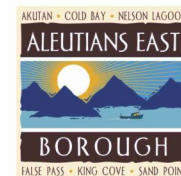


REPORT TO HONORABLE MAYOR AND
MEMBERS OF THE BOROUGH ASSEMBLY

ALEUTIANS EAST BOROUGH

AUDIT PLANNING: YEAR ENDED JUNE 30, 2024



Contents

QUICK ACCESS TO THE
FULL REPORT

<u>WELCOME</u>	3
<u>EXECUTIVE SUMMARY</u>	4
<u>APPENDIX</u>	15
<u>IMPLEMENTATION OF NEW GASB STANDARDS</u>	18

The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Borough Assembly) and, if appropriate, management of the Borough, and is not intended and should not be used by anyone other than these specified parties.

Welcome

August 1, 2024

Honorable Mayor and Members of the Borough Assembly
Aleutians East Borough

Professional standards require us to communicate with you regarding matters related to the audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. This document provides an overview of our plan for the audit of the financial statements, schedule of expenditures of federal awards and schedule of state financial assistance of Aleutians East Borough (the Borough) as of and for the year ended June 30, 2024, including a summary of the nature, scope, and timing of the planned audit work.

We are pleased to be of service to the Borough and look forward to discussing our audit plan, as well as other matters that may be of interest to you.

Respectfully,

BDO USA

BDO USA, P.C., a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.



BIKKY SHRESTHA
Assurance Principal
907-770-2234 / bshrestha@bdo.com



MICHELLE KIESE
Assurance Director
907-646-7335 / mkiese@bdo.com



GEORGE BARKER
Assurance Experienced Senior
907-646-7379 / gbarker@bdo.com



Executive Summary

Responsibilities

BDO USA, P.C., as your auditor, is responsible for forming and expressing an opinion(s) about whether the financial statements, the schedule of expenditures of federal awards and the schedule of state financial assistance that have been prepared by management, with your oversight, are prepared, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In addition, our audit will be conducted in accordance with standards for financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, Audit Requirements of Federal Awards* (Uniform Guidance) and *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* (State Audit Guide). The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. The engagement letter, a copy of which has been provided to you, includes specific details regarding the auditor's and management's responsibilities.



Audit Strategy

Overall, our audit strategy is to assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design further audit procedures responsive to assessed risks. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. In connection with our audit, we will obtain a sufficient understanding of the Borough's internal control to plan the audit of the financial statements. However, such understanding is required for the purposes of determining our audit procedures and not to provide any assurance concerning such internal control. In addition, *Government Auditing Standards* require that we also plan and perform the audit to obtain reasonable assurance about whether the Borough has complied with applicable laws, regulations and the terms and conditions of the federal and state awards that may have a direct and material effect on each of the Borough's major federal and state programs.

We focus on areas with higher risk of material misstatement (whether due to error or fraud). Our audit strategy includes consideration of:

- ▶ prior year audit results together with current year preliminary analytical review, including discussions with management and those charged with governance regarding the Borough's operations, and risks,
- ▶ inherent risk within the Borough (i.e., the susceptibility of the financial statements to material misstatement, before consideration of any related control(s),
- ▶ recent developments within the industry, regulatory environment, and general economic conditions,
- ▶ recently issued and effective accounting and financial reporting guidance,
- ▶ the Borough's significant accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions,
- ▶ the control environment, risk management, and monitoring processes, and the possibility that the control system and procedures may fail to prevent or detect a material error or fraud,
- ▶ information about systems and the computer environment in which the related systems operate,
- ▶ a continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the Borough, and
- ▶ internal control over compliance with requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures.

We will communicate to you any significant changes to the planned audit strategy, or to the significant risks initially identified, that may occur during the audit due to the results of audit procedures or in response to external factors, such as changes in the economic environment.

Planned Scope

Based upon our initial assessment, our planned scope for the audit is described below:

- ▶ The areas indicated below relate to significant risks identified during our risk assessment procedures:
 - Management Override of Controls
 - Revenue Recognition - Federal and State Grants
 - IT Superuser Access Rights / Segregation of Duties
- ▶ Other risks include:
 - Sales tax revenue recognition
 - GASB Statement 87 - Leases
 - GASB Statement 96 - SBITA
 - Pension and Other Post employment Benefits and Related Disclosures
 - Single Audit in Accordance with the Uniform Guidance and State Single Audit Guide
 - Evaluation of Related Party Relationships and Transactions
 - Other Matters, including Significant Unusual Transactions
- ▶ Our audit strategy involves extensive partner involvement in all aspects of the planning and execution of the audit. Our goals include focusing resources on high-risk areas and other areas of concern for management and the Borough Assembly.
- ▶ Overview of the nature of the audit of group financial statements:
 - The audit of the Borough requires financial presentation for all components of the reporting entity. The reporting entity is comprised of the Borough, itself (its funds and accounts) as well as its “component units” as defined by GAAP. This collection of individual reporting entities comprises the “Group”. The Borough audit is considered the “Group Audit”.
 - Included within the reporting entity is Aleutians East Borough School District (AEBSD). The component unit is audited by BDO USA, P.C. (Anchorage Office); however, this audit involves another partner and audit team members. As part of our planned audit strategy, we will initiate required communication with the audit team to include confirmation of their independence with respect to the entire group, identification of related parties of the component entity, identification of audit risks, and other required communication.



Planned Scope

- ▶ We will plan and perform the audit of the financial statements for the year ended June 30, 2024 in accordance with *Government Auditing Standards*.
- ▶ We will consider the Borough's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing our opinion(s) on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control.
- ▶ We will perform tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions is not an objective of our audit.
- ▶ We will plan and perform the audit of the Schedule of Expenditures of Federal Awards (SEFA) and Schedule of State Financial Assistance (SSFA) for the year ended June 30, 2024 in accordance with GAS, the Uniform Guidance and the State Audit Guide and will issue an in relation to opinion.
- ▶ We will consider Internal control over compliance with requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State Audit Guide.



The BDO ADVANTAGE

At BDO, we are continuously evaluating and improving our methodologies, technologies, and applications to evolve our approach to the audit process.

Our approach to audit technology enriches the experience for our clients, provides better risk assessment and deeper understanding of your business, and contributes to high-quality audits for capital markets.



AUDIT QUALITY



WORKING ON WHAT MATTERS

- ▶ Our automations enable our people to focus on more strategic work. The use of cutting-edge data analytics in our risk-based audit approach enables our auditors to target risks and testing to the critical areas of the audit.

FOCUSED INSIGHT



CLARITY AND COLLABORATION

- ▶ Our project management tools, and global portal, help prevent surprises and provide a snapshot of audit progress.
- ▶ Our teams have access to dedicated user enablement support to provide a smooth client experience.

SEAMLESS AUDIT



PEOPLE AND PROCESS OPTIMIZATION

- ▶ Our engagement level automations, continuous process evaluation, and ongoing improvements help us optimize the workflow and process of the audit. This drives consistency in the execution of the audit.

GREATER PRECISION

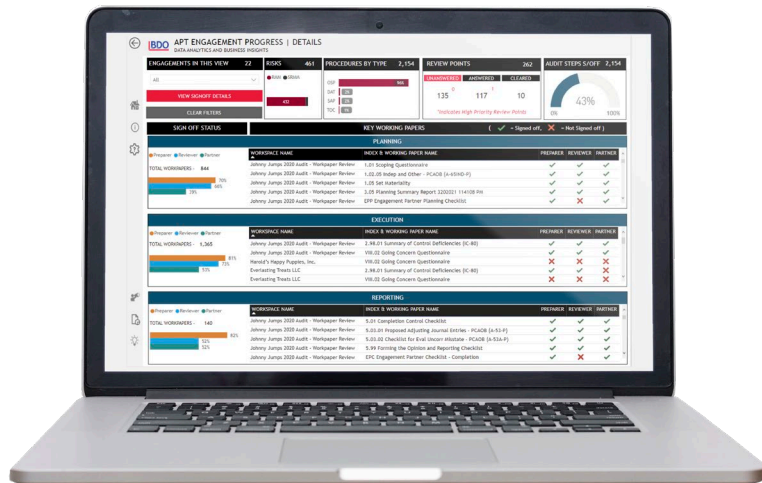
The BDOADVANTAGE

The **BDOADVANTAGE**, our digital suite of tools, equips our auditors to perform more effective and robust audits. These tools include communications and project management tools to ensure there are no surprises; automations to help our teams focus on risks; and data analytics that allow our auditors to dive deeper into their risk analysis through use of data visualization, correlation, and comparison. The **BDOADVANTAGE** empowers our audit teams to create more industry-focused client insights with greater precision.

Below are two examples of the **BDOADVANTAGE** technology suite

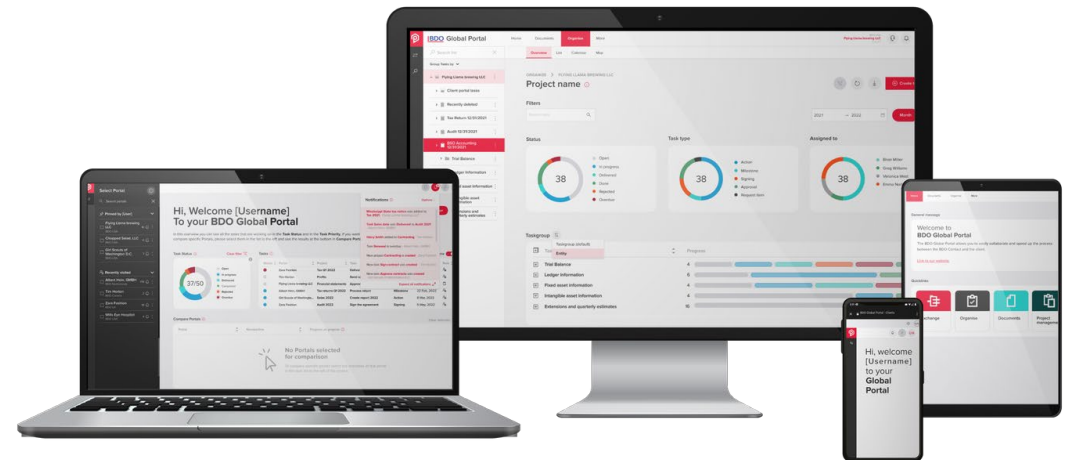
BDO DASHBOARDS

- ▶ Provides reporting at our fingertips allowing us to proactively identify, resolve, and escalate any potential issues quickly.
- ▶ Engagement partner and manager can view real-time the status of the engagement and course-correct as needed, eliminating surprises.



BDO GLOBAL PORTAL

- ▶ Provides you with access to all relevant requests and the data and documents.
- ▶ Houses contact details of your BDO engagement team, timelines, schedules, and communication records.
- ▶ Visually depicts the status and progression of the audit in one screen.



The BDO**ADVANTAGE**

The **BDOADVANTAGE**, our digital suite of tools, equips our auditors to perform more effective and robust audits. These tools include communications and project management tools to ensure there are no surprises; automations to help our teams focus on risks; and data analytics that allow our auditors to dive deeper into their risk analysis through use of data visualization, correlation, and comparison. The **BDOADVANTAGE** empowers our audit teams to create more industry-focused client insights with greater precision.

Below are two examples of the **BDOADVANTAGE** technology suite:

DOCUMENT AUTOMATION

- ▶ Automation software that streamlines the production of base management representation letters, audit reports, and required communication templates.
- ▶ Reduces administrative burden so your engagement team spends less time formatting and more time developing tailored deliverables that accurately reflect and report on your audit with BDO.



DOCUSIGN

- ▶ An e-signature tool enables us to manage electronic agreements and integrations with audit reports.
- ▶ Allows for standardization of our contracting process and execution of our audit representation letters.
- ▶ Creates a consistent and reliable process by which necessary documentation is electronically executed, tracked, and stored and to create signing authority control.



Overall Audit Timeline

The following represents our anticipated schedule with regard to our audit of the financial statements of the Borough:

	Aug	Sep	Oct	Nov	Dec
Planning	✓	✓			
Year-End Fieldwork		✓	✓		
Release Reports on Financial Statements				✓	✓



Independence

Our engagement letter to you dated March 6, 2024 describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Borough with respect to independence as agreed to by the Borough. Please refer to that letter for further information.

Audit Firm System of Quality Management

An audit firm's system of quality control (aka system of quality management) is essential to how the firm conducts audits and is in place to protect investors, shareholders and other users of financial statements.

QUALITY MANAGEMENT STANDARDS

In June 2022, the AICPA Auditing Standards Board (ASB) issued the following interrelated standards on audit quality management (collectively, the QM standards), which are designed to improve a CPA firm's risk assessment and audit quality. The effective date of the QM standards is December 15, 2025.

Statement on Quality Management Standards (SQMS) No. 1	Statement on Quality Management Standards (SQMS) No. 2	Statement on Auditing Standards (SAS) No. 146
<i>A Firm's System of Quality Management</i>	<i>Engagement Quality Reviews</i>	<i>Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards</i>

BDO has assessed the requirements of the QM standards and has analyzed our firm's current system of quality management to identify changes and improvements necessary for compliance. This includes the identification of quality objectives, quality risks and the assessment of those quality risks, and responses to address those risks. We are further working with BDO Global to appropriately integrate processes deployed at a global level into our firm's system of quality management.

2020 BDO AUDIT QUALITY REPORT

CONTINUING
TO BUILD
TRUST



We will continue to provide you with updates on our progress. Currently, you may find discussion of BDO's system of quality control within our annual [Audit Quality Reports](#), the most recent of which is accessible [here](#).



Appendix

Cyber Risk

- ▶ Cybercrime is a serious risk regardless of your government's industry or size.
- ▶ Error continues to be a dominant trend and is responsible for 14% of breaches.
 - People continue to play a very large role in incidents and breaches.
 - This year, 82% of breaches involved the human element, whether it is the use of stolen credentials, phishing, misuse or simply an error.
- ▶ Ransomware has continued its upward trend with an almost 13% increase (for a total of 25% of breaches) – a rise as big as the past five years combined.

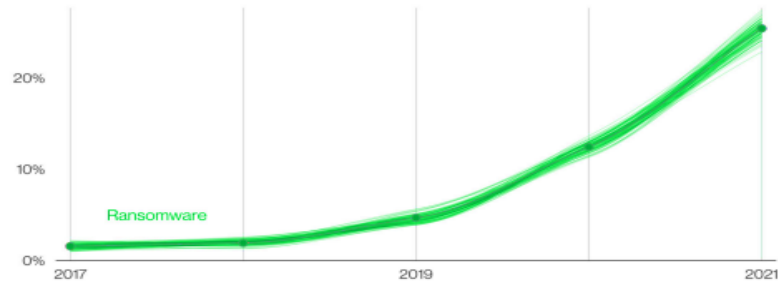


Figure 4. Ransomware over time in breaches

- ▶ Consider taking BDO's [Cyber Risk Assessment](#)



Click [here](#) to view the full publication

Three Top Cloud Security Challenges Facing Companies

- ▶ Here are three of the top cloud security challenges companies face:



1. Managing identity and access authentication.



2. Storing and encrypting sensitive information.



3. Managing security incidents

- ▶ There are various types of attestation services that can assist in managing cloud security:

- **SOC 2 Report:** This report includes an examination of a government's internal controls related to security and can also cover availability, processing integrity, confidentiality and privacy. SOC 2 focuses on the government's controls to address a defined set of security and other requirements for services provided to its customers.
- **ISO Certification:** ISO security and privacy certifications offer validation that your organization's security or privacy program is operating in accordance with international standards. ISO certification tends to be most applicable to companies with a global customer base.
- **CSA STAR Assessment:** This is a program developed by the Cloud Security Alliance (CSA) based on requirements defined in the Cloud Controls Matrix (CCM). CSA STAR was developed specifically to address cloud security risks and requirements.





Implementation of New GASB Standards

GASB Statement No. 99, Omnibus 2022

Effective Dates	Date per Pronouncement
	Effective as Noted Below

- ▶ This Statement address practice issues identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees.
- ▶ Effective Upon Statement Issuance - April 2022:
 - Extension of the period during which LIBOR is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
 - Accounting of benefits distributed as part of the Supplemental Nutrition Assistance Program (SNAP)
 - Disclosures related to nonmonetary transactions
 - Pledges of future revenues when resources are not received by the pledging government
 - Clarification of provisions of Statement No. 34 related to the focus of the government-wide financial statements
 - Updates to terminology used in Statement No. 53 to refer to resource flow statements and to certain provisions in Statement No. 63
- ▶ Effective for Fiscal Years Beginning After June 15, 2022:
 - Determination of lease term and classification of leases as short-term in accordance with Statement No. 87
 - Clarification related to the determination of Public-Private Partnerships (PPP) term and recognition and measurement of installment payments and the transfer of PPP assets under Statement No. 94
 - Clarification of the provisions of Statement No. 96 related to Subscription Based Information Technology Arrangements (SBITA) term, classification of short-term SBITA, and recognition and measurement of a subscription liability
- ▶ Effective for Fiscal Years Beginning After June 15, 2023:
 - A government extending an exchange or exchange-like financial guarantee should recognize a liability and expense/expenditure related to the guarantee when qualitative factors and historical data indicate that it is more likely than not a government will be required to make a payment related to the guarantee. Statement No. 99 excludes guarantees related to special assessment debt, financial guarantee contracts within the scope of Statement No. 53, or guarantees related to conduit debt obligations.
 - Requirements related to the classification and reporting of derivative instruments within the scope of Statement No. 53 that do not meet the definition of an investment or hedging derivative instrument

GASB Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 6/15/2023

- ▶ This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes.
- ▶ As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability.
- ▶ This Statement also addresses corrections of errors in previously issued financial statements.
- ▶ This Statement requires that:
 - changes in accounting principles and error corrections be reported retroactively by restating prior periods,
 - changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and
 - changes in accounting estimates be reported prospectively by recognizing the change in the current period.
- ▶ The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement.
- ▶ Statement No. 100 requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.
- ▶ This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.
- ▶ Statement No. 100 also addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB Statement No. 101, *Compensated Absences*


Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 12/15/2023

- ▶ This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means.
- ▶ Requires recognition of a liability for leave that has not been used if:
 - the leave is attributable to services already rendered,
 - the leave accumulates, and
 - the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.
- ▶ Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.
- ▶ Statement No. 101 requires that a liability for certain types of compensated absences, including parental leave, military leave, and jury duty leave, not be recognized until the leave commences.
- ▶ In addition, this Statement requires that for specific types of compensated absences, a liability not be recognized until the leave is used.
- ▶ This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.
- ▶ With respect to financial statements prepared using the current financial resources measurement focus, Statement No. 101 requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.
- ▶ Statement No. 101 amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

GASB Statement No. 102, *Certain Risk Disclosures*

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 6/15/2024

- ▶ The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints.
- ▶ Statement No. 102 defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources.
- ▶ Statement No. 102 defines a *constraint* as a limitation imposed on a government by an external party or by formal action of the government’s highest level of decision-making authority.
- ▶ Requires a government to assess:
 - whether a concentration or constraint is known to the government prior to the issuance of the financial statements,
 - whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact and
 - whether event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.
- ▶ For items meeting the above criteria, required disclosures include descriptions of:
 - the concentration or constraint,
 - each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements, and
 - Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.



At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes – for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

BDO USA, P.C., a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. www.bdo.com.

Material discussed in this publication is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2024 BDO USA, P.C. All rights reserved.

