuition and Fees

### Membership Dues

### Licenses and Royalties

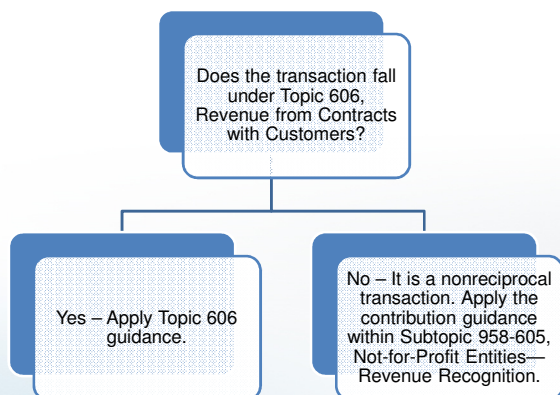
### Health Care: various issues, including:

- Self-pay patients
- Medicare/Medicaid payments (and subsequent audits)
- Continuing Care Retirement Communities: entrance and other fees

## Revenue Recognition of Grants and Contracts by Not-for-Profit Entities

- Project recently added to FASB's Technical Agenda to improve and clarify existing guidance
- Long-standing diversity in practice in classifying grants and contracts, particularly from governmental entities
  - Issue 1: Reciprocal vs. Nonreciprocal
  - Issue 2: Conditions vs. Restrictions
- ASU 2014-09, Topic 606 (Revenue from Contracts with Customers) heightened the issue, including the related disclosures
  - Raised question as to whether grants and contracts are in scope of that guidance (reciprocal or nonreciprocal)
- Terminology and Transition
  - "Contributions" encompasses both grants and donations
  - A change in classification in connection with enhanced/clarified guidance would not be the correction of an accounting error

## Issue 1: Reciprocal vs. Nonreciprocal

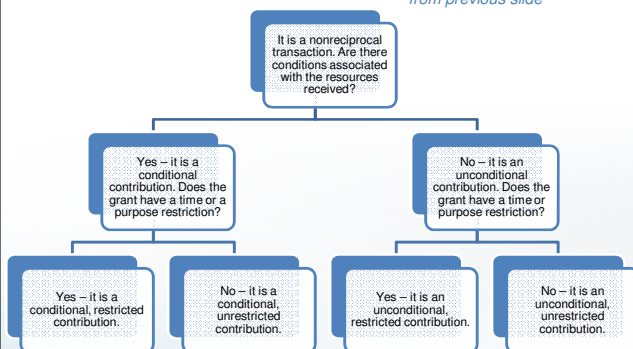


### Potential Improvements at This Decision Point:

1. Re-examine **indicators** in paragraph 958-605-55-8
2. Emphasis/examples on **direct, commensurate benefit** to resource providers
3. Clarification that benefit to the general public or a benefit of furthering a mission **does not constitute a direct benefit** to the government (not reciprocal)
4. Re-examine/reinforce **terminology** (contributions include donations/gifts and grants).

## Issue 2: Distinguishing Between Conditions and Restrictions

*\*continuation of decision tree from previous slide*



### Potential Improvements at These Decision Points:

1. Re-examine key **definitions** (for example, *donor-imposed condition* and *donor-imposed restriction*)
2. Provide **illustrative examples** of transactions where the guidance is not clear and there is diversity in practice
3. Re-examine the notion of “uncertainty” or “remote”
4. Consider incorporating language from the UK Charity SORP on performance conditions.

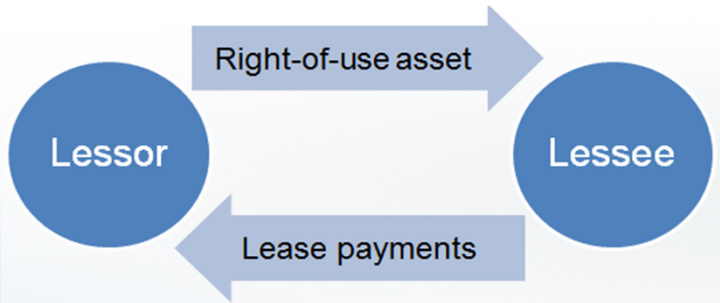
# Leases



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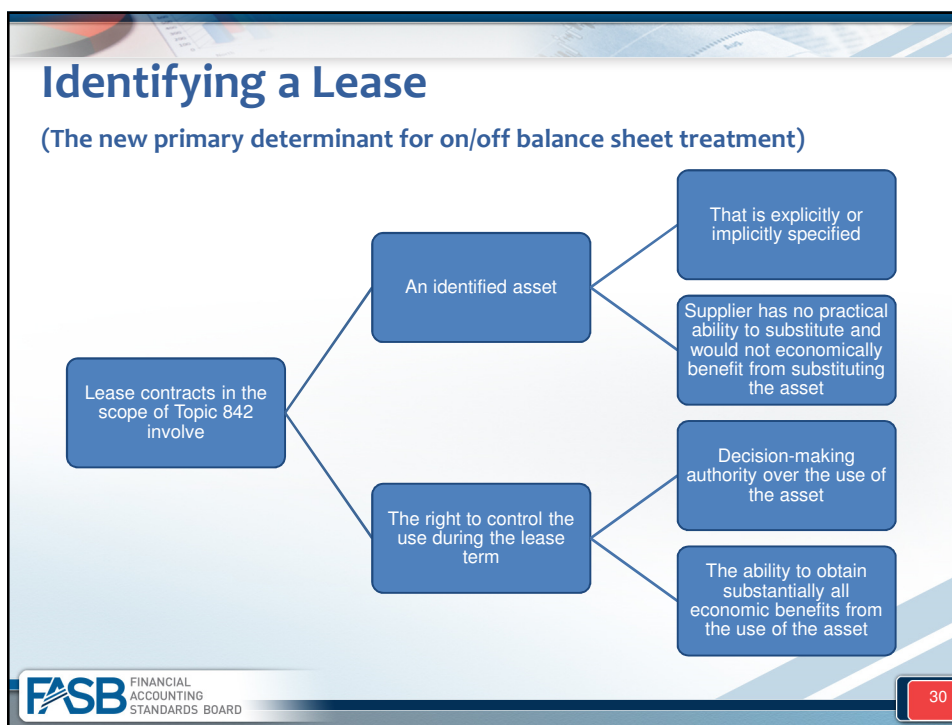
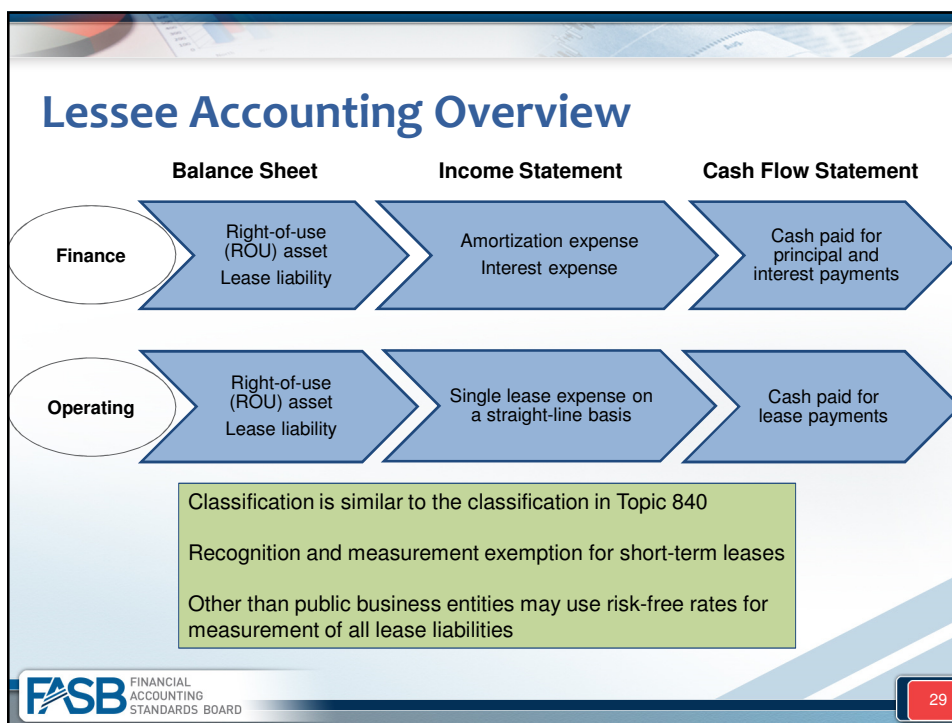
## Leases (ASU 2016-02; Topic 842)

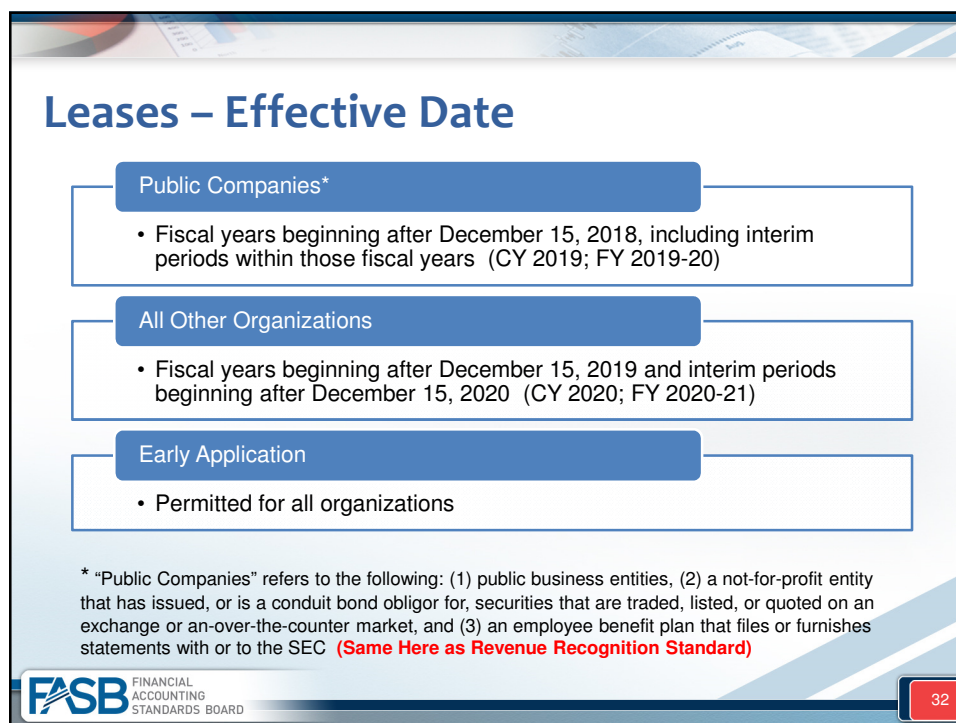
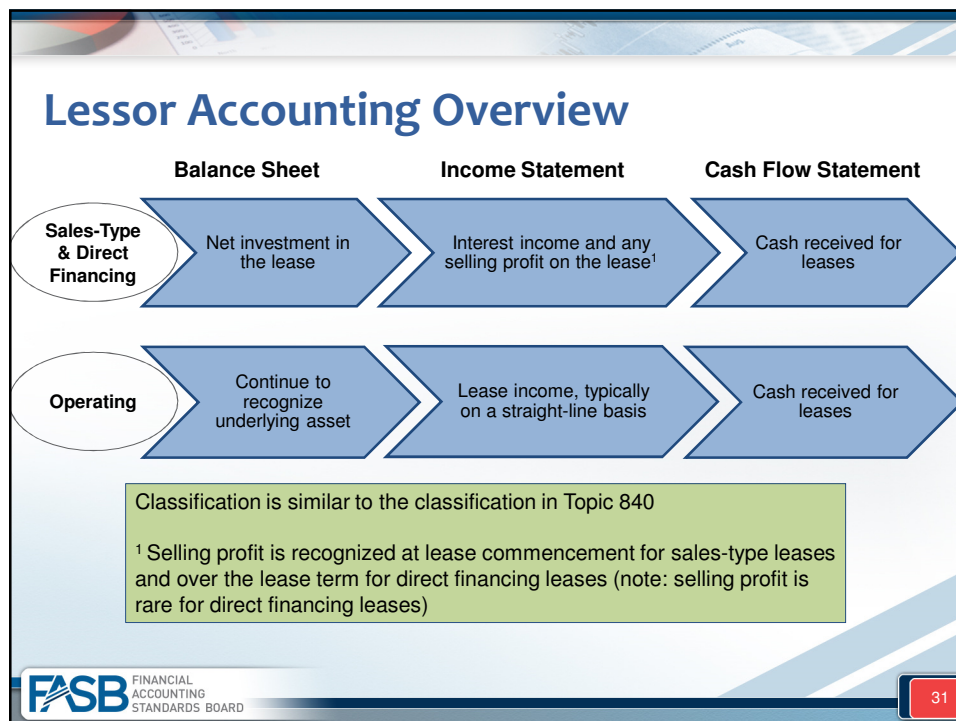
A lease contract conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration



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## Other Recent ASUs

(see Appendix for complete list of ASUs issued since last year's conference)



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## Going Concern (ASU 2014-15)

- Basically, brings model in GAAS into GAAP
  - Defines "substantial doubt" at the probable threshold
  - Key difference is look-forward period
    - 12 months from issuance date, NOT balance sheet date
- Effective for CY 2016 (FY 2016-17)



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## Accounting for Financial Instruments – Recognition and Measurement (ASU 2016-01; Topic 825)

Disclosures: FV of Financial Instruments not recognized at FV in Balance Sheet

- ASU 2016-01 extends to **all** entities other than Public Business Entities the exemption from having to disclose this information
- Thus, no NFPs would have to provide these disclosures
  - *Currently, NFPs with more than \$100 million in assets or with any derivatives (e.g., interest rate swaps) provide these disclosures*
- ASU is effective for NFPs for CY 2019 (FY 2019-20). This provision may be early adopted for all financial statements not yet issued.

## ASU 2016-01: Other Noteworthy Changes

(mostly for healthcare NFPs)

- All equity investments (under the consolidated or equity method) at FV through net income
  - Cost-based practical expedient for nonmarketable equity securities
  - AFS (Other-than-Trading) classification thus now limited to debt securities
  - This provision may not be early adopted.
- FV Option retained, but changes from instrument-specific credit risk on own debt would be presented in OCI rather than net income
  - This provision may be early adopted

## Simplification Initiative Objective

- Reduce cost & complexity while maintaining or improving the usefulness of the information
- Projects include narrow-scope items that the FASB can complete in the short term



Not always so  
SIMPLE!!

## FASB Simplification Initiative – Some Final Guidance

### Debt Issuance Costs (ASU 2015-03)

- To be reported as direct reduction of debt liability for issued debt (like debt discounts), rather than as separate asset
- Effective for CY 2016 (FY 2016-17); can early adopt



## FASB Simplification Initiative – Some Final Guidance

### Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07)

- No longer require investments for which FV is measured at NAV (or its equivalent) using practical expedient to be categorized in FV hierarchy
- Clarifies that certain disclosures (e.g., redemption restrictions) only required when practical expedient is actually used
- Effective for CY 2017 (FY 2017-18); can early adopt

## FASB Simplification Initiative – Some Final Guidance

(mostly for healthcare NFPs)

### Measurement-Period Adjustments (ASU 2015-16)

- No longer have to retrospectively adjust comparative prior year information for adjustments identified in the current year to provisional amounts recognized in a business combination (including acquisition of another NFP)
- Effective for CY 2017 (FY 2017-18); can early adopt

## FASB Simplification Initiative – Some Final Guidance

(mostly for healthcare NFPs)

### Equity Method of Accounting (ASU 2016-07)

- No longer have to retroactively adjust equity interest when cross significant influence threshold (typically 20% ownership; lower for partnership interests) as if had such interest all along
- Effective for CY 2017 (FY 2017-18); can early adopt

## Other Projects in the Pipeline

(see FASB website, Technical Agenda page, for complete list)

## Accounting for Financial Instruments – Credit Losses (Final ASU to be issued soon)

- At core of upcoming ASU is new Current Expected Credit Loss (CECL) Model
  - Focuses on what a reporting entity expects to collect, rather than on whether the loan/ other asset has “gone bad” (incurred loss model)
    - *Considers past history, current conditions, reasonable expectations about foreseeable future*
- CECL Model not expected to result in significant impact on most entities other than financial institutions.
  - For NFPs, would apply to trade receivables (such as patient receivables), loans receivable, and lease receivables, but not to pledges receivable
    - *Likely already taking CECL considerations into account for such assets*

## Accounting for Financial Instruments – Credit Losses (cont'd)

- More noteworthy is the change to impairment (credit loss) guidance for available-for-sale debt securities.  
(healthcare NFPs only; next slide)
- Effective for CY 2020 (FY 2020-21).

## Available-for-Sale Debt Securities

(healthcare NFPs only)

Excluded from the CECL model

Should apply modified impairment guidance in Topic 320

- An allowance approach would be used for recognizing impairment losses, which would allow for credit loss reversals
- Requirement to consider the length of time that fair value of the security has been below amortized cost would be eliminated
- Other-than-temporary concept has been eliminated

## Disclosure Framework: Two Components

Improving the effectiveness of notes requires both:

Consistent considerations by the Board in each standard-setting activity



**Phase I:**  
Board's Decision Process

Appropriate exercise of discretion by reporting entities when assessing disclosure requirements



**Phase II:**  
Entity's Decision Process

## Disclosure Framework – Next Steps

### ■ Board's Decision Process

- Application of Proposed Concepts (from 2014 ED) to Disclosures Relating to Four Initial Areas (at right): Exposure Drafts issued/ to be issued
- Redeliberate Proposed Concepts in the Disclosure Framework

Defined Benefit  
Plans

Fair Value  
Measurement

Income Taxes

Inventory

### ■ Entity's Decision Process

- Exposure Draft on *Assessing Materiality in Disclosures*; public comment period ended in December 2015; now being redeliberated.

## Entity's Decision Process – ED on Assessing Materiality in Disclosures

Changes to  
Codification

“Provide to the  
extent material”

Eliminate language  
that limits discretion

Add guidance on  
applying materiality



## ED on Materiality in Disclosures (cont'd)

### Guidance on Applying Materiality

Applied individually and in the aggregate

Legal concept

Quantitative and qualitative

Omission not an accounting error

## Some Other Noteworthy Projects in the Pipeline

- **Clarifying when an NFP that Is a General Partner Should Consolidate a For-Profit Limited Partnership**
- **Accounting for Goodwill Impairment**
- **Accounting for Identifiable Intangible Assets Acquired in a Business Combination by a Public Business Entity or an NFP**
- **Accounting for Financial Instruments – Hedging (healthcare NFPs only)**

## Some Other Noteworthy Projects in the Pipeline (cont'd)


- **Simplifying the Balance Sheet Classification of Debt**
- **Cash Flow Classification Issues (EITF)**



## Staying Current

Best ways to stay current:

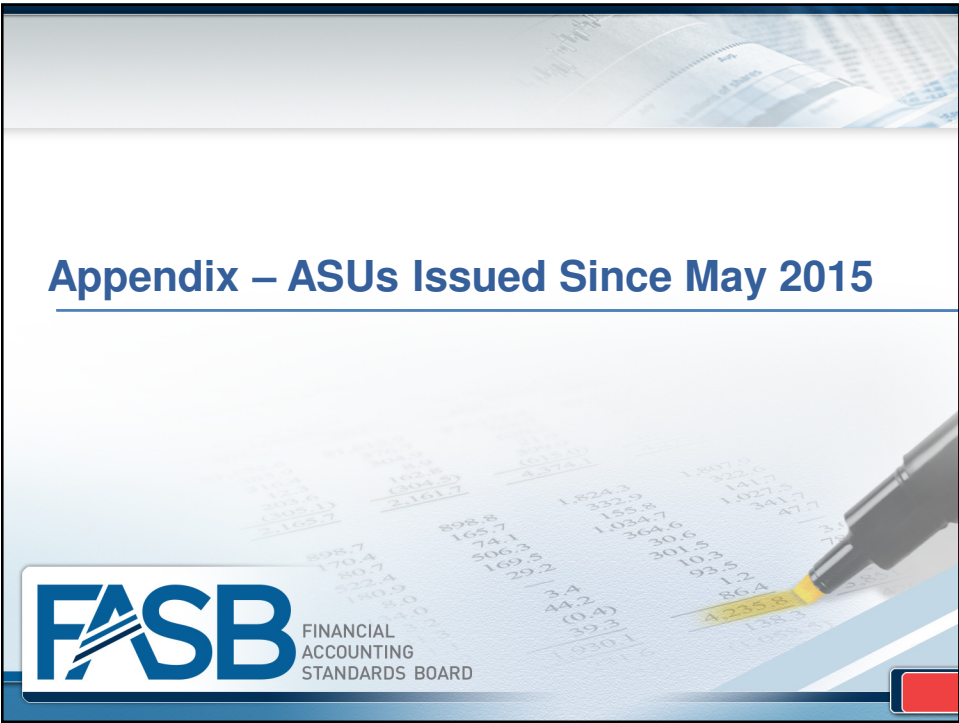
- **Sign up for electronic *Action Alert***
- **FASB on Twitter**
- **[www.fasb.org](http://www.fasb.org)**
  - **Pages on FASB website for NFPs**
  - **Project summaries**
  - ***FASB in Focus* executive summaries**
  - **Podcasts**
  - **Webcasts**

Questions?





Appendix – ASUs Issued Since May 2015





## ASUs Issued Since May 2015

ASU & Cod. Topic/Subtopic	Title
ASU 2015-07, Fair Value Measurement (Topic 820)	Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (EITF)
ASU 2015-08, Business Combinations (Topic 805)	Pushdown Accounting—Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115 (SEC Update)
ASU 2015-09, Financial Services—Insurance (Topic 944)	Disclosures about Short-Duration Contracts
ASU 2015-10, various topics	Technical Corrections and Improvements
ASU 2015-11, Inventory (Topic 330)	Simplifying the Measurement of Inventory

## ASUs Issued Since May 2015

ASU & Cod. Topic/Subtopic	Title
ASU 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965)	(Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient (EITF) 56
ASU 2015-13, Derivatives and Hedging (Topic 815)	Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets (EITF)
ASU 2015-14, Revenue from Contracts with Customers (Topic 606)	Deferral of the Effective Date

## ASUs Issued Since May 2015

ASU & Cod. Topic/Subtopic	Title
ASU 2015-15, Interest—Imputation of Interest (Subtopic 835-30)	Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (SEC Update)
ASU 2015-16, Business Combinations (Topic 805)	Simplifying the Accounting for Measurement-Period Adjustments
ASU 2015-17, Income Taxes (Topic 740)	Balance Sheet Classification of Deferred Taxes

## ASUs Issued Since May 2015

ASU & Cod. Topic/Subtopic	Title
ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10)	Recognition and Measurement of Financial Assets and Financial Liabilities
ASU 2016-02, Leases (Topic 842)	Leases
ASU 2016-03, Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815)	Effective Date and Transition Guidance (PCC)
ASU 2016-04, Liabilities—Extinguishments of Liabilities (Subtopic 405-20)	Recognition of Breakage for Certain Prepaid Stored-Value Products (EITF)



## ASUs Issued Since May 2015

ASU & Cod. Topic/Subtopic	Title
ASU 2016-05, Derivatives and Hedging (Topic 815)	Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (EITF)
ASU 2016-06, Derivatives and Hedging (Topic 815)	Contingent Put and Call Options in Debt Instruments (EITF)
ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323)	Simplifying the Transition to the Equity Method of Accounting
ASU 2016-08, Revenue from Contracts with Customers (Topic 606)	Principal versus Agent Considerations (Reporting Revenue Gross versus Net)

## ASUs Issued Since May 2015

ASU & Cod. Topic/Subtopic	Title
ASU 2016-09, Compensation—Stock Compensation (Topic 718)	Improvements to Employee Share-Based Payment Accounting
ASU 2016-10, Revenue from Contracts with Customers (Topic 606)	Identifying Performance Obligations and Licensing
ASU 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815)	Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update)
ASU 2016-12, Revenue from Contracts with Customers (Topic 606)	Narrow-Scope Improvements and Practical Expedients



## Morning Break



## Practical Application of FASB's Proposed Changes to Non-Profit Reporting

*Jeff Goolsby, CPA*



# Beware the Bad Guys- Data Security Tips and Best Practices

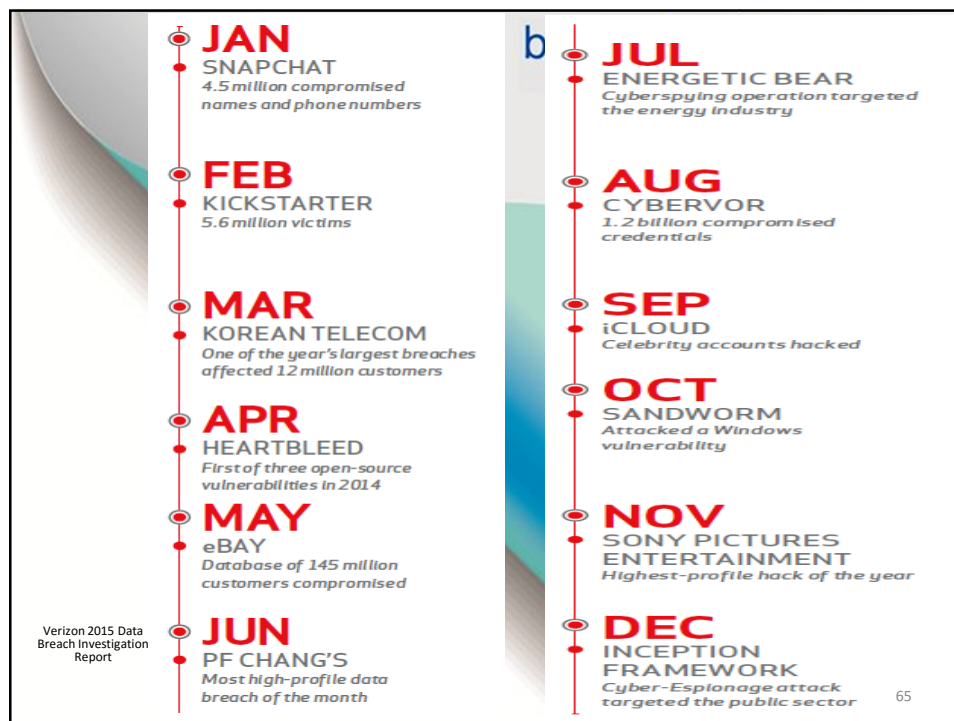
*Joe Gutierrez*



## Beware the Bad Guys

### Data Security Tips and Best Practices

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## Nearly 50% open e-mails and click on phishing links within the first hour

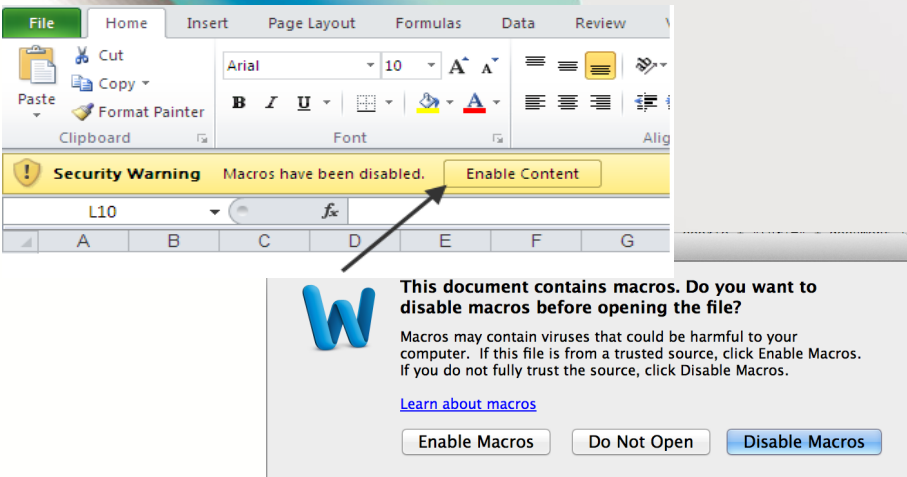
Verizon 2015 Data Breach Investigation Report

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## Trends

- Macros in Word, Excel, PPT documents



The screenshot shows the Microsoft Word interface. The ribbon is set to the 'Formulas' tab. A yellow 'Security Warning' banner is displayed across the top of the document area, stating 'Macros have been disabled.' and providing an 'Enable Content' button. Below the banner, a dialog box is open with the title 'This document contains macros. Do you want to disable macros before opening the file?'. The dialog box includes a warning that macros may contain viruses and provides three options: 'Enable Macros', 'Do Not Open', and 'Disable Macros'. A blue 'W' icon is visible in the top left corner of the dialog box.



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## Ransomware

- Masqueraded installation files
- Popup advising of update
- Links



The illustration shows a hand holding a handgun. The word 'RANSOMWARE' is written on the side of the gun. Below the gun, the text 'Your money or your data' is written in a stylized font.



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## Misconception

- “It can’t happen to us!”
- “Why would anyone target us?”



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## Passwords/Passphrases

- Refresh Passwords
- Don't repeat!
- Use Passphrases
- Password Management Tool

Test the strength of your password: Type a password into the box.

PASSWORD:

STRENGTH: 


Best

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## MDM/BYOD

- Device Encryption
- Password
- Wipe

**BYOD**  
Bring Your Own Device



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## Security Audit

- Penetration Testing
- Vulnerability Scans
- Social Engineering



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## Policies

- Incident Response Plan
- Disaster Recovery Plan
- Retention Policy
- Clean Desk Policy

**Our Disaster Recovery Plan Goes Something Like This...**



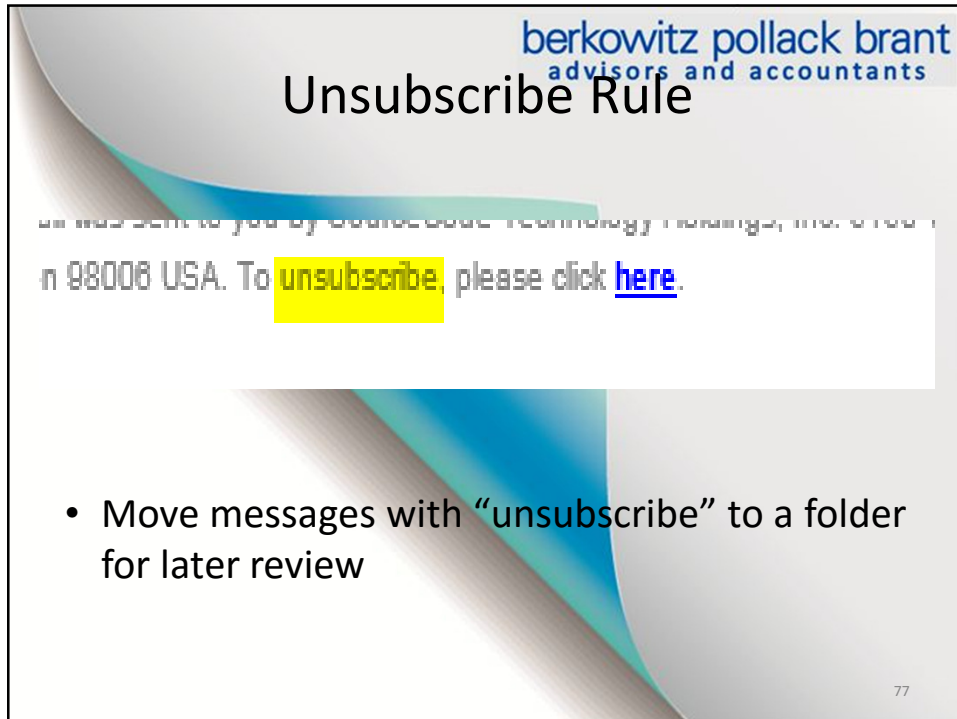
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## Cyber Insurance

- Review with your provider and council

**Cyber Insurance**





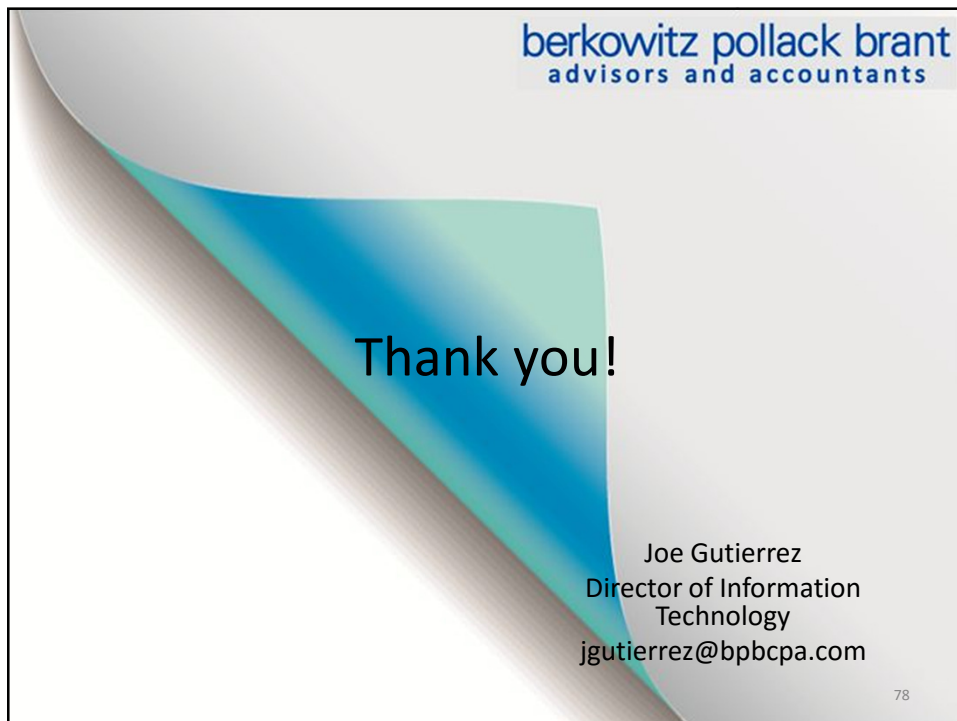
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- Move messages with “unsubscribe” to a folder for later review

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## Thank you!

Joe Gutierrez  
Director of Information  
Technology  
[jgutierrez@bpbcpa.com](mailto:jgutierrez@bpbcpa.com)

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## Lunch Break



## Going Concern: What Nonprofit Organizations' Management Teams Need to Know

*Ian E. Shapiro, CPA*



## ASU 2014-15 Disclosure of Uncertainties About An Entity's Ability To Continue As A Going Concern

Ian Shapiro, CPA  
Audit Partner - Assurance  
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ishapiro@bdo.com



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## ASU 2014-15—Going Concern

Issued August 27, 2014

- Effective date
  - Fiscal years beginning after December 15, 2015
  - Prospective
  - Early adoption permitted

Requires management to perform interim and annual assessments

- Presume entity is going concern until liquidation is imminent.
- Disclosures required when substantial doubt exists.



## ASU 2014-15—Going Concern (Continued)

Substantial doubt about an entity's ability to continue as a going concern

- Exists when conditions and events considered in the aggregate indicate it is probable an entity will be unable to meet obligations as they become due within one year from date financial statement issued and or available to be issued

Information to be assessed including management's plans

- Management should consider mitigating effect of its plans only to the extent it is probable that plans will
  - Mitigate conditions or events giving rise to substantial doubt.
  - Be effectively implemented.

## Going Concern - Definition

### Going Concern:

An entity's ability to continue to meet its obligations as they become due without:

- Substantial disposition of assets outside the ordinary course of business;
- Restructuring debt;
- Externally forced revisions of its operations; or
- Other similar actions.

Source: AU-C Section 570

### Substantial Doubt about an Entity's Ability to Continue as a Going Concern:

- Exists when conditions and events, considered in the aggregate, indicate that it is **probable** that the entity will be unable to meet its obligations as they become due within one year after the date that the F/S are issued (or within one year after the date that the F/S are **available to be issued** when applicable).
- The term **probable** is used consistently with its use in FASB Topic 450 on contingencies.

Source: ASC 205-40

## Potential Indicators of Going Concern

### Financial Reporting Issues

- Failure to prepare timely, accurate financial reports, whether for management, secured lender, etc.
- Failure to prepare, maintain and compare actual results to budgets and forecasts (specifically earnings and cash flow)
- Numerous period-end / year-end adjusting entries or write-offs
- Maturity of borrowing without the ability to pay
- Liquidity concerns
- Substantial operating losses
- Negative cash flows

## Potential Indicators of Going Concern

### Operational Issues

- Repeated debt covenant violations and/or frequent covenant renegotiations
- Fully drawn or overdrawn credit lines
- Deteriorating working capital ratios
- Unfavorable trends in donor receivables
- Cutting and holding checks
- Recurring operating losses
- High or increasing employee turnover, including loss of key management/staff
- High concentrations in funding sources that may themselves be experiencing financial difficulties
- Advancing of funds from grants or other programs to cover current needs
- Intention to liquidate

## Potential Indicators of Going Concern

### Management Issues

- Failure to take responsibility
  - Blaming events / circumstances outside of management control
  - Finger-pointing toward particular department/individual
- Inadequate financial expertise / other imbalances
- Absentee CEO or Board of Directors
- “Scarlett O’Hara syndrome”
  - Naïve belief that tomorrow (next month, next season, etc.) will be better
  - Another loan will get them “over the hump”
  - New product being readied for launch will be a “cure-all”
- Failure to consult appropriate professionals and/or listen to advice
- Failure to stick to core business or close unprofitable segments

## Potential Indicators of Going Concern

### Other Issues

- Lack of succession planning
- Macroeconomic circumstances beyond the Company’s control
  - New government regulations
  - Issues with funding sources
- Noncompliance with capital or regulatory requirements
- Litigation
- Catastrophes
- Deteriorating relationships with key donors
- Lack of involvement or high turnover at the Board level



## What Should Management Be Looking For?

- Negative Unrestricted Net Assets
- Negative Change in Net Assets two years in a row.
- Inability to meet budget or multiple years of budget deficits
- Inability to fund Donor Restricted Net Assets
- Negative Working Capital
- Default on debt and promissory agreements and contracts
- Legal contest where possible unfavorable outcome.

## Reminder

- Continuation of an entity as a going concern is presumed as the basis for financial reporting unless and until the entity's **liquidation** becomes imminent. Preparation of financial statements under this presumption is commonly referred to as the **going concern basis of accounting**.
- If and when an entity's liquidation becomes imminent, financial statements are prepared under the **liquidation basis of accounting** in accordance with ASC Subtopic 205-30 on the liquidation basis of accounting.



## Review Question

ASU No. 2014-15 establishes guidance relating to which of the following?

- a. Auditor's responsibility for evaluating going concern.
- b. Accounting under the liquidation basis.
- c. Accounting for permanently restricted net assets.
- d. Management's responsibilities relating to the going concern assumption.

## Review Question

The Correct answer is:

- d. Management's responsibilities relating to the going concern assumption.

## Responsibilities of Management & Auditors



### Comparison of Responsibility: Management vs. Auditors

#### Management:

The assessment of an entity's ability to continue as a going concern is the responsibility of the entity's management.

FASB ASC 205-40



#### Auditors:

Auditors are required to evaluate conditions or events discovered during an engagement that raise questions about the validity of management's going-concern assumption.

PCAOB AU 341 / AICPA AU-C 570



## Management's Responsibility

### Resources

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Posted on February 26, 2015 by Jeff Blum  
**Going Concern: What Nonprofit Organizations' Management Teams Need to Know**

Financial reporting issues remain hot topics for those in the nonprofit industry, but one of these issues in particular has historically lacked direction and guidance for nonprofits and nonprofit organizations alike: going concern. To help provide clarity around the issue, the FASB recently issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements—Going Concern* (Subtopic 205-40), *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. Nonprofit organizations should take notice.

<http://nonprofitblog.bdo.com/index.php/2015/02/20/going-concern-what-nonprofit-organizations-management-teams-need-to-know/>



<https://www.bdo.com/insights/assurance/fasb/fasb-flash-report-september-2014>

<https://www.fasb.org>

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Prior to **ASU 2014-15**, there was no guidance in U.S. GAAP about management's responsibilities in evaluating or disclosing going concern uncertainties; nor about when and how going concern uncertainties should be disclosed in an organization's F/S footnotes.

- **ASU 2014-15:** Management's assessment of an entity's ability to continue as a going concern is to be based on relevant conditions or events known (reasonably knowable) at the date the F/S are issued (or for a nonpublic entity, the date the F/S are available to be issued).

**BDO**

## Management's Responsibility - ASU 2014-15

### What is NEW in FASB ASU 2014-15 (ASC 205-40)?

The amendments incorporate into GAAP and expand upon certain principles that are currently in U.S. GAAS:

- Provide a definition of the term substantial doubt,
- Require an evaluation of the term substantial doubt,
- Provide principles for considering the mitigating effect of management's plans,
- Require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans
- Require an express statement and other disclosures in the footnotes when substantial doubt is NOT alleviated, and
- Require an assessment for a "lookforward" period of one year after the date of that the F/S are issued (or available to be issued).

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**BDO**

## Management's Responsibility - ASU 2014-15

- Management's evaluation must be done for each annual and interim reporting period
- Conditions/events that raise substantial doubt are to be considered in the aggregate and cover the time period within one year after the date the F/S are issued or w/in one year after the date the F/S are available to be issued when applicable)
- The threshold is *probable* - i.e., it is probable that the entity will be unable to meet its obligations as they become due within one year

## Management's Responsibility - ASU 2014-15

- Management's evaluation initially shall not take into consideration potential mitigating effect of management's plans that have not been fully implemented as of the date that the F/S are issued
  - E.g. Plans that have been approved but that have not been fully implemented
- Consider both qualitative & quantitative information:
  - a. Entity's current financial condition, including its liquidity sources (e.g. available liquid funds and available access to credit)
  - b. Entity's conditional and unconditional obligations due or anticipated (regardless of whether those obligations are recognized in the entity's F/S)
  - c. Funds necessary to maintain the entity's operations considering its current financial condition, obligations, and other expected cash flows
  - d. Other conditions and events, when considered in conjunction with (a), (b), and (c) above, that may adversely affect the entity's ability to meet its obligations. See paragraph 205-40-55-2 for examples of those conditions and events.

## Auditor's Objectives

As defined by AU-C Section 570, the auditor's objectives are to:

- Evaluate and conclude, *based on the audit evidence obtained*, whether there is substantial doubt about the entity's ability to continue as a going concern for a **reasonable period of time\***;
- Assess the possible financial statement effects, including the adequacy of disclosure regarding uncertainties about the entity's ability to continue as a going concern for a reasonable period of time;
- Determine the implications for the auditor's report.

**\*Note: "Reasonable Period of Time"** is a period of time not to exceed one year beyond the date of the F/S being audited. However, when the applicable financial reporting framework (e.g., ASC 205-40) requires management to evaluate whether there are conditions and events that raise substantial doubt for a period of time greater than one year from the date of the F/S, our assessment is for the same period of time.

## Audit Impact

When a Organization's ability to continue as a going concern is in question, there is heightened concern about F/S presentation due to:

- the recoverability and classification of assets and asset amounts
- the amounts and classification of liabilities

Furthermore, we have an obligation to the reader of the F/S, to accurately present the Organization's financial position and to alert the reader to any concerns we may have about the client's viability.



## What Can You Expect From Your Auditor?

- Look for warning signs while they are planning the audit or performing interim procedures
- Communicate concerns with management and those charged with governance
- Continue to look for warning signs during the audit
- Challenge management's assumption
- NOT wait until the last minute to review management's assessment



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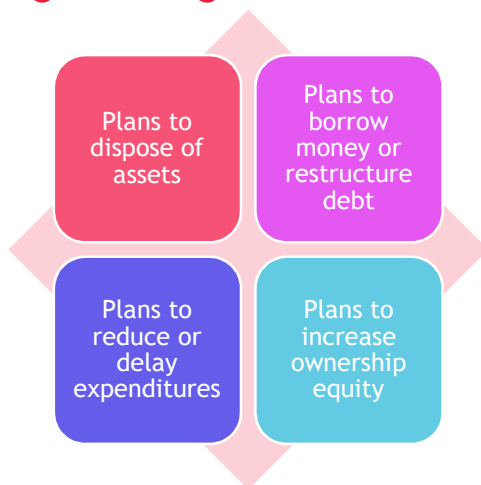
## What Will Your Auditor Ask Management For?

- Your assessment and alternatives that were considered for evaluation
  - Some of the items that will be requested to support management's quantitative and qualitative assessment, include:
    - Cash flow analysis/Operating budgets/forecasts and an understanding of how they were developed
    - Detail plan of action, understanding priorities
    - Analysis of subsequent events, including refinancing or changes in available funding resources and commitments
    - Analysis of commitments and contingencies, including review of litigation and confirmations
    - Waivers from lenders or other funding sources for covenant violations
- Support for the assumptions used in the assessment
  - "Per discussion with ..." by itself is not an adequate audit evidence
  - All key assumptions and plans will be evaluated for reasonableness, consistency and whether they are prudent and feasible
  - Perform retrospective reviews of previous year plans, or look to subsequent events to see if management is on track with their plans
- Written representations from management
  - The auditor will ask for corroboration of the representations

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## Examples of Management's Planned Actions to Alleviate/Mitigate Going Concern



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## Auditing Management's Plans

Obtain and assess management's plans for future actions in relation to its going concern assessment.

If the plan likely can be implemented effectively:

If the plan likely can't be implemented effectively:

Will the plan mitigate the indicators of going concern uncertainty?

Identify and test significant elements of the plan

Assess the reliability of the data used to prepare the plan

Are the assumptions in the plan adequately supported?

Doubt about the entity's ability to continue as a going concern may not be alleviated

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## Look Out!



- When information in management's plan is contrary to what the auditor has obtained elsewhere during the audit, they will evaluate the significance of the contrary information to the financial statements being audited.
- If the plan is not prudent and feasible, the auditor will challenge it.
- The auditor will not accept a "gut" feel from management
- If an assumption cannot be verified by the auditor it may be rejected or discounted in their analysis
- If there is still doubt remaining, we must plan audit procedures that could resolve the remaining doubt.

## OMB Reforms—Single Audit

### Low-Risk Auditee

- Timely submission of Data Collection Form added specifically
- No report of *going concern* by auditor
- Biennial audits = no low-risk auditee status
- Cognizant and oversight agencies no longer authorized to provide waiver for opinion modification or material weakness

## Disclosure

### Management's Disclosure Requirements (NEW)

If, after considering management's plans, substantial doubt about an entity's ability to continue as a going concern is **alleviated**, an entity shall disclose:

- a. Principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern (*before consideration of management's plans*)
- b. Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations
- c. Management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern.

If substantial doubt is **NOT** alleviated, the entity shall include a statement in the footnotes indicating that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the F/S are issued. Additionally, the entity shall disclose a. through c. above.

## Disclosure

### Auditor Requirements

- When the auditor concludes that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time is **alleviated**, they should consider the need for disclosure of the principal conditions and events that initially caused the auditor to believe there was substantial doubt.
- The auditor's consideration of disclosure should include the possible effects of such conditions and events, and any mitigating factors, including management's plans.
- **Note:** When the applicable financial reporting framework provides disclosure requirements related to management's evaluation of substantial doubt, such as is the case in **ASC 205-40**, the auditor's assessment of the financial statement effects under GAAS would be based on the disclosure requirements of the applicable financial reporting framework.

## Reporting

### Auditor Requirements

- If the auditor concludes management's disclosures are adequate, express an **unmodified opinion** and include an **Emphasis of Matter (or Explanatory)** paragraph.
- If adequate disclosure is **NOT** made in the F/S, express a **qualified** or **adverse** opinion, as appropriate.
- If the F/S have been prepared on a going concern basis but, in our judgment, management's use of the going concern assumption is inappropriate, express an **adverse** opinion. However, if such F/S statements have been prepared on the liquidation basis of accounting, an adverse opinion would not be appropriate.
- If management is unwilling to make or extend its assessment when requested to do so by the auditor, they shall consider the implications for our audit report.
- If appropriate, the auditor may **disclaim** an opinion in cases involving uncertainties. Such report shall **NOT** include a going concern Emphasis of Matter paragraph but, rather, describe the substantive reasons for the disclaimer of opinion in the auditor's report. They shall consider the adequacy of disclosure of the uncertainties and their possible effects on the F/S even when disclaiming an opinion.

## Communicating with TCWG

The auditor shall communicate, in writing, with those charged with governance (TCWG) events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, as follows:

1. If the auditor believes there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, the conditions and events they identified that, when considered in the aggregate, indicate there is substantial doubt about the entity's ability to continue as a going concern; **AND**
2. If, after consideration of management's plans, the auditor concludes that substantial doubt about the entity's ability to continue as a going concern is alleviated, the basis for their conclusion, including elements they identified within management's plans that are significant to overcoming the adverse effects of the conditions and events; **OR**
3. If the auditor concludes, after consideration of management's plans, that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains

## Case Study

CHI, Inc. (CHI) is a medium-size, 501 (c)(3) not-for-profit organization operating two locations that provide health, welfare and training and day programs to mentally and physically handicapped adults in Chester County. Client revenues account for more than 60 percent of revenues, training and job placement programs are 20 percent of total revenues, day programs account for 15 percent of total revenues and contributions and federal and state grants account for the remaining revenues. A single audit is not required.

## Case Study (Continued)

CHI became your audit client five years ago when their bank required an annual financial statement audit as a condition of a \$2,000,000 mortgage. The mortgage was used to purchase the current office and to construct and equip their largest facility. Security for the mortgage identifies a number of situations that will result in an event of default. In the event of default the entire remaining balance of the mortgage immediately becomes callable as due in full.



### Case Study (Continued)

Following are the events of default specified in the mortgage.

- Current ratio of less than 1.50
- Debt service coverage ratio less than 1.75
- 90 days of working capital (based on the current year audited total expenses) in unrestricted net assets.

### Case Study (Continued)

Based upon its analysis, management has determined that the Organization was not in compliance with these covenants at June 30, 2015. However, management has determined no conditions or events exist at June 30, 2015, affecting the ability of CHI to continue as a going concern because they believe the bank will not call the mortgage because CHI is a vital part of the community and local economy.

### Case Study (Continued)

Although most evidence to support the audit opinion as of the year ending June 30, 2015 has been gathered as of October 1, 2015, you believe there is substantial doubt relating to the ability of CHI to continue as a going concern. You have concluded the current ratio, debt service coverage ratio, and days of working capital represent events of default that give the bank the option to call the mortgage.

### Case Study (Continued)

Do you agree with the position management has taken?  
Why or why not?

If you were the auditor, how would you proceed based on the limited facts presented in this case?

## Going Concern (Topic 205)

### Summary of Provisions

Single threshold model similar in principle to **current auditing standards (AU 341)**.

Disclosures required when there is **substantial doubt**, or when...

...substantial doubt has been **alleviated** primarily by management plans.

Substantial doubt exists when it is **probable** that entity will not meet obligations...

...for a period of **one year from the financial statement issuance date**.

Applies to both public and nonpublic entities.

Effective **prospectively** for annual periods ending after December 15, 2016 (FY 2016/2017 annual period); for interim periods beginning FY 2017/2018. Early adoption permitted.



# Questions?

# Best Practices in Operating Your 403(b) Plan

*Jennifer Matasic, CPA*



## *Best Practices in Operating Your 403(b) Plan*

MAY 26-27, 2016



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## Speaker

### Jenny Matasic

Senior Manager, CBIZ MHM, LLC

*Jenny is a senior manager in the attest department. She has over ten years of experience in auditing employee benefit plans, including 401(k) and 403(b) defined contribution, defined benefit, and health and welfare plans for single and multiple employers. In addition to auditing employee benefit plans, Jenny also audits both publically held and privately owned companies. She oversees the Tampa Bay office employee benefit plan practice.*

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## Overview

- Common 403(b) plan compliance failures
- Correcting compliance failures
- Key areas to keep your plan well



To provide plan sponsors with examples of the most common failures in a 403(b) plan and how to correct them.

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## Common 403(b) Plan Compliance Failures





### *Scope*

- 403(b) plans subject to ERISA
- Excludes: church and government plans or plan failures prior to January 1, 2009

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### *Common Failures*

- Failure to follow plan document
- Universal availability
- Participant contributions
- Non-discrimination testing
- Distributions
- Loans

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### *Failure to Follow Plan Document*

- Written plan document required
- Eligibility
- Compensation
- Use of forfeitures

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### *Universal Availability*

- All employees over 20 hours per week
- Common pitfalls
  - Excluding part-time employees
  - Excluding employees who worked more than 1,000 hours

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### *Participant Contributions*

- Improper calculation of deferral
- Failure to update employee deferral changes
- Untimely remittance of employee deferrals
- 15 years of service catch-up contributions
- Limited to amounts specified by IRS

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### *Non-Discrimination Testing Failure and Annual Limits*

- ACP testing failure (employer contributions)
- Excess 402(g) contributions
- Excess 415 contributions

#### 2016 Limits:

- Maximum of \$18,000 for individuals under 50
- Maximum of \$6,000 in catch-up contributions for individuals over 50
- Maximum of \$53,000 in 2016 to all plans

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### *Distributions*

- In-service distributions not permissible
- Improper hardship distributions
- Failure to make required minimum distributions
- Improper vesting

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### *Loans*

- Plan loans versus participant loans
- Participant loans do not conform to the requirements of the plan document and IRC Section 72(p)
  - General requirements
    - Limited to 5 years (exception for residential loans)
    - Reasonable interest rate
    - Meet dollar limit of IRC 72(p)
    - Amortized in level payments of principal and interest at least quarterly
    - Exceptions are made for leave-of-absences

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## Fixing Compliance Failures

### *Identification of Failures*

Can come from:

- Periodic internal reviews
- Participants
- External audit (large plans)
- Audit or examination from DOL

### *Resources*

- ERISA attorney
- Service providers
- IRS website
- IRS correction programs
  - Self correction
  - Voluntary correction
  - Audit closing agreement

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### *Failure to Follow Plan Document*

#### **Correction method: self correction**

- Amend plan document to follow operational practice
- Update practices to match plan document
- Determine if plan sponsor or service provider is responsible for plan amendments



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### *Universal Availability*

#### **Correction method: self correction**

- Review hours worked by employee to determine improper exclusions
- Improperly excluded employees are entitled to a corrective contribution
- Review internal procedures for notifying employees of eligibility

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### *Participation Contributions*

#### **Correction method: self correction**

- Review compensation limits and calculations in payroll system
- Employer contribution equal to 50% of missed deferral
- Lost earnings for untimely remittances
- Ensure employees qualify for 15 years of service catch-up contributions based on date of hire
- Refund excess contributions for deferrals in excess of annual limits

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## *Non-Discrimination Testing Failure and Annual Limits*

### **Correction method: self correction**

- Refund excess contributions
- Additional employer contribution

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## *Distributions*

### **Correction method: self correction or voluntary correction program**

- Hardship distributions
  - Notify participant of tax consequences
  - Assess plan document and internal procedures
- Required minimum distribution corrections
  - Self correct if within two years after the plan year in which the violation occurred BUT 50% additional tax to employee
  - Voluntary correction program allows 50% additional tax to employee to be waived
- Improper vesting results in an additional distribution to participants or a request for a return of funds

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## *Loans*

### **Correction method: voluntary correction program**

- Repayments not started
- Loan amounts in excess of limit
- Plan sponsors are responsible for loan programs, including repayments

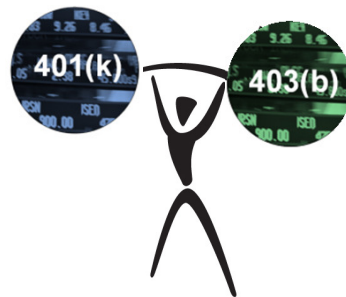
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## Key Areas to Keep Your Plan Well

### *Key Areas to Keep Your Plan Well*

- Universal availability
- Participant contributions
- Non-discrimination testing failure
- Distributions
- Loans
- Other



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### *Universal Availability*

- Who is responsible for notifying employees of their eligibility?
  - If plan sponsor – were all employees who became eligible during the year notified of their eligibility?
  - If a service provider – did the plan sponsor transmit all hiring data to the service provider?
- Definition of eligible employee
- Review of payroll records and hours worked during the year

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### *Participant Contributions*

- Review limits set in payroll system for compensation and if applicable, employer match
- Review timeliness of when contributions were withheld from employees and remitted to the Plan
- Verify internal process for processing deferral changes
- Review plan document to determine if 15 years of service applies

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### *Non-Discrimination Testing*

- Provide census and other required data to service provider early
- Assess internal procedures for complying with annual limits

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### *Distributions*

- If the plan allows for in-service distributions, ensure all in-service distributions comply with plan provisions
- If the plan allows for hardship distributions, ensure approval process is in place at plan sponsor or service provider
- Determine who is responsible for tracking vesting
  - If plan sponsor, then ensure vesting has been updated for all participants
  - If service provider, determine appropriate service information has been provided for vesting calculation

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### *Loans*

- Ensure loan repayments were made on all outstanding loans
- Review internal procedures and service provider procedures for processing of loans, including deeming loans in default

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### *Other*

- Required amendments to plan documents
- Fiduciary duties under ERISA



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**QUESTIONS?**

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A hand holding a blue marker, drawing a blue underline under the words "THANK YOU" written in large, blue, block letters on a white background.

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## Afternoon Break



## Fresh Opportunities in New Market Tax Credit Financing

*James O. Lang*



# Was Radar O'Reilly a Fraudster?

*Daniel Porter, CFE*



## Was Radar O'Reilly a Fraudster?

FICPA Not-for-Profit Conference  
May 26 & 27, 2016  
Daniel Porter CFE



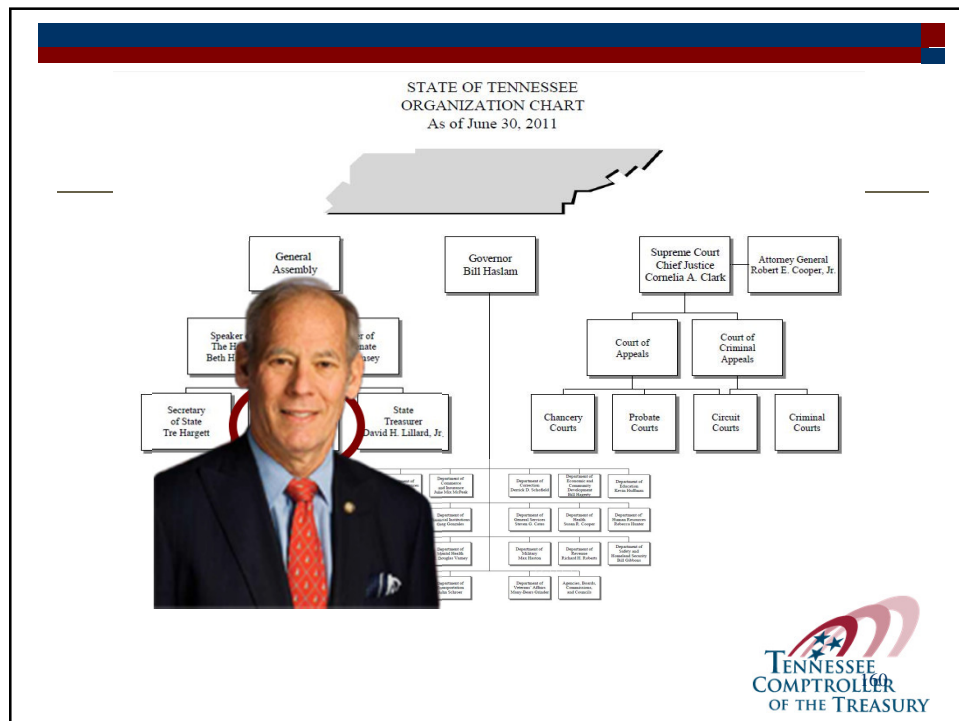
# Thank You



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# My Background





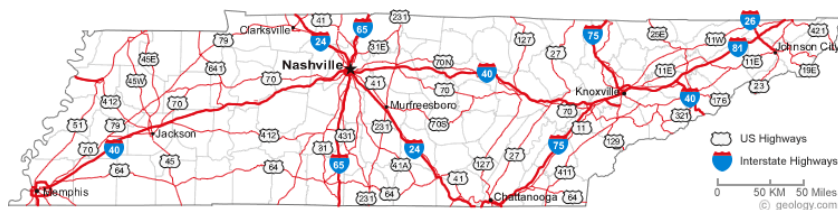
## TCA 8-4-109

(a) (2) The comptroller of the treasury is hereby authorized to audit ... **any governmental entity** ... which handles public funds ...



## "any governmental entity"

### ◆ State of Tennessee



## "any governmental entity"

### ◆ 95 Counties



## "any governmental entity"

### ◆ 344 Cities/Towns





## "any governmental entity"

- ◆ 183 Utility Districts - 144 Schools - Housing Authorities - Development Districts - Human Resource Agencies – Schools - Non-profits - School support organizations



## Florida Auditor General

**STATE OF FLORIDA**  
**AUDITOR GENERAL**  
**SHERRILL F. NORMAN, CPA**

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In Florida, the Auditor General is a constitutional officer appointed by the Joint Legislative Auditing Committee and confirmed by both houses of the Legislature.

**Mission:** As the State's independent auditor, the Auditor General provides unbiased, timely, and relevant information which can be used by the Legislature, Florida's citizens, public entity management, and other stakeholders to promote government accountability and stewardship and improve government operations.

**The Auditor General:**

- Conducts financial audits of the accounts and records of State agencies; State universities; State Colleges; district school boards; and, as directed by the Legislative Auditing Committee, of local governments.
- Conducts operational and performance audits of public records and information technology systems and performs related duties as prescribed by law or concurrent resolution of the Legislature.
- Adopts rules for financial audits performed by independent certified public accountants of local governmental entities, charter schools, district school boards, and Florida Single Audit Act nonprofit and for-profit organizations.
- Reviews all audit reports of local governmental entities, charter schools, charter technical career centers, and district school boards submitted pursuant to Section 218.39, Florida Statutes.

**What's New**

Auditor General Released Reports

by Fiscal Year  
by Entity Audited  
by Audit Type

**Local Government / Nonprofit / For-Profit**

District School Boards / Charter Schools

**Rules and Guidelines**

Reports Filed with the Auditor General

Filing Requirements

Filed Reports

Recovery Act

**About Our Office**

**Job Opportunities**

**Links**

**Contact Us**

Claude Pepper Building  
111 West Madison Street  
Tallahassee, FL  
32399-1450



## TCA 9-3-212

---

(b) The comptroller of the treasury...may require...**investigative** ...work ... the comptroller believes necessary ...



This presentation represents the  
opinions of the presenter only.

The materials presented herein  
do not necessarily reflect the  
opinions of the State of  
Tennessee or any part thereof.



## Course Objectives

---

- ◆ Define fraud
- ◆ Discuss opportunity
- ◆ Provide a method to identify potential fraudsters
- ◆ Review opportunities that were exploited in TN



## M\*A\*S\*H 4077

---

# VIDEO



# Bell 47

## Army H-13 Sioux

# VIDEO



# My Dad

## (OH-23 Raven)



## Here's the cast.... Who's the fraudster?



TENNESSEE  
COMPTROLLER<sup>73</sup>  
OF THE TREASURY

## Here's the cast.... Who's the fraudster?



TENNESSEE  
COMPTROLLER<sup>74</sup>  
OF THE TREASURY

## Radar Had a Teddy Bear



TENNESSEE  
COMPTROLLER<sup>75</sup>  
OF THE TREASURY

## Radar Liked Animals



TENNESSEE  
COMPTROLLER<sup>76</sup>  
OF THE TREASURY



## Radar was loyal



TENNESSEE  
COMPTROLLER<sup>77</sup>  
OF THE TREASURY

## Radar Was Efficient



TENNESSEE  
COMPTROLLER<sup>78</sup>  
OF THE TREASURY



## Radar = Pepper Potts

---

# VIDEO



## Radar Had Good Hearing

---



## Why They Called Him Radar

# VIDEO



## But, Was He a Fraudster?



# What is Fraud?




**Make Money Online**

**EAT ALL YOU WANT**  
(And we couldn't say it in print if it wasn't true)  
AUTOMATIC CALORIC RESTRICTION!  
Study participants were specifically told not to alter their eating habits and they still lost weight.

COMPTROLLER<sup>83</sup>  
OF THE TREASURY

## Fraud is an intentional deception for personal benefit



TENNESSEE  
COMPTROLLER<sup>84</sup>  
OF THE TREASURY




- ◆ Unintentional
- ◆ No reason to conceal
- ◆ No personal benefit
- ◆ No intended harm

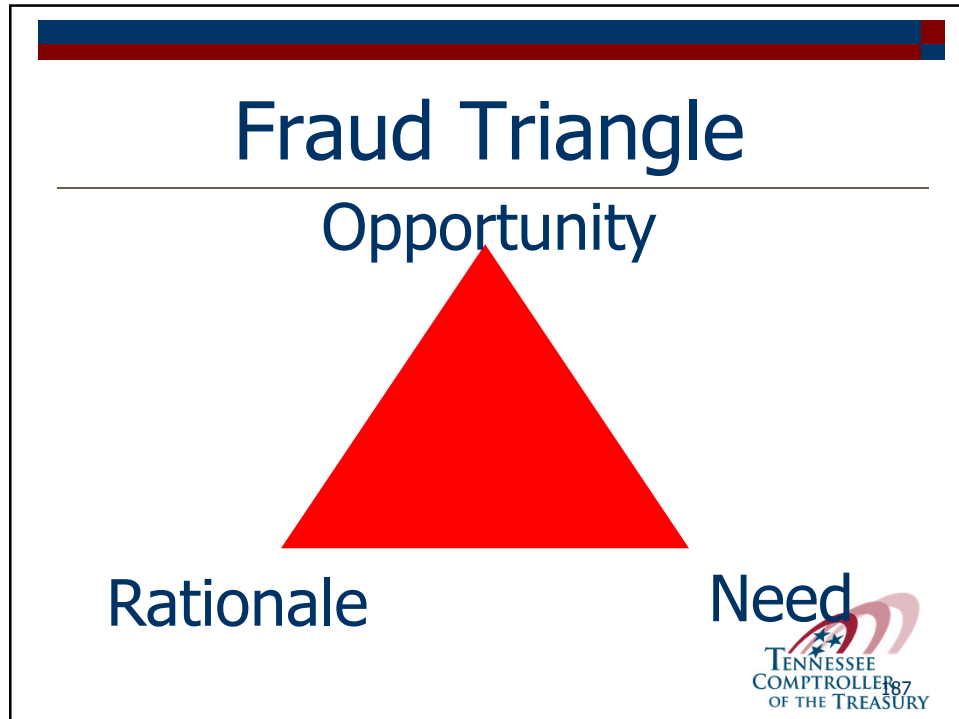
185

# Exercise

---

186





## 1<sup>st</sup> Element of Fraud

- ◆ **Need**      Father died when he was young.  
                    Uncle Ed ran family farm.  
                    Uncle Ed died.
- ◆ **Rationale**      Mother about to lose farm.
- ◆ **Opportunity**



TENNESSEE  
COMPTROLLER<sup>89</sup>  
OF THE TREASURY

## 2<sup>nd</sup> Element of Fraud

- ◆ **Need**      *It's not stealing:*
  - *I'm just borrowing it.*
- ◆ **Rationale**      *I don't always claim OT.*
- ◆ **Opportunity**      *Not hurting anybody:*
  - *They have plenty of money*

TENNESSEE  
COMPTROLLER<sup>90</sup>  
OF THE TREASURY

## 2<sup>nd</sup> Element of Fraud

◆ Need

*I'm serving my country.  
They don't pay me enough.  
I do everything.*

◆ Rationale

*They don't appreciate me.*

◆ Opportunity



TENNESSEE  
COMPTROLLER  
OF THE TREASURY

## 3<sup>rd</sup> Element of Fraud

◆ Need




◆ Rationale




◆ Opportunity



TENNESSEE  
COMPTROLLER  
OF THE TREASURY







## No. 1 Internal Control Finding

### Inadequate Separation of Duties

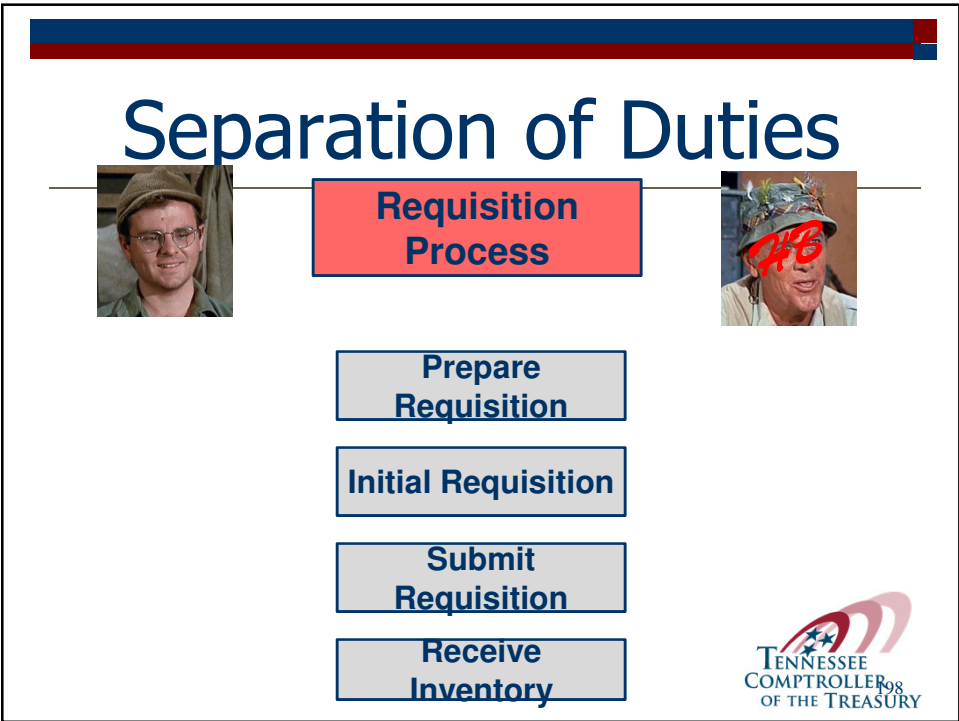
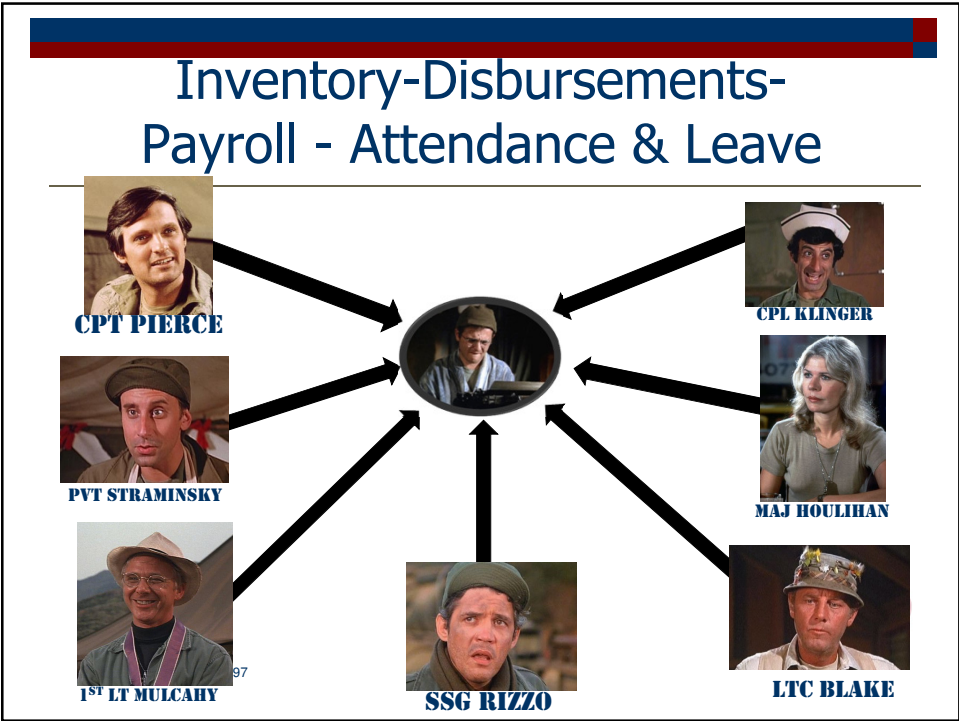
- ◆ One person shouldn't:
  - Prepare checks
  - Sign checks
  - Open the mail
  - Reconcile bank statements



Radars handled:

- Inventory
- Disbursements
- Payroll





## Did Radar Have Opportunity?

# VIDEO

Initial these initials to get a stamp with your initials.  
To save you from doing so much initialing.

199

## Inadequate Separation of Duties



### Requisition Process



Prepare  
Requisition

Initial Requisition

Submit  
Requisition

Receive  
Inventory



## Inadequate Separation of Duties



Requisition  
Process



# What Did Radar Create?



NOW....  
Who's the fraudster?

202  
Y

# Crockett County E-911



TENNESSEE  
COMPTROLLER<sup>03</sup>  
OF THE TREASURY

# Crockett County E-911



TENNESSEE  
COMPTROLLER<sup>04</sup>  
OF THE TREASURY

## Crockett County E-911

- ◆ *Fees charged for each phone line in the County*



TENNESSEE  
COMPTROLLER<sub>05</sub>  
OF THE TREASURY

## Crockett County E-911

### Assistant Director

#### ~~General Duties:~~ Opportunities:

- ◆ She did everything

#### ~~Specific Duties:~~ Opportunities:

- ◆ Wrote checks
- ◆ Signed checks
- ◆ Reconciled bank statements

TENNESSEE  
COMPTROLLER<sub>06</sub>  
OF THE TREASURY



## Separation of Duties



### Check Writing Process



Prepare Check

Sign Check

Sign Check

Reconcile Bank Statements

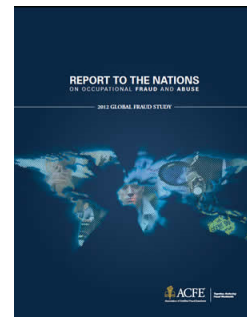
Review Bank Statements



## Crockett County E-911

### How did we discover it?

***43% discovered by tip***

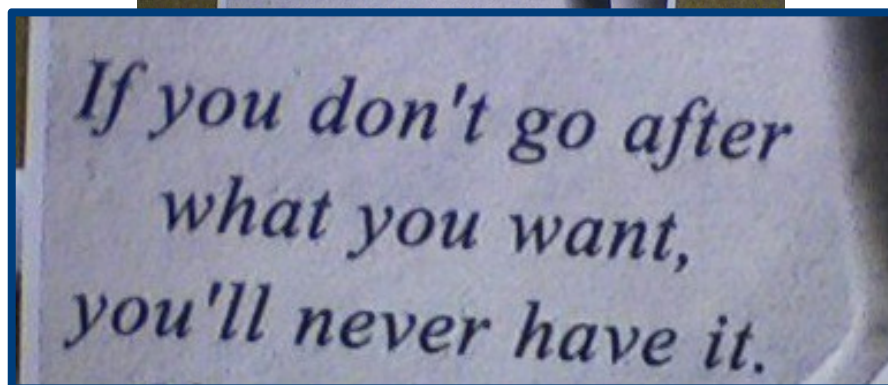


## Red Flags



TENNESSEE  
COMPTROLLER<sup>09</sup>  
OF THE TREASURY

## Red Flags



TENNESSEE  
COMPTROLLER<sup>10</sup>  
OF THE TREASURY

# Crockett County E-911

*You know Radar on M\*A\*S\*H?*

*She was just like Radar.*

*She put forms in my hand before  
I knew I needed them.*



## Inadequate Separation of Duties



**Check Writing  
Process**

Prepare Check

Sign Check

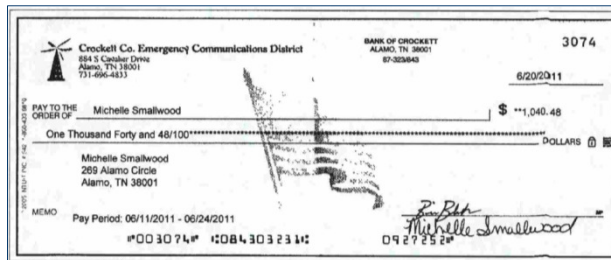
Sign Check

Reconcile Bank  
Statements

Review Bank  
Statements

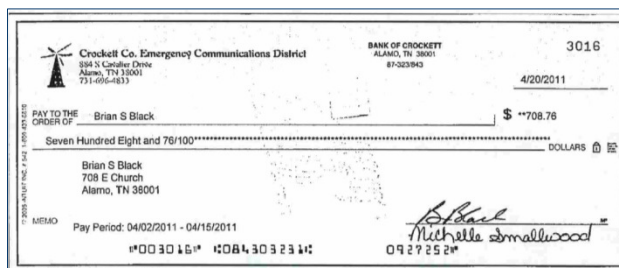


## Checks to Herself



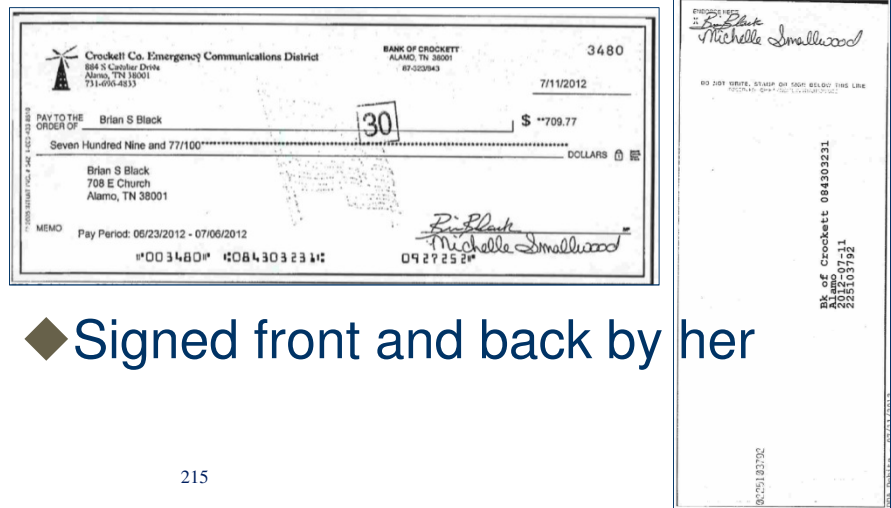
- ◆ Signed front and back by her

## Checks to Director



- ◆ Signed on the front by him
- ◆ Signed on the back by her

# Checks to Director



◆ Signed front and back by her

215

# Drive Through Window



## Investigation

Opportunity	What She Did	How Much
She was Radar • She wrote checks, signed checks, and reconciled bank statements • No one reviewed bank statements • He trusted her	• Unauthorized payroll checks to herself	\$43,363
	• Unauthorized payroll checks to the director • Forged his name • Transacted by her	\$45,401
Total:		\$88,764


## Indictment

STATE OF TENNESSEE                      } CIRCUIT COURT OF CROCKETT COUNTY  
CROCKETT COUNTY                        } DECEMBER 16, 2013

THE GRAND JURORS of Crockett County, Tennessee, duly empaneled and sworn,  
upon the  
and con  
before  
over pr  
District

**Theft over \$60,000  
Forgery  
Official Misconduct**

§39-14-103, all of which is against the peace and dignity of the State of Tennessee;



TENNESSEE  
COMPTROLLER  
OF THE TREASURY

## Crockett Co 911

Her boss said  
*We went to school together*



## City of New Market





# City of New Market



TENNESSEE  
COMPTROLLER<sup>21</sup>  
OF THE TREASURY

# City of New Market

## City recorder

### ~~General Duties:~~ Opportunities:

- ◆ She did everything

### ~~Specific Duties:~~ Opportunities:

- ◆ Created & Signed checks
- ◆ Transferred funds
- ◆ Reconciled bank statements

TENNESSEE  
COMPTROLLER<sup>22</sup>  
OF THE TREASURY

## City of New Market



223



## City Recorder's CD Withdrawal Scheme

- ◆ Withdrew \$25K CD
- ◆ Got 2 Cashiers Checks
- ◆ Payable to her husband
- ◆ Auditor requested documentation
- ◆ She faxed copies of
  - Checks
  - Invoices
  - Minutes

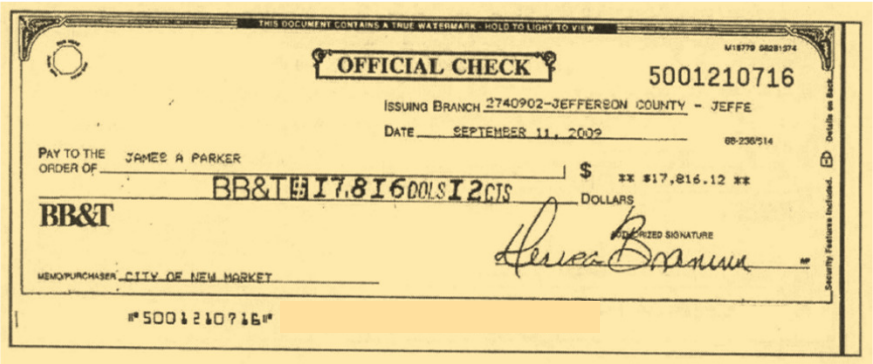


224



# Check to Her Husband

◆\$17,816

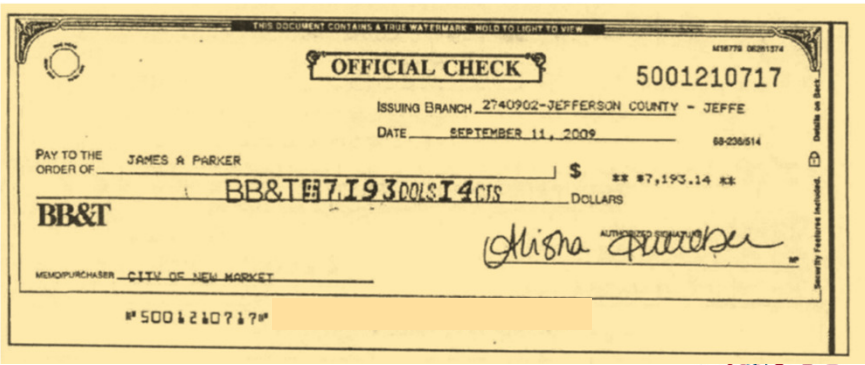


225

TENNESSEE  
COMPTROLLER  
OF THE TREASURY

# Check to Her Husband

◆\$7,193



226

TENNESSEE  
COMPTROLLER  
OF THE TREASURY

# Phony Invoices

SOLD TO: City of New Market P.O. Box 300 1024 Volunteer Trg New Market, TN 37131		SHIP TO:	
PO NO.	TERMS	SALES TAX	SHIP DATE
44-11-001			
1. 1.00 100% Cash			
2. 1.00 100% Cash			
3. 1.00 100% Cash			
4. 1.00 100% Cash			
5. 1.00 100% Cash			
6. 1.00 100% Cash			
7. 1.00 100% Cash			
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# Phony Invoices

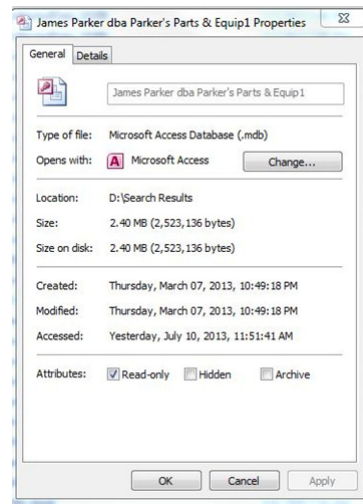
SOLD TO: City of New Market P.O. Box 300 1024 Volunteer Trg New Market, TN 37131		SHIP TO:	
PO NO.	TERMS	SALES TAX	SHIP DATE
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96. 1.00 100% Cash			
97. 1.00 100% Cash			
98. 1.00 100% Cash			
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100. 1.00 100% Cash			

Recent similar repairs at dealership



## Invoice Properties

- Created at 10:49 PM, the night before she gave the invoices to the auditor



229

## Altered Minutes

- Attorney's Version
- Her Version

J.A. Stapleton asked the city council about purchasing tires for the garbage truck. Alderman Frank Solomon made the motion to let the maintenance department purchase the tires for the garbage truck. Alderwoman Carolyn Williams seconded the motion. The vote being all ayes the motion passed.

Alderwoman Carolyn Williams presented the council with information about getting a red light camera. She stated it would not cost the city anything. Alderwoman made the motion to table this subject until next meeting so the council members will have a chance to review the information. Alderman Maurice Solomon seconded the motion. The vote being all ayes the motion passed.

J.A. Stapleton asked the city council about purchasing tires for the garbage truck. Alderman Frank Solomon made the motion to let the maintenance department purchase the tires for the garbage truck. Alderwoman Carolyn Williams seconded the motion. The vote being all ayes the motion passed.

Mayor Gable also discussed with city council that other repairs needed to be completed on the garbage truck. He explained that the truck has had engine problems and would like to have the work completed just soon as we could have it done. The estimate would amount to be around \$7500.00 and suggested that James Parker complete the repairs. After discussion, Alderman Frank Solomon made the motion to have Mr. Parker complete the repairs. Alderwoman Carolyn Williams seconded the motion. The vote being all ayes the motion passed.

Alderwoman Carolyn Williams presented the council with information about getting a red light camera. She stated it would not cost the city anything. Alderwoman made the motion to table this subject until next meeting so the council members will have a chance to review the information. Alderman Maurice Solomon seconded the motion. The vote being all ayes the motion passed.

230

# Attorney's Version

J.A. Stapleton asked the city council about purchasing tires for the garbage truck. Alderman Frank Solomon made the motion to let the maintenance department purchase the tires for the garbage truck. Alderwoman Carolyn Williams seconded the motion. The vote being all ayes the motion passed.

Alderwoman Carolyn Williams presented the council with information about getting a red light camera. She stated it would not cost the city anything. Alderwoman made the motion to table this subject until next meeting so the council members will have a chance to review the information. Alderman Maurice Solomon seconded the motion. The vote being all ayes the motion passed.

231



# Her Version

J.A. Stapleton asked the city council about purchasing tires for the garbage truck. Alderman Frank Solomon made the motion to let the maintenance department purchase the tires for the garbage truck. Alderwoman Carolyn Williams seconded the motion. The vote being all ayes the motion passed.

Mayor Cain also discussed with city council that other repairs needed to be completed on the garbage truck. He explained that the truck has had ongoing problems and would like to have the work completed just soon as we could have it done. The estimate would approximately be around \$7500.00 and suggested that James Parker complete the repairs. After discussion, Alderman Frank Solomon made the motion to have Mr. Parker complete the repairs. Alderwoman Carolyn Williams seconded the motion. The vote being all ayes the motion passed.

Alderwoman Carolyn Williams presented the council with information about getting a red light camera. She stated it would not cost the city anything. Alderwoman made the motion to table this subject until next meeting so the council members will have a chance to review the information. Alderman Maurice Solomon seconded the motion. The vote being all ayes the motion passed.

232





# Handwritten Minutes

Date: 4/13/09  
Topic: City Council  
Meeting Objectives:  
Attendees: Maurice, Ross, Mary Ann, Carolyn, Frank  
Notes:  
Maurice - motion minutes ) all ays motion passed  
Ross - and.  
Cell phone policy - Carolyn - motion ) all ays  
Maurice - and ) motion passed

233



# Handwritten Minutes

Truck for Garbage Truck - Frank - motion  
Carolyn - and  
Red light camera - look over info

234





### Check Register

(prepared by subject)

Ck. No.	Date	Payee	Amt.
16529	2/10/12	SAM BAILEY	244.52
16530	2/10/12	CHARLES GUINN	356.61
16531	2/10/12	Robin Guinn	300.00
16532	2/13/12	MELISSA R. PARKER	836.22
16533	2/13/12	JOEY A. KNIGHT	472.01
16534	2/13/12	BILLY R. PIKE	513.30
16535	2/13/12	RAYMOND RAPER	617.21
16536	2/13/12	MICHAEL F. KEARNEY	370.45
16537	2/13/12	DEXTER BOLIN	370.53
16540			

### Bank Statement

(prepared by bank)

Missing check 6533

EE  
LLER  
OF THE TREASURY

# Audit Trail

Created then Voided  
then Deleted then Deleted

Date	Time	Function	Detail	Ck No.	Amount
09/16/11	8:37 AM	Add	Payroll Entry	16124	\$ 443.03
09/16/11	8:39 AM	Add	Void Checks	16124V	\$(443.03)
09/16/11	8:39 AM	Delete	Payroll Entry	16124V	\$(443.03)
09/16/11	8:39 AM	Delete	Payroll Entry	16124	\$443.03

Created

Voided

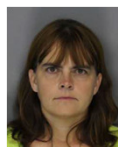
Deleted

236

## Investigation

Opportunity	What She Did	How Much
She was Radar • She wrote checks, signed checks, and reconciled bank statements • She transferred funds • No one reviewed bank statements • He trusted her	• Unauthorized payroll checks to herself	\$13,793
	• Unauthorized withdrawal of CD	\$25,009
Total:		\$38,802

## City of New Market Indictment



### STATE OF TENNESSEE

CIRCUIT COURT FOR JEFFERSON COUNTY

#### COUNT ONE

The Grand Jurors for the State of Tennessee, having been duly summoned, elected, impaneled, sworn, and charged to inquire for the

**Official Misconduct x 2**  
**Theft over \$10,000 x 2**

deprive the owner, thereof, in violation of T.C.A. §39-14-103, contrary to the statute, and against the peace and dignity of the State of Tennessee.



## City of New Market

**Her Boss said:**  
***I trusted her to do her job***  
***and do it right.***



## Did They Trust Radar?



## Was Radar a Fraudster?



????????????????

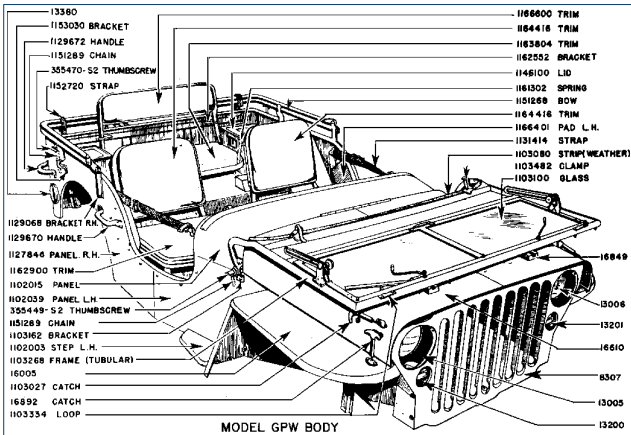


????????????????



TENNESSEE  
COMPTROLLER<sup>43</sup>  
OF THE TREASURY

????????????????



TENNESSEE  
COMPTROLLER<sup>44</sup>  
OF THE TREASURY

????????????????

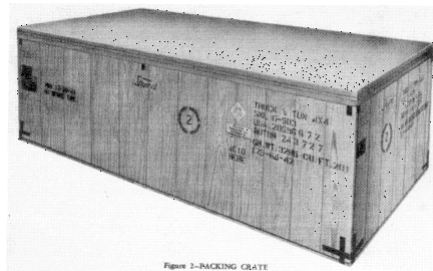


Figure 2-RACKING GRATE



## Summary

- ◆ Fraud is an intentional deception for personal benefit
- ◆ Radar had a lot of opportunity
- ◆ Radar ????????????
- ◆ Do you know a Radar?
- ◆ Have you considered THAT Radar's opportunities?



## Speed & Fraud

*Speed is a question of money.  
How fast do you want to go?*



## Speed & Fraud

*Finding fraud takes time.  
How much fraud do you  
want me to find?*





# Questions?

## Thank You

[daniel.porter@cot.tn.gov](mailto:daniel.porter@cot.tn.gov)



**End of Conference**  
*(please complete your  
evaluation form)*

