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Accounting Newsletter for Governmental Entities

Internal Controls for Expenditure Processes

by Marvin M. Mendieta, CPA, CGFM, Audit Manager

Perhaps one of the most significant business functions at your entity is expenditure processing. It is important to have adequate controls in this area to ensure only valid payments are disbursed to the appropriate parties. Consider the following the next time you take a look at your entity's internal controls for expenditure processing.

Vendor Master File Access. Access to the vendor master file should be restricted. The employee who maintains the vendor master file should not be tasked with recording payment information in the accounting system or approving expenditures. The vendor master file should be independently reviewed for changes on a regular basis to ensure accuracy and propriety of those changes.

Separation of Duties. Authorization and approval of expenditures should be separate from recording of disbursements in the accounting system. The employee responsible for approving invoices and payment documents should not be the same employee who is tasked with recording those invoices in the system. Also, recording of disbursements should be separate from signing of the checks. The employee responsible for recording invoices in the system should not have the ability to sign the disbursement checks or have access to the blank check stock. In addition, if employees are tasked with printing checks, they should not be recording disbursement transactions or preparing and reviewing the bank reconciliation.

Signature Stamp Security. If the entity maintains a signature stamp or facsimile plate, the authorized check signer should have custody of the signature stamp and ensure that the stamp is kept in a secure location. Disbursement checks should

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Changing our Perspective

by Michael L. Lauzon, CPA, Audit Manager



Does work ever feel so overwhelming that you can't seem to gain any momentum? With any job, there are times where the work has to get done and big decisions have to be made. It can seem like something is in your way, but perhaps it is not time for a career or job change, but a change in perspective.

Usually the buildup of stress and worry that we create in anticipation of what needs to get done doesn't live up to the reality of what ends up happening. The tools and ability needed for the job have already been provided or are within you and it is just a matter of access and perspective.

A familiar story about someone overcoming the odds is David's defeat of Goliath. The picture that springs to mind may be a little boy armed with a slingshot who got lucky against a mighty warrior. However, author Malcolm Gladwell recently wrote a book titled *David and Goliath: Underdogs, Misfits and the Art of Battling Giants* that turns this familiar story on its head and challenges the importance of luck for the battle's outcome.

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Internal Controls for Expenditures

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be compared to the check listing by an independent employee to ensure the payees and amounts agree and that the distribution of the checks is performed by someone independent of the expenditure process.

Wire Transfers. For wire transfers, it is recommended to have one authorized employee to initiate the transaction and another authorized employee to approve and release the wire transfer. These individuals should not be responsible for making changes to the vendor master file or performing bank reconciliations.



Reconciliations. Finally, accounts payable and bank reconciliations should be performed regularly and timely. They should be prepared by an employee independent

of the disbursement process. In addition, the reconciliations should be reviewed and approved by someone other than the preparer of the reconciliation. Budget to actual expenditure reports should be reviewed on a regular basis to monitor the expenditures that are being charged and perform analysis on variances and other anomalies.

By implementing the appropriate controls and ensuring certain tasks are separated among employees, the risk of errors and fraud can be mitigated in the expenditure process.

If you would like assistance reviewing your entity's procedures or training for your staff, our team can help. Contact Karin M. Smith, CFE, MBA, SFO, at 602-277-9449, ext 327 or karins@heinfeldmeech.com or CW Payne, CPA, at 928-774-4201, ext 204 or cwp@heinfeldmeech.com. ■

Changing our Perspective

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Consider this: Goliath probably had terrible vision, would have been weighed down by 100 pounds of armor and his weapons would only have been useful in hand to hand combat, and as a result Goliath was not nearly as mighty as originally thought. On the other side is David, a boy who has been slinging stones his entire life defending his family's herd of sheep. Historically, slingers were considered artillery and experienced slingers were capable of hitting targets up to 200 yards away, including birds in midflight. The stone that came out of David's sling would have been traveling at approximately 35 meters per second and would have had the stopping power of a .45 handgun. This is not quite the typical version of this story, but, then again, it is all about perspective. Malcolm Gladwell gave an excellent TedTalk on this topic which is available online if you want to learn more: http://bit.ly/tedtalk_goliath

Although most of us don't fight giants, we do run into situations daily where a change in perspective would be helpful. For example, instead of seeing deadlines as arbitrary dates set by others, it could be helpful to view those deadlines instead as an opportunity to more efficiently utilize existing resources and improve focus and concentration skills. Similarly, instead of perceiving an annual audit as a cumbersome process that wastes valuable time, it could be viewed as an opportunity to recognize your strengths, to improve internal controls and learn from prior mistakes.

Changing our perspective is not about a fundamental change to who we are, but instead is a valuable tool used to reduce stress and limit the time wasted due to the buildup of stress. While there are many other tools, changing your perspective can be a way to gain momentum in your professional life. If we could spend less time worrying about that upcoming "Goliath" project, imagine how much we could get done? ■

HMU Events

Details and 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.



FLSA Compliance (full-day workshops)

Location/Date: Flagstaff - Tuesday, August 18th

Location/Date: Mesa - Wednesday, August 19th

Times: 10:00 am to 11:15 am

Early Bird Discount Ends: 12/29/14

Registration Ends: 1/2/15

Payroll Essentials for Governments and Non-Profits (full-day workshop)

Location: Mesa, AZ (Mesa Convention Center)

Date: Monday, November 16th

Details and online registration available for each event about 6 to 8 weeks in advance.

Who Commits Fraud?

by Eugene Park, CPA, Audit Manager

Do the following characteristics apply to you?

- Male
- An employee (non-manager or executive)
- Working an accounting department
- 31 to 45 years old
- Employment tenure of 6 to 10 years

If so, according to the Association of Certified Fraud Examiners (ACFE) *Reports to the Nations on Occupational Fraud and Abuse 2014 Global Fraud Study*, these attributes are the most common amongst the 1,483 cases of occupational fraud that the ACFE reviewed.

The study goes on to describe in more detail losses by each of these attributes as well as other aspects of fraud such as most common schemes used, fraud committed by industry, and median losses by gender, age, and tenure. You can view the full report at ACFE.com/RTTN. ■

About HM

Heinfeld, Meech & Co., P.C., CPAs and Business Consultants, has 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 with national and state associations keep us up-to-date about emerging issues affecting the governmental industry. We offer this free newsletter as part of our commitment to providing resources and training to governmental business personnel. For more about our firm, visit www.heinfeldmeech.com.



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