

President's Message



Hi, all:

Well, the AGA fiscal year is in full swing. We have had two of our luncheon meetings already, and the third will occur on November 20th. Unfortunately, I had to miss our October meeting, but I hear it was very interesting.

Nicolas Menard of Harvey M. Rose Associates discussed their recent audit of the San Francisco Police Department. The audit assessed the utilization of the Police Department staff and the overtime incurred. The audit disclosed a number of troubling issues:

- While arrests for crime had declined during the recent years, the budget and actual expenditures had increased.
- The Department's staffing practices resulted in mismatches of officers to workload across the districts.
- The Department's 49-day rotation resulted in uneven distribution of police staff over the rotation.
- The Department did not have sufficient control of overtime. Overtime for arrests/investigations reached a low in FY 2010-2011 and increased by 203 percent during the next 6 years.
- The Department employs both sworn and civilian employees. San Francisco's ratio of sworn to civilian staff remains higher than both its peers and the national average. Police officers are among the highest paid employees in the City. However, there are a number of administrative and non-patrol positions that the Department could staff with civilian employees to produce cost and operational efficiencies.

Our next meeting should be very informative, also, and I do plan to attend it. Three staff members of the San Francisco City Controller will discuss penetration testing in IT systems. I am assured that those of us without experience in the field will be able to understand and profit from it.

Before that meeting, on November 9th, your Board will have one of its periodic luncheon meetings. We have a number of issues to discuss, including what seems to be the perennial one of seeing who will replace the outgoing President. If anyone has a question they would like the board to discuss, or any comments, suggestions or concerns please do not hesitate to contact Daniel or myself with your feedback.

At this point, I would once again like to encourage any of our members who have an interest in the Chapter to consider joining the Board. As we have a fairly full Board, the work of each Board member is light, but very rewarding. If you would like more information about this opportunity, please contact me, or any of the other Board members.

See you at the next meeting,
-Sefton

November 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.

Board of Directors

President

Sefton Boyars
seftonboyars@gmail.com

Past President

Linda Gee
Linda.Gee@CMS.hhs.gov

Treasurer

Humberto Melara
humberto.melara@dhs.gov

Chapter Recognition

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bill2stark@yahoo.com

Membership

Terri Ahuruonye
Terri.Ahuruonye@oig.dot.gov

Education

Chuck Hester
charleshester@msn.com

Meetings

Lela Wong
wong.lela@epamail.epa.gov
 Connie Tan
connie.tan@dhs.gov

Communications

Daniel Flores
daniel.flores@oig.dhs.gov

Webmaster

Linda Gee
Linda.Gee@CMS.hhs.gov

Bylaws & Procedures

Illya Kulish
illyakulich@gmail.com

Vacant:

Secretary
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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 Audits of Grants and Cooperative Agreements

One Day Training | Eight Hour CPE

Tuesday, December 4, 2018 | 8:30 am – 4:30 pm

San Francisco, CA

For December's training session, we are pleased to present a trio of experienced individuals bringing with them a wealth of experience honed over decades of service in various organizations. For next month, Robert Adachi, Chuck Hester, and Sefton Boyars will be going over a number of subjects relevant to anyone who conducts audits. These subjects include Yellow Book requirements, 2 CFR 200 (Uniform Grant Guidance), grant award process, risk analysis and a number of case studies to help illustrate how these topics can have a direct impact in the work auditors do.

Presenters: Robert Adachi, Chuck Hester, and Sefton Boyars

Location: San Francisco Federal Building

90 7th Street (between Market and Mission Streets), Suite 4-400, Fourth Floor Annex

Cost: The AGA chapter will provide lunch (sandwiches and sodas) and morning coffee. The fee for this course is \$125 for AGA Members, \$150 for non-members

RSVP: If you would like to attend this training, please contact Chuck Hester via e-mail at CharlesHester@msn.com. Space is limited and spots will be filled on a first-come, first-served basis. If you register, and discover you cannot attend, please notify Chuck no later than December 3rd.

About the Presenters:

Charles W. Hester

Charles (Chuck) Hester, Sr. served as the Western District Inspector General and Audit Manager for the Federal Emergency Management Agency (FEMA) until his retirement in 1995. Chuck is currently an AGA National Chapter's West Coast Regional Vice President supporting over a dozen western region chapters. Chuck is also on the AGA San Francisco Chapter board as an Education Director responsible for planning the chapter's all-day training classes.

Robert Adachi

After graduating from UC, Berkeley, Bob Adachi worked for IRS for a number of years before joining the OIG for the Environmental Protection Agency. In EPA, he was involved in every type of audit, including performance audits, financial audits, and contract audits. He also provided assistance to the investigative staff in connection with grant and contract fraud.

Bob received numerous awards during his career, including the PCIE and CIGIE Awards for Excellence, the EPA Gold Medals for commendable service to the Agency and the OIG Honor Award for Exceptional Contributions. Bob retired near the end of 2015.

Sefton Boyars

Until his retirement in October 1996, Sefton Boyars, had been the Department of Education's Regional Inspector General for Audit in Regions IX and X for sixteen years. During his 35-year career, Mr. Boyars worked for a variety of federal government audit agencies and a California county.

Mr. Boyars is active in his profession. He is a member of the California CPA Society and was a long-time chair of his chapter's combined committee on Accounting Principles and Auditing Standards and Government Accounting and Auditing. He served on the Qualifications Committee of the California State Board of Accountancy for three years. Mr. Boyars is a Certified Public Accountant and a Certified Government Financial Manager. Mr. Boyars is the current president of the San Francisco Chapter of the Association of Government Accountants

Penetration Testing - Basic Concepts, Approach, and Tools

Monthly Luncheon | One Hour CPE

Tuesday, November 20, 2018 | 11:30 am – 1:00 pm
San Francisco, CA

For our November meeting, I am very pleased to announce that we will have three speakers: Michael Bahler, Georg Wolfl and Cynthia Ngo, all auditors from the San Francisco City Controller's Office. They will discuss Penetration Testing - Basic Concepts, Approach, and Tools. This should be a very informative session, particularly for those of us with virtually no experience or knowledge of the area. I am informed that even we neophytes will be able to understand the presentation.

Presenter: Michael Bahler, Georg Wolfl and Cynthia Ngo, of the SF City Controller's Office

Location: San Francisco Federal Building
90 7th Street (between Market and Mission Streets), Suite 4-400, Fourth Floor Annex

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, November 19th.

About the Presenters:

Michael Bahler is an auditor who works at the Office of the Controller – City Services Auditor as an Ops/IT Auditor. Michael has worked on the City's cyber audits team for the past 2 years. Michael is trained in the use of many audit tools, including ACL, Kali Linux, and ethical hacking. Michael holds a bachelor's degree in IT Management and Business Management from Golden Gate University.

Georg Wolfl is a Senior IT Auditor who works at the city and county of San Francisco, Office of the Controller – City Services Auditor. Georg has more than five years IT audit experience working for Ernst & Young, AT&T and Charles Schwab and several years of experience in software engineering and release management. Since working for the city and county of San Francisco, Georg has been involved in various IT audit efforts and initiatives, including review of system interconnection agreements, coordination of system penetration testing and initiation of information security awareness & phishing programs. Georg is a certified Information Systems Auditor (CISA), Risks and Information Systems Controls (CRISC) and Project Management Professional

(PMP). Georg holds a BS, Business Administration with a concentration in Organization and Data Processing from Munich University of Applied Sciences.

Cynthia Ngo is a Senior IT Auditor who works at the Office of the Controller – City Services Auditor. Cynthia has been involved with promoting IT Disaster Recovery plan best practices, engaged in PCI compliance efforts, and supports the CSA team with various cybersecurity initiatives citywide. She also has experience leading and performing IT General Control audits and SOX 404 & 302 compliance projects. Cynthia is proficient with various ERPs and IT applications, and is a CISA candidate. Cynthia holds a B.S. in both finance and information systems from San Francisco State University.

Ethics – Escape the BlindSpot Zone

Webinar | Two Hour CPE

Wednesday, November 28, 2018 | 11:00 am – 1:50 pm

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

The problem with making ethical decisions is you don't always know you are in the middle of an ethical dilemma. Our speaker spent 33 months in a federal prison for a crime he didn't knowingly commit because... he had blind spots. What are your blind spots doing to you? We all have numerous blind spots. They are nearly impossible to recognize if we are not looking for them. This will be a live, interactive class. Download the handouts which will be emailed from AGA prior to the webinar. Bring your pen and be ready to take notes.

Speaker:

Kevin McCarthy
Inspirational Speaker, Best-Selling Author, [BlindSpots, LLC](#)

Learning objectives:

Learners will discover how to make better decisions and enjoy richer relationships at work and home by:

- Discovering your unconscious assumptions that are impacting your decisions and behavior
- Learning how to quickly recognize your blind spots so you can avoid unnecessary hardships
- Unmasking the hidden biases that creep into every decision-making process
- Learning and applying simple but effective decision-making tools

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/Training-and-Events/Event-Registration.aspx?ID=324>