

# CLIENT CONNECTION



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## Identity Theft

The theft of personal data from businesses and consumers is a costly and serious problem. In the United States, the Federal Trade Commission (FTC) estimates that “identity theft strikes nearly 10 million U.S. consumers annually.” This crime results in \$50 billion in unnecessary costs for businesses.

In the course of normal business operations, denominational entities may collect or hold personal identity information. This may consist of names and addresses, Social Security numbers, credit or debit card information, checking accounting information, birthdates, etc. This information may come from your donors, customers, vendors, employees, students, other denominational entities, patients, etc. Without the proper safeguards in place over this data, any loss could place those individuals and/or entities at risk for identity theft.

Identity theft typically starts with the misuse of personally identifying information. For identity thieves, this information is as good as gold. Skilled identity thieves may use a variety of methods to get hold of your information, including:

1. **Dumpster Diving.** They rummage through trash looking for bills or other paper with personal information on it.
2. **Skimming.** They steal credit/debit card numbers by using a special storage device when processing a card.
3. **Phishing.** They pretend to be financial institutions or companies and send spam or pop-up messages to get unsuspecting recipients to reveal personal information.
4. **Changing Address.** They divert billing statements to another location by completing a change of address form.



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5. **Old-Fashioned Stealing.** They steal wallets and purses; mail, including bank and credit card statements; pre-approved credit offers; and new checks or tax information. They steal personnel records, or bribe employees who have access.
6. **Pretexting.** They use false pretenses to obtain personal information from financial institutions, telephone companies, and other sources.

It is important to note that electronic data and paper data are both vulnerable to theft if the organization has not established proper safeguards and procedures. Recent news articles have reported on businesses and government agencies that have laptops and hard drives containing personal information that have been lost or stolen.

In 2006, an employee of the American Institute of Certified Public Accountants failed to comply with company policy and sent a hard drive containing unencrypted personal member information to a data recovery service. Upon realizing the error in shipping the hard drive, the AICPA requested that the data recovery service ship it back. A spokesman for FedEx said it is unclear what happened to the drive.

In response to its loss, the AICPA notified its members of the loss and offered them a year’s worth of free credit-monitoring services. It also prompted the AICPA to

develop a different means to identify their members other than using their Social Security numbers.

All denominational organizations that maintain personal information (in electronic or paper format) need to ensure that the proper safeguards are in place to minimize the potential for loss. A loss of personal information by any method can subject the entity to public embarrassment and potential liability. The loss can also erode donor confidence which is very important for the financial success of most denominational entities.

Your entity can deter identity thieves by safeguarding its information as follows:

- Shred financial documents and paperwork with personal information before you discard them.
- Limit access to personal information files (such as payroll and human resource). Store those files in a locked cabinet or vault.
- Provide safeguards over customer or donor credit and debit card information.
- Maintain proper computer controls. Use login and password access for authorized employees. Data back-ups should be kept at a secure location. Don't keep personal information on laptop computers which are easy targets for thieves.
- Don't give out personal information on the phone, through the mail, or over the Internet unless you know who you are dealing with and you have authorization to disclose the information.

If your entity incurs a loss of personal information which could result in harm to a person or business, you need to contact your local police department immediately. Depending on the type of loss, other law enforcement agencies may need to be contacted. You should then notify the individuals whose personal information has been compromised. Individuals who receive early notification of the loss can take steps to prevent or limit any harm.

For additional information, please refer to this website: Federal Trade Commission: [www.ftc.gov/idtheft](http://www.ftc.gov/idtheft)

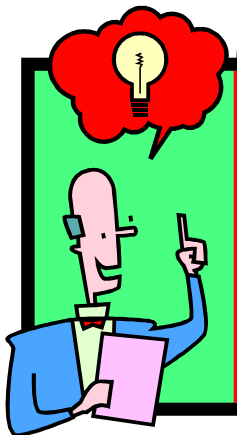
## Top 10 Ways to Cut Your Audit Bill

*Written by Alix Stuart, CFO.com and reproduced with his permission.*

Think there's no way around sky-high audit costs? Think again. A recent study of 1000 companies by The Hackett

Group found that the average company spends \$584,000 per \$1 billion of revenue on audit fees. The companies that earned the "world-class" designation, based on a variety of factors, however, paid only \$307,500 per billion— nearly 50 percent less.

What sets the best apart from the rest? Below, we offer tips and advice from Hackett and a number of finance executives on how to winnow down audit costs.



### 1. Beef up internal audit staff.

Jeffrey Jones, CFO of \$828 million Vail Resorts, added staff to his internal audit group last year and dedicated some to helping the auditors through the company's Sarbanes-Oxley compliance efforts. He found that the salaries paid for themselves within a year thanks to a reduction in audit fees. "Plus, you get to utilize the incremental staff all year round," Jones notes.

Indeed, Bryan Hall, Hackett finance-practice practice leader and co-author of the study, says the key differentiator at companies with lower audit costs is that external auditors feel they can rely on the work of the internal auditors.

- 2. Set expectations with auditors.** Hold at least two planning sessions with your internal team and the audit firm before the audit starts and agree to a schedule, says Steffan Tomlinson, CFO of Aruba Networks. Don't skimp on the details, either—he recommends that you "probe and agree on the number of transactions the auditing firm will do in each category."
- 3. Kill (or save) some trees ahead of time.** Nothing the auditors ask for should be a surprise, so all the necessary analyses and paperwork should be done by the time they walk in the door. At Vail Resorts, Jones has some of his newly-hired staff prepare "very detailed support binders which contain support for every single number which is included in any public filing." Appoint one person to handle auditor information requests, and make copies of the documentation so that you don't have to pass it back and forth. Better yet, set up the documentations electronically, and save some trees. Just do it before the auditors arrive.
- 4. Keep your auditor on speed-dial.** Art Technology Group CFO Julie Bradley says she

keeps her auditors in the loop on all major developments throughout the year, from acquisitions to how the company plans to comply with new accounting pronouncements. To jog the auditors' memories at year-end, she summarizes those decisions in memos.

During the audit itself, Tomlinson advises his peers to hold daily 15-minute status checks with the senior auditor or managing partner on the account, as well as weekly or bi-weekly meetings with the broader team to make sure the schedule is going according to plan.

**5. Consider creative ways to split up the work.**

Although IPG Photonics CFO Tim Mammen uses Deloitte to audit his company's consolidated financial statements, he calls on smaller overseas accounting firms to handle foreign tax work for IPG's operations in Russia and Germany. He says the overseas firms are experts in their local tax laws, and that they cost about 60 percent of what Deloitte would charge.

**6. Avoid change.** To the extent possible, negotiate for the same audit team year to year, and aim for auditors with more experience. "This avoids needless time bringing new auditors up to speed," says Tomlinson.

**7. Baseline your controls.** Chris Spivey, vice president of business process services at MIS Group and a consultant to companies that are putting in enterprise-resource-planning systems and new controls, says that doing a full audit of controls in the first year but then not re-auditing them in later years unless a major change is made represents a "huge cost-saving opportunity."

Spivey notes that although baselining was allowable before AS5, the Public Company Accounting Standards Board's guideline for auditors attesting to their clients' internal controls. But it's still not commonly used. CFOs and controllers will likely have to show their auditors documentation that nothing has changed and remind them that "you don't have to put hours against it again this year," he says.

Be aware, though, that some experts consider baselining controversial. "I'm not sure that testing less frequently is within the spirit of SOX," says Hall.

**8. Take a hard look at how many legal entities your company maintains.** "Legal structure does add audit complexity," says Hall. While it's hard to pinpoint the average marginal cost of each entity, since some may create cost-savings through tax benefits, Hall notes that world-class companies in his study had 9.6 legal entities per billion of revenue, while average companies had 18.9.

**9. Do a hard monthly close.** In that way, the work of ending the quarter could merely amount to that of adding a month.

**10. Bring in lunch.** That should help control the costs of those working sessions with auditors—assuming you skip the steak.

This article can be viewed at:

<http://www.cfo.com/article.cfm/10590321?f=search>

## New Changes to IRS Form 990



Charities and other tax-exempt organizations are required to file an annual return by using Internal Revenue Service Form 990. Before you read further into this article, please understand that most denominational entities are exempt from filing Form

990 because they are a religious organization (such as a church, an auxiliary of a church such as a school, an association of churches such as a conference, etc.). A 990 is generally filed for denominational organizations such as colleges and universities, publishing houses, and similarly separately incorporated entities.

On June 14, 2007, the IRS issued a revised version of Form 990 that will begin to be used for tax year 2008. This new form was developed by using input from the public with the focus towards modifying the form to reflect current practices and developments pertaining to the non-profit sector. It now contains questions regarding the governance of the organization, whistle blower policies, and document retention. Those issues are similar to provisions in the Sarbanes-Oxley Act which was described in the *1st Quarter 2008 Client Connection*.

For more information on the new IRS Form 990, please refer to the IRS website at:

<http://www.irs.gov/newsroom/article/0..id=176722.00.html>

## Summary of Employer Federal Tax and Withholding Requirements

	<u>Subject to Worker Comp</u> <sup>1</sup>	<u>Federal Reporting Requirements</u>				<u>Withholding Requirements Non-Ministers Only</u>	
		<u>Form</u>	<u>Ministers Box</u> <sup>2</sup>	<u>Non-Ministers Box</u> <sup>2</sup>		<u>Income Tax</u>	<u>FICA</u>
				<u>Form</u>	<u>Box</u>		
<b>I. Remuneration</b>							
A Salary Package/Hourly Wages	X	W-2 <sup>3</sup>	1 <sup>3</sup>	W-2	1,3	Yes	Yes
B Value of Required Housing <sup>4</sup>	-	-	-	-	-	No	No
C Retirement Allowance <sup>5</sup> (Z 40)	-	-	-	-	-	No	No
D Retirement Allowance (X 45 12)	-	W-2	1	W-2	1,3	Yes	Yes
E Continuance of Remuneration	X	W-2	1	W-2	1,3	Yes	Yes
F Post-Retirement for Services	X	W-2	1	W-2	1,3	Yes	Yes
<b>II. Remuneration Related</b>							
A Christmas Bonus	X	W-2	1	W-2	1,3,12	Yes	Yes
B Honorarium/Gratuity	X	W-2	1	W-2	1,3,12	Yes	Yes
C Departure (Farewell) Gifts							
a. Cash-Any Amount	-	W-2	1	W-2	1,3,12	Yes	Yes
b. Non-cash Over \$25	-	W-2	1	W-2	1,3,12	Yes	Yes
D Auto Insurance Assistance <sup>6</sup>	X	W-2	1	W-2	1,3,12	Yes	Yes
E Trailer Allowance	X	W-2	1	W-2	1,3,12	Yes	Yes
F Any Housing Allowances	X	W-2	1	W-2	1,3,12	Yes	Yes
G Excess Employee Education <sup>7</sup>	-	W-2	1	W-2	1,3,12	Yes	Yes
H Life Insurance Coverage	X	W-2	1	W-2	1,3,12	Yes	Yes
I Employee Survivor Benefit <sup>8</sup>	-	1099-R	-	1099-R	-	No	No
J Insurance-Personal Effects <sup>9</sup>	-	-	-	-	-	No	No
K Insurance-Unemployment <sup>10</sup>	-	-	-	-	-	No	No
<b>III. Moving Allowances<sup>11</sup></b>							
A Reimbursed Expense-Actual Reported (Qualified) <sup>12</sup>	-	W-2	13 (Code P)	W-2	13 (Code P)	No	No
B Reimbursed Expense-Actual Reported (Not Qualified) <sup>12</sup>	X	W-2	1	W-2	1,3,12	Yes	Yes
C Flat Allowance	X	W-2	1	W-2	1,3,12	Yes	Yes
D Employee Final Move	X	W-2	1	W-2	1,3,12	Yes	Yes
E Physician's Moving	-	-	-	1099-M	-	No	No
<b>IV. Travel Reimbursement</b>							
A Reg. or Special-Actual Reported	-	-	-	-	-	No	No
B Per Diem (If Not Overnight)	-	W-2	1	W-2	1,3,12	Yes	Yes
C Area Travel	X	W-2	1	W-2	1,3,12	Yes	Yes

D Flat (Budget) Travel							
a. Actual Expense Reported	-	-	-	-	-	No	No
b. Flat Allowance	X	W-2	1	W-2	1,3,12	Yes	Yes
E Spouse Travel	X	W-2	1	W-2	1,3,12	Yes	Yes
F Campmtg, Ingthrng, Wkrs. Mtg.							
a. Actual Reported	-	-	-	-	-	No	No
b. Flat Allowance	X	W-2	1	W-2	1,3,12	Yes	Yes

**V. Other Allowances, Grants, Etc.**

A Tuition Assistance <sup>13</sup>							
a. Paid to School	X	W-2	1	W-2	1,3,12	Yes	Yes
b. Paid to Employee	X	W-2	1	W-2	1,3,12	Yes	Yes
c. Paid to Camp Worker	X	W-2	1	W-2	1,3,12	Yes	Yes
B Health Care Benefits	-	-	-	-	-	No	No
C Medical Premiums	-	-	-	-	-	No	No
D Adoption Allowances:							
a. Actual Reported <sup>14</sup>	-	W-2	13 (Code T)	W-2	13 (Code T)	No	Yes
b. Flat Allowance	X	W-2	1	W-2	1,3,12	Yes	Yes
E Travel Accident Insurance <sup>9</sup>	-	-	-	-	-	No	No
F Tax Sheltered Annuity <sup>15</sup>	-	W-2	13 (Code E)	W-2	3,13 (E)	No	Yes
G Summer Camp Scholarships				W-2	1,3	Yes	Yes
H Termination Settlement	-	W-2	1	W-2	1,3	Yes	Yes
I Dependent Care Assistance							
a. First \$5,000	-	W-2	10	W-2	10	No	No
b. Excess over \$5,000	-	W-2	1,3,10	W-2	1,3,10	Yes	Yes

- |   |  |
|---|--|
| <p>1. Based on "typical" state laws. May vary from state to state.</p> <p>2. References are to 2007 forms.</p> <p>3. For ministers, exclude parsonage allowance from total salary to compute the amount to be reported on Form W-2 Box 1.</p> <p>4. Must be required by job function. Applies only to limited situations such as dormitory deans.</p> <p>5. To be paid by Retirement Fund and reported by Retirement Fund on Form 1099-R.</p> <p>6. This includes assistance on the insurance premium and assistance with the deductible in case of loss.</p> <p>7. This is "qualified educational assistance" for employees only and does not include education expense for their dependents. (See IRS Code Section 127) The first \$5,250 is excludable from the employee's gross income.</p> | <p>8. For employees who died after August 20, 1996, the first \$5,000 of survivor death benefit is no longer excludable from income. The entire amount is now taxable, but it is not subject to withholding, and is to be reported on Form 1099-R.</p> <p>9. This assumes insurance purchased by employer to benefit employee. If employer provides cash to employee to purchase insurance, then treat as taxable and include on Form W-2 boxes 1 and 3.</p> <p>10. Unemployment benefits are taxable, but the Form W-2 generally is issued by the government agency that pays the benefits.</p> <p>11. Employers must give employees an account of moving expenses paid, using either Form 4782 or an equivalent.</p> <p>12. "Qualified" means that the employee would be allowed to deduct the expenses for which reimbursement is received.</p> |
|---|--|

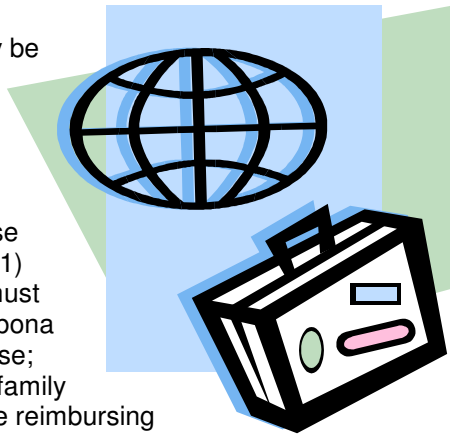
13. For only the employees of educational institutions, dependent tuition assistance is excluded from income that is reported on Form W-2. ("Educational institutions" includes elementary schools, academies, local conference educational departments, and colleges and universities.)
14. Up to \$5,000 of qualified adoption expenses (\$6,000 for special needs child) if pursuant to a qualified adoption assistance program.
15. Employee voluntary deductions for a TSA are excluded from total salary/wages to compute the amount to be reported on Form W-2 box 1. Such deductions are not excluded from total salary/wages to compute the amount subject to FICA to be reported on Form W-2 box 3.

(Revised December 10, 2007)

## Taxation of Spouse Travel Benefit

Some employees receive a spouse or family travel benefit. This benefit provides an opportunity for the employee and spouse/family to travel together to an authorized work location. The reimbursement of spouse/family travel expense is generally treated as taxable income to the employee (reported on the W-2 for the value of the travel paid by the employer).

The spouse/family reimbursement may be non-taxable if it meets certain Internal Revenue Code Section 274(m)(3) requirements. Those requirements are: (1) the spouse/family must have traveled for a bona fide business purpose; and (2) the spouse/family are employed by the reimbursing employer. Simply accompanying the employee on a trip is not a bona fide work expense.



A valid question that an employer should ask of itself is whether or not they would pay to send the spouse/family if any of them were not related to the employee. This essentially boils down to whether or not the family/spouse have a legitimate business reason for accompanying the employee on the work travel. Did the

spouse/family participate in the meetings, exhibits, business activities, etc.? Also, would the employer receive any business value from the spouse/family travel? If the answers to these questions are no, then the provided spouse/family travel benefit should be taxable to the employee.

Tax issues can be complex and confusing. This article serves to point out some practical advice regarding the tax treatment of spouse/family travel. Should your organization have questions regarding your spouse/family travel benefits policy, please consult with your legal counsel.

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If someone in your organization should be receiving it, but is not, please e-mail this information to Linda Fredlund: [clientconnection@gc.adventist.org](mailto:clientconnection@gc.adventist.org)

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This newsletter is intended to provide general information about a variety of topics of interest to Administrators of Seventh-day Adventist organizations. If you read an article of interest to you, we suggest that you study further or seek counsel to clarify your understanding of the subject, before taking action. This is a complicated world - be careful.

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