

# Imagine

What we can do together

Heinfeld, Meech & Co., P.C. is an Arizona based CPA firm and we are recognized leaders in the State of Arizona in the field of school accounting and auditing. Our firm provides services to over 80% of Arizona's Average Daily Membership – more than any other accounting firm.

Nationally recognized in the "Best Small Companies to Work for in America" list, our core purpose is to be the best at everything we do. Since we opened our firm in 1986, providing quality service to governmental and non-profit clients has been our primary objective.

Our dedicated top-quality talent and substantial resources ensure that we stay abreast of emerging issues to serve our clients better. We remain dedicated to our Firm philosophy of "clients first."

*Imagine What We Can Do Together* is a quick-read digest of information that brings valuable news to you and your organization. If at any time you would like additional information, please contact us to discuss your questions.

For more about Heinfeld, Meech & Co., P.C., please visit our web site at [www.heinfeldmeech.com](http://www.heinfeldmeech.com).



HEINFELD, MEECH & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

Tucson ♦ Phoenix ♦ Flagstaff

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## H&M Offers a Fraud Hotline!

### ***How is fraud detected?***

Tips are the number one way fraud is detected. When there is fraud in an organization, others are usually aware of its occurrence. On average, fraud schemes go undetected for 18 months (even though others may be aware of it).

### ***How do you discourage fraudulent acts?***

Encourage the reporting of suspicious activities! The biggest deterrent to fraud is the perception of detection. If people know that a monitoring and reporting system exists, they are less likely to commit fraud. And when fraud does occur, early detection is critical, as statistics show that fraud losses increase over time.

### ***How do I encourage the reporting of suspicious activities?***

People are more likely to report suspicious activities to an independent, third party who can protect their identity. This is done by offering an easy way to report the activity in either a confidential or anonymous manner. A fraud hotline is one way organizations are collecting those anonymous/confidential tips. Statistics have shown that having a confidential fraud hotline that is available 24/7 can reduce an organization's fraud losses by approximately 50%.

Heinfeld, Meech & Co. P.C. now offers a confidential fraud hotline that is easily accessed 24 hours a day, 7 days a week through our website.

If you are interested in offering this valuable reporting tool to your organization, please contact:

Scott Kies, Partner  
(602) 277-9449, ext 308  
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## New Audit Standard on Preparation of Financial Statements

(by Michael Hoerig)

The AICPA recently issued a new audit standard, *Communication of Internal Control Related Matters Identified in an Audit*, effective beginning with fiscal periods ending June 30, 2007. The Standard addresses the various types of control deficiencies that auditors may encounter, as well as the communications necessary to notify the client's management of any significant control deficiencies and/or material weaknesses.

One of the more controversial aspects of the Standard is the concept that the preparation of financial statements by auditors for their clients could be an indication of an internal control deficiency. However, the Standard also notes that not all cases of auditor financial statement preparation would be considered a control deficiency and, indeed, it does not preclude auditors from preparing financial statements for their clients. Additionally, the profession has acknowledged that some entities, while possessing the skill and ability to prepare the financial statements, choose to outsource this task to their auditors so that the entity's resources can be focused on operational areas.

So the question becomes, how will auditors preparing financial statements determine whether a control deficiency exists? Additionally, how will auditors evaluate the severity of identified control deficiencies to determine if they are significant deficiencies, or possibly even material weaknesses?

The AICPA has also issued a Frequently Asked Questions (FAQ) bulletin on the audit standard that addresses these concerns. The bulletin proposes that the auditor should ask the following questions:

- Could the client perform the service themselves if the auditor did not do so?
- If the auditor performs the work, does the client possess the suitable skills, knowledge and experience to review the work in such a manner that the client's controls would prevent or detect a material misstatement?

Additionally, the auditor should also ask questions about the client's controls over the financial statement review, and make determinations as to whether they are comprehensive enough to ensure the financials are properly stated and that all required note disclosures have been included.

It should be noted that the client's designation of a person on staff to review the financial statements would not constitute an internal control, as a control would be the process or procedure carried out by the individual – not the existence of the individual alone. A common approach is the development and utilization of checklists by the reviewer. Oftentimes these checklists can be obtained from the auditors themselves.

**Questions?** Contact Corey Arvizu at [carvizu@heinfeldmeech.com](mailto:carvizu@heinfeldmeech.com) or Jennifer Shields [jennifer@heinfeldmeech.com](mailto:jennifer@heinfeldmeech.com). More information related to the audit standard can be obtained at the AICPA's website: [www.aicpa.org](http://www.aicpa.org), including the January 2007 conference call conducted by Chuck Landes, VP of Professional Standards and Services Group for the AICPA. **H&M**

### Resource

*AICPA Frequently Asked Questions (FAQ) Bulletin on the new audit standard (SAS 112):*  
<http://pcps.aicpa.org/Resources/Keeping+Up+With+Standards/SAS+No.+112/SAS+No.+112+Frequently+Asked+Questions.htm>

## H&M University Workshops

Information on the following workshops, including links to online registration, can be found at [www.heinfeldmeech.com/hmu](http://www.heinfeldmeech.com/hmu). For more help, contact [hmu@heinfeldmeech.com](mailto:hmu@heinfeldmeech.com) or 520-742-2611, x107.

### Charter Success! A Charter School Accounting Workshop

Phoenix: Fri., Sept. 14, 2007

Topics will include: AFRs, SAIS and ADM, and FLSA Compliance.

### Stop Fraud in Student Activities and Auxiliary Operations!

Tucson: Mon., Sept. 17<sup>th</sup>

Phoenix: Tues., Sept. 18<sup>th</sup>

### The School District Guide to AFRs and Financial Coding

Mesa (Phoenix area): Wed., Sept. 19<sup>th</sup>

Vail (Tucson area): Thurs., Sept. 20<sup>th</sup>

### Best Practices for Internal Controls

Vail (Tucson area): Tues., Oct. 9<sup>th</sup>

Mesa (Phoenix area): Wed., Oct. 10<sup>th</sup>

## H&M Named #4 “Best Small Company to Work for in America”

In June, Heinfeld, Meech & Co., P.C. was named #4 on the *25 Best Small Companies to Work for in America*. The list was announced on June 25<sup>th</sup> at the Society for Human Resource Management’s (SHRM) 59<sup>th</sup> Annual Conference & Exposition in Las Vegas.

This annual list, now in its fourth year, ranks the top 25 small companies in America that use smart people management strategies to develop successful organizations with highly productive and satisfied workforces. The organizations, ranging in size from 50 to 250 employees, were announced by SHRM and selected and ranked by the Great Place to Work<sup>®</sup> Institute (GPTW). The results were based on a randomly distributed employee opinion survey. Each company evaluated was given a score based on employees’ responses to a detailed questionnaire about the organizations’ workplace cultures.

An article featuring our firm appeared in the July issue of *HR Magazine*, the Society’s flagship publication with a circulation of 225,000 (available online [here](#)). The winning organizations are also listed on the GPTW web site at [www.greatplacetowork.com](http://www.greatplacetowork.com). **H&M**

## Just Ask H&M

- Q: Should tuition reimbursements or educational assistance paid to employees be part of compensation?
- A: Tuition reimbursements and educational assistance are excluded from an employee’s gross income as long as the reimbursements or assistance are less than \$5,250 per employee during a calendar year. The excludable amount is not subject to income tax withholding or other employment taxes. **H&M**

## Puzzler

Decipher the hidden meaning: (Answer on p. 5)

**NOW IN HERE**

## Paying for Moving Expenses

This is the time of year when employers will be hiring new employees and possibly paying for moving expenses. The following question then arises: Are the district-paid moving expenses taxable compensation and should the amount be included in an employee’s W-2?

According to the IRS, “qualified” moving expenses are not taxable compensation and can be excluded from income. Qualified moving expenses:

- (1) Include reasonable costs of travel and lodging from the old location to the new one.
- (2) Include reasonable costs of moving household goods and personal effects from the old location to the new one.
- (3) Must meet the distance test requirements.
  - a. The new job must be located at least 50 miles farther from the employee’s former home than the previous job. (i.e. the employee’s commute must increase by 50 miles)
- (4) Must meet the time test requirements.
  - a. The employee must work full-time for at least 39 weeks of the first 12 months after moving.

Although not part of taxable income, the moving expenses should be reported on the employee’s W-2 in box 12 with code P if the District pays the employee directly. The moving expenses are not reported on the employee’s W-2 if the District pays the qualified moving expenses directly to a third party (a moving company, etc.). If the District elects to pay the third party directly, remember to follow the applicable procurement rules.

Certain expenses are not considered “qualified” moving expenses, such as costs associated with house-hunting, temporary housing, meals en route to the new location and costs associated with selling the old location or purchasing a new residence. If paid by the District, these expenses should be included in the employee’s income and reported in box 1 of the employee’s W-2. **H&M**

## Important Tax Change Affecting Annualized Compensation

The IRS recently issued new regulations that affect employees who receive deferred compensation by imposing severe penalties. Under these new regulations, employees electing to receive annualized compensation (e.g., paying a 10-month teacher over 12 months) may be subject to an additional 20% tax. However, this tax can be avoided if the employee provides a written or electronic election for annualized compensation.

While there is no tax liability to an employer under the new regulations, an employer should be sure to properly withhold income taxes from the employee's paycheck. In addition, the employer should be aware of the severe tax consequences for their employees if the employer continues to offer elective annualized compensation without requiring a written election. The following paragraphs outline the main definitions and concerns for the employer and employee in relation to the new regulations.

"Annual compensation" is defined as spreading compensation payments over a 12-month period. One example would be an employee who elects to receive his/her compensation over a full year rather than during the period of actual service only. School districts and schools commonly pay salaried employees in this manner. Unfortunately, the new IRS regulations specify that such annualized compensation is deferred compensation and thereby subject to a 20% excise tax.

Only employees **electing** to receive annualized compensation are subject to this tax; if an employer requires all employees to receive annualized compensation, the election rules do not apply. If an employer offers an election, however, employees can avoid paying this additional tax **if they indicate their election in writing or electronically**. (Under the new regulations, an employee must also be paid all compensation by the end of the 13<sup>th</sup> month after the start of the service period.) If such an election is not made or if the employee does not want his/her compensation annualized, the employer should pay the employee according to their dates of actual service (e.g., 10-month basis). As these rules apply to both contract and non-contract employees, contract modifications will not resolve the issue.

The regulations will take effect on January 1, 2008 and by then employers that will offer election must have written procedures in place concerning how employees will be paid for the remainder of the work period (i.e., school year). Additional taxes will not be imposed upon employees receiving annualized compensation for school years beginning before January 1, 2008.

For school years beginning 2008-09, the employee should sign the election before the first duty day. The employee's method of payment could not be changed once the work period has begun. A new election form is not required at the beginning of each year; instead, an arrangement could be made so that the election was made indefinitely. However, any change in the employee's election must be made before the beginning of the new school year in which the change will take effect. The Texas Association of School Boards has developed a sample form that can be used to show employees' election of annualized compensation. This sample form is available for download on their website (see below). **H&M**

### Resources:

IRS FAQ on Deferred Compensation:  
<http://www.irs.gov/newsroom/article/0,,id=172883,00.html>

TASB Sample Annualized Compensation Election Form:  
[http://www.tasb.org/services/legal/documents/annualized\\_salary\\_fa2.pdf](http://www.tasb.org/services/legal/documents/annualized_salary_fa2.pdf)

## H&M Practice Aids

### Workflow or Business Process Management

We can help your entity create a Workflow or Business Process Management, which is a graphical representation of procedures. Workflow describes how tasks are structured, who performs them, what their relative order is and how information flows to support the tasks. Benefits include improved communication, enhanced training, and increased work efficiency.

For more information on these services, contact:

Scott W. Kies, Partner  
602-277-9449, ext. 308  
[scottk@heinfeldmeech.com](mailto:scottk@heinfeldmeech.com) **H&M**

## Upcoming Deadlines for Schools

<u>Due Date</u>	<u>Item</u>
August 20	Amount to be raised from primary and secondary property taxes must be fixed, levied & assessed (A.R.S. §§15-992 and 42-304.B)
August 23	August Estimated Enrollment List due to ADE (Charters only)
September 18	End of cash management reporting period for all Federal projects
September 20	September Enrollment List due (Charters only)
September 28	Deadline for completion reports to be submitted to ADE for projects ending June 30
October 1	Districts participating in an accommodation school agreement must remit tuition payments to the CSS for accommodation school special education program costs (A.R.S. §15-764.D)
October 15	A copy of the AFR must be furnished to the Supt. of Public Instruction (A.R.S. §15-991.D) (both Charters and Districts) School District Employees Report due to the ADE
October 18	End of cash management reporting period for all Federal projects
October 31	October Enrollment Report due to ADE (Charters only) Contribution and Wage Report (Form UC-018) and State Unemployment Compensation Fund contributions/payments must be submitted to AZ Department of Economic Security (A.A.C. R6-3-1704.B) Quarterly Report of Income Tax Withheld (Form A1-QRT) must be filed with the Arizona Department of Revenue (A.R.S. §43-401.C)
November 15	Annual audit reports due to the Arizona State Board for Charter Schools (Charters requiring Single Audits may apply for an extension to March 31 <sup>st</sup> ) The AFR (or summary) must be published or mailed to each household (A.R.S. §15-904) Districts may apply to the State Board of Education for approval or reapproval for a career ladder program. (Annual reapproval required.)
November 18	End of cash management reporting period for all Federal projects.
December 8	Special Education Census report due to ADE (Charters)
December 15	Revised budget (if necessary) must be completed (A.R.S. §15-905 E) For grants received from ADE, schools should submit a cash management report to ADE for each special project with a budget of \$10,000 or more.
December 18	End of cash management reporting period for all Federal projects. Revised budget (if necessary) due to ADE (A.R.S. §15-905-E)

## Heinfeld, Meech & Co., P.C. News

**CPA Successes:** Congratulations to **Marvin Mendieta**, Audit Senior, and **CW Payne**, Consulting Manager, for the recent achievement of their CPAs. Congratulations also **Jatin Shah**, Audit Senior, for his recent successful completion of all four parts of the CPA exam.

**Promotions:** Congratulations to the following staff members for their recent promotions to Manager: **Neil Galassi**, **Michael Hoerig**, **Michelle Horrocks** and **Heather Jones**.