Government Guide

Summer 2017

Coming soon - GASB's new lease standard
By Jeffery W. Patterson, CPA, MBA

The Governmental Accounting Standards Board (GASB) is set to release a new standard dealing with leasing later this month. The new lease standard is set to be effective for reporting periods beginning after December 15, 2019 and earlier application is encouraged. If you are a state or local government that is involved in leasing, then this standard will have an impact on your financial reporting.

GASB began the process of looking at lease standards in 2011 shortly after the Financial Accounting Standards Board (FASB) issued exposure drafts that proposed changes to guidance in the private sector. GASB felt that because of the proposed changes in the private sector, it would be beneficial to examine current GASB lease standards and work with FASB and the International Accounting Standards Board (IASB) to improve financial reporting. The new GASB standard is designed to align lease accounting and reporting more closely with the economic substance of lease transactions.

Historically, leases have been classified as either operating or capital lease agreements. Leases that have been classified as operating leases were disclosed in the notes to the financial statements, but a long-term liability was not recorded on the face of the financial statements. The new standard will change the definition of a lease and will focus on the fact that a lease is a contract that allows control of the right to use another entity's asset. The lease term will be defined as the period of time in which the lease has a noncancelable right to use an underlying asset and adjusted for certain options to extend or terminate the lease. There will be an exception for short-term leases, which are leases that have a maximum possible term of 12 months or less.

The lessee will record an intangible lease asset for the right to use the underlying asset as well as a corresponding lease liability. The lessee will also amortize expenses for using up the lease asset during the lease and record periodic interest expenses on the lease liability. The lessor would record a receivable for the right to receive the payments and a corresponding deferred inflow of resources. Each period, the lessor will systematically record lease revenue of the lease term and periodic interest revenue.

There will also be changes to financial statement notes as a result of the new lease standard. The notes will need to include a general description of the leasing arrangements, the total amount of lease assets and related accumulated amortization (which is to be disclosed separately from capital assets), the amount of lease assets by class, the amount of outflows recognized in the current period, and principal and interest requirements to maturity.

Although the implementation of this standard is still a couple of years away, (unless you choose to implement early), this will have a significant impact on your financial statements. If you would like to know more about this standard, it is available on the GASB website. We will also be holding a free CPE webinar on July 18th to discuss this standard as well as the new tax abatement disclosures related to GASB Statement 77. You can sign up at www.hhcpa.com/cpeopportunities.

If you have any questions, Jeff can be reached at (480) 839-4900 or JeffP@hhcpa.com.

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The importance of segregation of duties
By Andrew R. Gill, CPA

Perhaps one of the most crucial controls an entity can have is the segregation of duties. Basically, this requires multiple people within a process to complete an objective so that no one is in charge of the process from start to finish. As you begin to think of the different processes within your entity, and where there may be a lack of segregation, remember that no one individual should perform two or more of the following functions:

- Custody
- Authorization or approval
- Recording or reporting

Duties should be segregated so that the work of one person is being reviewed and approved by the work of another person. For example, the person who has access to cash should not be the same person who reconciles cash. This would be a conflict with the functions of custody and recording. A few more common examples where a lack of segregation is found include:

- The person responsible for the receipt of cash/checks should not be the same person who records the cash transactions in the accounting system.
- The person responsible for maintaining the vendor master file should not be the same person who authorizes a change to the vendor master file.
- The person responsible for signing and approving checks should not be the same person who prints checks.

Why is this important? Is it really necessary to spend the time and effort to determine if there should be additional segregation in your organization? Simply put, yes. The fraud triangle consists of three elements:

- Opportunity
- Rationalization
- Pressure

While it is difficult to manage rationalization and pressure as each employee is different, segregation of duties is the single best control to mitigate the opportunity someone could have to commit fraud. There have been numerous cases of fraud across all industries, regardless of size, that were the direct result of not having proper segregation of duties. This lack of segregation gave someone the opportunity to not only perpetrate fraud, but to conceal it. Oftentimes, the reasons for not having proper segregation include access to limited resources or uncertainty in how to implement it within the organization. However, the consequences of giving someone the opportunity to commit fraud can be far worse than the process of figuring out what is necessary. That is why it is vital to be continually aware of the controls within your organization, be on the lookout for areas of improvement and implement better segregation of duties among employees.

If you have any questions, Andrew can be reached at (480) 839-4900 or AndrewG@hhcpa.com.

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Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.