Mr. Silverstein noted that the general public has very little knowledge about the various accounting standards that auditors must be aware of when completing an audit; and he started off by giving an overview of the history of how general accounting principles and standards evolved.

**ACCOUNTING STANDARDS**

The organization of Certified Public Accountants (CPAs) dates back to 1887, which is what is now known as the American Institute of Certified Public Accountants (AICPA).

As diverse accounting procedures were being used, the need for the development of Accounting Standards arose. Generally Accepted Accounting Principles (GAAP) developed over time and often Accounting Standards for audits of private companies, non-profit organizations, federal, state and local governments with the U.S. were solutions to specific problems (i.e. stock market crash, oil crisis in the early 70’s, etc.). At the same time, the question arose of how the Federal Government could set standards that they would interpret.

All of this led to the eventual creation of the Financial Accounting Standards Board (FASB), which is a not-for-profit organization independent of the AICPA, to set standards.

Several sources of standards existed:

- FASB Accounting Standards Codification
- AICPA Auditing Standards
- Government Accounting Standards Board
- Public Company Accounting Oversight Board

All of which were reduced to the Single Audit Act of 1984. Federally, organizations that expend $500,000 or more are required to have an audit.
WHAT IS AN AUDIT?

The main goal of an audit is: To determine whether the financial statements have been prepared in conformity with GAAP and present fairly the entity’s financial position, change in net assets and cash flows.

5 GENERAL ASSERTIONS:
Existence/Occurrence [are the assets/liabilities there; have transactions noted occurred]
Completeness [was every transaction recorded]
Valuation & Allocation [have components been included at appropriate valuation amounts]
Rights & Obligations [are they the rights of the entity]
Presentation & Disclosure [do the notes on the financial statements make sense]

INTERNAL CONTROLS

Process affected by entity’s board, management and other personnel to provide reasonable assurance regarding the following:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Developing an internal accounting control system includes identifying areas where abuses or errors are likely to occur:
Cash Receipts / Cash Disbursements
Petty Cash
Payroll
Grants, Gift and Bequests
Fixed Assets
Check issuance
Deposits / Transfers
Approval of plans and commitments before they are implemented
Personnel policies
QUESTION & ANSWER PERIOD

Q: Why is the Board important in internal control?
A: Sets tone at the top; ensures compliance with laws and regulations; and provides risk assessment.

Internal Controls are reported in the Governance Reports. Auditors look at the level of non-control and material weakness and whether that compromises the financial statements.

Good to use Accrual Basis Accounting, shows expenses more accurately.

Government building has to be on books; buildings are usually shown as cost – with depreciation of useful life – should be evaluated based on fair market value.

If funded by a municipality, the library needs to have its own treasurer monitoring their transactions.

Board should know about contracts entered into by the library. One-time approval of a contract is needed, not necessary for each payment. If approve $1,200 contract to be paid $100 per month, do not need to approve each monthly payment of $100.

Q: Reasonable amount of time for an audit to be completed?
A: Within 5-1/2 months from end of fiscal year – that’s when Form 990 is due.

Audit is merely an opinion – purpose is not look at every transaction but apply testing to render an opinion.

NYS libraries have crazy organizational setups – audits are not mandatory but a good process.

Need to watch terminology: Not-for-profit is misleading because an organization cannot exist if it doesn’t make a profit – better terminology is Tax-Exempt. Because government waives tax payments, more requirements on financial disclosure reporting are imposed on Tax-Exempt organizations.

NYS does not like the Federal format for an audit, so organizations must prepare a separate document to meet the State’s requirements.

Solicitation rules are different in every State.
Dorfman Abrams Music LLC
Accountants & Advisors

An Accounting And Auditing Primer

(A View From 30,000 Feet)
Accounting Standards

- A brief history of an arcane subject ----
  - 1887 – American Association of Public Accountants
  - 1916 – Institute of Public Accountants
  - 1917 – American Institute of Accountants
  - 1957 – American Institute of Certified Public Accountants
THE PROBLEM

Diverse Accounting Procedures

THE SOLUTION

Standards
The Development of Accounting Standards

An even more arcane history ----

- 1933-1934 – Recommendations to the NY Stock Exchange
- 1939-1953 – Accounting Research Bulletins - 42
- June 1953 – “ARB” - 43
- 1953-1959 – 8 more “ARB”s issued

AND THEN..................
Along Comes the Accounting Principles Board --

- 1959 – "APB” created

- 1959-1973 - 31 "APB”s issued
  - 20 interpretive statements
  - 4 conceptual statements

AND THEN..................
The Financial Accounting Standards Board --

- Formed in 1973
- Independent from the AICPA
- A non-for-profit organization

1973 through June 30, 2009:
- 159 statements (FASB’s)
- 48 interpretations (FIN’s)
- 53 technical bulletins (FTB’s)
- 7 financial accounting concepts (CON)

AND AS OF JULY 1, 2009..............
The FASB Accounting Standards Codification

- Goals
  - Simply
  - Include all GAAP
  - Create a research system
- Took thousands of standards and converted to roughly 90 topics
- Issued notice to constituents
  - 45 pages on how to use the Codification

AND THERE IS MORE.........
From the AICPA --

- U.S. Auditing Standards
  - 1973-today – 125 standards
- Other Major Standards
  - Attestations – 17
  - Accounting and Review Services – 20
  - Code of Professional Conduct
  - Consulting Services
  - Quality Control
  - Peer Review
  - Tax Services
  - Personal Financial Planning
  - Continuing Professional Education

NOT DONE YET .................
The Government Accounting Standards Board --
- 56 statements
- 6 interpretations
- 15 technical bulletins
- 4 concept statements

AND

The Public Company Accounting Oversight Board --
- SOX

AND TO FINISH.................
THE SINGLE AUDIT ACT OF 1984

MORE THAN YOU EVER WANTED TO KNOW!!!!!!!
WHAT IS AN AUDIT?
WHAT IS AN AUDIT?

THE GOAL---
To determine whether the financial statements have been prepared in conformity with generally accepted accounting principles (GAAP), and that they present fairly the entities' financial position, change in net assets and cash flows.

THE WORK---
Done in accordance with Statements of Auditing Standards (SAS) which identify the FIVE general classes of ASSERTIONS about which auditors are required to collect enough relevant evidence to lend credence to the items reflected in the financial statements.
WHAT IS AN AUDIT?

THE RESULT---
The independent auditors’ report contains the auditor’s opinion on the financial statements and the reasons for that opinion.

THE RISK---
- Fraud involving theft of assets, not detected
- Financial statement fraud, not detected
- Wrong opinion
THE "FIVE ASSERTIONS"

1) Existence/Occurrence
2) Completeness
3) Valuation/Allocation
4) Rights and Obligations
5) Presentation and Disclosure
Existence/Occurrence

DEFINITION---
Whether assets or liabilities of the entity exist at a given date and whether recorded transactions have occurred during the given period.

TESTING EXAMPLES INCLUDE---
- Confirmations for:
  - Cash and Investments
  - Accounts Receivable and Payable
  - Cut-off Tests
  - Examination of Individual Transactions
Completeness

DEFINITION---
Whether all transactions and accounts that should be presented in the financial statements are included, which means transactions that should be recorded have been recorded.

CONCEPT OF MATERIALITY

TESTING EXAMPLE---
Testing originates with reviewing the external document indicating that the transaction has occurred, and then tracing the transaction through the system.
Valuation/Allocation

DEFINITION---
Whether asset, liability, revenue, and expense components have been included in the financial statements at appropriate amounts, such as the valuation of:

- Marketable securities
- Estimations on accruals and valuation accounts

TESTING EXAMPLE---
In auditing the fair market value of investments, year-end market values are traced to independent valuation sources.
Rights and Obligations

DEFINITION---
Whether assets are rights of the entity and liabilities are the obligations of the entity at a given date.

TESTING EXAMPLES---
- Off Statement Financing
- Credit Arrangement
- Special Purpose Entities
Presentation & Disclosure

DEFINITION---
Whether particular components of the financial statements are properly classified, described, and disclosed.

TESTING EXAMPLES---
➢ Pledges receivable are presented to show donor intent and period of collection
➢ The contingency disclosure
INTERNAL CONTROL
What is it?

Internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
What are the components?

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring
What Can Internal Control Do?

Internal control can help an entity achieve its performance and profitability targets, and prevent loss of resources. It can help ensure reliable financial reporting. And it can help ensure that the enterprise complies with laws and regulations, avoiding damage to its reputation and other consequences. In sum, it can help an entity get to where it wants to go, and avoid pitfalls and surprises along the way.
What Can Internal Control NOT Do?

- Internal control can ensure an entity’s success—that is, it will ensure achievement of basic business objectives or will, at the least, ensure survival.

- Internal control can ensure the reliability of financial reporting and compliance with laws and regulations.
C O S O

Committee of Sponsoring Organizations of the Treadway Commission ----

MEMBERS:

- American Institute of Certified Public Accountants
- American Accounting Association
- The Institute of Internal Auditors
- Institute of Management Accountants
- Financial Executives Institute
The control environment provides an atmosphere in which people conduct their activities and carry out their control responsibilities. It serves as the foundation for the other components. Within this environment, management assesses risks to the achievement of specified objectives. Control activities are implemented to help ensure that management directives to address the risks are carried out. Meanwhile, relevant information is captured and communicated throughout the organization. The entire process is monitored and modified as conditions warrant.
Relationship of Objectives and Components

There is a direct relationship between objectives, which are what an entity strives to achieve, and components, which represent what is needed to achieve the objectives.

- Information and Communication
- Control Activities
- Risk Assessment
- Control Environment
- Monitoring

Information is needed for all three objectives categories - to effectively manage business operations, prepare financial statements reliably and determine compliance.

Internal control is relevant to an entire enterprise, or to any of its units or activities.

All five components are applicable and important to achievement of operations objectives.
DEVELOPING AN INTERNAL ACCOUNTING CONTROL SYSTEM

The first step in developing an effective internal accounting control system is to identify those areas where abuses or errors are likely to occur.
- **Cash Receipts**
  To ensure that all cash intended for the organization is received, promptly deposited, properly recorded, reconciled, and kept under adequate security.

- **Cash Disbursements**
  To ensure that cash is disbursed only upon proper authorization of management, for valid business purposes, and that all disbursements are properly recorded.

- **Petty Cash**
  To ensure that petty cash and other working funds are disbursed only for proper purposes, are adequately safeguarded, and properly recorded.

- **Payroll**
  To ensure that payroll disbursements are made only upon proper authorization to bona fide employees, that payroll disbursements are properly recorded and that related legal requirements (such as payroll tax deposits) are complied with.
• **Grants, Gifts, and Bequests**
  To ensure that all grants, gifts, and bequests are received and properly recorded, and that compliance with the terms of any related restrictions is adequately monitored.

• **Fixed Assets**
  To ensure that fixed assets are acquired and disposed of only upon proper authorization, are adequately safeguarded, and properly recorded.

• **Check Issuance**
  The number of signatures on checks, dollar amounts which require board approval or board signature on the check, who authorizes payments and financial commitments, etc.

• **Deposits**
  How payments made in cash (for admissions, raffles, weekly collection plate, etc.) will be handled, etc.
• **Transfers**

If and when the general fund can borrow from restricted funds, etc.

• **Approval of Plans and Commitments Before They are Implemented**

The annual budget and periodic comparisons of financial statements with budgeted amounts, leases, loan agreements, and other major commitments.

• **Personnel Policies**

Salary levels, vacation, overtime, compensatory time, benefits, grievance procedures, severance pay, evaluation, and other personnel matters.
ENOUGH!!!!!!!