

On Campus

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CPAs, Consultants & More

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PRACTICAL GUIDANCE

The Benefits of Internal Audit Activities for Organizations of Every Size

by Steven Morse, CPA, CGMA

So that we are all on the same page, let's start with the definition of internal auditing:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

With a definition like that, who wouldn't want to include internal auditing within their organization!?

Needless to say, many colleges and universities do not have an internal audit department within their institution; the reason is that it is perceived as cost prohibitive. As a result, it is usually the larger institutions that maintain their own internal audit department. Internal audit doesn't need to be an all or nothing proposition, however.

For those institutions that do not have their own internal audit function and that don't perform any internal audit activities, consider the following common myths and the related realities.

Our college is too small to need an internal audit function - A dedicated internal audit department is not always needed. What is important is that internal audit-type activities are occurring. Regardless of size, making sure that internal controls are actually functioning as intended is critical for an organization. Whether it is ensuring efficient processes, compliance with organizational policy, or reducing the risk of fraud, all colleges should be concerned about these tenants of good

business practice, regardless of size. In fact, an unexpected occurrence such as a fraudulent incident, may be more detrimental to a smaller college given its limited resources.

We have an external audit performed every year; that covers a review of internal controls, right? - An external audit focuses on auditing the college's financial statements. While an external audit considers the college's control environment and reviews certain internal controls surrounding the preparation of the college's financial statements, the audit testing performed during an external audit engagement is not akin to internal audit-type testing.

PRACTICAL GUIDANCE (CONT.)

We have a strong control environment and are operating efficiently primarily because we have a workforce that has an average tenure of 20+ years – While an experienced workforce certainly can be an asset for any organization, it also can provide its own set of challenges and exposures. For example, employees may be doing things the way they've always been done regardless of whether or not these procedures are in line with new policy requirements; employees may not be reviewing processes looking for operating efficiencies; staff may have taken on additional financial responsibilities over the years without proper training to ensure

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competence; long-term staff, who may not have had proper training over the years, may be informally or incorrectly training new staff. These circumstances can lead to a weak control environment which can open the door for fraud to occur. Many times, the perpetrator of a fraud incident has worked for an organization for a long time.

We have well-written policies and procedures which include strong internal controls – Not all policies and procedures are made the same. Well written policies and procedures do include internal controls. Just because a good procedure exists, however, it does not mean that it is being followed. Poorly followed policies and procedures result in a false sense of security and integrity from a controls perspective.

Considerations Going Forward

There are a variety of actions that a college may pursue even though they are unable to fund an internal audit department. Some of the actions that a college may pursue in order to strengthen internal controls and the control environment are:

- Develop and maintain a management self-assessment program that includes testing
- Provide internal controls and risk assessment training for staff and faculty
- Engage a professional services firm to assist with the development of a blended internal audit program for the college whereby select internal audit-type activities are performed to achieve the desired level of risk tolerance and an enhanced control environment. Such a blended program may include the training mentioned above, traditional department or process audits, limited scope reviews, and management advisory services.

Internal auditing strengthens an organization's control environment, identifies control weaknesses, exposes inefficient processes, and assists in the achievement of objectives. What opportunities is your institution missing?

Steven joined The Bonadio Group in early 2017 and leads our Higher Education Internal Audit Team. Prior to joining The Bonadio Group, Steve served as Executive Director of Internal Auditing for the Rochester Institute of Technology.

TECHNICAL UPDATE

Are You Ready for the New Financial Statement Accounting Standards Update?

by Aimee Joziac, CPA

By now, many of you are aware of the new Accounting Standards Update (ASU) 2016-14 and the changes in presentation that this new guidance will require. Although the standard is not effective until fiscal year 2019, it is not too early to prepare for the modifications that will need to be made.

The ASU requires that organizations adopt the standard on a retroactive basis and disclose comparative information. In addition, certain accounting policies should be reviewed and formalized in the near term, in order to prepare for new disclosure requirements under the new standard.

Provisions that will be required to be adopted are as follows:

- Net asset classification and disclosure: While the transition from three classes of net assets to two should be relatively painless, the ASU requires enhanced disclosures relative to amounts and purposes of board designated net assets.

ACTION ITEM: Ensure that the purpose of any board designated net assets is documented in the board minutes, that releases are appropriate and that these accounts are reconciled on a regular basis.

- Endowment fund accounting and disclosure: The ASU requires that underwater endowment funds be reported as part of “net assets with donor restrictions” versus unrestricted net assets. The ASU requires enhanced disclosures related to underwater endowment funds, including the current fair value, original gift amounts, and the College or University’s policy for appropriation of such funds.

ACTION ITEM: Ensure that you have a policy in place regarding spending from underwater endowment funds. Ensure that unitization records are well maintained and that the current fair value and original gift amount can be easily ascertained for the footnote schedule.

- Expense reporting and disclosure: Colleges and Universities will need to disclose the methods used to allocate costs amongst programs and support functions.

ACTION ITEM: Ensure that the College or University’s policies for allocation of expenses amongst programs and support functions are reasonable and that they are formally documented.

- Disclosures about liquidity: While this new liquidity disclosure is not required to be adopted on a retroactive basis, and the information for the quantitative disclosure requirements should be readily available, there are additional disclosure required about how the College or University manages its liquid resources to meet cash needs within one year of the balance sheet date.

ACTION ITEM: Ensure that the College or University has a documented policy for management of liquid resources.

A proactive approach to this ASU will ensure a smoother transition. Please feel free to contact us at The Bonadio Group if you have any questions regarding implementation.

Aimee is a principal in The Bonadio Group’s Tax-Exempt Audit division.

GETTING TO KNOW US

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What's New at Bonadio: Best Firm for Women CPAs

The Bonadio Group is one of 12 CPA firms in the nation to be recognized as a 2017 Best CPA Firm for Women. The honor comes from two organizations—the Accounting & Financial Women's Alliance and the American Women's Society of Certified Public Accountants. The groups cited Bonadio's consistent, measurable progress in advancing women to leadership, offering transparent career paths that enable women to anticipate work-life conflicts, and implementing other key growth opportunities for women. Women account for 22 percent of The Bonadio Group's partners, and 57 percent of the firm's principals are women leaders with a partnership-track trajectory.

In other workplace news, Bonadio employees rate their workplace highly. The firm has garnered three regional workplace awards—including high rankings in the Buffalo and Syracuse offices, and the top spot for the Rochester office.

Nationally, the firm is ranked number 39 in the 2017 Accounting Today list of top 100 firms, ranked by annual revenue.

TBG Spotlight: Joe Peplin



Joe Peplin is a newly promoted Partner in The Bonadio Group's Tax-Exempt Audit Division. Joe began his career at The Bonadio Group almost 15 years ago and he specializes in audit, tax, and consulting services for our Higher Education clients. Joe received his B.S. degree from the State University of New York at Geneseo in 2002.

Joe grew up in Attica, a small town in Western New York, that is the home of the famous state prison. After Joe "escaped" from living in Attica, he moved to Rochester where he resides today.

In addition to spending a significant amount of time reading exciting new accounting literature, Joe enjoys reading for pleasure in his spare time. Joe is also an avid fan of sports teams that specialize in disappointing him.... Namely the Buffalo Bills and Buffalo Sabres.

Breakfast Series and Educational Symposium

We hope that you were able to attend our May breakfast session in Rochester where Mark Hammill, Senior VP of Advocacy and Issue Analysis from NACUBO, discussed the impact that the new administration will have on higher education.

We were also pleased to sponsor the 2017 Central New York Higher Education Symposium this Spring in Syracuse. This event provided training on fraud, bond compliance, enterprise risk assessment, compliance and current accounting topics.

Stay tuned for future events in Buffalo and Albany in the coming months.