

## Accounting Newsletter for Governmental Entities

### Are You Ready for the Employer Shared Responsibility Provisions of the Affordable Care Plan?

The Affordable Care Plan added specific provisions under Section 4980H, known as Employer Shared Responsibility provisions. Generally speaking, if employers who meet these provisions do not offer affordable health care coverage may be subject to an Employer Shared Responsibility payment. This applies to all employers (who meet certain criteria) including for profit, non-profit and governmental entities. To help understand these new provisions, the IRS issued Q&A on Employer Shared Responsibility Provisions for Healthcare Reform.

On December 28, 2012, the IRS issued a Q&A publication outlining some more details about employer responsibilities. The Q&A included some additional clarification on certain areas of implementation affecting employers. We wanted to provide clients with a summary of the guidance. This guidance goes into effect January 1, 2014 but is based on 2013 employee data.

#### Calculating Employer Qualification based on Full-Time Employees

- Employers with at least 50 full-time employees or a combination of full time and part time employees totaling 50 full time equivalency are subject to the Employer Shared Responsibility (ESR) Provisions. Employees are considered full-time if they work at least 30 hours per week. For employees working less than 30 hours a week on average, employers should calculate the FTE equivalency for those employees based on the 30 hour threshold. (For example, if an employer had 40 full-time employees and 20 employees working 15 hours or more per week, the employer will have 50 total full-time equivalents.)
- Employers with a varying FTE population should calculate the average of employees across the months of a year.
- Employers will determine each year based on their current number of employees.

*(Continued on P.2)*

### Are You Keeping Track of Your Subrecipients?

by Neil S. Galassi, CPA, Audit Manager

If your agency is the recipient of Federal grants that you in turn provide to another government or not-for profit entity, you may have a subrecipient relationship as defined by the Office of Management and Budget (OMB) Circular A-133. Federal guidelines impose various requirements of the entity providing the grant funds, otherwise known as the pass-through entity. These responsibilities for your agency include:

- Determine the subrecipient's eligibility to receive the funds and its ability to comply with Federal laws and regulations.
- Identify and inform the subrecipient of any requirements of the American Recovery and Reinvestment Act (ARRA).
- Conduct monitoring activities during the subrecipient's use of the Federal funds to provide reasonable assurance that the Federal awards are administered in accordance with the established laws, regulations, provisions, and performance goals of the grant agreements or contracts.
- Ensure that subrecipients who expend \$500,000 or more in Federal awards during the fiscal year met the requirements of OMB Circular A-133 and obtained the required audit.

After a grant agreement is executed with a subrecipient, the following should be considered:

*(Continued on P.2)*

#### Also in This Issue

Creative & User-Friendly Financial Statements	P.3
You're Hired!	P.4



## Monitoring Your Subrecipients

(cont'd from P.1)

- The complexity of the Program: The existence of numerous compliance requirements will lead to a higher risk of non-compliance.
- The amount passed through to the subrecipient: The larger the award provided to the sub-recipient, the greater the need for monitoring.
- The entity's ability to administer the award: New subrecipients generally require closer monitoring. Closer monitoring may also be warranted for existing subrecipients who have a history of non-compliance, turnover in key program staff, or a significant change in systems.



Some of the activities that the entity providing the funds may employ to comply with Federal guidelines over subrecipient monitoring involve:

- Execution of agreements that identify the award information (i.e., program title, amount provided, Federal oversight agency, and award number as dictated by the Catalogue of Federal Domestic Assistance, or CFDA).
- Develop clear expectations for the frequency, format, and content for reporting performance and financial information to be submitted by the subrecipient.
- Consider need for site visits to review underlying financial or program records and directly observe operations.
- Keep regular and consistent contact with the subrecipient entity to identify any concerns, inconsistencies, or identify achievement of grant objectives in a timely manner.
- A pass-through entity may arrange for an agreed-upon procedures engagement for certain aspects of the subrecipient's activities.

Best practices for an effective monitoring relationship involve the execution of a clear understanding at the inception of the relationship. In cases when the subrecipient is unable or unwilling to comply with the agreement, appropriate sanctions should be imposed by the entity providing the funds. ■

## Affordable Care Plan Provisions

(cont'd from P.1)

### Liability for the Employer Shared Responsibility Payment

- Employers with 50 or greater employees may be subject to a payment if at least one full time employee receives a premium tax credit for purchasing individual coverage on the Affordable Insurance Exchange.
- For 2014, employers will be subject to this payment if one of the following occurs:
  1. The employer does not offer health care coverage or offers coverage to less than 95% of its FTE population and at least one FTE receives a premium tax credit to help pay for coverage on an Exchange – OR –
  2. Even though the employer offers coverage to 95% or more of its employees, an FTE of the employer receives a premium tax credit for coverage on an Exchange and the employer's coverage is determined to be not affordable or did not provide minimum value (see below both details on these provisions)

NOTE: After 2014, the rules in section (1) above applies.

### Determining Affordability

- Employer-provided coverage that costs more than 9.5% of that employee's annual "household income" is not considered affordable.
- Since employers will often not know their employee's entire household income, employers are allowed to assume that the wages in Box 1 of the employee's Form W-2 are the employee's household income. (So, the employer may utilize the employee's W-2 federal wages to calculate the cost of the employee's share of the premium; if that percentage is greater than 9.5%, the coverage will not be considered affordable.)
- Further clarification for employers' determining "household income" is expected in the future.

### Determining if Your Coverage Provides Minimum Value

- A plan will provide minimum value if it covers at least 60% of the total allowed cost of benefits incurred under the plan.

(Continued on P.3)

## Affordable Care Plan Provisions

*(cont'd from P.2)*

- A minimum value calculator has been developed by the Center for Consumer Information and Insurance Oversight (CCIIO) and information is available at <http://cciio.cms.gov/>.
- Elements such as the cost of deductibles and co-pays will be utilized to estimate the total cost to employees of benefits under the plan.

### Effective Date

- January 1, 2014 (you should use your 2013 employee population to determine if you will be considered a large employer for 2014)
- However, transition relief is provided for employers using a fiscal year plan (see below)

### Transition Relief for Employers Using a Fiscal Year Plan

- Available to employers who already offered health coverage as of December 27, 2012.
- For any employees who were eligible to participate in coverage as of 12/27/12, employer will not be subject to a potential payment until the first day of the fiscal plan year starting in 2014. (So, for example, if your next plan starts on 7/1/13, you will not be subject to ESR payments for any employees who were eligible for your coverage as of 12/27/12 until the start of your next plan date, or 7/1/14.)
- Likewise, any employer who had a plan (meeting the minimum coverage requirement) that was offered to at least 1/3 of all employees (both full-time and part-time) during the last open enrollment, or the fiscal year plan covered at least 1/4 of their employees, then the employer will not be subject to the ERS payments until the first day of the new plan year in 2014.

### Transition Relief for Employers Close to 50 FTE

- Instead of being required to use the full 12 month period to make the determination, employers may measure any consecutive six-month period during 2013 in order to make the determination. So, employers may utilize the period of 1/1/2013 through 6/30/13 in order to make the determination about their requirement for 2014. (The purpose of this relief option is to provide employers with an opportunity to make a

*(Continued on P.4)*

## A Creative and Reader-Friendly Way to Present Your Agency's Financial Statements

by Brian A. Ritschel, CPA, CFE, Consulting Manager

How many of you, when you were a kid, avoided books that lacked pictures and preferred ones with pictures because they were more fun and easier to read? How many of you still do that by choosing magazines over books?

The Popular Annual Financial Report (PAFR) fills that demand for financial reporting. Created by the Government Finance Officers Association in 1991, the PAFR is a small report that is quickly gaining popularity within the governmental community. Using a PAFR, agencies are now able to add pictures and graphics to help present their financial data (i.e., financial position, revenues, and expenditures), showcase major accomplishments, present future voter initiatives, and highlight major revenue and expenditure sources.

The PAFR was specifically designed to be easily understood by the general public and other interested parties who may not have a public finance background. In addition, your PAFR can highlight a particular area for your audience by including illustrations based on a particular theme for that year. Some agencies already incorporate a theme into their annual budget which could be expanded upon in the PAFR. For instance, if your community's theme is based on a big solar project, you could use incorporate it into your presentation of total assets for past fiscal years by utilizing solar panels in a graph format, with different sizes of solar panels indicating the changing asset amounts.



The length of your PAFR can vary depending on the size of your community and the amount of information presented, but most PAFRs are around 12 pages. Because a PAFR is significantly smaller than a Comprehensive Annual Financial Report (CAFR), your agency can use it in a variety of ways, including:

- Distributing copies to prospective businesses that you are trying to attract to the area
- Providing electronic version of the report via your website or e-mail

*(Continued on P.5)*

## HMU Workshops

Details and links to online registration can be found at [www.heinfeldmeech.com/hmu](http://www.heinfeldmeech.com/hmu). For more help, contact Susan at 520-742-2611, x107 or [hmu@heinfeldmeech.com](mailto:hmu@heinfeldmeech.com).



### Ins and Outs of the FLSA - How to Keep Your Organization out of Trouble

**Location:** Albuquerque, NM (Crowne Plaza)

**Date:** Tues., May 21st

**Early Bird Discount:** Register by 5/6 and save \$10!

**Registration Ends:** Monday, May 13th

## Affordable Care Plan Provisions

*(cont'd from P.3)*

determination earlier in the year and then research and implement a plan if needed by the end of 2013.)

For the full Q&A, which includes details about the amounts and process for the ESR payments, visit: <http://www.irs.gov/uac/Newsroom/Questions-and-Answers-on-Employer-Shared-Responsibility-Provisions-Under-the-Affordable-Care-Act>

The U.S. Treasury and the IRS are currently accepting comments on proposed regulations on the new Employer Shared Responsibility provisions. Visit <http://www.irs.gov/pub/newsroom/reg-138006-12.pdf> for the proposed regulations and information about submitting comments. ■

**Legal and Tax Advice Disclaimer:** The information presented in this newsletter does not constitute legal advice or tax advice. Heinfeld, Meech & Co., P.C. makes no claims about its accuracy, completeness, or currency of information presented, including any external references provided. We are not acting as your tax consultant or attorney. Legal advice, including tax advice, must always be tailored to your circumstances, and no content of this newsletter should be viewed as a substitute for the advice of a competent attorney. Please consult your legal counsel for advice pertaining to your specific organization.

## You're Hired! (Now Protect Your Organization from IRS Issues and Fines)

by Karin M. Smith, MBA, SFO, Consulting Manager

Every year, your organization probably hires many individuals as both employees and contractors to fulfill any number of responsibilities. Your administration is charged with ensuring the contractual agreement is appropriate based on the individual's key responsibilities and relationship with your agency. Most specifically, governmental entities are under tight scrutiny to determine if the individual is an employee or independent contractor.

The IRS provides guidance on how to evaluate this decision. The employer can be held liable for employment taxes, plus interest and penalties, if a worker is incorrectly classified as an independent contractor. The decision to classify someone as an employee versus an independent contractor hinges on the amount of control and independence the person has.

The IRS has identified three categories to be used in the evaluation:

- *Behavior Control* - Does the organization control or have the right to control what the worker does and how the worker does his or her job?
- *Financial Control* - Are the business aspects of the worker's job controlled by the payer? How the worker is paid, reimbursements, etc.
- *Type of Relationship* - Are there written contracts or employee type benefits provided? (i.e., pension plan, insurance, vacation pay)

Organizations must weigh all these factors when determining whether a worker is an employee or independent contractor. Some factors may indicate that the worker is an employee, while other factors indicate that the worker is an independent contractor.



When the IRS decides to look more closely at your records, and yes, they will want to look at your records, they will start by reviewing your 1099 submission.

*(Continued on P.5)*

**Creative & Reader-Friendly Financials**

*(cont'd from P.3)*

- Communicating your key initiatives to bonding agencies and investors
- Providing a reader-friendly format of financial data to your elected officials; and
- Raising your agency's image in the eyes of the public.

Similar to the CAFR award program, GFOA also has an award program for the PAFR. In order to qualify, the following requirements must be met:

- Your agency must either have received the GFOA's Certificate of Achievement for Excellence in Financial Reporting for the CAFR of the previous year or receive the award for the current year.
- The PAFR must clearly advise readers of the availability of the CAFR.
- Financial information presented in the PAFR must be derived from the actual GAAP data in the CAFR.
- Narrative or graphic analysis must be presented to explain areas of potentially significant interest or concern.

H&M can assist your agency with any level of support needed to complete your PAFR. We can coordinate the design efforts of your agency's PAFR while in-house staff drafts the content. Or, if your agency has minimal resources, we can draft the content in addition to creating and designing the PAFR's layout. We can also assist in presenting it to your agency's management and elected officials, and submit the report to the GFOA award program.

Some sample pages of a PAFR are available at our website here: <http://bit.ly/VrHFKc> For more about the GFOA's award program, visit <http://bit.ly/W9dR2o>

Please feel free to contact a member of our consulting team for more information about this exciting program.

Cherie R. Wright, CPA, CGFM, Partner  
602-277-9449 ext. 376  
[cheriew@heinfeldmeech.com](mailto:cheriew@heinfeldmeech.com)

Karin M. Smith, MBA, SFO, Consulting Manager  
602-277-9449 ext. 327  
[karins@heinfeldmeech.com](mailto:karins@heinfeldmeech.com)

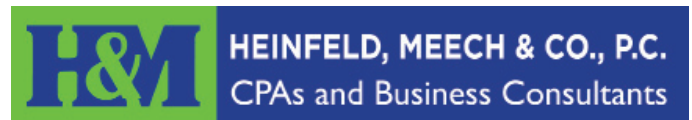
**You're Hired!**

*(cont'd from P.4)*

These are questions you should ask yourself prior to the IRS asking you:

- Does your organization have someone being paid through accounts payable versus payroll?
- Were you required to issue a 1099 to an independent contractor and failed to do so? Consider the Artist in Residency Program, Tutors, etc.
- Do you have the same social security number on a 1099 vendor as an employee?

Many resources are available from the IRS to assist employers with the determination, including training materials and publications for specific industries. (Available at <http://1.usa.gov/XRCSmM>) Employers can also request the IRS determination by filing Form SS-8 (<http://www.irs.gov/pub/irs-pdf/fss8.pdf>). ■



Heinfeld, Meech & Co., P.C. has been serving New Mexico governmental entities since 2003. Our active involvement with national and state associations keep us up-to-date about emerging issues affecting the governmental industry. We offer this free newsletter as part of our commitment to providing resources and training to governmental business personnel.

For more about our firm, please visit our website at [www.heinfeldmeech.com](http://www.heinfeldmeech.com).

