

President's Message



Hello, all:

Now that schools are back in session and everyone has returned from vacation, it is time for the retired and semi-retired to take trips. I head out on October 1 for a few days in New York and a cruise up the Hudson River for the fall colors. Nevertheless, while admiring

the scenery, I will certainly be thinking of my colleagues back slaving away in their cubicles. (Don't you wish you were retired, too?)

We had a very successful first meeting of the AGA fiscal year in September. Harriet Richardson, Palo Alto City Auditor discussed the many changes in the latest version of the Yellow Book, which was issued July of this year. As Harriet is on the Yellow Book Committee, she obviously knew her subject well.

She gave a lively and succinct presentation of the new standards. Because of her extensive audit background, she could also put the changes into context for auditors. I wish that more of you could have attended the session because it was so timely and useful.

I believe that the next meeting will also be excellent. Nicolas Menard is a Principal Analyst at Harvey M. Rose Associates, the Budget and Legislative Analyst for the San Francisco Board of Supervisors. In March 2017, the Board of Supervisors directed a performance audit of the San Francisco Police Department. Nicolas will discuss the results of that audit. I have had a chance to read the audit, and know that his presentation will keep your attention.

Hope to see you there,

-Sefton

October 2018 Issue

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Preparing for Implementation of the GASB's Fiduciary Activities and Leasing Standards

By David A. Vaudt, CPA

With implementation of the recent standards on fiduciary activities and leases quickly approaching, government financial management professionals should plan for the transition with a few key areas in mind.

Fiduciary activities

The GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. It clarifies what constitutes a fiduciary activity for accounting and financial reporting purposes and how fiduciary activities should be reported. Statement 84 is effective for reporting periods beginning after December 15, 2018.

The new standards

Until now, explicit standards for what constitutes a fiduciary activity for financial reporting purposes did not exist. This lack of clarity has led to diversity in practice. Statement 84, however, lays out a series of questions that a government should ask when evaluating whether they are engaged in a fiduciary activity. These questions generally focus on:

1. whether the government is controlling the assets;
2. the beneficiaries with whom the fiduciary relationship exists.

In some cases, state and local governments will find no need to change what they currently report as fiduciary activities. The only way governments will know this, however, will be to review the fiduciary activities standards and assess current reporting practices. This careful scrutiny will determine whether reporting certain activities as fiduciary activities remains appropriate.

Governments also will need to consider their other activities. Even though the government currently does not report certain activities as fiduciary activities, qualifications could change under the new standards.

Other provisions

Statement 84 also clarifies the requirements for activities reported in the various categories of fiduciary funds:

- pension (and other employee benefit) trust funds;
- investment trust funds;
- private-purpose trust funds;
- custodial funds.

By examining this aspect of the new standards, governments may discover a need to report activities in different categories than before. Fiduciary activities previously reported in one of the trust funds, for example, may need to be reported in the new custodial funds category, which replaces the agency funds category.

Additional changes to fiduciary fund reporting under Statement 84 include:

- What is reported as a liability;
- The level of detail reported for additions and deductions;

The presentation of custodial funds in the statement of changes in fiduciary net position.

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Moreover, business-type activities (BTAs), such as public universities, hospitals and utilities, engaged in fiduciary activities may need to begin reporting these activities in fiduciary fund financial statements.

Preparing for implementation

Governments should consider several items as they prepare to implement the new standards:

- Time and effort necessary to evaluate potential fiduciary activities in light of new definitions and criteria;
- Possible changes in accounting systems and procedures to capture the necessary data;
- Potential impact on audit requirements.

Leases

Statement No. 87, *Leases*, issued in June 2017, significantly changes governments' reporting of leases. Statement 87 is effective for periods beginning after December 15, 2019.

The new standards

The definition of a lease has changed under the new guidance. It now focuses on an exchange contract that conveys control of the right to use another entity's non-financial asset. This capital asset is referred to in Statement 87 as the "underlying asset."

The new lease reporting model applies to both lessees and lessors. It eliminates the previous distinction between operating and capital leases by requiring all leases to be reported as financing transactions. Accordingly, governments that lease assets from others (lessees) will note changes in:

1. lease liabilities for leases of land, buildings, or equipment;
2. corresponding intangible capital assets representing the lessee's right to use the leased asset.

Likewise, governments that lease assets to others (lessors) will recognize changes in:

1. lease receivables;
2. corresponding deferred inflows of resources.

Other provisions

Statement 87 defines the lease term as the period in which the lessee has a non-cancelable right to use the underlying asset, adjusted for certain options to extend or terminate the lease.

The new standards also provide a reporting exception for short-term leases, which, at their beginning, have a maximum possible term of 12 months (including any options to extend). Short-term leases are recognized according to the payment provisions of the contract.

Preparing for implementation

Some items governments should consider as they prepare for implementation of the new standards:

- Time and effort necessary to identify all leases, according to the new definition and requirements;
- Possible changes in accounting systems and procedures to capture the necessary data that may be dispersed throughout the government;
- Potential impact of lease liabilities on compliance with debt limits and debt covenants;
- Potential impact on audit requirements.

Implementation guidance for fiduciary activities and leases

Providing the tools stakeholders need to implement new guidance on GASB issues is one of the fundamental services available to AGA members. Implementation Guides for Fiduciary Activities and Leases are included in the Board's current technical plan. Guidance will be developed to clarify, explain or elaborate on the standards contained in Statements 84 and 87.

You can play an important role in the development of these Implementation Guides. As you encounter implementation questions, please submit them to the GASB technical inquiry system at www.gasb.org so your questions can be considered for inclusion in the Implementation Guides.

Article can be found in its entirety, in the [**Journal of Government Financial Management: Summer 2018 Vol. 67, No.2**](#)

Performance Audit of the San Francisco Police Department

Monthly Luncheon | One Hour CPE

Tuesday, October 16, 2018 | 11:30 am – 1:00 pm

San Francisco, CA

For our October meeting, I am very happy that Nicolas Menard of Harvey M. Rose Associates will discuss a recent audit of the San Francisco Police Department. Harvey M. Rose Associates is the Budget and Legislative Analyst for the San Francisco Board of Supervisors. In March 2017 the Supervisors directed the Analyst to conduct a performance audit of the S.F. Police Department.

Nicolas will discuss the results of that wide-ranging audit, and the many recommendations it contained. The audit was released in June 2018 and may be read [here](#). I believe that any performance auditor can profit by hearing about this audit.

Presenter: Nicolas Menard, Principal Analyst at Harvey M. Rose Associates

Location: San Francisco Federal Building
90 7th Street (between Market and Mission Streets), Room B-110 (basement)

Cost: With lunch: free for SF Chapter members, \$10 for non-members
Without lunch: free for SF Chapter members, \$5 for non-members RSVP

RSVP: Register by email at agaluncheon@gmail.com. If you have any dietary requirements or have any questions, you can email Lela Wong and Connie Tan at agaluncheon@gmail.com. We will get in touch with you. If you find that you can't make it to the luncheon after registration, please email Lela Wong and Connie Tan at agaluncheon@gmail.com by the close of business, October 15th.

About the Speaker:

About the Speaker: Nicolas Menard is a Principal Analyst at Harvey M. Rose Associates, LLC, a performance auditing and management consulting firm. He has completed audits and special studies of police and sheriff departments across California. His recent law enforcement work includes analyses of the San Francisco Police Department, the Sheriff's Offices' of Sonoma, Santa Clara, Riverside, and San Francisco Counties as well as policy analyses on public safety programming and funding in San Francisco.

Prior to joining Harvey M. Rose Associates, Mr. Menard worked as an economic consultant on antitrust and other public policy areas. Mr. Menard was an International Fellow at Columbia University's School of International and Public Affairs where he completed his Master of Public Administration. He also holds a Bachelor of Arts degree from Swarthmore College.

Leveraging IT to Detect Fraud, Waste and Abuse

Webinar | Two Hour CPE

Wednesday, October 10th, 2018 | 11:00 am – 1:50 pm

Program Level:	Overview
Prerequisite:	None
Advance Preparation:	None required
Field of Study:	Auditing (AUD)
Cost:	\$49 for AGA Members, group pricing available.

Have you been wondering whether you could be doing more to prevent fraud, waste, and abuse within your day-to-day work? Join payment integrity experts as they discuss how using data analytics can help you improve detection and prevention of fraudulent transactions. Hear stories from the front lines and learn about techniques you can use to help ensure that federal, state, and local payments are being made to the right recipient and for the right amount.

Speakers:

- Heather Pajak, Senior Policy Analyst, OMB
- Ryan Schaedig, Acting Director, Do Not Pay Business Center, Dept. of Treasury
- Brad Wiggins, UI Integrity Coordinator, Dept. of Labor/ETA, Office of Unemployment Insurance

Learning objectives:

Participants will gain knowledge to help them detect and prevent improper payments. Specifically this webinar will focus on:

- The President's Management Agenda and how the Getting Payments Right Cross Agency Priority goal is improving payment integrity across both Federal and State payments.
- Specific techniques and technologies currently used to detect and prevent improper payments at both a Federal and State level.
- Analytic capabilities available to Federal and State governments to assist in the prevention of improper payments.
- How to apply data analytics and lessons learned within your organization to help improve payment integrity.

Registration:

To register for this course, follow the link below and sign in using your AGA login. After logging in, continue with the registration steps.

<https://www.agacgfm.org/Webinars/2018-2019-Webinars/Internal-Control.aspx>