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American Recovery and Reinvestment Act Update

by Corey Arvizu, CPA, Partner

It has been just over a year since President Obama signed a historic piece of legislation known as the American Recovery and Reinvestment Act of 2009 (Recovery Act). The purpose of the multi-billion legislative act is to jump-start the economy to create and save jobs. Over \$300 billion of the Recovery Act will be passed down to local governments such as school districts and municipalities subjecting most of these governments to both new compliance and audit requirements. Although some questions still exist, grantees and auditors know much more now regarding the impact the Recovery Act will have on the audit than we did just a few months ago.

Although there are numerous Recovery Act programs, there are several general requirements that apply to all of these programs.

- The funds may not be used for gambling establishments, zoos, golf courses or swimming pools.
- “Buy America” requirements apply *only* to raw materials for construction.
- Prevailing wages (Davis-Bacon requirements) do apply to construction projects.
- Separate accounting must be maintained for all Recovery Act programs.
- “Jobs create or retained” reporting applies to all Recovery Act funding received by local governments.

One of the more unique compliance requirements listed above is the “jobs created and retained” reporting, also known as 1512 reporting. If a local government is a direct recipient of Recovery Act funds from a Federal

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H&M Staff Awarded CFE Credential

The Association of Certified Fraud Examiners (ACFE), the world's leading provider of anti-fraud training and education, recently awarded Scott Kies, Tracy McLaughlin and Kyle McQuaid, and Brian Ritschel, the Certified Fraud Examiner (CFE) credential. In order to become a CFE, an anti-fraud professional must meet a stringent set of criteria and pass a rigorous exam administered by the ACFE. In addition, candidates must meet the ACFE's character, experience, and education requirements and demonstrate knowledge in four areas critical to the fight against fraud: Fraudulent Financial Transactions, Criminology & Ethics, Legal Elements of Fraud and Fraud Investigation.

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Prevent and Detect Internal Fraud Four Methods You Can Implement Today

By Kyle B. McQuaid, CFE, Consulting Manager

With the economy as it is today and one out of ten people out of work, it becomes easy for employees under considerable financial pressure to rationalize absconding precious assets from their employer. Most likely the fraud would be in the form of liquid cash: to put food on the table, to pay for the medical expenses of a loved-one, or to make the house payment. We all know people in our personal and professional lives who are out of work and who are struggling to make ends meet. This environment creates the perfect incubator for internal fraud.

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American Recovery and Reinvestment Act Update *(Cont'd from Page 1)*

agency, the government must register and report through the Federalreporting.gov website.

If a local government is a sub-recipient of Recovery Act funds from a pass-through entity such as the State of Arizona, the reporting of jobs created or retained ultimately rests with the State. However, in many cases the State will develop a process to gather this information to the governments it funds with Recovery Act monies. The Arizona Department of Education (ADE) is gathering this information from school districts through *ARRA Recipient Reporting* under the Grants Management page of its website. ADE has also developed and provides a user guide on its website to assist school districts with this reporting process.

The Federal government has recently provided guidance for the calculation of “jobs created or retained” through the issuance of a memorandum last December. The memo effectively provided the following guidance for calculating determining the number of jobs created or retained by Recovery Act funds. (To access the complete memorandum, go to www.whitehouse.gov/omb/assets/memoranda/2010/m10-08.pdf.)

Calculate how many full-time work hours are in a quarter:

40 hours in a full-time schedule
 \times 13 weeks in a quarter
 = 520 total work hours in a quarter

Convert hours worked to FTE for jobs retained:

1,300 Recovery Act funded hours
 \div 520 hours in a full-time schedule
 = 2.5 FTE

It is evident that the “jobs created or retained” reporting has and will continue to receive interest by numerous interested parties. It is also evident that both recipients and auditors will be expected to invest an appropriate amount of time and resources to ensure the numbers reported for “jobs created or retained” are as accurate as possible.

Although the guidance for auditors as to what exactly the expectations are regarding the nature of audit procedures to be performed on this date, there are indications that some basic audit procedures will be performed on the data, regardless if the government is reporting directly to Federalreporting.gov or through a pass-through entity’s data collection process. Some of the audit procedures to be performed may be as follows.


- Trace the reported data to records that accumulate and summarize data;
- Perform tests of the underlying data to verify that the data were accumulated and summarized correctly; and
- Determine how the accuracy of subrecipient reporting was ensured, if applicable.

As indicated, due to the interest in this data, we very much encourage recipients of Recovery Act funds to familiarize themselves with these reporting requirements. Heinfeld, Meech & Co. will continue to monitor the reporting requirements of the Recovery Act and keep our clients informed of any changes or additional guidance that may become available.

Questions? Contact Corey at (520) 742-2611, ext 101 or carvizu@heinfeldmeech.com. 

CFE Credential *(Cont'd from page 1)*

CFEs have the ability to: Examine data and records to detect and trace fraudulent transactions; interview suspects to obtain information and confessions; write investigation reports, advise clients as to their findings and testify at trial; be well-versed in the law as it relates to fraud and fraud investigations; and understand the underlying factors that motivate individuals to commit fraud.

The ACFE, the world's premier provider of training and education for fraud detection and deterrence, has been identified as "the premier financial sleuthing organization" by *The Wall Street Journal*. For more information about the ACFE, visit www.ACFE.com. 

Prevent and Detect Fraud (Cont'd from Page 1)

In 1973, Donald R. Cressey, as part of his doctoral dissertation, researched and interviewed 200 embezzlers for his book: *Other People's Money: A Study in the Social Psychology of Embezzlement*. Cressey, as the end result of this work, devised a pattern to the embezzler's psychology that he named "The Fraud Triangle." The sides of the triangle represent three common elements that the embezzler's psychology demonstrated: Perceived Opportunity, Pressure and Rationalization.

I won't belabor the point that two sides of the triangle – Pressure and Rationalization – partially exist as a result of the American unemployment rate and the economic recession. Instead, I believe it most prudent to examine what we might do to address the third side – Perceived Opportunity.

Joseph T. Wells, a former FBI agent and founder of the Association of Certified Fraud Examiners, advises that four methods can be taken to prevent and detect internal frauds. The methods are:

1. **Education.** Employees are the eyes and ears of an organization; if something is amiss, they likely will know about it before management or the auditors. Their education should concentrate on three main areas: WHY fraud occurs, HOW to recognize it, and WHAT to do if they suspect fraud.
2. **Active oversight.** The organization's management needs to understand fraud schemes and to be involved in fraud prevention. Management should review bank statements, reconciliations and understand the revenue and expenditure streams of their organization so that unusual trends or transactions stand out.
3. **Reasonable personnel policies.** Employees are much more likely to steal from organizations when they perceive they are being treated unfairly or think that management or oversight boards are deceptive. Organizations should compensate their employees fairly and treat


them well. Otherwise, employees might attempt to right their grievances with not only unproductive behavior, but with fraud and theft, too.

4. **Seek professional assistance.** When an organization has serious questions about fraud prevention and detection, they should seek professional assistance. Just as we do when we consult a doctor when we don't feel well, or a lawyer when we have a legal issue, we should seek professional assistance when questions of fraud arise as well.

These methods, along with on-going risk assessments and a constantly evolving system of internal controls, are helpful in fraud prevention and detection. The elimination of fraud is simply not possible, but with some limited measure, it can be mitigated.

Seeking Assistance? Our consulting division can conduct fraud investigations or provide recommendations for your internal controls. Contact Kyle at (602) 277-9449, ext 304 or kylem@heinfeldmeech.com. 

H&M Announcements

Staff Achievements: The following staff recently received their CPA certifications: Diane Robinson, Staff Consultant, Bethany Howell, Staff Auditor, and Juliane Jedick, Staff Consultant. 

Welcome to Our New Clients!

H&M welcomes our new client:

Superior Unified School District

We are excited that you have chosen H&M and look forward to helping you achieve new levels of accounting and managerial success!

Puzzler

Decipher the hidden meaning: (Answer on p. 6)

EVARELTO



Easing the Pain of an Audit

By Eric S. Taylor, CPA, CGFM, Partner

For many, going through an audit feels like the biggest hassle in the world. They would rather go through a root canal procedure at the dentist than deal with the auditors for a solid week. Audits can be time consuming, disrupting the everyday duties of several of the personnel of the organization being audited. Contrary to popular belief, it is not the auditor's sole mission to stay at the client for long periods of time to disrupt the organization. There are ways to help ease the pain of going through the audit and to help ensure there are minimal interruptions. This helps in making sure the audit is completed timely and could help keep future audit costs to a minimum.


An easier audit starts with completing the proposal process early, well in advance of the audit fieldwork season. This enables the District to schedule the audit several months before the fieldwork is to begin. This also provides the District with greater opportunity to schedule an audit at a time that is more convenient for them. The auditors' calendar can fill up quickly and early for the busy audit season. When scheduling the audit it is important to pick a week that has as few scheduling conflicts as possible. If possible, try to schedule payroll audit testwork during a non-payroll processing week. This will make it easier for the payroll department and ease excess tensions.

After the audit fieldwork has been scheduled, it is a good idea to add it to the calendar and to let the staff know the dates of the audit. Once they are aware of the dates, they can schedule their vacations and time off accordingly. This also helps supervisors keep the dates in mind when approving time off for personnel, as well as avoiding scheduling too many meetings during that time. Having a full staff during scheduled fieldwork dates definitely increases audit efficiency.

Approximately a month before the audit, the auditor should send audit questionnaires to the

District, commonly referred to as PBC's (Prepared By Clients). These are sent so that the client can gather the needed information at their convenience before the auditors arrive. That way, the auditors are not disrupting more of the District personnel's everyday duties than necessary. When these questionnaires are received at the District, it is a good idea to distribute them as quickly as possible to the appropriate personnel. There is nothing worse for an employee than the seemingly sudden appearance of an auditor to collect information that the employee was unaware would be collected. Not only does that slow down the audit process, it increases that person's frustration for the day. Audit efficiency will also be helped if the completed audit questionnaires are collected from the various personnel and provided to the auditors as they arrive. This gives the auditors a chance to look over what has been received and what is still needed. It is important to let the auditors know as early as possible if an audit area is not ready to be audited.

Two of the areas that are most commonly left incomplete at the time fieldwork begins (or sometimes ends!) are Capital Assets and Compensated Absences. Not having these areas ready to be audited can obviously slow down the audit process. If audit testwork in these areas, or any other areas, are not able to be completed during fieldwork, it can be very difficult to control the timeliness of the completion of the audit. In most cases, it could result in another trip to the District by the auditors and increased disruptions for staff.


In conclusion, taking simple steps can minimize the headaches and distractions of going through the audit process. A little planning and audit preparation goes a long way in "surviving" an audit. Doing so can also minimize the cost of future audits, by reducing the number of hours auditors spend in the field. With better preparation, you will find that going through an audit is not as painful as you thought. 

New Arizona AGA Chapter Expands Arizona Governments' Resources

By Melissa D. Spangler, CPA, CGFM,
Audit Manager

The Association of Government Accountants (AGA) is a national organization that supports the careers and professional development of government finance professionals working in federal, state and local governments as well as the private sector and academia through continuing education, conferences, research, publications, and certification programs such as the Certified Government Financial Manager (CGFM). More information about the AGA can be obtained on their website at <http://www.agacgfm.org>.

The AGA began a Southern Arizona Chapter in September 2009. Past meeting presentation topics have included ethics, developing an internal audit department, bond issuances and the bond market, and establishing internal controls over specific financial areas. In addition, the meetings provide a great opportunity for meeting your fellow governmental colleagues. Meetings are held on the third Wednesday of each month at Pima Community College at 401 North Bonita Avenue in Tucson. More information regarding how to join the Southern Arizona can be obtained from Kera Badalamenti at kerab@heinfeldmeech.com.

The Phoenix area also has a chapter that meets regularly at the Maricopa County Community College District at 2411 W. 14th Street in Tempe. For information on upcoming meetings, events or member registration, visit the Phoenix chapter website at <http://www.agaphoenix.org>. 

H&M University Workshops

Information on our workshops, including links to online registration, can be found at www.heinfeldmeech.com/hmu. For more help, contact Susan at 520-742-2611, x107 or hmu@heinfeldmeech.com.

Fair Labor Standards Act (FLSA) Compliance

Dates/Locations:

Tues., March 23rd – Vail (Tucson area)

Wed., March 24th – Mesa (EVIT)

Cost: Clients - \$79; Non-clients - \$99

Registration ends – 3/12/2010

9th Annual School District Client Conference

Date: Fri., April 30th

Location: Mesa (EVIT)

Cost: \$69 (registration restricted to H&M clients)

Registration ends – 4/21/10

Preventing Fraud – Best Practices for Internal Controls

Dates/Locations:

Tues., May 4th – Vail (Tucson area)

Wed., May 5th – Mesa (EVIT)

Thurs., May 6th – Flagstaff (La Quinta)

Cost: Clients - \$79; Non-clients - \$99

Registration ends – 4/23/10

Upcoming Deadlines

| <u>Due Date</u> | <u>Item</u> |
|-----------------|---|
| March 18 | End of cash management reporting period for all Federal projects |
| March 31 | Fiscal year 2009 annual audit due for all districts requiring a Single Audit and districts with an adopted M&O expenditure budget of \$700,000 or more |
| April 15 | Absence approvals due to ADE |
| April 18 | End of cash management period for all Federal projects |
| Before May 15 | Final budget revision must be approved by the Board |
| May 18 | Final budget revision must be uploaded to ADE |
| | End of cash management period for all Federal projects |
| June 18 | End of cash management period for all Federal projects |
| By June 30 | Monies in the petty cash account should be returned to the M&O Fund revolving back account |
| | Monies in the Student Activities Fund revolving bank accounts must be returned to the M&O Fund (A.R.S. §15-1124) |
| | Monies in the Auxiliary Operations Fund revolving bank accounts must be returned to the Auxiliary Operations Fund. (A.R.S. §15-1126.E) |
| June 30 | Interest earned during the year on the Federal Savings Bond Withholdings bank account, State Income Tax Withholdings bank account, Federal Payroll Tax Withholdings bank account, and Employee Insurance Programs Withholdings bank account must be remitted to the county treasurer for deposit in the district's M&O Fund. (A.R.S. §§15-1221.A, 15-1222.A, and 15-1223.B) |
| | Districts should prepare a supplies inventory listing |
| | End of State fiscal year |
| | End date for most Federal and State projects |

About Heinfeld, Meech & Co., P.C.

H&M is an Arizona-based CPA firm with offices in Tucson, Phoenix and Flagstaff. We are the recognized leaders in the State of Arizona in the field of school district accounting and auditing.

Our active involvement in national and state associations keep us informed about emerging issues affecting school districts and governments. We offer this free quarterly newsletter to you as part of our commitment to providing resources and training to Arizona's school district business personnel.

For more about Heinfeld, Meech & Co., P.C., please visit our web site at www.heinfeldmeech.com.



Answer to Puzzler (Page 3):
"Elevator out of order"