

Government Guide

Fall 2017



How to report fraud relating to federal funds By Marilyn Mays, CPA, CGMA

It is that time of year when the President and Congress are working to adopt a federal budget that will fund the Departments of Education, Health and Human Services and Homeland Security to name a few. Funding in the budget has a significant impact on State and Local governments and nonprofits. Many use federal dollars to fund local programs like education, community development,

and health assistance. Entities that accept federal funds must also accept financial responsibilities and compliance for the use of those funds.

The U.S. Government Accountability Office (U.S. GAO) established a website called FraudNet for any member of the public who may have information regarding fraud, waste, abuse or mismanagement of federal funds to file a report. In 2015, the public reported 2,097 complaints to FraudNet; 1,066 of those complaints were pursued and the Department of Justice recovered \$3.5 billion from civil cases involving fraud. Statistics show that the most common method of fraud detection is tips. Organizations with fraud reporting hotlines are more likely to detect fraud from tips than organizations without hotlines.

Fraud is obtaining something of value through willful misrepresentation such as overcharging hours billed to a federal program in which there was no value provided. Other examples: federal program in which funds are required to provide support to low income families and documents are falsified regarding the income of the family to allow them to receive federal funds; or vendors overcharging the federal program for services or materials it provides or supplies.

Abuse involves behaving improperly or unreasonably such as misuse of authority or position for personal financial interest or those of an immediate or close family member. It can also be purchasing equipment or using equipment purchased with federal funds for an individual's personal gain; or writing bid specifications that favor a specific vendor.

Waste involves taxpayers not receiving reasonable value for money paid due to an inappropriate act or omission by the individual with control over or access to the government resources. For example: purchasing services or supplies that are overpriced or unnecessary. Most waste does not involve a violation of law, but relates to mismanagement, inappropriate actions and inadequate oversight.

Mismanagement is the misuse of funds to the point that the program may not accomplish its intended purpose. Examples are continuing to pay for items that are no longer needed like rent and utilities on a former office location, service agreements on software that is no longer used and stockpiling unnecessary supplies.

The U.S. GAO does follow every federal dollar and has controls in place for recipients of federal funds to monitor their sub-recipients. Misuse of federal funds is costly to all of us. If you become aware of fraud, abuse, waste or mismanagement, you can report it at www.gao.gov/fraudnet, fraudnet@gao.gov or (800) 424-5454.

If you have any questions, Marilyn can be reached at (480) 839-4900 or MarilynM@hhcpa.com.

Fast Facts

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- Your team works exclusively on government audits

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A rapidly approaching Prop 301 sunset By Brian J. Hemmerle, CPA, CFE

Proposition 301 was approved by the voters of Arizona in 2000 with 53.5% voting yes. However, it's about to sunset because it was only approved for a period of 20 years. As of June 30, 2021, it will go away unless it's renewed.

So, what is Proposition 301? Commonly referred to by some as Classroom Site Fund Monies, this proposition charges six-tenths of one percent in the form of sales tax (0.6% state sales tax) to fund items like additional pay for all teachers, additional pay for highly performing teachers, additional accountability amongst public educational institutions, adding five more school days, a revenue stream for new school improvement financing, community college workforce development, university technology and research initiatives, and a few other educational based purposes.

The reason this sunset in 2021 is so important to some voters is the never ending news coverage surrounding the low level of teacher pay in Arizona. Currently, the State allocates a portion of the 301 monies each year to all the school districts in the State. Those districts are then required to use the monies proportionately in three ways:

- 20% must be used on base salary increases,
- 40% on performance pay, and
- 40% on maintenance and operation purposes such as class size reductions, dropout prevention, teacher development, teacher liability insurance premiums and other like items.

In order to ensure they are properly used, audit firms like Henry+Horne review the compliance with the law as part of our financial statement audit procedures each year. Schools are required to account for these monies in separate funds, and we test the expenditures in these funds to ensure compliance.

So, what are people concerned about regarding this sunset? Different scenarios voters could consider include:

- Extending the law for another 20 years
- Approving the tax in perpetuity (forever)
- Extending the sales tax to a full cent of every dollar spent (1.0% sales tax)
- Leave it at six-tenths of one percent (0.6% sales tax)
- Voting on it in November 2020
- Extending the tax before 2020, such as the November 2018 ballot which would be the same ballot containing the governor's race and Jeff Flake's Senate seat
- The legislature and governor extending it without sending it to the ballot

Voters could gather enough signatures to put an initiative on the ballot, or the legislature could use a simple majority vote to refer the measure to the voters in any upcoming ballot. The odds are that it will get extended before the sunset takes effect. Only time will tell how this will all play out.

If you have any questions, Brian can be reached at (480) 839-4900 or BrianH@hhcpa.com.



Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.