

# ***GORENZ DISTRICT NEWSLINE***

**A newsletter of audit significance from Gorenz and Associates, Ltd., Peoria, IL**

December 2012

## ***Matching grant revenue to expenditures claimed -***

Federal and State grant revenues can be used for many approved purposes. For most districts, grants are used for costs incurred in the Education Fund. Grant revenues are received and deposited in the Education Fund. If the grant was written to include benefits paid out of the IMRF/Social Security Fund, then the District needs to match these expenditures claimed with the revenue received. Depending on how the District budgeted the grant, either a portion of the grant revenue needs to be deposited and recorded in the IMRF/Social Security Fund or the claimed expenditures need to be moved to the Education Fund.

## ***Are you using the correct function/object for purchased services and tuition paid to Other Governmental Entities?***

We propose many adjusting journal entries for payments made to other governmental units (eg tuition or purchased services). Payments are made to other public schools and/or private facilities. According to the revised IPAM, the .8 object is no longer used for tuition. Tuition would be considered an other object .6 instead of .8. The proper function to use depends on whether the payment is made to a private facility (use function 1910 through 1922) or a public facility (use function 4210 through 4280).

## ***Internal Controls – Cross Training***

There have been too many recent articles involving incidents of fraud/theft in governmental entities. Hopefully, these events raise concerns with all administrators and governing boards. We can learn from these defalcations. Could the series of events that led to or prolonged the opportunity for a “trusted” employee to defraud their employer happen in our district? That could not have happened in our district – or could it? You should review your controls over cash receipts and disbursements at least annually looking for weaknesses that may have occurred during the year.

One important tool in a good internal control system is cross training. Even with adequate segregation of duties, it is recommended that employees be cross-trained to perform the functions of other employees in the office. The obvious advantage of having someone else available to perform a certain function in a crisis situation is still very true. But there is another advantage. In the case where a “trusted” employee can manipulate records continually, having someone else perform the same task may help reveal errors or even theft.

With supervised cross training complete, why wait for a crisis situation to test how the system would work with duties reversed. For example, it would certainly be easier to take over and prepare a payroll when the normal payroll clerk is available to answer questions. This is not always the case in a crisis situation.

To strengthen a district’s internal control system, we recommend that cross-trained employees be required to perform their “non-standard” duties at least once annually on a surprise basis. This helps keep their skills sharp and serves as a deterrent to “trusted” employees who may not have time to “cover their tracks”. There are many tasks that should be considered: payroll processing, bank reconciliations, deposit preparation, invoice processing, opening the mail, credit card reconciliations, etc.

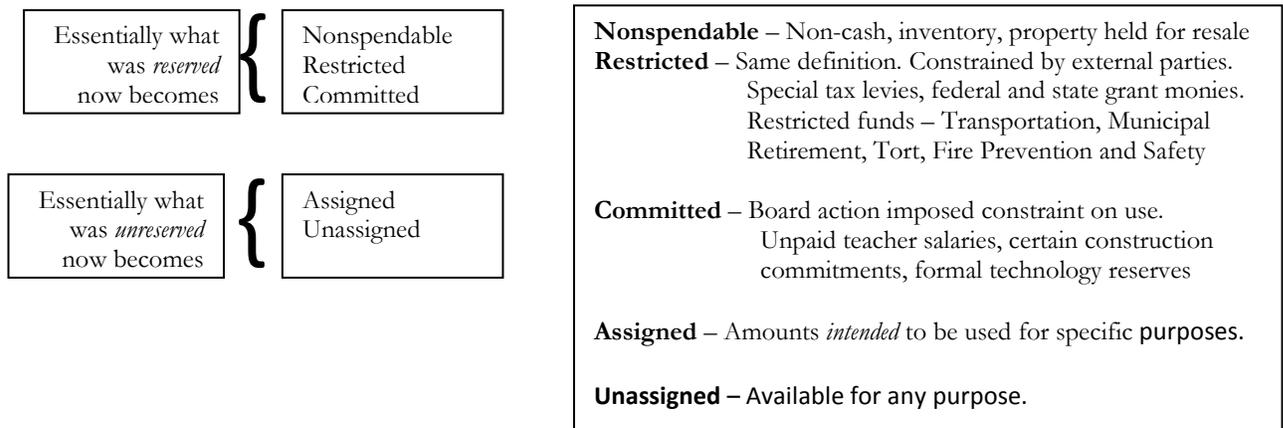
### ***Health Flexible Spending Arrangements (health FSA) Subject to \$2,500 Limit***

Effective for plan years beginning after December 31, 2012, salary reduction contributions to health FSA plans is limited to \$2,500 per plan year. Cafeteria plans must be amended to reflect the \$2,500 limit. This limit applies only to the health flex amount in the cafeteria plan. It does not limit the amount sheltered for other qualified benefits such as dependent care assistance. The limit also does not apply to salary reduction contributions to the plan that are used to pay an employee's share of health coverage premiums or contributions to any HSA account.

### ***The New Designations of Fund Balance***

GASB Statement No. 54 has made significant changes to fund balance reporting. Under the regulatory method of reporting, the change may have gone unnoticed as the face of the regulatory financial statements did not change. Details of the new reporting language for fund balance classifications have been disclosed in the notes to the financial statements. The new disclosures are an attempt to give readers more information regarding "reserved" and "unreserved" fund balances.

The classification hierarchy is based primarily on the extent to which the district is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The old reserved/unreserved classifications are now expanded as follows:



School districts have never been in business to "make money". School boards need to be responsible fiscal stewards of the funds available to them. State funding shortages/delays and falling assessed values are just two conditions beyond the board's control that necessitate the maintenance of fund reserves. The adequacy or strength of your fund balances depends on the intended use. GASB Statement No. 54 helps readers of your financial statements better assess the intended use of the district's fund balances.

### ***2013 Federal Mileage Rate***

The IRS announced in IR **2012-95** that the optional mileage allowance for owned or leased autos is 56.5¢ for business travel after 2012 under accountable plans. That's 1¢ more than the 55.5¢ allowance for 2012 business travel. This increase is due to consistently higher prices for fuel.

**Reminder:** Mileage reimbursements under a non-accountable plan (i.e. a flat reimbursement of \$300 per month) need to be added to the employee's W-2 at the end of each calendar year as taxable wages.

### ***Gorenz and Associates, Ltd.***

Certified Public Accountants  
4200 N. Knoxville Ave.  
Peoria, IL 61614  
(309) 685-7621

Visit us at -  
[www.gorenzcpa.com](http://www.gorenzcpa.com)

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