GASB 87 & Updates from the OSA

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STATE AUDITOR VISION

- ACCOUNTABILITY
- TRANSPARENCY
- EXCELLENCE

- Annual audit accountability and finding reduction
- Accessible and responsive to agencies and IPAs
- Support for entities on the “At Risk” list and Small Political Subdivisions
- Robust investigative efforts
  - Collaboration with oversight entities
AN OVERVIEW OF THE OFFICE OF THE STATE AUDITOR (OSA)

- The State Auditor is one of the elected executives of the state.

- The OSA is an independent agency tasked with overseeing the annual audits of every entity in the state receiving state taxpayer funds including, but not limited to:
  - School Districts
  - Municipalities
  - Counties
  - State Agencies
  - Institutions of Higher Education
  - Special Utility Districts

- Per statute in addition to the annual audit, the state auditor may cause the “affairs and transactions of any agency to be audited in whole or in part”.
An Introduction to GASB No. 87
“Leases”
WHAT IS GASB 87?

GASB 87 is a major new standard affecting most leases:

- Improves accounting and financial reporting for leases
- Requires recognition of lease assets and liabilities
- Establishes consistent standards for lease-related accounting
- Uses the principle that leases are really financing transactions

GASB 87 is effective for reporting periods beginning after December 15, 2019 (fiscal year 21)
NEW DEFINITIONS

A lease is a contract that conveys control of the right to use another entity’s non-financial asset (called the underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction.

A short term lease is a lease that has a maximum possible term (including extensions) of 12 months or less.

Control is defined by:

- The right to obtain present service capacity from the underlying asset, and
- The right to determine the nature and manner of use of the underlying asset
IMPORTANT NOTES

- The old lease terminology of operating lease and capital lease no longer apply.

- Commonly used “fiscal funding clauses” no longer apply to determine accounting treatment.

- Per GASB 87 governments can be either lessors or lessees.
Common Underlying Assets Leased

- Real estate, office buildings, land
- Fleet vehicles
- Copy machines and other office equipment
- Heavy equipment (like road maintenance equipment)
LEASES EXCLUDED FROM GASB 87

- Intangible assets - mineral rights, patents, software
- Rights to explore - i.e. exploration for oil & gas
- Biological assets - timber, plants and animals
- Service concessions
- Non-exchange-like transactions - i.e. leases for $1 to another governmental entity
REGULATED LEASES

Certain leases are subject to external laws and regulations:

- US Department of Transportation (USDOT)
- Federal Aviation Administration (FAA)

Regulated leases are generally exempt from the requirements of GASB 87, certain disclosures required.

**Important Note:** It is critical to distinguish the items that actually qualify as “regulated”. Non-regulated leases must comply with GASB 87 requirements.
DISCUSSION QUESTIONS

1. The Local Public Body is leasing one of its fairground buildings to the lessee for 9 months. The lessee has an option to extend the lease for an additional 9 months. Is this a lease or a short term lease?

2. The Local Public Body is leasing the right to use the entity’s land and the lessee intends to use the land for hunting. Other parties may use the land during the off season. This right to use lease is for three years. Does the ability of other parties to use the land during the off season affect the status as a lease?

3. Is a permanent easement a lease?
**JOURNAL ENTRIES**

**Lessee First Year:**
*Asset* - Intangible asset of “Right to use underlying asset”
*Liability* - Present value of future lease payments

**Lessee subsequent year:**
*Asset* - Amortize intangible asset over lease term*
*Liability* - Reduce by lease payments less any interest

* Or useful asset life if shorter
JOURNAL ENTRIES (continued)

Lessor First Year:
- **Asset** - Present value of lease payments expected
  - **Deferred Inflow** - Lease Receivable

Lessor subsequent year:
- **Deferred Inflow** - amortize over life of lease
  - **Asset** - Reduce value of lease payments expected
- **Asset** - Cash paid for lease during reporting period
  - **Revenue** - recognize revenue over life of lease
LEASOR STILL PRESENTS LEASED ASSET

DON’T FORGET TO PRESENT THE LEASED ASSET AND ANY APPROPRIATE ENTRIES FOR DEPRECIATION ON THE FINANCIAL STATEMENTS.

THE LESSOR HAS TWO ASSETS:

- THE UNDERLYING ASSET, AND
- THE LEASE RECEIVABLE
Create a team to identify and evaluate all leases. This is where it is different from GASB 68 because there is not an outside agency providing audited figures.

- Accounting
- Legal
- Management

During evaluation always consider the substance of the transaction:
- *It might not say “lease” but in substance it is a lease*

Develop a timeline
Resources

Useful Resources:

- GASB 87 & GASB 87 Implementation Guide: https://www.gasb.org
- Your entity’s IPA
- Other IPA firms providing specialized services or trainings for GASB 87
- Department of Finance Local Government Division
Navigating the New and Improved OSA Website
THE NEW AND IMPROVED
OSA WEBSITE

- New look and feel
- All of the usual information
  - And we keep adding more
- Improved search capabilities

Call our office if you can’t find what you are looking for and one of our staff will walk you through the site!
Accountability, Transparency & Excellence

The first priority of the OSA is to protect New Mexico’s taxpayers by ensuring that government effectively and efficiently serves the needs of all New Mexicans. As the state’s independent and nonpartisan oversight agency, our office is responsible for holding local and state government and elected officials accountable in the use of public funds.

Hear it from Brian
FINANCIAL AUDIT

- Approved Audit Firms
- Contracting Process
- Audit Rule
GOVERNMENT ACCOUNTABILITY OFFICE

- GAO Reports
- Risk Advisories
- GAO Bulletins
OSA selects audits that they will perform; selected entities are notified

Notifications are sent to remaining agencies in the Spring
FOR AUDIT FIRMS

- Contract Log
- Report Review Guides
- Summary of Findings Schedule Template and Instructions (must be submitted with final audit report)
FAQs

- General FAQ’s:
  - Audit opinions
  - AUP Engagements

- OSA-Connect FAQ’s:
  - Login questions
  - Contact Information

- Helpful Links:
  - NM Government
  - Federal Government
  - Other

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SPECIAL INVESTIGATIONS AND FRAUD CASES
Submitting a Report or Complaint
ALLEGATIONS OF GOVERNMENTAL FRAUD, WASTE, AND ABUSE

Reports may be made anonymously through the OSA Hotline by visiting our website and submitting a compliant through our online portal or by calling 1-866-OSA-FRAUD (1-866-672-3728).

You may also speak to an investigator by calling 505-476-3800

You may write to the office at:

New Mexico Office of the State Auditor
2540 Camino Edward Ortiz, Suite A
Santa Fe, NM 87505

www.osafraud.org
The Fraud Triangle: A framework for spotting high-risk fraud situations

Pressure
Financial or emotional force pushing towards fraud

Opportunity
Ability to execute plan without being caught

Rationalization
Personal justification of dishonest actions

FRAUD
Timesheet and Payroll Related Fraud

The number one reported type of fraud reported to our office is timesheet/payroll related fraud. 15 minutes per day can add up to a large amount of money.

- Pressure: Possibly family related, like the need to pick up a child by a certain time
- “Opportunity is created when no one “really” looks at time sheets and all timesheets are just approved.
- Rationalization may be something like “I’ll take a shorter lunch tomorrow”
VENDOR INVOICING - External

Vendor related fraud is also one of the top fraud related areas reported to our Office.

Spoofing of a internal email (CFO, Finance Director) or external vendor. Warning signs include:

- Payment outside of the normal process
- Sense of urgency (must be paid immediately)

Strong internal controls are an important safeguard and policy should require phone call to known vendor point of contact for confirmation.
A recent case involved continuing payments on a closed contract.

Pressure: High dollar lifestyle

Opportunity: Limited journal entry review on entries made for known vendors, reliance on lack of understanding of contract terms and conditions, and using ACH transfer for payment:

Rationalization: Need to maintain lifestyle or else will be discovered.
Improper use of State Grant Funds

The State Fire Marshall and the Legislative Finance Committee have expressed concerns about the improper use of state grant funds;

State grants are no different from any other grants and:

- Grants from the State Fire Fund should only be spent according to the requirements of the State Fire Marshall.
- Severance Tax Bond Grants should only be spent on the legislatively approved project.
- Detailed receipt and expenditure records should be maintained for all state grants; and
- If questions arise, call the grantor agency for clarification.
Improper PERA Refunds:

Changing IRS and PERA regulations are challenging. Here are some **Key Takeaways:**

- Critical to have the correct legal understanding of ANY resolutions passed;
- Critical to have payroll tax and PERA law clarification;
- If no-one on staff has an in-depth understanding of payroll consider hiring a contractor, or just farming out payroll.
- When in doubt ask - consult with your oversight agency before risking financial liability for your local public body.
Any Questions?

Website: www.saonm.org
Fraud Hotline: 1-866-OSA-FRAUD
Main Phone: 505-476-3800
THANK YOU