

# Insights

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## Accounting

### Reminder: Disclosure of Investment Security Types and Associated Risks

FASB ASC 820, Fair Value Measurements and Disclosures, requires significant disclosures for assets and liabilities that are measured at fair value. During 2009, two pronouncements were issued that further clarified how certain investments are to be categorized when making some of these disclosures:

- In April 2009, the FASB issued FASB Staff Position (FSP) No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. Among other provisions, this FSP refined the definition of major category (as it is used in ASC 820-10-50-2 and 820-10-50-5 (formerly paragraphs 32 and 33 of FASB Statement No. 157, Fair Value Measurements)) for equity securities and debt securities to align with the major security types as described in ASC 942-320-50-2 (formerly paragraph 19 of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities) even if the equity securities or debt securities are not within the scope of ASC 942-320 (formerly FASB Statement No. 115).
- In September 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-12, Fair Value Measurements and Disclosures (Topic 820) - Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Among other provisions, this ASU included extensive new disclosure requirements by major category for alternative investments within its scope. As in FSP FAS 157-4, for equity and debt securities major category is defined as major security types. Major security types are determined on the basis of the nature and risks of the investment in a manner consistent with the guidance in ASC 320-10-50-1B.

In determining whether disclosure for a particular security type is necessary and whether it is necessary to further separate a particular security type into greater detail, an entity must consider (a) (shared) activity or business sector, (b) vintage, (c) geographic concentration, (d) credit quality, and (e) economic characteristic. In complying with this requirement, financial institutions must include in their disclosure the following major security types, although additional types also may be necessary:

- Equity securities, segregated by industry type, entity size, or investment objective
- Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies



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- Debt securities issued by states of the United States and political subdivisions of the states
- Debt securities issued by foreign governments
- Corporate debt securities
- Residential mortgage-backed securities
- Commercial mortgage-backed securities
- Collateralized debt obligations
- Other debt obligations

Once effective, under ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, a reporting entity must provide fair value measurement disclosures for each class of assets and liabilities, rather than by major category. A class is often a subset of assets or liabilities within a line item in the statement of financial position. For equity and debt securities, class will continue to be determined on the same basis as major security types. For all other assets and liabilities, judgment will be needed to determine the appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided. This requirement is effective for interim and annual reporting periods beginning after December 15, 2009.

Comprehensive guidance and sample financial statement footnote disclosures are available in the Accounting Research Manager's GAAP Financial Statement Disclosures Manual.

## Risk Management

### Post-release Monitoring by Economic Units

A key element of the Firm's Quality Control Delivery Structure is the performance of post-release monitoring by Economic Units (EUs). Recently, the National Office of Risk Management (NORM) issued Release No. R10-10, Post-release Monitoring by Economic Units, to set forth Firm policy for the performance of post-release monitoring and to revise existing Firm guidance in Release No. R09-06. Beginning May 1, 2010, all audit engagements in MRAM Zones 1-4 are subject to post-release monitoring performed by the EU. The monitoring should occur as soon as practicable after the release of the audit report but, in any event, not later than the end of the calendar quarter following report release.

The independent report reviewer for engagements in MRAM Zones 1-4 currently is required to complete the Engagement Quality Feedback Form (EQFF). Completion of the EQFF was encouraged, but not required, when a former A&A Specialist completed an independent report review or a report review for industries not subject to an MRAM survey in the current year. Effective May 1, 2010, the completion of the EQFF is required for all independent report reviews and report reviews, completed on or after May 1, 2010, irrespective of whether the review was completed by a prior A&A Specialist. In addition, effective May 1, 2010, the EQFF will be completed by all concurring reviewers for all reviews completed on or after May

1, 2010. The EQFF form is located at: <http://intranet.mcgladrey.rsm.net/audit/assurance/Document%20Library/1/Engagement%20Quality%20Feedback%20Form.doc>.

NORM is currently developing a web-based tool, the McGladrey Integrated Monitoring System (MIMS), to be used for the Firm's monitoring program. This tool will enable independent report reviewers and concurring reviewers to complete the EQFF through a web-based program and enable EU-based post-release monitors to document their monitoring reviews. Phase 1 of the monitoring tool is scheduled to be available for use by EUs in mid-April 2010. Until this tool is available, independent report reviewers should continue to complete the EQFF, provide the original form to the EU Assurance Leader, and provide a copy to the engagement leader.

Audit performance or documentation deficiencies noted by the EU monitor should be immediately remediated by the performance of omitted procedures or the addition of audit documentation. In accordance with Firm policies, such documentation should be contemporaneously dated and added to the paper audit documentation file with a notation that it was added in response to deficiencies noted by the EU monitor. If the EU monitor believes the financial statements, our report, or other deliverables need to be recalled and reissued, the Firm's consultation policies should be followed.

Release R10-10 is available in the "What's New" section of the Lotus Notes GS Navigator.

## SEC

### SEC Interim Continuance Survey Available in MRAM

Firm policy states that the decision to retain an SEC audit client must be documented annually by completing the most recent version of the MRAM Survey after its release each year. In addition, for each assigned public reporting company or equivalent, the engagement partner must re-evaluate the client relationship prior to sending an arrangement letter for the SAS 100 reviews or audit engagement to determine whether any events have occurred or circumstances have arisen since the last audit engagement that would cause the Firm to discontinue its relationship with the client. To document the engagement team's continuance decision together with the required concurrence prior to the execution of the current-year arrangement letter, the following process must be used:

- The MRAM SEC Interim Continuance Survey must be completed by the engagement team to document the continuance decision.
- The MRAM SEC Interim Continuance Survey must be completed and approved by the engagement partner, and it must be reviewed and approved by the EU assurance leader and the Director of the RPPO. Additional approvals may be required at the discretion of the Director of the RPPO or based upon other facts or circumstances noted in the Survey.
- The completed Survey must be filed in the CaseWare file for the first-quarter interim review engagement along with a copy of the prior-year MRAM Survey or approved form 138/502, if applicable.

## Public Sector

### OMB Memorandum Provides Guidance on Single Audits

A recent U.S. Office of Management and Budget (OMB) memorandum to federal agencies, Updated Guidance on the American Recovery and Reinvestment Act, was issued primarily to inform federal agencies about their oversight roles and responsibilities related to funds provided by the American Recovery and Reinvestment Act of 2009 (ARRA) and expended by grantees. However, some of its provisions will affect all Single Audits, even those that do not involve ARRA expenditures. Per the OMB Memorandum:

- Federal agencies will no longer be granting extensions to auditees for late Single Audit filings with the Federal Audit Clearinghouse (FAC) for 2009 – 2011.
- Late Single Audit submissions by an auditee in either one of the two prior years will keep an auditee from attaining low-risk auditee status in the current year. The date used to determine whether there has been a late filing is when the data collection form and reporting package have been successfully received by the FAC.
- There will be a continued emphasis on the performance of quality control reviews (QCRs) of Single Audits to ensure that Single Audits are properly performed and that findings that should have been reported by the auditor as required by Circular A-133 actually have been reported. The results of these QCRs will be made public.

The FAC processes all Single Audit submissions and will prepare a report that summarizes the audit findings by type of non-compliance (i.e., activities allowed or unallowable, allowable costs, eligibility, reporting) for all Recovery Act programs identified by recipients for all Single Audits with fiscal year ended September 30, 2009 and later. Federal awarding agencies must review these reports and take more rigorous action on them than in the past, which will include:

- Expediting review and resolution of audit findings to ensure all findings are resolved within six months after the date the FAC shows filing status as complete.
- Focusing audit resolution on high-risk programs and auditees.
- Working with recipients of Federal awards to make sure appropriate corrective action plans are developed and implemented to address areas of highest risk for ARRA programs.
- Considering additional monitoring, inspections, or audits for grantees where Single Audits identified greatest risk.

OMB Memorandum M-10-14 is available in full at [http://www.whitehouse.gov/omb/assets/memoranda\\_2010/m10-14.pdf](http://www.whitehouse.gov/omb/assets/memoranda_2010/m10-14.pdf).

## **Nonprofit Organization Audit Manual Updated**

The Firm's Nonprofit Organization Audit Manual was recently updated to be consistent with MCAP version 9.1 and the March 1, 2009 release of the AICPA Audit Guide, Not-for-Profit Entities. With the exception of updates for MRAM-related policies, the updates in Version 10.0 of the Manual primarily incorporate guidance previously issued in Releases. Significant updates include the following:

- Updated staffing policies and guidance for implementation of MRAM and QCDS
- Updated arrangement letter samples and engagement arrangement considerations
- Additional guidance regarding compliance with the Health Information Technology for Economic and Clinical Health Act
- Updated representation letter supplement
- Additional industry-specific examples of analytical procedures
- Added new policy that for purposes of determining appropriate audit procedures, contributions receivable (including in-kind contributions receivable) will be subject to applicable policies and procedures in MCAP related to trade receivables
- Added guidance on auditing business combinations
- Revised Firm policy for acceptance of engagements involving participation in the sale of securities and entities obligated on outstanding publicly held securities

Guidance in this Manual update was effective upon release on March 18, 2010. Engagement teams should watch for announcements as to the implementation of MRAM and the QCDS policies with respect to not-for-profit organizations.

## **Government Industry Manual Updated**

The MCAP Section of the Firm's Government Industry Manual was recently updated to reflect changes made in the Firm's Audit Methodology and to address the impending implementation of MRAM and QCDS. Significant updates in this Version 12.0 include the following:

- Updated staffing policies and guidance for implementation of MRAM and QCDS
- Revised Firm policy for acceptance of engagements involving public debt offerings
- Updated arrangement letter samples and engagement arrangement considerations for consistency with MCAP and to address HIPAA requirements and new policies related to our association with public debt offerings, when applicable
- Updated representation letter supplement for consistency with MCAP

Guidance in this Manual update was effective upon release on March 25, 2010. The MCAP Section of the Government Industry Manual only supplements guidance already found in the Firm's MCAP. Therefore, the Firm's MCAP should be referred to for all non-industry-specific guidance.

## Compliance Manual Version 12.0 Released

The Firm's Compliance Audit Manual and related MAPS recently have been updated to be consistent with applicable Firm audit methodology and the October 1, 2009 release of the AICPA Audit Guide, Government Auditing Standards and Circular A-133 Audits. This update also addresses our response to concerns about Single Audit quality raised by the Federal Audit Community, and provides guidance regarding new professional standards, including:

- Statement on Auditing Standards (SAS) No. 115, Communicating Internal Control Related Matters Identified in an Audit
- SAS No. 117, Compliance Audits
- The July 2007 Revision of Government Auditing Standards (GAS)

A number of significant changes have been made to policies and samples included in the Manual as well as MAPS tools, including the following:

- Updated staffing policies and guidance for implementation of MRAM and QCDS
- Updated arrangement letter samples and engagement arrangement considerations
- Updated representation letter supplement
- Updated checklist for compliance with GAS and the Single Audit Act
- Modifications to our audit approach for Single Audit purposes to address:
  - o New sampling provisions
  - o Internal audit considerations
  - o Auditing the Schedule of Expenditures of Federal Awards
  - o Interim communication to those charged with governance
- Modification to the guidance provided for performing program-specific audits in accordance with the Single Audit Act
- Modification to reporting guidance and sample reports

Engagement teams should carefully consider the impact these changes may have on upcoming compliance audit engagements. The guidance in this Release is effective upon issuance for all audits performed in accordance with GAS and Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. The new illustrative reports should be used for all Single Audits for periods ending on or after December 15, 2009. Pre-SAS 115 illustrative reports and guidance found in the AICPA Audit Guide, Government Auditing Standards and Circular A-133 Audits, should be used for Single Audits of periods ending before December 15, 2009 for which SAS 115 is not early implemented. The updated MAPS should be used for any audit engagements with periods ending on or after April 30, 2010, or that have not yet been planned.

## Employee Benefit Plans

### TIAA Contracts Must Be Reported as Plan Assets

U.S. Department of Labor (DOL) regulations (29 CFR 2520.104-44(b)(2)) provide that “fully guaranteed” benefits that are provided “exclusively through allocated insurance contracts or policies” need not be reported as plan assets. In addition, under generally accepted accounting principles, allocated contracts are excluded from plan assets while unallocated contracts are included in plan assets.

The DOL recently issued Advisory Opinion 2010-01A (<http://www.dol.gov/ebsa/regs/aos/ao2010-01a.html>) to the Teachers Insurance and Annuity Association of America (TIAA) and the College Retirement Equities Fund (CREF) (collectively known as TIAA-CREF) concerning the reporting of the TIAA traditional annuity contracts on Form 5500. It is the DOL's view that the TIAA traditional annuity does not constitute a fully allocated contract for various reasons, including that there is not an unconditional guarantee to provide a benefit of a certain amount without adjustment in fluctuations in the market value of TIAA's underlying assets, a participant's amount of retirement benefit cannot be determined upon receipt of contribution, and the amount of the benefit may be affected by plan terms such as a vesting schedule.

For plan years beginning on or after January 1, 2009, the TIAA traditional annuity contracts cannot be treated as allocated contracts and must be reported as plan assets. The DOL will not reject a Form 5500 or require an amended Form 5500 for plan years ending in 2008 or prior for failure to treat the TIAA annuity contracts as unallocated contracts. In addition, the DOL also will not reject the Form 5500 for 2008 and prior plan periods in which the auditor's report contains a modified opinion due to the treatment of TIAA annuity contracts as allocated contracts which resulted in exclusion of these contracts from plan assets.

If your client has any plans with TIAA traditional annuities that have reported these contracts as unallocated which resulted in exclusion from plan assets, review FASB ASC 250 (formerly FASB Statement No. 154), Accounting Changes and Error Corrections, and consult with an employee benefit plan designee in your Regional Professional Practice Office for assistance.

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