

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 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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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 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
x 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
÷ 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. 

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. 

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 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.

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

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 online at www.agacgfm.org.

The AGA began a Southern Arizona chapter in September 2009. Meetings are held on the third Wednesday of each month at Pima Community College at 401 North Bonita Avenue in Tucson. 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 to training, the meetings provide a great opportunity for meeting your fellow governmental colleagues. More information regarding how to join the Southern Arizona chapter can be obtained from Kera Badalamenti at kerab@heinfeldmeech.com.

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

GASB 54 Assistance

By Kyle B. McQuaid, CFE, Consulting Manager

The Governmental Accounting Standards Board ("GASB") approved Statement 54 in February 2009 and made it effective for the fiscal year ending June 30, 2011. GASB 54 makes significant changes in how governmental bodies classify fund balances, and redefines Governmental Fund types. As these changes will be applied to your financial statements, budget and audit, it is imperative that you take them into consideration **now** as you build your budgets for next fiscal year (2011).

Our firm can partner with you to ensure your compliance with GASB Statement 54 in the following ways:

- Assistance in Navigating Changes in Fund Definitions
- Assistance with New Fund Balance Classifications
- Development of the Elements of a Comprehensive Fund Balance Policy

Our team of experts is ready to assist you with improved GASB 54 compliance and increased peace of mind with your organization's financial operations. If you would like to explore how we might add real and lasting value to your organization, please contact me at (602) 277-9449, ext 304 or kylem@heinfeldmeech.com. 

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 governmental accounting and auditing.

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

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