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NEWSLETTER

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Inside

Does Your Business Have Proper Controls Over Electronic Fund Transfers?

What controls does your business have in place to manage electronic fund transfers? How easy would it be for your accounting department to unknowingly participate in a fraudulent request to complete a wire transfer? Without adequate controls, your company could become the next victim of a common email phishing scheme. You may believe that your employees wouldn't fall for something like this, but it happens more often than you think.

A local company recently lost over $85,000 because an employee in the accounting department received an email that appeared to come from one of the company's executives. Proper controls were not in place and funds were transferred. By the time anyone realized what had happened and the FBI could be contacted, the funds were gone and could not be recovered.

These scams, which are increasing in frequency, have been around for a long time. Unfortunately, thieves are getting more sophisticated.

Some attacks use a method called *spoofing*. This occurs when a sender disguises their email address to make it appear as though it came from someone else. With proper email security and SPAM filtering in place, most of these attempts do not make it through the filters. Properly managed email systems can recognize the *spoof* and block the message. More recent attempts involve a thief actually registering a new domain name that is very similar to yours and setting up an email address that comes very close to that of your CEO or other management personnel, so close that it is very easy for your employees to not recognize the difference. Generally, the email address is only one character off (e.g., jmiller@deanndorton.com instead of jmiller@deandorton.com).

The best defense against these theft attempts is to ensure that you have strong controls surrounding your electronic fund transfer processes, including requiring more than an email request to initiate the transaction. For example, it is a good idea to require written sign-offs. If situations arise in which you need to use email, the recipient should always start a new email message to the requester (not just reply to the request email). A text message to the requester would add an additional layer of confirmation. Completing a company request form may be best. A strong control would require dual sign-offs for transfers, especially those over a certain dollar amount, and for new vendors (or new transfers). The key point is having a multi-step process to minimize fraud opportunities.

For help in evaluating and improving your information security and internal controls, please contact your Dean Dorton advisor or Jason Miller, Director of Business Consulting Services, at 859-425-7626 or jmiller@deandorton.com.

Be Aware of Changes in Lease Accounting

After about 10 years of study, it appears that changes in how leases will be accounted for under Generally Accepted Accounting Principles (GAAP) are moving toward becoming effective. In fact, the new rules have been issued, but with deferred effective dates. This article provides an overview of the framework of the new rules from the lessee's perspective.

The currently effective lease accounting rules classify leases as either *capital* or *operating*.

- Capital leases: Lease payment obligations are recorded as liabilities on the lessee's balance sheet along with an offsetting asset for the property being leased.
- Operating leases: No assets or liabilities are recorded, and lease payments are recorded as rent expense.

In response to concerns about whether operating lease obligations are being disclosed in a manner sufficient for financial statement users to adequately assess lessees' financial obligations, accounting rule-makers believe that changes are warranted.

The new rules will have the effect of reducing the number of leases that lessees will be able to keep off the balance sheet. Under the new rules, lessees will be required to record assets and liabilities for the rights and obligations, respectively, created by leases, unless the lease is short-term.

A **short-term** lease is a lease that, at the commencement date, has a lease term of 12 months or less and does not include an option to purchase the underlying asset that the lessee is *reasonably certain* to exercise. A lease renewal option that the lessee is *reasonably certain* to exercise is treated as part of the lease term. For short-term leases, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. If a lessee makes this election, it generally would recognize rent expense for such leases on a straight-line basis over the lease term.

For **all leases not considered short-term**, the lessee will be required to recognize the following at lease commencement dates:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- An offsetting "right-of-use" asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

When measuring lease assets and liabilities, a lessee should include payments to be made in optional periods only if the lessee is *reasonably certain* to exercise an option to extend the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is *reasonably certain* to exercise that purchase option.

Effective date
The new rules for non-public business entities will first be effective for 2020 calendar years.

Why the new rules are significant
By requiring lease assets and liabilities to go on the balance sheet for all but short-term leases, businesses which have been able to treat significant lease obligations as operating leases should consider the following:

- Their financial ratios will tend to change, in some cases materially. In particular, working capital, debt-to-equity, and interest coverage ratios will be impacted, and return on assets (ROA) will tend to decline.
- Financial trends over time may be harder to discern for some period after the new rules become effective.
- Lessees will need to work with their lenders to adjust loan covenants appropriately to take into account the changes.

Planning for these impacts should not wait until the new rules become effective.

Simon Keemer, skeemer@deandorton.com

Former U.S. Tax Court Judge Indicted for Tax Evasion

Former Tax Court Judge Diane L. Kroupa and her husband Robert Fackler, a lobbyist, were indicted recently. The charges include tax-related conspiracy, tax evasion, filing false income tax returns for 2009 and 2010, and obstruction of an IRS audit. Kroupa resigned (apparently abruptly) from her position on the Tax Court in 2014; her 15-year term would have ended in 2018. The indictment alleges that proceeds from a land sale (claimed instead to have been an inheritance) were not reported, various personal expenses (including pilates classes, Chinese tutoring, wine club fees, and personal grooming services) were deducted, as were expenses that had been reimbursed, and false statements were made during tax audits.

A Bad Idea: Paying for Dependents

A Missouri man has been indicted because, using Craigslist, he advertised his interest in purchasing, for $750 each, names and social security numbers of children he wanted to claim as dependents on his income tax returns. The indictment alleges that he falsely claimed three "purchased dependents" on each of his 2012, 2013, and 2014 returns.

TAX QUOTE

"Serious arguments about taxes are never just about taxes. They are about government's proper size and purposes."

– George F. Will

(from a compilation by Jeffrey L. Yablon, a tax attorney with Pillsbury Winthrop Shaw Pittman LLP in Washington)

People News

We welcome the following new team members:

Tim Condon, a CPA, joined our Assurance Services Group in Louisville. He earned his Bachelor of Business Administration degree from the University of Notre Dame and his Master of Business Administration degree in Finance and Strategic Management from the Wharton School at the University of Pennsylvania.

Jackie Frost joined our office support team as a Front Desk Coordinator in Lexington. Jackie graduated with a Bachelor of Arts degree in History from the University of Kentucky and completed a Master of Arts degree in American History at the University of North Carolina at Greensboro.

Kaitlin Kerr joined our office support team in Lexington. She earned her Bachelor of Arts degree in English Literature from Loyola University New Orleans.

Mark Kersting joined our Accounting & Business Services Group in Louisville. He previously worked for the United States Air Force as a Geospatial Intelligence Analyst. He earned his Bachelor of Science degree in Accounting from the University of Louisville and is in the process of completing his Master of Business Administration degree from Western Kentucky University.

Mickey McCandless, a Certified Professional Coder, joined our Healthcare Consulting team. He has spent much of his career in the U.S. Navy and Veterans Affairs, and he also served in pastor and chaplain roles before pursuing a career in professional coding. Mickey earned his Bachelor of Arts degree in English from Kennesaw State University in Georgia and his Master of Divinity degree from Asbury Theological Seminary.

Interns working with us are University of Kentucky student **Jansen Earle** and Indiana University Southeast student **Julianne Kramer**.

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People News, continued

We recognize the following activities and accomplishments of our team members:

Allison Sharp recently passed all sections of the CPA exam.

Having completed all of the requirements, **Lashanda Stewart** obtained her CPA license.

Jeff Ricketts earned his Society for Human Resource Management – Certified Professional (SHRM-CP) designation.

Paula Hanson was recognized by Insider Louisville as one of Louisville's Top 100 Influential Leaders and was awarded the Martha Layne Collins Leadership Award. The latter recognizes Kentucky women of achievement who inspire and motivate other women through their personal, community, and professional lives.

Simon Keemer was featured as one of Louisville Business First's 20 People to Know in the Construction Industry. In addition, he was a panelist in the Business First Construction Roundtable and moderated a panel discussion on materiality at the KyCPA Government Auditing and Accounting Conference.

Bill Kohm partnered with Dr. Urton Anderson, professor of accounting at University of Kentucky, on a sixth internal audit project which allowed students to perform a process audit on a local business.

Amelia Sebastian joined the Ignite Louisville Class of Fall 2016.

Nick Lynch presented on Fraud Prevention, Detection, and Investigation at the local chapters of Institute of Management Accountants (IMA) and Institute of Internal Auditors (IIA). **Elizabeth Woodward** and **Nick** presented on Managing Fraud Risk for Equine Businesses at the University of Kentucky National Conference on Equine Law.

David Rice, a senior infrastructure engineer in our technology group, was named to Cisco's Small Midmarket Business Partner Advisory Board, giving him the ability to provide direct feedback to Cisco regarding its engagement with small and midmarket businesses.

Jen Shah presented on tax topics for Thoroughbred horse owners at a Thoroughbred Owners and Breeders Association Thoroughbred Ownership Seminar at Churchill Downs.