

# 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](http://www.heinfeldmeech.com).



HEINFELD, MEECH & CO., P.C.  
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## Capital Assets—The BIG Number

*(by Cherie Roberts)*

What's the biggest number in your municipality's financial statements? With rare exception, it's going to be the capital assets. Yes, that means the capital assets are material. And yet, for many agencies, accounting for capital assets is put on the back burner until year-end when the auditors are asking for an updated listing. As a result, in the attempt to get the listing completed for the auditors, certain aspects of safeguarding the entity's capital assets may not get addressed.

First of all, there should be policies and procedures in place. Some municipalities do not have *any* established policies and procedures, much less policies and procedures for capital assets. The capital asset policy should address areas such as capitalization criteria, depreciation methods, valuation, physical inventories, and authorization for acquisitions and disposals. If the municipality is using the modified approach for infrastructure, the policy should also address issues such as commitment to predetermined condition levels and condition assessments.



Each individual asset should be listed separately and specifically identified on the capital asset listing. Individual assets should meet the capitalization criteria spelled out in the municipality's policy. If the capitalization threshold is \$5,000, a purchase of 50 office chairs at \$100 each would not meet the capitalization criteria; the total purchase is \$5,000, yet an individual chair is only \$100. Additionally, the easiest way to specifically identify capital assets is with metal tags

*(Continued on page 2)*

## Municipality Conference

Following the success of last year, H&M is presenting another conference specifically for the finance personnel of municipalities. Continuing Professional Education (CPE) will be provided.

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## Capital Assets (Cont'd from page 1)

or bar code tags; however, serial numbers could also be used as specific identification.

A physical inventory should be performed on a regular basis. The frequency should be established in the policies and procedures, but we recommend at a minimum every three years. Keep in mind though – capital assets purchased with Federal monies must be inventoried at least every two years. For larger entities, a rotating basis may be necessary where one third of the assets are inventoried every year with every asset inventoried at least once during the three-year period.


Most municipalities are using capitalization thresholds of \$5,000 for *all* capital asset classes. According to the GAAFR, different thresholds can be set for different capital asset classes. While a \$5,000 threshold for machinery and equipment may be reasonable, we recommend setting a higher threshold for buildings, improvements, and infrastructure. Depending upon the size of the municipality, we recommend using anywhere from \$10,000 to \$25,000 or even higher for larger entities.

Capitalization thresholds, however, do not relieve the municipality's obligation to maintain adequate control over lower-cost capital assets. Some software systems allow for tracking these lower-cost assets as stewardship items without capitalizing them. If your software system does not offer this functionality, a stewardship listing may be maintained separately.

Capital assets should be reported at the full historical cost, including any contributions from other entities. For instance, if your county contributes a portion of the costs for a road project within city/town limits, the full cost of the section of road owned by the municipality should be recorded, not just the costs paid by the municipality. Another example: if ADOT administers a road project on behalf of the municipality, not only should the full cost of the road be recorded, but also the grant revenues received directly by ADOT on behalf of the municipality.


To ensure all capital assets have been recorded, we recommend reconciling the capital outlay expenditure accounts to the capital asset

additions for the year. Appropriate reconciliation differences will include items such as capital outlay items under the threshold and donated assets.

As a final note, I would urge you all to update your capital asset listings at least quarterly. With all the other tasks involved with year-end, this will lighten the load during a very busy time. For preparation of policies and procedures or other assistance related to capital assets accounting and reporting, please contact Cherie Roberts at (602) 277-9449, ext 108, or [cherier@heinfeldmeech.com](mailto:cherier@heinfeldmeech.com). 

## Leading Governmental CPA Firm Ready for Continued Growth – H&M Announces New Managing Partner

Heinfeld, Meech & Co., P.C. has named Scott W. Kies as the new managing partner for the firm. Gary Heinfeld, the firm's managing partner since 1986, will remain active as the President of the Board of Directors and will be involved with ongoing projects at the firm. H&M has maintained substantial growth over the past 22 years (on average, doubling in size every five years) and is recognized as the leader in governmental auditing and accounting in Arizona.

Scott Kies is particularly poised to ensure future growth for our firm while maintaining the high quality of client service that is the trademark of H&M. Scott Kies joined Heinfeld, Meech & Co., P.C. in 1999. After providing auditing services for three years, Scott was named Director of our newly-founded Consulting Division in January 2002. In July 2005 Scott was admitted as a partner to oversee the consulting division and perform other firm management duties. During his tenure with our firm, Scott has participated in numerous practice management areas such as client development, strategic planning, firm marketing, and the accounting and reporting standards of our clients. Through his contributions in these areas, Scott has garnered the extensive experience necessary to manage the accounting, auditing and managerial advisory services provided to our diverse client roster of governmental and nonprofit clients. 

## Municipality Conference (Cont'd from page 1)

This year's sessions will include:

- "Accounting and Auditing Updates Affecting Municipalities, including GASB, SAS 112, and Single Audit issues" by Corey Arvizu, CPA, Partner

This session will discuss how recent audit and reporting are changing the landscape of governmental accounting, in particular SAS 112, OPEB, intangible assets, fund balance reporting, pledged revenues, and the recently issued report on the quality of single audits.

- "Developing Travel Procedures using IRS and OMB Guidelines" by Melissa A. Higdon, CPA, Consulting Manager

This session will provide a framework for developing travel procedures that are compliant with IRS, State, and OMB Guidelines. In addition, the new State travel guidelines will be discussed.

- "Internal Controls Documentation and Risk Assessment, including Anti-Fraud Initiatives" by Scott W. Kies, CPA, Managing Partner

In this session we will discuss the seven steps to developing and documenting an efficient and value-added internal control program. In addition, we will touch on the importance of a self risk assessment when considering internal controls.

- "The Ins and Outs of Cost Allocation Plans" by Cherie Roberts, Consulting Manager

This session will discuss the reasons that a municipality would choose to use a cost allocation plan, what types of costs would be appropriate to allocate, various allocation methods, and potential impacts on operations.

## Puzzler

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

LEAST

### Municipality Conference Details

<b>Cost</b>	\$85 per person (includes lunch)
<b>Location</b>	East Valley Institute of Technology (1601 W. Main St, Culinary Building, Mesa)
<b>Date/Time</b>	<b>Wed., February 27, 2008</b> (9 am to 3:30 pm)
<b>CPE credit</b>	Certificates for <b>6 hours</b> will be available at the end of the conference.
<b>Register:</b>	Available online at <a href="http://www.heinfeldmeech.com/hmu">www.heinfeldmeech.com/hmu</a> . Or contact 520-742-2611, ext 107 or 100 to request a registration form or further information.

## Government Vehicle Usage

Recent audits of governmental entities have revealed weak internal controls over personal use of government-owned vehicles by employees, government failure to report personal use as a taxable benefit, underutilization of vehicles, and inadequate control of employee access to government-owned fuel. Our firm can help prepare and implement internal controls needed to address this potential problem area at your city/town.



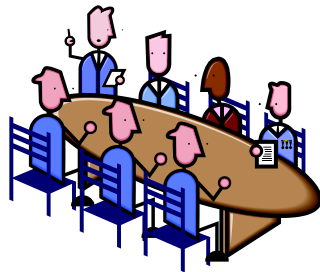
For more information, contact Kim Robinson at (602) 277-9449, ext 305 or [kimr@heinfeldmeech.com](mailto:kimr@heinfeldmeech.com). **H&M**

## Why Your Municipality Should Consider an Audit Committee

(by Corey Arvizu)

In the past couple of years, there has been increasing emphasis for local governments to establish a formal audit committee to as means of enhancing the quality of financial reporting process. Financial reporting encompasses much more than the annual approval and acceptance of the government's financial statements. The financial reporting process also includes oversight of internal controls, identifying fraud risks, and providing an independent party to both management and the auditors.

The increasing attention regarding audit committees is partially attributable to what some refer to as "Sarbanes-Oxley creep". Although Sarbanes-Oxley is not applicable to governments, some of the elements of legislation are gathering interest from those in governmental sector resulting in a "creep" of its major provisions, in particular the focus and responsibility of an audit committee.



The Government Finance Officers Association (GFOA) issued an update to their *Recommended Practice* for audit committees in 2006. GFOA considers the governing body to be "the first among equals" of the following groups responsible for financial reporting – the governing body, financial management, and the independent auditors. The audit committee is considered to be a practical means for the governing body to satisfy this oversight responsibility for financial reporting.

There are a number of resources available should your municipality consider establishing a formal audit committee. The GFOA's *Recommended Practice* for audit committees provides a number of specific recommendations regarding the establishment of one. The guidance draws upon a number of public and private sector resources. The AICPA has an *Audit Committee Toolkit* specifically designed for governments available on its website. The toolkit includes a number of checklists and practice aids that may be downloaded for free. Some of the topics addressed in the toolkit include discussion items with the auditors, conducting an executive session on the financial statements, and an audit

Our firm has identified some key general recommendations for developing an audit, which include:

- The audit committee should be formally established through Council policy;
- Each member of the committee should be appointed by the governing body;
- The committee should have at least three members;
- One member should have financial reporting experience;
- The committee should meet at least four times a year; and
- The committee should annually present the Council with a written report.

If you would like more information regarding the establishment of a formal audit committee you may refer to the following resources and/or contact Jennifer Shields at 602-277-9449, ext 310 or Corey Arvizu at 520-742-2611, ext 101 for further guidance and recommendations.

### Resources

GFOA - *Recommended Practice – Audit Committees*:

[www.gfoa.org/services/rp/caafr.shtml](http://www.gfoa.org/services/rp/caafr.shtml)

AICPA - Audit Committee Toolkit for Government Organizations: [www.aicpa.org/AudCommCtr/](http://www.aicpa.org/AudCommCtr/)

AICPA - *Management Override of Internal Controls: -The Audit Committee and Oversight of Financial Reporting*:

[www.aicpa.org/audcommctr/download/achilles\\_heel.pdf](http://www.aicpa.org/audcommctr/download/achilles_heel.pdf)

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

Heinfeld, Meech & Co., P.C. congratulates the following employees on their recent promotions: Johnny Kim to Audit Senior, James Rebenar to Audit Senior, Brian Morrow to Audit Senior, Sara Specht to Audit Senior, Quay Bolton-Lattari to Audit Senior, Anne Ortiz to Audit Senior, Dena Darpli to Staff Auditor II, Matthew Reams to Staff Auditor II, Chulssang Ham to Staff Auditor II and Rebecca Weber to Staff Consultant II. We would also like to congratulate Johnny Kim for recently earning his CPA certification.