

# 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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## Can My Audit Firm Help Me With...?

*By Cherie Roberts, Consulting Manager*

Resources are tight, a hiring freeze is in effect, and staff has already taken on extra duties. Yet more issues and projects keep popping up that need to be dealt with. Sound familiar?



Fortunately, there are many things we can do to help...but first we must determine whether the project would impair independence. If you have been told the services you requested would impair your auditor's independence, do you know the factors that went into their decision?

The *Government Auditing Standards* (GAS) established by the U.S. General Accounting Office identifies the criteria that must be followed for audit firms performing "non-audit services". When audit clients requests non-audit services, auditors must evaluate whether they would be performing management functions or making management decisions. They must also consider whether they would be auditing their own work or if the services provided would be material to the audit.

Providing technical advice does not impair auditor independence as long as the nature of the advice does not result in making management decisions or performing management functions. The following services fall under this category:

- Providing training or tools and methodologies such as guides for best practices
- Participating in committees as an expert in an advisory, nonvoting capacity
- Assisting with implementation of audit recommendations
- Reviewing the status of audit findings
- Assisting with implementation of internal controls

*(Continued on page 2)*

### March 2009

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## Can My Audit Firm Help Me With...? (Cont'd from page 1)

- Conducting surveys
- Performing investigations of alleged fraud or violations of contract provisions or grant agreements
- Performing sales tax reviews

Other services that do not impair auditor independence are:

- Preparation of an indirect cost allocation plan (as long as amounts are not material<sup>1</sup> and management assumes responsibility for significant assumptions and data)
- Assistance with developing a performance measurement system (if not material)
- Development of a client's chart of accounts)
- Preparation of depreciation schedules (as long as management determines the methods, useful lives, and salvage values)
- Information technology advisory services such as system design, system installation, and system security (as long as management assumes responsibility and as long as management does not primarily rely on the work to determine whether to implement a new system or to determine the adequacy of the new system design, design changes to an existing system, or compliance with regulatory or other requirements)
- Appraisal services (if not material) or review of appraisals performed by the client or a outside specialist
- Evaluation of potential employees when the evaluation panel includes at least three individuals and a list of the best qualified applicants is provided to management (includes review of applications and/or interviews)

In general, services other than providing technical advice may not be performed by the individuals assigned to the audit. At H&M, these services would generally be performed by members of the Consulting Division. An engagement letter or contract is required prior to performance of these services detailing the objectives, scope of work, and deliverables, in addition to an acknowledgement of management's responsibilities.

Probably one of the most common non-audit services is financial statement preparation. In order to remain independent, management must

provide the financial statement information and take responsibility for the accuracy of the financial statements; however, the auditors must also evaluate management's ability to determine whether the financial statements are accurate.

Your audit firm is *prohibited* from performing the following services:

- Maintaining or taking responsibility for client accounting records, including posting, authorizing, or approving transactions
- Determining capitalization criteria
- Providing payroll services that are material or involve making management decisions<sup>2</sup>
- Performing internal audit functions

The lists provided above are not all inclusive. On a case by case basis, we evaluate our ability to perform non-audit services based the primary criteria: whether we would be performing management functions or making management decisions, and whether we would be auditing our own work or if the services provided would be material to the audit. Ultimately, if our firm has determined the non-audit services would impair our independence, we may suggest other alternatives such as on-site staff training or our HMU workshops.

Of course, for our non-audit clients, we may provide management advisory services as needed.

For further clarification on audit independence or for information on our non-audit services, please contact Cherie Roberts at (602) 277-9449, ext 336 or Scott Kies at (602) 277-9449, ext 308. **H&M**

<sup>1</sup> However, the Office of Management & Budget (OMB) prohibits preparation of indirect cost allocation plans under the provisions of Circular A-133 when indirect cost recoveries exceed \$1 million.

<sup>2</sup> Payroll services are material for most governmental entities.

## Puzzler

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

**DR. DR.**

## Are Audit Findings Good or Bad?

By Corey Arvizu, CPA, Partner

Your first instinct may be to emphatically answer that all audit findings are BAD! Once the initial reaction and emotions are set aside, the debate as to whether or not audit findings are good or bad may begin. Contrary to popular belief, auditors do not particularly enjoy identifying findings during the audit. Audit findings require a significant amount of additional work with respect to evaluation of the deficiency, performance of additional audit procedures, discussions with the client, and communicating the finding in a report. Aside from the additional amount of work that accompanies an audit finding, auditors are sympathetic to those they audit. It is difficult for auditors to tell someone they did something wrong or that an error was identified.

Management and staff often do their best to prevent audit findings. However, there should not be an expectation by the governing body, oversight agencies or any other interested party that there not be any audit findings. Internal controls have inherent limitations due to cost/benefit considerations. It is generally understood that the cost of implementing a control should not exceed the related benefits. Aside from actual financial costs to implement a control, other costs to an organization may be increased complexity, reduced productivity, and increased processing time. When findings do arise, it is important that management communicate this concept to those that may inquire as to the reported audit findings.

A valid response to an audit finding may in fact be that the risks associated with the finding are acceptable, and that the cost of implementing the corrective measure would exceed the related benefits. Management should evaluate each audit finding to determine if this may be a valid response. Most corrective measures do require resources, which are typically allocated or approved by the governing body in some manner; therefore management should be prepared to communicate the costs of corrective action so that the governing body can make informed decisions when evaluating the audit finding reported to them.

Can audit findings be good? Yes, they certainly can. A finding may assist management with obtaining the necessary resources to correct what may be known system deficiencies,

lack of personnel, or insufficient training. In addition, numerous and consistent findings in a particular area are typically a sign of a problem that needs to be addressed. Often these problems will eventually turn into critical issues which gather the attention of oversight agencies even if an audit finding was not reported. The involvement of oversight agencies typically results in jeopardized funding and subjects the organization to extensive monitoring. Lastly, audit findings are an indication that the organization is in fact receiving value from the services being performed by the audit team.

On the surface all audit findings appear to be critical or negative, particularly due to the technical language used in findings. Discussions with the auditors can provide insight as the severity of the finding and how the error rate compares to other organizations of a similar size. In addition, due to their work with other organizations, auditors typically have a frame of reference to provide insight as to suggested procedures and best practices. In conclusion, a collaborative effort between management and the auditors can result in audit findings being a value-added product of the audit rather than a necessary evil. **H&M**

## Best Practice Solutions

### Cost Allocation Plans (CAPs)

Want to allocate indirect costs to your entity's service programs – identifying full costs of updated or the underlying assumptions services? We can prepare a CAP for your entity. In addition, we can prepare a CAP in compliance with OMB Circular A-87 for allocations to federal programs.

### Fee Studies

When was the last time your entity's fees were reviewed? We can prepare or update fee studies for your entity for utility charges; planning, development, and building inspection fees; or other general user fees.

For more information on these services, contact:

Cherie Roberts, Consulting Manager  
602-277-9449, ext. 376

[cherier@heinfeldmeech.com](mailto:cherier@heinfeldmeech.com) **H&M**

## Developing a Strategic Plan

By Michelle Horrocks, Audit Manager

Developing and implementing a strategic plan could have many benefits for your organization's overall performance. Before we go into the positive effects, let's discuss what a strategic plan is exactly. A strategic plan is a management tool that can be prepared using various models. The primary objective of a strategic plan, however, is the same. It is to align the entire organization to work towards achieving common goals. It's a forward-based approach where goals, action plans, and strategies are designed to produce results in conformity with the organization's mission and vision.

A few basic guidelines will help with the preparation of a successful strategic plan. First, involve the right people. Along with management, this team should include those who will be responsible for the execution of the plan, as well as individuals focused on the organization's future. Second, ensure the goals and objectives of the plan are SMART (Specific, Measurable, Attainable, Realistic and Timely). It is far easier to gauge the success of a strategic plan if the results can be assessed objectively. Next is communication. Once the plan is in place, it is crucial to share it with employees at all organizational levels so that everyone is headed in the right direction and working towards the same result. And finally, regularly review the progress of the strategic plan. This review should include input from the responsible parties to identify any accomplishments, problems or deviations to the plan. Reevaluate the methods used, as necessary, to ensure the organization is still on track with meeting your goals.

An important step for your strategic plan is its implementation. Remember, the plan cannot provide benefits to the organization if it's not utilized. An organization may focus its effort on creating the written plan document without results simply because it was never implemented.

Once implemented, an effective strategic plan has several benefits. By participating in the plan's implementation, your employees develop ownership in your goals, thereby increasing productivity, efficiency and commitment to the organization. The plan also improves organization communication by asking employees to be involved in identifying solutions to problems faced by the organization. In the end, the organization's mission will be reached by joining together to achieve the goals identified. **H&M**

## H&M University Workshops

Information on our workshops, including links to online registration, can be found at [www.heinfeldmeech.com/hmu](http://www.heinfeldmeech.com/hmu). (Online registration usually opens about 6-8 weeks before the event.)

For more help or for pre-registration, contact Susan at [hmu@heinfeldmeech.com](mailto:hmu@heinfeldmeech.com) or 520-742-2611, x107.

### Governmental Financial Statements 101

Phoenix (midtown): Friday, June 5<sup>th</sup>

### Governmental Financial Statements 102

Phoenix (midtown): Friday, July 17<sup>th</sup>

### Cost Allocation Plans

Mesa (Phoenix area): Wed., October 21<sup>st</sup>

### Best Practices for Payroll and Employee Benefits

Tucson area: Tues., December 1

Mesa (Phoenix area): Wed., December 2

### Bringing HMU to your Municipality:

Are you interested in bringing one of our workshops to your municipality? All of our workshops can be tailored to your municipality and taught on-site by one of our consultants.

To find out more about holding training for your municipality's personnel or hosting a regional workshop, contact us at 520-742-2611, ext 133 or [info@heinfeldmeech.com](mailto:info@heinfeldmeech.com).

## Upcoming Events

### Assn of Government Accountant (AGA) Phoenix Chapter – Professional Dev. Conference

Presentation on GASB 34 by Corey Arvizu,

Date: April 24

Location: ASU West campus

For more information, visit [www.agaphoenix.org](http://www.agaphoenix.org)

### GFOAz Summer Conference

Dates: August 5-7, 2009

Location: Oro Valley, Arizona

Answer to Puzzler (Page 3):  
"A paradox"