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Accounting Insights

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Director's Message

Back and better than ever, the latest edition of Accounting Insights focuses on compliance.

We examine everything from IRS regulations and financial reporting to fraud risk factors that could jeopardize an otherwise compliant control environment. As you read, please consider the many other compliance measures that affect your organization's operations.

Take time to periodically review key compliance standards and find innovative and efficient ways to ensure that those standards are attained.

FOCUS ON FRAUD PREVENTION AND DETECTION

Payroll Compliance Group (PCG) encourages all levels of Organization leadership to be vigilant in minimizing the opportunities for people in the payroll process to perpetrate fraud. Submission of your internal control plan is more than an annual checklist item to complete. It is the time to critically review existing controls and determine where they can be tightened. There is always room for improvement.

Human Resource and Payroll process management is no place for complacency or blind trust. For example, life changes may create a desperate situation where even long-term, well-trusted employees see no way out but to take advantage of gaps in internal controls. Disgruntled workers may seize opportunities to make leaders "pay" for perceived slights. Employees who are asked to do more with less may "cut corners" to meet deadlines, unwittingly giving unscrupulous co-workers opportunities to commit fraud that would not otherwise be available. At times, two or more workers may collude to give the illusion of effective controls while committing fraud.

Opportunities for fraud are provided through weaknesses in internal controls. The PCG challenges all those involved in the payroll process to proactively monitor processes to ensure that controls not only exist, but are enforced.

Over the next several months, PCG will focus on payroll fraud prevention and detection. Look for announcements for the next Payroll Forum where training will be offered on this topic.

Creating a Culture of Compliance

The PCG continues to work with State Organizations to increase awareness and understanding of fringe benefits tax law. It is our goal to create a culture of compliance across all Organizations. Failure to appropriately and consistently apply fringe benefits tax law has a number of negative consequences:

- Exposure to IRS fines and penalties
- Loss of employee confidence
- Labor Union challenges
- Recurring research and justification of tax decisions

Fringe benefits tax laws are complex. PCG Bulletins are available on the Division of Accounting web site (http://accounting.delaware.gov/payroll_comp/communications.shtml) to assist in the proper interpretation of the regulations. PCG is available to assist in the tax decision process whenever there is uncertainty.

REMEMBER—ALL taxable fringe benefits must be paid through PHRST Payroll, NOT through FSF Accounts Payable.

Many Organizations still miss the mark in properly applying tax law to the fringe benefit of clothing and uniforms because IRS guidance allows for a degree of subjectivity in the interpretation of the regulations. Organization Payroll Professionals need to make, or, at a minimum, approve the tax determination. You must determine if the provided item(s) are suitable for everyday street wear. If a reasonable person would consider the clothing suitable for everyday wear, the value of the item is subject to all applicable income and employment taxes.

Simply calling articles of clothing/footwear a uniform does not make the ensemble nontaxable. If an employee is provided a full uniform, each article of clothing must be evaluated independently to determine proper taxation. Maybe the shirt has highly reflective lettering for safety reasons, making it unlikely to be used for everyday wear and, therefore, nontaxable. However, khaki pants have no distinguishing features and are taxable. The same determination must be made for the belt, shoes and socks.

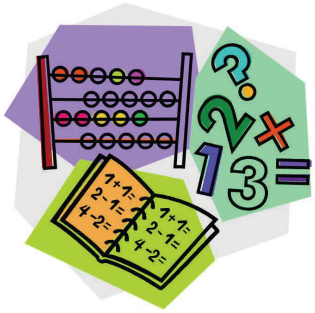
Find the PCG Clothing and Uniforms Bulletin 2015_001 at the following link:
http://accounting.delaware.gov/payroll_comp/bulletins/2015_001.pdf

Find a detailed PowerPoint presentation on the topic at the following link:
http://accounting.delaware.gov/payroll_comp/February_18_2014.shtml

State's Cash Flow: Aged AR Pending Item Clean Up

Accounts Receivable Pending Items in FSF represent expenditures paid by the State that will be reimbursed by federal agencies or third party entities based on the agreement or contract term. Most federal grants are reimbursed weekly or monthly.

Currently in FSF, there are over 300 Aged AR Pending Items. These AR Pending Items accounting dates range from July 1, 2010, through June 30, 2015. The aged AR items have a negative impact on the State's cash flow.



The Accounts Receivable Team is available to assist Organizations with clean up and will continue to send out notifications until all Aged Accounts Receivable are cleared. Moving forward, Organizations must closely monitor their Accounts Receivable and clear them in a timely manner. All AR Pending Items for a contract should be cleared before the appropriation closes. To prevent Aged AR Pending Items, refer to your contractual agreement(s) with federal sponsors and third party customers and the Reconciliation Steps found on the FSF Extranet > Information > Reconciliation Resources or click the link: http://extranet.fsf.state.de.us/reconciliation.shtml.

Financial Accounting and Reporting Group

Welcome back to the GAAP reporting, CAFR and Single Audit season!

The group audit entrance welcome conference was held on the 19th of July on behalf of Division of Accounting and Auditor of Account's office. CliftonLarsonAllen is the approved State auditor for the Comprehensive Annual Financial Report and Single Audit. Organizations may have other audit groups visit them throughout the State's audit period as well.

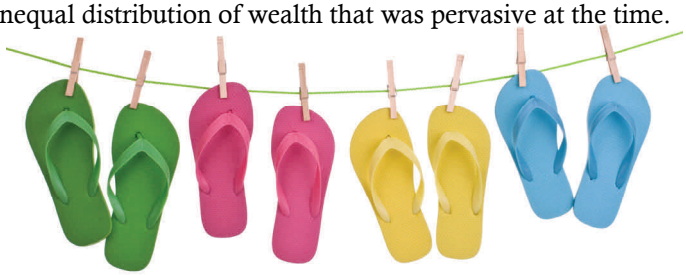
The State was awarded GFOA's Certificate in Achievement for Excellence in Financial Reporting Program for its FY2015 CAFR. Your involvement with last year's audit greatly assisted towards Delaware's CAFR achieving this award. This GFOA award is one of the evaluation tools that rating agencies use to measure the fiscal strength of Delaware. Delaware has been able to maintain its triple "A" bond rating, the highest rating available. Bond ratings assist the State to issue bonds at the lowest interest rates so we can build the schools, facilities, roads, and other capital projects that the State needs.

The CAFR auditors will be out in the field starting in September. Prior to their arrival, DOA members will be requesting and reviewing supporting documentation from your GAAP package submissions. If this is also selected by the CAFR auditors, DOA will then provide the information directly to them. Your cooperation and support during these audits is appreciated.

As for the Single Audit, the auditors have been planning their audit to address the requirements of the uniform guidance for the FY2016 Single Audit. The Federal Office of Management and Budget (OMB) has issued the FY2016 compliance supplement and it is available at the link below:
https://www.whitehouse.gov/sites/default/files/omb/assets/OMB/circulars/a133_compliance/2016/2016_compliance_supplement.pdf This is used to assist with applicable federal programs and to make you aware of the items that the auditors will be testing related to your programs.

The Single Audit auditors have already begun reaching out to the programs they have selected for testing to schedule entrance conferences.

In addition, DOA is beginning capital asset reviews, which includes reviewing Organizations' policies and testing inventory listings against actual assets. We will work with each Organization to avoid having multiple requests from the various auditors' requests occur at the same time.

Famous Accountants and Accounting Fun Facts

- If you think that accountancy is complicated, you are right. In fact, the accountancy code (the rules that accountants have to stick to) is constantly reviewed and altered. Over the past five years, over one million words have been added to it. That's a whole lot of words!
- The Accounting Hall of Fame currently has 93 members. Only one of whom is a woman, Professor Katherine Schipper.
- Archaeologists have discovered ancient clay accounting tokens. The tokens, which originated from ancient Iran, were dated to be from 4000—3000 B.C.E. The tokens were found in the centers of Godin Tepe and Tepe Yahya, and were discovered in ancient storage rooms. The accounting tokens are believed to have come into existence at a time of socioeconomic upheaval in ancient Iran. The tokens were used as bookkeeping measures by local leaders and priests who sought to help remedy the unequal distribution of wealth that was pervasive at the time.