

Money Talks Money Talks



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President: Kelly Bush

1st Vice President: John Hulsey

President's Corner



Greetings GGFOA!

I am so excited about the year to come! So many things are underway. Your Executive Board has started working to update our strategic plan. This should help us to look from where we have come to where we are going as an organization. We are looking at ways to continue to meet the changing needs of our members with current technological advancements while still providing the face-to-face networking we all rely on. We want to keep our eye on the mission of GGFOA – *to promote and foster excellence in governmental financial management through programs that enhance the abilities, knowledge*

and influence of the government finance professional.

I would like to encourage everyone to get involved – visit our website www.ggfoa.org and find a committee where you feel you can contribute. Even if you don't want to sign up to be a committee member, if you have ideas or suggestions, e-mail or call the committee chair and share those thoughts. We want to involve all of our members – from large and small governments and from all corners of our State. We also want to look at our associate members and the important role that they play. We are looking to change some things up to address ways to help them get the most out of their membership.

Once again, let me say how much I am looking forward to working for you – the members of GGFOA – this year. Please remember this association belongs to you – the members. Make the most of it – let your Board know what we can do to help *promote and foster your excellence*. Sign up for a committee, send an e-mail, make a phone call - get involved.

A handwritten signature in blue ink that reads "Kelly Bush".

Kelly Bush

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Money Matters!



- Charlene Craig

Does your money matter? Are the dollars of your entity safe? Today's economy demands for most of us budget cuts which in turn require we do more (or at least as much) with less. It is extremely important to work smart and efficient to protect your entity's assets. Technology can be of assistance to help protect your government assets. In and of itself technology has brought both good and bad things. Technology continues to allow industries access to fraud prevention services suited to help entities protect their assets; however, at the same time crooks are utilizing technology to commit fraud. Fraud attempts have become so prevalent; usage of fraud prevention products and services is becoming a standard among all industry segments.

Protection – inside and outside - While financial institutions have a variety of services related to fraud prevention outside of your entity, you should also protect yourself internally. One of the best means to accomplishing an internal fraud prevention structure is to operate through a dual control structure. Any responsibility involving a financial transaction should be transacted through a dual approval process. Additionally, stringent auditing practices should be conducted timely and without notice. This methodology not only provides protection for the entity, but the employees as well.

Start today! Do not delay! Implement within your job positions responsibilities of the role in which each employee will play a part of securing your entity. Outline individual responsibilities of not sharing passwords and log on ids, and structure a separation of duties department. Reach out to your financial partners. Determine what fraud protection services you do not have and what you need to add for full protection – paper and electronic. The more layers you have in place to safe guard your assets, the less likely fraud will be an issue.

Review your policies, contracts, products and procedures annually. Meet with all your vendors to discuss any changes recommended and determine analyze the benefits to upgrading. Keeping on top of your internal and external relationships will help to keep your government safe.

Career Development Committee News

Be on the lookout for upcoming training opportunities through GGFOA in conjunction with the Carl Vinson Institute of Government at local government host sites throughout the state.

The next class will be hosted by the City of Kingsland in southeast Georgia in the spring of 2012. The class, "Internal Controls – Accounts Payable and Cash Disbursements," is a one-day elective course which counts toward Level II Certified Finance Officer (CFO) designation

~~ Fostering excellence in governmental financial management in Georgia ~~

through the UGA Carl Vinson Institute of Government. Registration information will soon reach you so look for more details regarding this class.

City of Norcross recently hosted a four-day class, "Part I: Introductory Governmental Accounting" and City of Tifton hosted a two-day class, "Revenue Administration." Both the classes were well attended and the feedback from participants was very positive. A special thank you goes to Carmina Turner from Tifton and Rudolph Smith from Norcross for hosting.

If you are interested in learning how your government can become a host site, please contact the Career Development Chair, Amy Hall at ahall@valdostacity.com or Co-Chair, Cindy Campbell at ccampbell@dawsoncounty.org for more information.

Income Tax & Social Security Taxes for Government Employees



The question often arises about how to report payments made to various government officials and whether those payments are subject to withholding for income taxes and/or social security and Medicare taxes.

The IRS considers that the term "employee" includes any common-law employee (see article on Independent Contractor or Employee for guidance in deciding when a person is a common-law employee) or elected official of the federal government, a state, or a political subdivision of either. The most common political subdivisions are counties and municipalities. The IRS considers that people appointed to various volunteer boards that are paid nominal amounts to cover their expenses are also to be considered employees. Those boards may be planning and zoning commissions, boards of tax assessors, or other similar boards authorized or created by the state legislature or by local government authority. Payments may be a nominal amount per meeting in lieu of travel expenses, some amount per month, or per year.

One of the key elements used by the IRS in arriving at their conclusion is that these boards are performing services that are a necessary and integral part of the government's operation. Other elements are the continuing basis of the services, the right to change the workers' methods, and to direct the workers to the extent necessary to protect the government. The workers do not have the opportunity to realize a profit or incur a loss. Both parties retain the right to terminate the work relationship at any time without incurring a liability.

Once it has been decided that a person is an employee, what rules apply related to tax withholdings. Generally, government employees are subject to income tax withholding. Service for a state or local government is exempt from Federal Unemployment taxes (FUTA). The situation for social security and Medicare taxes is more complicated. Virtually all persons employed after July 2, 1991 are subject to mandatory social security and Medicare taxes unless they are covered by a Section 218 agreement. Before July 1, 1991,

social security was not mandatory but they could opt to participate through a Section 218 agreement.

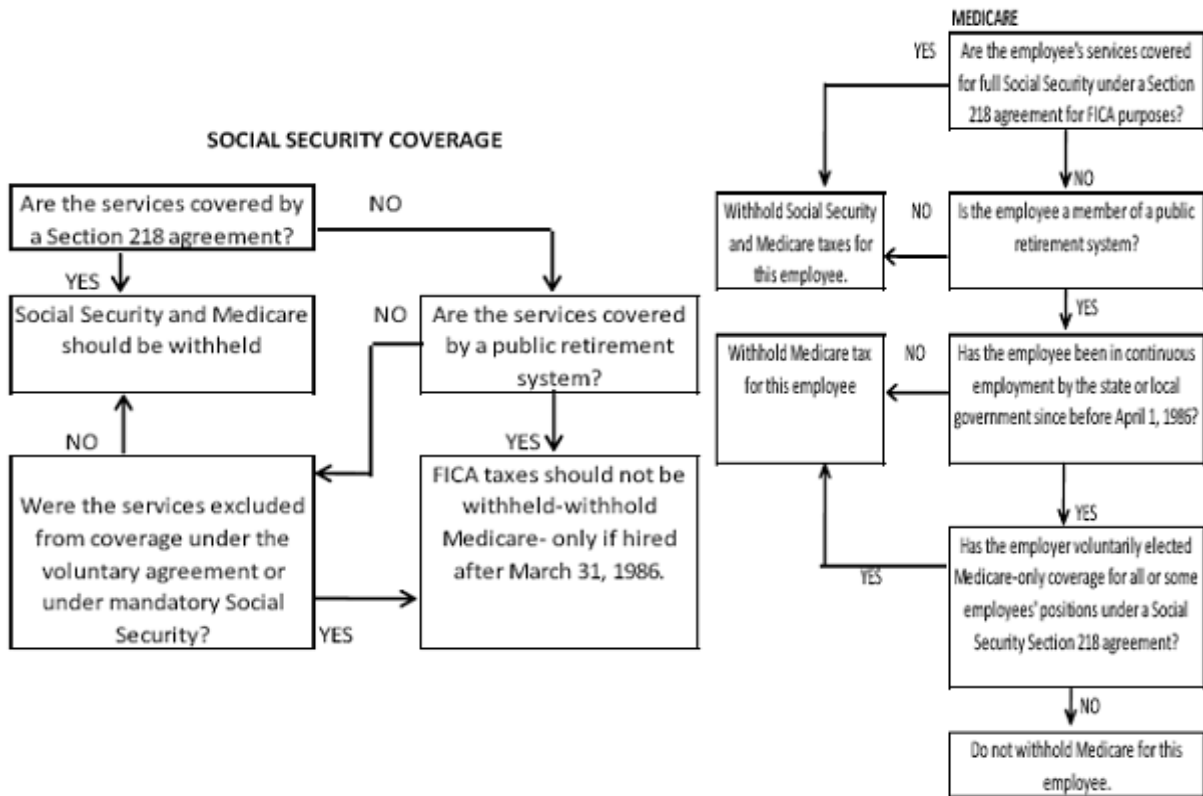
1. First, you must determine whether a Section 218 agreement applies. A Section 218 agreement is a contract that the government has entered into with the Department of Health and Human Services under section 218 of the Social Security Act. Such an agreement covers positions rather than individuals. Most governments in Georgia have entered into such agreement. If you have a question about whether such an agreement has been entered into contact the State Social Security Administrator. If the position is covered by such a contract, the employer and the employee are liable for both the social security and Medicare taxes.
2. If the position is not covered by a section 218 agreement, the employer and the employee are liable for both the social security and Medicare taxes on wages paid for services performed after July 1, 1991 unless the worker is covered by a pension plan that meets certain requirements. If the worker is covered by such a pension plan, the employer and employee are liable for the Medicare portion of the tax only on workers hired after March 31, 1986.

There are a few exceptions to social security coverage.

1. Amounts paid to election workers paid less than \$1,000 in a calendar year (the amount is indexed after 1999). If the Section 218 agreement specifies a lower limit, as is the case in some old agreements that never were amended, that lower limit applies rather than the \$1,000 limit (indexed). The payments are subject to income tax withhold in all cases and should be reported on a W-2 form.
2. Employees serving on a temporary basis in case of fire, storm, earthquake, flood, or similar emergency.
3. Other special cases. Please refer to regulations for these exceptions.

Exhibit 1

DETERMINING EMPLOYEE COVERAGE FOR SOCIAL SECURITY AND MEDICARE



Applying the Fraud Triangle to Risk Assessment and Design of Internal Controls



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-- John Holden, CPA CFE CFF

A theory known as the “fraud triangle” attempts to explain why employees commit fraud. The three legs of the triangle are Pressure, Rationalization, and Opportunity. By gaining an understanding of why an employee may decide to commit fraud and how they are successful, management will be better prepared to assess the risks of employee fraud and properly design internal controls to prevent it.

Pressure

Most employees who commit fraud do not necessarily do so because they are inherently dishonest. They find themselves under pressure from financial situations for which they see no way out. Generally, these individuals feel that they cannot share this financial pressure with anyone. Their situation may be the result of other illegal activity, such as gambling or drug use. The employee may be embarrassed because his or her situation is the result of a personal or business failure, such as heavy losses in risky investments (think about the Madoff Ponzi scheme). The individual may be envious of others and has found he or she is

living beyond their means in an attempt to gain status. Sometimes this pressure is the result of a non-financial situation, such as poor employer-employee relations.

It is difficult, if not impossible, for management to monitor or even identify every employee who may be under these financial pressures. There is a fine line between showing concern for employees' well-being versus taking a "Big Brother is watching" approach. One step an employer can take is to educate all employees about the availability of employee assistance (if your organization has such a program), financial counseling by your organization or an outside party, or social service organizations in the community designed to help individuals in difficult financial situations.

Managers should be aware of red flags that might indicate that an employee is having problems. A sudden and drastic change in an employee's disposition, especially an outgoing, happy person who suddenly becomes quiet and despondent, may be an indication of an individual in need. Changes in habit such as frequent absenteeism or being overly secretive about personal matters may also be signs of trouble.

Rationalization

Because most people are generally honest, an employee who commits fraud must rationalize his or her actions to themselves. This means the employee must consider what he or she is about to do, then justify his or her actions. Depending on the individual and what is being considered, this may require only a few seconds or a long period of deliberation.

One of the most common rationalizations is, "I am just going to borrow the money. I will pay it back as soon as I can." In the beginning, most of these fraudsters truly do intend to repay the stolen money. However, as the scheme progresses and goes unnoticed, the intent to repay the money is generally forgotten. Many times, the employee may even have a dollar amount in mind, as in, "I just need \$5,000 to help with these medical bills." But few will stop when that magic number is achieved. These schemes generally only stop when detected.

Another common rationalization is, "I am underpaid/underappreciated." These employees would not necessarily be classified as unhappy or disgruntled. They may even understand that management would like to increase their salary, but circumstances such as a slow economy do not allow for the increase. This intent of management may be used by the fraudster to further rationalize his or her actions. "If they could, they would; well I can, so I will."

A disgruntled employee may rationalize his or her actions as retribution or punishment against the organization. The employee feels he/she has been wronged by the organization in some way such as being passed over for promotion or subjected to disciplinary action. This rationalization may be further strengthened if the employee feels he or she has no other employment options and must continue to work for the organization.

Opportunity and the Risk Assessment Process

The leg of the fraud triangle that management has the most control over is opportunity. Employees will not attempt to steal if they feel that the crime might be detected. This is generally the second piece of the equation that the employee evaluates. The typical

development of the fraud scheme is that the employee first will feel the pressure to steal, identifies the opportunity, and then rationalizes the action.

Management is responsible for designing and implementing adequate internal controls to prevent and detect fraud. Remember that it is much easier to prevent fraud than to detect fraud. By minimizing the perceived opportunities, management minimizes the risk that fraud will actually happen.

An important thing to remember during the risk assessment process is to ignore the employee, only consider the position. How often have you read about a fraud case in which the individual was one of the longest-serving and most trusted employees within the organization? Remember, the employee expects the scheme to go undetected. And it is the longest-serving employees who have the best understanding of the strengths and weaknesses of the internal control environment.

Your question during the risk assessment process should be whether an employee *could* steal, not *would* steal. To use an auditing term, management must remain “professionally skeptical” when performing a risk assessment. You should adopt a worst-case scenario attitude. As you evaluate the controls in place, imagine a person is filling that position that you know wants to steal and will do so at the first opportunity.

Many times, managers are uncomfortable performing risk assessments or implementing internal controls because they do not want to insult employees and make them feel untrustworthy. Hurt feelings may be avoided by educating employees about the reasons for internal controls and involving them in the risk assessment process.

Helping employees understand the purposes of internal controls is two-fold. The primary purpose is to protect the organization. The secondary purpose is for the protection of the employees, which may be the more important reason in their eyes. If controls are put into place to prevent theft, then this will lower the chance for unfounded allegations of impropriety against an employee.

Involve the employees during the risk assessment process. Ask your finance staff to review the cash disbursement process to find possible weaknesses. Ask this question: “If the Accounts Payable Clerk wanted to steal, how could he or she do it?” Hopefully the first response will be, “Oh, he or she would never do anything like that!” Just emphasize that you are looking at the Accounts Payable Clerk position, not the individual filling that position. You may also want to use this opportunity to cross-train employees in the significant duties of each position, so that there are people to fill-in in case of an emergency.

During the risk assessment process, it is important to note the difference between authorization and ability. For example, you might ask whether your accounts payable clerk can post a journal entry. “No, he or she is not authorized” is a very different answer from “No, he or she does not have permission in our accounting software package, therefore the system will not allow him or her to post a journal entry”. Both are important pieces of information and need to be noted. However, there is greater risk when a transaction is simply not authorized.

Designing Effective Internal Controls

After the risk assessment has been completed, it is time to design a set of controls that addresses all significant weaknesses. In designing internal controls, one of the most important concepts to remember is that the cost of the control should not outweigh the benefit received. The two most effective sets of internal controls are segregation of duties and monitoring controls.

Due to staff size, it may not be feasible to segregate duties as much as you would like. For example, when looking at controls over cash disbursements, you would like to segregate the duties of recording invoices, preparing checks, signing checks, and preparing the bank reconciliation. You then must identify which duties should be segregated to minimize the assessed risk. In this example, the segregation of preparing the bank reconciliation would be the most effective, because you have an individual independent of the check preparation process looking at all of the transactions flowing through the bank statement.

An effective control to ensure segregation of duties is the use of permissions in the accounting software package. Permissions can be established to record categories of transactions, or even modules of the software package. The level of permissions is only limited by the sophistication of the software package. Limiting access to sensitive areas of the accounting software and limiting the ability to record transactions through the use of permissions are one of the most cost-effective controls for segregation of duties.

Monitoring controls can also be effective deterrents to employee fraud. Remember, the fraudster has the expectation that the scheme will go undetected. So the “perception of detection” will stop most fraud schemes before they start. It is important that employees are made aware of the monitoring controls in place. It is also important that the monitoring controls are implemented as designed. While it is a good control to have a member of management review all adjustments to customer accounts for proper authorization, it is not very effective if implemented only sporadically.

Monitoring controls are also important in evaluating the effectiveness of internal controls. You cannot be sure whether unauthorized transactions are being entered into the accounting system if no one is looking for them. The best designed internal controls are still ineffective if they are not implemented properly.

Conclusion

By gaining a better understanding of how and why employees commit fraud, you should be better equipped to design and implement an effective system of internal controls. Remember to perform your risk assessment across the entire organization, both vertically and horizontally. Frequently, management level positions are omitted from the risk assessment process. However, it is upper management that can expose the organization to the greatest risk through overriding the internal control system.

It is also important to remember that risk assessment is an ongoing process. Rapidly changing technology, changes in the regulatory environment, and staffing changes, such as a decrease in staff size, can expose an organization to new risks. It is vital that management identify and evaluate new risks as soon as possible so that controls can be put into place to continue to minimize the likelihood of fraud.

Tax Increase Prevention and Reconciliation Act

By Mike Belarmino, Associate Legislative Director, NACo

The House overwhelmingly passed [H.R. 674](#) on Oct. 27 to repeal the 3 percent withholding requirement — a provision in Section 511 of the [Tax Increase Prevention and Reconciliation Act](#) (TIPRA). It was a rare moment of bipartisanship in the Republican-controlled chamber. The vote was 405–16.

The 3 percent withholding requirement was enacted when TIPRA was passed in 2005. NACo has strongly opposed the requirement ever since. It mandated many county governments, beginning in 2013, to start withholding 3 percent from payments for goods and services meeting specific criteria and then remit the withholdings to the U.S. Treasury.

For counties, the law applies to jurisdictions that make payments of more than \$100 million annually for property or services. It also provides a minimum threshold of \$10,000 regarding which payments are subject to the 3 percent withholding requirement.

The House merged H.R. 674 into [H.R. 2576](#), also approved that day with bipartisan support by a vote of 262–157.

H.R. 2576 would essentially offset the \$11 billion in revenue that TIPRA was expected to net the federal government in the decade after its implementation by changing certain health care-related laws. For example, it would adjust the income qualifications for purposes of determining eligibility for programs such as Medicaid.

NACo does not have specific policy on H.R. 2576, and it appears unlikely that the adjustment would have an impact on counties. The Obama administration has spoken favorably of H.R. 674 and H.R. 2576.

In a policy statement, the White House said repealing the withholding requirement would benefit government contractors by avoiding a decrease in their cash flow, allowing them to keep those funds to create jobs and pay suppliers.

House Small Business Committee Chairman Rep. Sam Graves (R-Mo.), said, “I consistently hear about burdensome taxes and regulations that stifle small firms. This withholding tax is a perfect example of a burden that will impose significant financial hardships on our job creators.”

Attention now turns to the Senate, where the most recent action was a failed vote to invoke cloture on a bill (S. 1726) introduced by Sen. Mitch McConnell (R-Ky.). The measure is identical to S. 164, introduced by Sen. Scott Brown (R-Mass.), which calls for full repeal of the 3 percent withholding requirement.

While both sides of the aisle are supportive of repeal, the disagreement in the Senate generally focuses on the designated offset, which calls for a rescission of unobligated, discretionary funds. The remaining questions now are how soon the Senate will act to repeal and whether the offset approved by the House will be accepted.

“I encourage the Senate to do the right thing and act quickly to pass this bill that will provide more certainty for the thousands of businesses who contract with federal, state and local governments,” Graves said.

The last significant repeal efforts on the 3 percent withholding law occurred with the passage of the 2009 American Recovery and Reinvestment Act, where NACo was successful in achieving a one-year delay in implementation.

Given the current economy, the requirement poses serious fiscal and administrative implications on county governments because no funding was provided for federal, state or local government entities to assist with implementation.

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As Utility and Communication Costs Increase. . .

Most finance officers within our GGFOA membership are not simply accountants, analysts, auditors, or managers, but a combination of each job...and then some. I like to refer to this position as being a “Renaissance Officer” in that we must be adept in a variety of areas that many larger businesses or governments have specialists for. So, in this instance I will ask you to put on your Facilities Manager hat over your other hats.

Too often we have come to expect higher and higher utility and communications bills. Many of us simply book the entry and pay the bill without much thought as to when the information was last verified as correct. However, by taking some extra time (I’m sure you have some extra time, right?) to perform a full billing audit on your facilities, you may find yourself saving many thousands of dollars per year or even per month.

According to Georgia Watch, a consumer watchdog group, this audit is especially important as electricity rates are expected to increase 2% over the course of the year. This is without any politically-charged additional increases (10-20%) that could make their way back into the Gold Dome in the next session concerning the building/financing of a new power plant. With electricity demand charges ranging from about \$5 -\$20 per kWh and the average office building in the U.S. using 17 kWh per square foot annually, these increases can be an enormous budgetary impact. Other utility increases may follow as electricity costs for their operations increase.

So where to begin? Start with gathering each bill for each electric, water, and natural gas meter you pay and telephone bills for each line. Then...

- Itemize a list of every meter and location and follow up with a site visit to each to ensure that you are being charged for the correct meter and it is actually yours to pay.
 - You may wish to use your GIS department, if available, to create maps of meters with corresponding meter numbers so that records are kept accurately in the future.
 - Disconnect any obsolete meters that you may be receiving a base charge for. This usually occurs in areas where new or expanded facilities are located.
- Renegotiate rates with your water & sewer provider.
 - Often governmental rates are available but are not always applied to each account correctly.

- Ensure that sewer rates are not applied to facilities with irrigation meters. This can increase a water bill up to 50%.
- Determine if the expense of installing an irrigation-only meter will be worth the long-term savings at facilities or grounds that have a standard meter with sewer charges.
- Renegotiate natural gas rates with provider and/or compare with other providers. This is one area where the per-them rates may drop considerably if not renegotiated for several years.
 - With deregulation, governments like other consumers, now have the ability to find better rates amongst the competition with lots of room for negotiation for higher users.
- Audit each phone line by calling each number listed on the bill to determine if all are correctly listed, in use, redundant, or obsolete with the use of other technologies such as VOIP.
- In facilities with major utility expenditures, seek out an energy auditing company to test and recommend solutions for long-term energy efficiency.

Hopefully, with a little effort, savings from your utility audits will allow not only budgetary savings but also allow for new organizational policies to be implemented to ensure that when new utilities are added on, each department or division affected is aware and approves of the changes or that new rate structures are renegotiated every so often.

Best Regards,

Logan Propes, GGFOA Director

BE THE ONE



The future of GGFOA lies within each individual who hears the call to service and acts. *Be The One* is an initiative designed to encourage volunteerism, motivate participation, and stimulate the desire to serve, which will build depth in our organization. Only through involvement of others will GGFOA be a sustainable association. The Board and Committee Chairs are ready to hear from you and get you involved. Your time, talent, and commitment are long overdue. "BE THE ONE" - contact us today.

Melody Marlowe
Past President

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