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Accounting Insights

INSIDE THIS ISSUE:

FSF News and Updates	2
IRS Re-issues 2013 W-4	2
Controls and More	2
January 1, 2013 and the Payroll Fiscal Cliff	3
Famous Accountants & Fun Facts	3
K12 Korner	4

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Director's Message
By: Kristopher Knight

Welcome to another exciting issue of our quarterly newsletter.

Just a few quick updates. The Internal Control/CAFR team members will be conducting on-site visits to different agencies throughout 2013 to conduct internal control reviews. They will be contacting each agency to set up a date/time for a visit.

Just a reminder, that we are half-way through FY2013 and that year end close is right around the corner. Be on the lookout for correspondence regarding year end close as we get closer.

I hope you find this edition to be both informative and enjoyable.

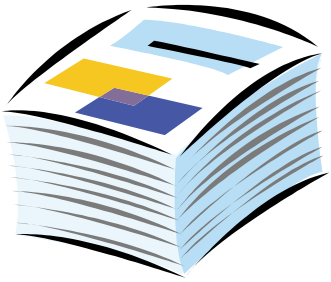
The Purpose of the CAFR

Every year our office is tasked with compiling the State's Comprehensive Annual Financial Report (CAFR). This is a process that can be very challenging given the decentralized accounting functions across our State. The CAFR is one of the main general purpose external financial reports that the State produces. It contains information from in and outside of the accounting system, such as petty cash, accounts receivable, and various other audit reports.

The CAFR is used by bond rating agencies to grade the economic condition of the State and also used by federal regulators, granting agencies, and educational institutions. The State submits its CAFR to the Government Finance Officers Association (GFOA) for national recognition and certification which is used by the bond rating agencies.

To date, the State has received its annual GFOA certification for 17 consecutive years, without exception. The certificate is regarded by many as the highest honor that a governmental organization can receive for financial reporting. This accomplishment and honor could not have been done without the continued support of our own internal reporting team, FSF, and all the state fiscal positions.

So **congratulations and thanks for your continued support.** We look forward to many more years working with you towards continued success of this accomplishment.



FSF News and Updates

Upgrade is over, now what?
Once again, we would like to thank everyone for all of their help with the upgrade! It is also important to thank you for identifying and reporting any challenges with the system after we released 9.1 on 10/22.

Now that the upgrade is completed, you may be wondering what's next for FSF. After an upgrade it is standard for a system to take about 3 months to be stabilized. Once that is completed, we have a list of items to work on:

- We are currently on a contract extension for our **PCard** and have begun working on a **RFP** with GSS.
- Many of you remember the **Hackett Benchmarking** that was done prior to FSF to see gold-standards and how the State of Delaware measures up to others with policies, financial systems and customer service. We will begin working on the second phase of the benchmarking process in early 2013. Organizations that participated last time will be contacted again.
- **Reporting Solution** - What's that?!?!?! A reporting solution would replace Document Direct and allow for more robust reporting. We have just begun looking at tools available for this solution.
- **Maintenance Pack** - Oracle is always looking for ways to improve their software. Periodically, Oracle releases Maintenance Packs and Bundles to provide us with fixes to the system. This requires a lot of testing in a short period of time.
- **Online Checkbook** - The Division of Accounting has provided the file for the online checkbook to OMB since the checkbook's inception. Our goal is to revamp and enhance the checkbook's functionality and assume the responsibility of posting the information to the web for our citizens to review. We may also revisit the online PCard application.
- **OMB in workflow** - OMB is currently ad-hoc'ed into the workflow by the end users. The goal here is to have different documents route to OMB so the end users do not have to adhoc them into the workflow manually.

To be successful, with these efforts, we may have to reach out to some of you. Thank you in advance for your support and we look forward to working with you!

IRS Re-Issues 2013 Form W-4

If you downloaded Form W-4 before January 18, 2013, please note there were changes made to the Worksheet on Page 2. Download the most recent form at:
http://www.irs.gov/pub/irs-pdf/fw4.pdf

Controls and More

The State has come a long way with the implementation of the certification of the reconciliation process. This helps your management keep track of outstanding transactions. These transactions affect many of your various finance reports which your management may be using to make complicated decisions. Along with your own management, our Division also is affected at year end close. That is why the process was developed, to assist all involved. The monthly certifications that you are submitting represent your continued commitment to ensure that you are aware of the transactions that are outstanding and need to be addressed before year end close. *We still have a few offenders out there that have not submitted a month or more of certifications; we urge you to perform and send the certifications in as soon as possible*. For everyone else that has been keeping up with their certifications; thank you very much and keep up the good work! Also, now that the CAFR work is completed our team members will be out reviewing agencies certification processes on a random basis. This is just to affirm certifications and ensure your processes are streamlined and are working effectively. So stay tuned.

Don't forget your Capital Assets Division Memorandum will be issued to remind you to enter your capital assets. If you have construction projects that are in-service anytime during the year, please enter them into Asset Management (FSFCAM) to properly recognize the capitalization period for that asset and begin the depreciation. This was an issue at the end of this past fiscal year and we would like to prevent these from happening this year.

Did you Know??
Accounting is the 3rd most teased profession, following Lawyers and Actuaries.

JANUARY 1, 2013, AND THE PAYROLL FISCAL CLIFF

The American Taxpayer Relief Act (ATRA) of 2012 was signed into law by the President on January 2, 2013. Here's a synopsis of what has changed for 2013:

The Payroll Tax Reduction

Say goodbye to the payroll tax holiday! There was a two percent reduction in the amount of money employees paid through the Social Security payroll tax that was in effect for calendar year 2011 and 2012. This tax reduction was not extended as part of ATRA. The tax rate reverted back to the original amount of 6.2%. Therefore, employees may have seen a change in the amount of their take-home pay in the first paycheck of 2013.

Federal Income Tax

It turns out the plunge off the "Payroll Fiscal Cliff" in January was a fate as certain as predictions based on the Mayan Calendar! ATRA made the existing income tax rates of 10%, 15%, 25%, 28%, 33%, and 35% permanent and added a new permanent higher rate of 39.6% for high income earners. The threshold amounts are $400,550 for employees claiming "Single," and, $406,650 for employees claiming "Married." Most employees did not see an increase in their federal income tax withholding for 2013; many may have actually seen a slight decrease in income taxes because of inflation adjustments to the wage brackets.

Medicare

And the doctor says this won't hurt a bit! High income earners who make more than $200,000 a year will see a slight increase of 0.9% in their Medicare taxes. Once an employee is paid $200,000 in a year, the additional tax is withheld each pay period until the end of the calendar year. There is no increase to the employer match after the employee reaches $200K.

Education Assistance

Attention all scholars! The income exclusion under Internal Revenue Code §127 for up to $5,250 per year of nonjob-related undergraduate and graduate educational assistance provided by an employer to an employee is now permanent, with no expiration date.

IRS Forms & Publications

And, better late than never; they updated all our favorite publications in the last couple of weeks! The forms that have been updated are Form W-4 and IRS Publications 15 (Circular E, Employer's Tax Guide), 15-A (Employer's Supplemental Tax Guide), and 15-B (Employer's Tax Guide to Fringe Benefits) for 2013. The IRS also provided an update to the table used to figure the amount exempt from Levy on wages, salary, and other income.

Enforcement

Circle the wagons! Numerous payroll publications have indicated that the IRS plans to step up enforcement efforts. The regulatory agency got approval to hire thousands of new employees who will be responsible for field audits to make sure employers are playing by the rules. They will focus on such things as mandatory reporting of the cost of Health Insurance, worker classification, and fringe benefits. We don't know if the IRS will come knocking on the State's door; but, Payroll Officers should always be in a state of readiness.

FAMOUS ACCOUNTANTS AND FUN FACTS

- Many people believe the term "bean counter," used to describe an overzealous or detail-obsessed accountant, dates back centuries. In fact, it's only been around since the 1970s.
- John D. Rockefeller was an accountant prior to starting Standard Oil and becoming one of the richest men alive at the time.
- Accounting is one of the top 10 safest jobs to have according to Info Corner.
- Accounting plays a major role in law enforcement. The FBI counts more than 1,400 accountants among its special agents. Chicago crime boss Al Capone was finally brought down in 1931 by FBI accountants. Although believed responsible for crimes ranging from bootlegging to murder, Capone was ultimately arrested and convicted for income tax evasion.
- Rolling Stones lead singer Mick Jagger and singer Janet Jackson studied accounting before hitting the big time.
- J.P. Morgan, the famous owner of the investment banking firm started his career as an accountant.

K12 Korner

The K12 Korner is designed specifically with School Districts and Charter Schools in mind. The information included deals with issues and concerns that relate to the Delaware School Districts and Charter Schools.

Charter School Financial Reporting

The Division of Accounting has recently been made aware of a significant cash reporting issue that has threatened the issuance of 'clean' audit reports for some Charter Schools. Specifically, Charter auditors are questioning the appropriateness of a practice that some Business Managers have undertaken to account for unspent state appropriations on the face of their financial statements. The practice is simple, Charters record unspent State appropriations as cash on the balance sheet. The auditor's concern is also simple, unspent State appropriations do not always represent cash. Essentially, recording certain appropriations as cash would misstate an entity's cash position. The specifics of each situation can be complex and involve the need for in depth discussions between school business officers and their auditors. Below are three considerations to keep in mind during those discussions:

- Understand the nature of unspent appropriations that will be recorded as cash. For instance, "Local" appropriations funded with cafeteria activities and donor payments can represent actual cash that is pooled and managed by Delaware State Treasury. Such appropriations are funded by the entity through cash receipts and allow spending to the extent of actual cash receipts. However, while it may be correct to categorize those unspent appropriations as cash, it should probably not be grouped with other cash accounts. Instead, consider creating a second account representing "Cash held by State of DE."
- Unspent General fund appropriations and unspent State grants do not represent cash in many cases. Often, they represent only an authority to spend. These should not be reported on your balance sheet.
- Overall, understand what your auditor is trying to test. If issues arise, consult with them to discuss how best to resolve the problem. In many cases, the auditor can detail their list of concerns and provide you with a few best -practices, utilized by similar organizations.

K – 12 Capital Improvement Debt Appropriation Expenditures Review

Earlier this year, the Division of Accounting (DOA) Payroll Compliance Group (PCG) investigated statewide salary expenditures made against capital improvement debt appropriations for Fiscal Years 2008 – 2012. Most charges were clearly project-related and; therefore, not questioned. Each School District was asked to explain funding charges that could not readily be identified as appropriate expenditures against Fund 300 Appropriations.

The DOA is pleased to report that there were no inappropriate charges identified in the review. We appreciate the cooperation and speedy responses we received from all School District Fiscal Offices. Since expenditures against these appropriations are strictly regulated and may come under the scrutiny of regulatory agencies, Fiscal and Payroll Officers are asked to continue to monitor these expenditures and quickly correct any inappropriate charges to debt funding. With that approach, the State will remain well positioned for any external examination that may come our way.