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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.



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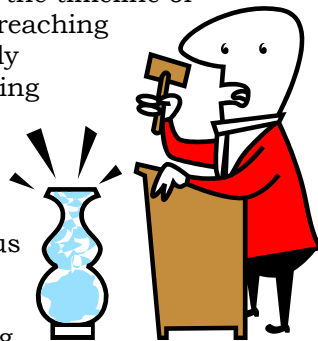
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Online Auctions for Surplus Property Disposal

By Anne Ortiz, Audit Senior

Online auction sites are emerging as a method of surplus property disposal (think eBay for governmental agencies). Surplus property disposal can be a time-consuming process when several items have little remaining value; alternatively, large dollar value items may have returned more proceeds to your organization if a greater audience could be reached. There are specific benefits to an online auction service, including controlling the timeline of disposals, reaching a potentially larger bidding audience, improving internal controls over surplus property disposal, and making providing audit documentation easier.



The use of an online auction service can be easily tailored to your needs. It can be used only one to two times per year, similar to a live auction where several items are posted at once and have similar ending times. Alternatively, auctions can be held more frequently (four to five times per year) to improve removal of

accumulating surplus property on a more frequent basis. Finally, auctions can be posted continuously throughout the year as surplus property is identified.

The unique features of an online auction can improve internal controls. Auctions posted in the current and prior fiscal years can be viewed at any time to identify the item disposed and the amount of the proceeds. Additional features include the ability to block specific individuals from bidding to exclude individuals directly or indirectly involved with identifying assets for disposal.

As with other auction services, a fee will be collected by the online auction provider, typically recouped by assessing a percentage fee based on the auction proceeds.

Questions? Contact us at 520-742-2611, x109 or kerab@heinfeldmeech.com. **H&M**

September 2008

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Your Audit Report– The MD&A and Transmittal Letter

By Jennifer L. Shields, CPA, CGFM, Partner

With the arrival of fall, it's that time of year to get ready for the completion of your financial statements and audit report. Key methods of your municipality's communication to the readers of your audit report include the Management's Discussion and Analysis (MD&A) and, for those of you that prepare a Comprehensive Annual Financial Report (CAFR), the transmittal letter.

First, let's discuss the MD&A. The MD&A is a required component of any government's financial statements. Your auditors do not audit the information, but rather apply reasoning and analytical procedures to the information presented. Some entities depend on the auditors to compile the financial statements in the appropriate format. This may cause the entity to rely on the auditor for the final numbers prior to preparing the MD&A explanations. However, this is a great time of year to spend a few minutes gathering your thoughts and making notes about the last year. Why did fund balance decrease? Was it because you spent down bond proceeds or because you just had more expenditures than you received in revenue? Can you isolate fund balance decreases to a specific fund? If you spend a few minutes thinking about those things now, you will have a much easier time writing your MD&A. The auditors will gather information throughout the course of the audit to explain variances in numbers from one year to the next, to the budget, etc. However, it is important to remember that even if the audit team knows the answers, it is still the entity's responsibility to write the MD&A.

In addition to the required elements of certain condensed financial information, specific items that must be covered in the MD&A include:

- A discussion of *why* the changes occurred in account balances or classifications
- An explanation of why the actual results differed materially from budgeted amounts, including both original and final budget amounts
- A description of currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations

In addition to the MD&A, municipalities receiving a CAFR will need to prepare information for their transmittal letter. The purpose of the transmittal letter is to introduce the CAFR to the readers of the financial statements. There are

specific elements that must be included in order to conform to CAFR program requirements, which in turn leads to some boilerplate language regarding budget and other legal requirements, the audit, internal controls, and the like. However, one of the biggest complaints of readers of the CAFR is that many transmittal letters sound alike. Keeping this in mind, it should be noted that there are required elements that are unique to each entity.

Specific items that should be included in the transmittal letter include:

- Profile of the entity. Take some time to highlight what is special about your municipality.
- Information useful in assessing the economic condition of the municipality. This is a great place to discuss the local economy and long term-financial planning.
- A discussion of awards and acknowledgements
- Major initiatives

In summary, both the transmittal letter and the MD&A are important documents that convey different information to the readers of the financial statements. The transmittal letter allows, requires and encourages governments to provide narrative discussions about the entity and its policies, future plans and past accomplishments. The MD&A requires information to help the reader determine why changes occurred and only allows presentation of required elements.

So don't be afraid to get those pencils out and start writing your MD&A and transmittal letter to reflect your municipality and its unique characteristics. If you have any questions about your financial statement or audit preparation, please contact your auditor or our consulting division at 602-277-9449, ext 376. **KSM**

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

Congratulations to [Brian Morrow](#), Audit Senior, and [Randena \(Dena\) Darpli](#), Staff Auditor II, for their recent achievement of their CPA certifications. Congratulations also to [Corey Arvizu](#), Partner, for being recently named to the 2008 "40 Under 40" list by *Tucson Business Edge*.

Subject to a Single Audit?

By Cherie Roberts, Consulting Manager

Most in the government arena have heard the terms “Single Audit” or “A-133 Audit”. However, in 2007, only about one third of all Arizona municipalities filed Single Audit Reports. Some municipalities may teeter right on the edge of the threshold for Single Audit requirements. It is the **auditee’s** (i.e., municipality’s) responsibility to determine whether a Single Audit is required and to notify the auditors. **Beware...**there is a significant difference in the audit testwork required, and the auditors need to plan and bid accordingly.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (A-133) requires a single audit for all non-Federal entities that expend \$500,000 or more in Federal awards during a fiscal year. There are also provisions for electing a program-specific audit if the expenditures of Federal awards are under only one Federal program.

Sounds easy enough, but the tricky part can be determining what is considered a Federal award and determining the amount expended.

First, Federal awards are not simply grants received directly from Federal agencies. Many Federal awards are *passed through* another entity who distributes the monies to *subrecipients* to carry out the objectives of the Federal program. The problem is the Finance Department may not be aware a particular grant is a pass-through if another department is handling the administration of the grant. It is quite common for grants received through various State agencies to be Federal grants passed through to participants. Other pass-through entities could be the County or even other municipalities. These Federal grants passed through to the municipality (subrecipient) are deemed Federal awards.

Additionally, A-133 provides guidance in determining the difference between when an entity is defined as a subrecipient and simply a “vendor”. Some of the criteria in determining if the municipality is a subrecipient are:

- Whether performance is measured against the objectives of the Federal program
- Responsibility for programmatic decision making
- Responsibility for Federal program compliance requirements

- Whether Federal monies are used to carry out a program of the municipality or a program of the pass-through entity.

If the criteria are not met, the municipality might be considered a vendor, not a subrecipient, and therefore the monies are not considered a Federal award. In making the determination between subrecipient and vendor, A-133 states that the substance of the relationship is more important than the form of the agreement.

The second step is determining the amount expended. Typically, this would be the amount of expenditures during the year for the particular Federal program, excluding any expenditures made from required matching funds. However, there are the following exceptions:

- Loan and loan guarantees (loans) – Generally, the most common Federal loans that municipalities have are those under the various HUD programs. A-133 defines the amount expended as the value of new loans made or received during the year; plus the balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus any interest subsidy, cash, or administrative cost allowance received. If, however, the proceeds of loans were received and expended in prior years **and** there are no continuing compliance requirements other than to repay the loans, these loans are **not** considered expended Federal awards.
- Endowment funds – The balance of these Federal awards are considered expended each year that funds are deemed federally restricted.
- Free rent and non-cash assistance – If free rent is received as part of an award to carry out a Federal program, it should be included in the amount of Federal awards expended. Any Federal non-cash assistance, including free rent, food stamps, donated property, etc., should be valued at the fair market value at the time of receipt or at the assessed value provided by the Federal agency.


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H&M Goes Passionately Pink for the Cure

At Heinfeld, Meech & Co., P.C., we aren't just interested in auditing and accounting; we are also interested in promoting causes important to our community. For the second year in a row, our firm is participating in a program called Passionately Pink for the Cure, a program of the Susan G. Komen for the Cure. The program is designed to promote awareness and to raise much needed funds for breast cancer research, local education, screening, and treatment efforts.

This year, we will go Passionately Pink for the Cure on Friday, October 3, 2008 and it is not too late to join our team! Participation is as easy as donating just \$5 along with promise to wear pink on October 3rd. To join, visit our website at www.heinfeldmeech.com and click on the Passionately Pink for the Cure icon. Participants who donated at least \$20 before the end of August will receive a pink T-shirt to show their support. In addition, each donation goes entirely to the Passionately Pink for the Cure program, and shirts are provided courtesy of our firm.

Our vision is to see our staff, clients, friends and family throughout the state of Arizona wearing pink on Friday, October 3rd, to raise awareness and funds for breast cancer research. We would love to have you join our team, so don't wait, join our team today! Thank you for your support and let's all go Passionately Pink for the Cure!

For more information, contact Jennifer Shields at 602.277.9449 ext. 310 or jennifer@heinfeldmeech.com. 


Subject to a Single Audit? (Cont'd from page 1)

For those municipalities expending **less than** \$500,000 in Federal awards, there still is no "free pass". While exempt from Single Audit requirements, the municipality must maintain records for review or audit by appropriate officials of the Federal agency, pass-through entity, and General Accountability Office (GAO).

For further information regarding Single Audits, please call (602) 277-9449 to speak with Cherie Roberts (ext 376) or Scott Kies (ext 308).

H&M Again 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* for the second year in a row. The list was announced at the Society for Human Resource Management's (SHRM) 60th Annual Conference & Exposition in Chicago.

This annual list, now in its fifth 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. Information about H&M and the rest of the winning organizations is listed on the GPTW website at www.greatplacetowork.com. 

H&M University Workshops

Information on our workshops, including links to online registration, can be found at 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 or 520-742-2611, x107.

Fringe Benefits – Staying in Compliance with IRS Standards

Vail (Tucson area): Tues., September 30

Phoenix (midtown area): Thurs., October 2

Annual Municipality Conference

Mesa (Phoenix area): Friday, January 23rd

Fraud/Internal Controls

Vail (Tucson area): Tues., February 10

Mesa (Phoenix area): Wed., February 11

Fair Labor Standards Act

Vail (Tucson area): Tues., March 24

Mesa (Phoenix area): Wed., March 25

Flagstaff: Thurs., March 26