

Imagine

What we can do together

Heinfeld, Meech & Co., P.C. is an Arizona based CPA firm who specializes in governmental accounting and auditing. We are recognized leaders in this field and are active members of GFOA and the AICPA's Governmental Audit Quality Center.

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.



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

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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:

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**Fraud
Hotline**



August 2007

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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 or Jennifer Shields jennifer@heinfeldmeech.com. More information related to the audit standard can be obtained at the AICPA's website: 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 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 at the Society for Human Resource Management's (SHRM) 59th Annual Conference & Exposition.

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[®] 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* (available online at www.shrm.org/hrmagazine/articles/0707/0707heinfeldmeech.asp). **H&M**

Retirement Options

(by Brian Morrow)

A number of retirement systems offer an option allowing members to continue working while accumulating benefit payments in a special account. This option is often referred to as a "DROP" or Deferred Retirement Option Plan.

Basically a DROP program allows an employee the option of collecting retirement payments in a set aside account (which earns interest) while continuing to work in their normal capacity. The payments are generally calculated according to the predetermined metrics used to determine the retirement payments of a regular retiree. Since the employee does not accumulate any more credited service time, when they effectively retire, their retirement payments would be the same as those payments credited to their DROP account.

This option is becoming popular with entities wanting to retain a knowledgeable yet aging workforce. For employees that have essentially "maxed out" their benefit metrics (e.g., credited service or annual salary), this option allows the employee to receive both a paycheck and accrued benefits which will be paid out at their end of their tenure in a lump sum.

Drawbacks include higher wage costs to the employers and retirement deadlines for DROP participants. Since the DROP program keeps employees on the employer's payroll, the employer cannot obtain lower wage "rookies" for positions which don't require high levels of experience. In addition, most DROP programs require an employee to retire within a certain amount of time after entering the DROP program, thereby locking them into retirement. **FSM**

Source

Calhoun, Carol, [Employee Benefits Legal Resource Site](http://benefitsattorney.com/modules.php?name=Content&pa=showpage&pid=14).
<http://benefitsattorney.com/modules.php?name=Content&pa=showpage&pid=14>

Puzzler

Decipher the hidden meaning: (Answer on p. 4)

NOW IN HERE

Paying for Moving Expenses

When employers will be hiring new employees and possibly paying for moving expenses, the following question may arise: Are the employer-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 employer pays the employee directly. The moving expenses are not reported on the employee's W-2 if the employer pays the qualified moving expenses directly to a third party (a moving company, etc.). If the employer 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 employer, these expenses should be included in the employee's income and reported in box 1 of the employee's W-2. **FSM**

H&M University Workshops

Information on our workshops, including links to online registration, can be found at www.heinfeldmeech.com/hmu. For more help, contact hmu@heinfeldmeech.com or 520-742-2611, x107.

Best Practices for Internal Controls

Vail (Tucson area): Tues., Oct. 9th
 Mesa (Phoenix area): Wed., Oct. 10th
 Cost: \$75 per person (includes lunch)
 CPE credit: 6 hours

Topics will include:

- Learn why Internal Control is so important
- How to assess risk
- What Internal Controls are the most effective
- How to monitor Internal Controls
- How to gather and communicate information

Fair Labor Standards Act (FLSA) Compliance

Vail (Tucson area): Tues., Jan. 22nd
 Mesa (Phoenix area): Wed., Jan. 23rd
 Cost: \$75 per person (includes lunch)
 CPE credit: 6 hours

- FLSA Requirements – the guidelines of the FLSA and how to implement procedures to maintain compliance.
- Case Studies – problem areas commonly found at other entities in Arizona.
- Non-exempt/Exempt Staff – practical guidance on identifying non-exempt vs. exempt staff.

Best Practices for Payroll and Employee Benefits

Vail (Tucson area): Mon., Feb. 11th
 Phoenix: Tues., Feb. 12th
 Cost: \$75 per person (includes lunch)
 CPE credit: 6 hours
 Specific topics TBA.

2008 Municipality Conference

Mesa (Phoenix area): Friday, Feb. 22, 2008
 Cost: \$85 per person (includes lunch)
 CPE credit: 6 hours
 Specific topics TBA.

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.

Fair Labor (Wage and Hour) Compliance


Does your municipality's internal control structure ensure compliance with the Fair Labor Standards Act? We can help determine if your municipality is complying with Federal regulations on minimum wage, equal pay, overtime pay and recordkeeping.

Personnel Compensation

How competitive is your municipality in hiring and retaining personnel? A compensation and job classification study can determine internal equity and external competitiveness for employee salaries.

For more information on these services, contact:

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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**.