

# governmental viewpoint

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Certified Public Accountants & Consultants

Every day more and more governmental agencies are developing websites. A website can be used to provide convenient, accurate and accessible information to your constituents, but with it comes a new series of concerns. Your web site is a projection of how you want to be viewed by the outside world. The information you gather and the image you put forth need to be protected. How can you protect information from being stolen from your websites, and keep your home pages from being defaced by hackers? Intrusion testing may provide the answer.

A computer "hacker" can be anyone who breaks into other people's computers, whether it is just for fun, or for profit. From the early days of computer networking to the present, the sophistication of hacker attacks has increased, while the knowledge needed to implement the attacks has decreased. Hacking tools are readily available on the Internet, often with easy to use interfaces, requiring little or no prior hacking knowledge.

Today's systems are engineered

primarily for ease-of-use, with security often a distant second. This allows the unskilled user to utilize the software more easily, but the trade-off is, it is more difficult to

external, are scanned for known vulnerabilities. Internal systems could be application servers, file servers, or any critical network device. External systems may include web servers, email servers, E-commerce servers, routers, and firewalls.

Intrusion testing comes in the form of programs that probe your systems in the same manner a hacker would, looking for holes and weaknesses. The tools fall into two general categories, public domain programs, freely available on the Internet, and commercial applications supported by a standard business model.

The public domain tools have the advantage of being free, but you need several programs to scan for the most common vulnerabilities, and updates for new weaknesses are not always timely. These tools usually require some technical knowledge, and are loosely supported by diverse organizations. If you have the time and the know-how, the public domain software provides a cheap alternative, but be prepared to invest the time necessary to do a credible job.

Commercial applications come with a cost, but they are backed by a full time staff dedicated to keeping the programs up to date. They are usually single integrated packages which automatically update



configure for safe operation. This leads to systems that are left wide open to abuse. Until systems are designed with security first, this will continue to be a problem. Security upkeep needs to be an integral part of any information system.

There are a number of tools available today that can enhance your system's security. One of these tools is Intrusion Testing, sometimes called Vulnerability Assessment. Intrusion testing is the process whereby your systems, either internal or

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# Give Yourself a Pay Raise with...

Many governmental entities are like numerous businesses today and face the rising costs of health insurance. One way to provide your employees a little relief from rising premiums is to offer a FlexFund plan. Using a FlexFund plan, they are able to actually increase their yearly spendable income.

FlexFund is a flexible compensation benefit plan that follows the Internal Revenue Code Section 125. FlexFund allows employees to pay certain qualified expenses (such as medical insurance premiums, unreimbursed medical expenses and dependent care expenses) via salary reduction with pre-tax dollars. Each employer can establish the guidelines for eligibility to suit its particular circumstances based upon the following criteria: seasonal help, part-time help, age, tenure, citizenship and bargaining units. Although many plans run according to a calendar year, they can be initiated at any time.

Section 125 was added to the Revenue Code in 1978 but has recently gained popularity. There are still numerous governmental units that are not taking advantage of such cafeteria plans. In addition to a full array of accounting, auditing, tax and consulting services, Lindgren Callihan is also a third party administrator for FlexFund plans. We would be happy to explain cafeteria plans to you, including salary reduction options, and to survey your employees to determine their potential benefit.

## ILLUSTRATIVE EXAMPLE

### **Employee Savings:**

(Assuming a monthly salary of \$2,000)

	<u>Without FlexFund</u>	<u>With FlexFund</u>
Gross Salary	\$ 2,000	\$ 2,000
Less insurance premiums	-	100
Less medical expenses	-	80
Less dependent care	-	200
Subtotal	2,000	1,620
Federal taxes	300	243
State of Illinois taxes	60	49
FICA	153	124
After tax income	1,487	1,204
Less insurance premiums	100	-
Less medical expenses	80	-
Less dependent care	200	-
Net spendable income	<u>\$ 1,107</u>	<u>\$ 1,204</u>

**Based upon the above example, the increase in yearly spendable income is \$1,164.**

### **Employer savings:**

(Assuming the same facts as above for 10 employees)

For each employee in the plan, the savings for the governmental unit would be approximately  $((\$380 \times 8\%) \times 12)$  or \$365. Thus, if a governmental unit had 10 employees, it would save approximately \$3,650 annually in payroll taxes. In addition to reducing payroll taxes, it also reduces any premiums such as Workman's Compensation Insurance which are based upon wages.

# FlexFund

## (Section 125 Cafeteria Plans)

## Property Tax Extension Limitation Law

### “Tax Caps”

by Dan Ribordy, CPA

Several years ago the State of Illinois passed the Property tax extension limitation law (PTELL). The purpose of the law was to limit the increases in property tax extensions. The down state taxing districts would only be subject to this law if their local county approved a resolution to submit to the voters the question of whether this law should apply to the local taxing districts. If approved by the voters, the property tax extension

limitation law would apply to all the taxing districts within that county. Several counties within the State have approved this law. Currently, several counties are trying to get the question on the ballot. This law does not change the truth-in-taxation publication and hearing requirements or the tax rate limits per \$100 of assessed valuation.

PTELL limits the increase in property tax extensions to the lesser of 5 percent or the increase in the Consumer Price Index for the year preceding the levy year. The CPI for the 2001 extensions is 3.4%. The limitation for a taxing district can be increased with voter approval. The limitation applies to the aggregate extension of the taxing district and not to the individual fund. Taxing districts also receive an increase for new property. An easy method for a taxing district to estimate their maximum extension is to take the prior year extension times the limitation (5% or CPI) times the percent increase in new property. Assuming 6% new property, CPI of 3.4% and prior year extension of \$100,000, the calculation would be as follows:  $\$100,000 \times 3.4 \times 6.0 = \$109,600$ . Each taxing district subject to PTELL must understand the limitations so they can maximize their annual tax revenues.

## The "Additional" Single Audit

by Dan Rowe, CPA

The Single Audit is kind of a misnomer. A better term for this audit of federal funds could have been more appropriately termed “Additional Audit”; meaning that the governmental or non-profit entity will have to have a separate audit of its federal funds in addition to their regular audit. The term “Single Audit” actually came from the 1984 Act, which replaced individual grant-by-grant audits of federal financial assistance with an organization-wide approach to the audit (hence the term Single Audit).

A Single Audit is not required unless the governmental or non-profit entity expends \$300,000 or more in federal funds. This is a requirement of Circular A-133, Audits of State, Local Governments, and Nonprofit Organizations which changed the threshold for requiring a Single Audit from \$100,000 of federal funds received to \$300,000 in federal funds expended. This was done to eliminate the timing

differences that can occur when auditees receive federal funds in a different year than that in which they spend them.

The governmental or non-profit entity needs to keep track of federal funds received and expended during the year to determine if a Single Audit is required. If one is required, the auditor will need this information to determine which federal funds will be audited. When the auditor determines which federal grants will be audited, the following items are needed for each grant selected:

- ◆ Grant Contract (Agreement)
- ◆ Certain Federal Reports
- ◆ Correspondence Letters Relating to Grants
- ◆ List of Expenditures Charged to Grants

Single Audit reports are due the earlier of 30 days after receipt of the reports from the auditor or nine months after the end of the fiscal year. The Single Audit reporting package is sent to the Federal

Clearinghouse in Jeffersonville, Indiana and usually includes the following:

- ◆ Data Collection Form
- ◆ Financial Statements
- ◆ Schedule of Expenditures and Federal Awards
- ◆ Summary Schedule of Prior Audit Findings
- ◆ Corrective Action Plan

There are many requirements that a government or non-profit entity has to follow when they receive federal funds. Many of these requirements are found in the grant agreement itself, but others are of a more general nature. If your government needs help in determining if a Single Audit is required or the requirements that need to be adhered to, please give us a call.



**Lindgren, Callihan, Van Osdol & Co., Ltd.** is one of the leading regional accounting firms in northern Illinois, providing services to over 6,000 governmental, financial, industrial, commercial, and individual clients. The firm employs more than 100 professionals including twenty officers and over 40 CPAs with offices located in Freeport, Rockford, Sterling and Dixon.

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**INTERNET SITES**

**Government Related....**

[www.americancityandcounty.com](http://www.americancityandcounty.com)- This site serves city and county officials with monthly features about local government issues, trends, products and services.

[www.fedworld.gov](http://www.fedworld.gov)- Go here to find hundreds of U.S. government bulletin boards and databases.

[www.muninetguide.com](http://www.muninetguide.com) This municipal website is a directory and newsletter designed for city, village, county and other civic officials, providing information on web sites in over 40 categories.

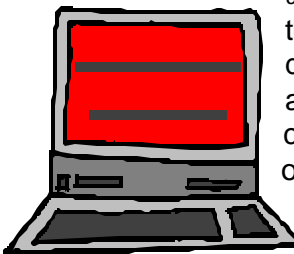
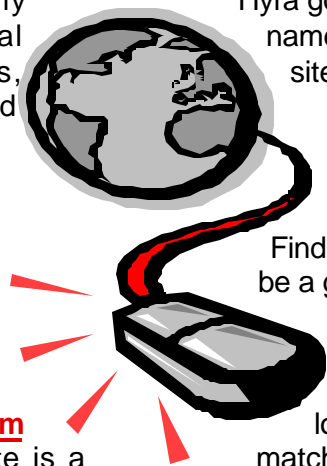
**Just for Fun...**

[www.famousnamechanges.com](http://www.famousnamechanges.com)- Don't know what name Margaret Hyra goes by now? Play the name game at this celebrity site.

[www.earthday.net](http://www.earthday.net)- Who says you can't change the world? Find out what you can do to be a good global citizen.

[www.celebmatch.com](http://www.celebmatch.com)- Wondering who you look like? Find your best match!

[www.ditto.com](http://www.ditto.com)- This is a great search engine to locate pictures instead of text.



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 themselves with the latest information. They provide detailed reports that categorize weaknesses by severity and list recommended solutions. Commercial programs can be installed and administered by an in-house staff, or an external company can be contracted to perform regular scans. Depending on the size of your organization, the cost of the software may be more than a contracted scan. Commercial services have the added benefit of being administered by trained professionals with security experience. For organizations with limited staff, and technical expertise, a commercial service may provide the best solution. If your organization is subject to audits, a commercial package or service may give an auditor more confidence that a thorough evaluation has been done.

Scans should be done on a regular basis to check for new vulnerabilities, and to insure previous repairs remain intact. It is also a good idea to do a scan when there has been a large outbreak of a new virus or worm.

Security should be viewed as an integral part of your organization, with involvement and support from the top to the bottom of the business. Lindgren, Callihan has recognized that you may need assistance in determining your Internet security needs and now provides this vital service. Please give us a call if we can help, because the reputation and image of your organization is at stake. Security is not a luxury, it is a necessity.