

Economic Update

Houston continues to lead the nation's recovery. Among the nation's 20 most populous metropolitan areas, Houston has recovered the highest percentage of jobs lost in the recession than any other major U.S. metro. At the current rate of growth, Houston may return to its previous employment peak by the end of this year. The number of jobs in the area grew by 2.6 percent from September 2010 to September 2011, according to the Bureau of Labor Statistics. Note that two of the three metros leading the recovery are in Texas. Houston is recovering quicker for several reasons. First, the region lost a smaller portion of its employment during the recession therefore, when the recovery began, Houston had less ground to make up. Second, Houston's core industry, oil and gas, is booming again. Employment in oil and gas extraction passed its pre-recession peak in June of this year. Nearly all the jobs lost in equipment manufacturing have been recovered. Two-thirds have been recouped in oilfield services. And third, the region continues to draw residents from other states—some with jobs, some looking for jobs and others looking to start businesses here. Houston's population growth is driving the demand for consumer goods and services, creating jobs and opportunities along the way.

The 10-county Houston-Sugar Land-Baytown Metropolitan Statistical Area gained 66,300 jobs in the 12 months ending September '11, a 2.6 percent increase, according to estimates by the Texas Workforce Commission (TWC). A few items of note:

- The mining and logging sector, which in Houston is primarily oil and gas, added 10,700 jobs over the year, an increase of 12.3 percent.
- The second fastest growing sector is heavy and civil construction, which added 4,000 jobs since September '10, an increase of 10.4 percent. Construction as a whole added 9,700 jobs since September '10, a gain of 5.6 percent.
- Ambulatory health care (*i.e.*, doctors' offices and outpatient clinics) has added 8,200 jobs since September '10, an increase of 6.6 percent, while employment in hospitals remained flat over the same period.
- Administrative and support services, which includes facilities support, business services support, contract employment, professional employment organizations and janitorial services, added 11,000 jobs, an increase of 6.8 percent.

Since collapsing three years ago, oil prices have stabilized and drilling has returned to a robust pace. The surge in the hydraulic fracturing of oil and gas wells, which requires a significant commitment of labor, capital and equipment, has been a boom to Houston. The combined revenues from North American operations for Houston's three largest oilfield service firms—Baker Hughes, Halliburton and Schlumberger—are up 75.1

percent, or \$4.2 billion (Q3/11 versus Q3/10). And that's just one quarter. Multiply it by four quarters and extend that sort of growth to the other energy-related companies in the region, and it's apparent the role that the drilling boom and hydraulic fracturing are playing in Houston's recovery. That role becomes even more important when one considers the multiplier effect energy has in Houston. The U.S. Bureau of Economic Analysis (BEA) has analyzed how inputs in one industry impact other industries. According to BEA's analysis, in Houston each job in oil and gas exploration supports another 4.7 jobs in other sectors of the local economy. Each job in oilfield services supports an additional 2.1 jobs. Each job in oilfield equipment manufacturing supports 3.5 additional jobs in the region. In the recovery to date, the region has added 3,700 oil and gas extraction jobs, 8,200 oilfield services jobs, and 4,300 jobs in energy-related manufacturing. One can see that when oil prices are stable at profitable levels and drilling activity on the rise, having the nation's exploration infrastructure clustered in Houston is a good thing.

As the Eagle Ford Shale continues to boom, economic experts and industry observers are boosting predictions about job growth in the South Texas shale play. Halliburton said recently it would develop a corporate campus with up to 1500 employees while Baker Hughes & Schlumberger are also expected to develop facilities that will employ hundreds of workers. UTSA Sr. Economist Javier Oyakawa, said he expects the oil & gas play to create at least 6,000 jobs in Bexar County by 2010, rather than the originally forecasted 4,000. According to the study, towns across the 24-county Eagle Ford still are expected to win the majority of the 68,000 total jobs created by 2020. Drilling rigs are going up rapidly across the sparsely populated formation, each crawling with dozens of workers. While oil & gas extraction comes in booms and busts, the jobs created by the Eagle Ford Shale are expected to remain productive for 20 to 40 years.

An additional benefit of the boom is that energy company payrolls have grown. The oil industry paid \$283 million more in salaries and wages in the second quarter of this year than it did the same quarter last year. On an annual basis, that's \$1 billion more in pre-tax income for the region. Those workers are spending their paychecks in local stores, restaurants, theatres and housing communities. One need not be in the oil business to benefit from the current drilling boom.

Real estate, traditionally among the last sectors to recover from a recession, appears to be doing just that. Office, industrial and retail markets are experiencing strong leasing activity and positive net absorption in Houston. Through the first three quarters of this year, Houston has absorbed 1.8 million square feet of office space, 1.5 million square feet of industrial space, and 800,000 square feet of retail space.

In another sign of an improving market, the industrial vacancy rate peaked at 6.4 percent in the fourth quarter of '10 and has trended downward ever since. It now stands at 5.3 percent. And while Houston has more than 850,000 square feet of retail space under construction, 73 percent of it is preleased, supporting continued decline in the vacancy rate and stabilization of rental rates. Like many other sectors of the economy, strong demand from the energy sector continues to drive the market.

If Houston's population base weren't growing, the region wouldn't be generating jobs in health care, personal services, retail trade, accommodation and food services, and educational services. A growing population translates into an expanding consumer market. The number of patients increases that need health care. More diners sit down for meals at Houston restaurants. The fan base for professional sports expands. The pool of patrons for the arts grows deeper. More shoppers open their wallets at area malls. Local repairmen receive more service calls. And more households lease apartments or sign mortgages on homes.

How fast is Houston growing? The record of the last decade offers some clues. Between '00 and '10, the 10-county Houston metro area added approximately 1.23 million residents. Approximately half of the population growth came from in-migration and half came through the natural increase in the population (*i.e.*, the excess of births over deaths). Even if in-migration to Houston suddenly stopped, the region would continue to grow through natural increase by 55,000 to 65,000 residents each year. Through natural increase alone Houston would be home to half a million more additional residents by the end of the decade.

The national economy appears slightly healthier than many had feared it was a few weeks ago, raising hopes that it can end the year on an upward slope. The average number of people applying for jobless benefits each week over the past four weeks fell to 403,000, the Labor Department said. Also, manufacturing grew in the Philadelphia region in October. Companies are more productive, fewer people are seeking unemployment benefits, and service companies are adding jobs. The American job market improved modestly in October, and economists looking deeper into the numbers found reasons for optimism. The nation added 80,000 jobs. That was fewer than the 100,000 that economists expected, but it was the 13th consecutive month of job gains. The U.S. Bureau of Labor Statistics predicts overall engineering employment will continue to grow into 2018 by at least 11 percent. Fears of a new recession that loomed over the economy this summer have receded. Most economists now expect modest growth for the rest of this year.

The Role of Administrative Professionals

Today's administrative professional is more than yesterday's secretary. They're overseeing projects, solving problems, and finding roles in information and communication management. Computers and organizational restructuring have opened the door for administrative assistants to take over duties once reserved for managerial and professional staff. Despite the changes in how administrative professionals manage their duties & the advancement in their roles, a few core responsibilities have remained much the same – performing and coordinating an office's administrative activities, conferences and travel to storing, retrieving and integrating information for dissemination to staff and clients. Employers are increasingly seeking candidates with college degrees for those positions that work closely with top executives.

Workplace Wellness Programs

There is always so much discourse about the condition of our country's health care system. According to a recent report issued by the U.S. Department of Health & Human Services, among Americans there is an especially high prevalence of risk factors such as tobacco use, high cholesterol, obesity and insufficient exercise, which are associated with chronic diseases and conditions such as heart disease, cancer, diabetes, and hypertension. In fact, 45 percent of Americans – almost half the entire adult population – have high blood pressure, high cholesterol, or diabetes.

On a brighter note, however, these conditions can improve with lifestyle changes. To that end, more and more progressive employers are creating workplace wellness programs that promote, and sometimes even reward, healthier lifestyles. Traditional programs help employees maintain their health and prevent illness by providing education, fitness regimes, and regular health screenings to ensure early detection of problems. Successful programs have been proven to reduce absenteeism, increase productivity and decrease health care costs.

When creating or redesigning a program, employers should try to adopt several best practices:

- Assess your workforce's health needs and put them before any personal cause;
- Consider the whole employee to address all areas of wellness, including physical fitness, disease prevention and detection, and emotional well-being;
- Create a work environment where wellness is pervasive, going beyond the fitness center or health fair to include healthy snacks and drinks available in the vending machines;
- Consider incentivizing employees to take advantage of wellness initiatives by holding workout or weight loss contests or offering small give-aways for participating in health screenings.

Investigations & Compliance

Be on Alert for Employee Fraud, Theft and Misuse of Company Funds

As we transition from fall to winter, many of us have our minds on finishing the year strong, hitting the sales targets, having zero safety incidents, and looking forward to the holidays. But as management and Human Resources professionals, there is something else that we should all be spending a lot more time on, especially during year end, the holidays, and the tough economic times; being aware of employee fraud, waste and abuse.

According to the Association of Certified Fraud Examiners, small businesses historically tend to suffer disproportionately high occupational fraud losses, according to their previous reports. In 2010, the ACFE's annual report indicated that small businesses took the brunt of nearly 31% of all occupational frauds and the median loss per fraud scheme was \$155,000. In a time where company profits and margins are nearly non-existent due to the economy, a single employee fraud of this nature could be enough to

cause the business to fail. Why should we be more vigilant now? Employees may be feeling a tremendous amount of pressure; both economically, personally, and emotionally due to bills, medical expenses, a spouse being out of work, or losing a home through foreclosure, etc. Couple these pressures with children expecting Santa, and this is a recipe for even the most loyal and long-term employee to have to “borrow” from the company coffers. Employees who commit fraud aren’t necessarily bad people. In many instances they are generally good people who find themselves in bad situations. This doesn’t defend their actions, but it’s important to understand that your star performer and most trusted employee today could very well be the cause of your biggest loss and your employee fraudster tomorrow.

One of the key reasons that employee theft and fraud is continuing to hurt small businesses to such a degree is the general lack of knowledge and implementation of basic anti-fraud prevention and detection controls by management and Human Resources professionals. To give some real life dollar losses, here are just a few examples of the financial impact to some small and medium sized businesses:

- A 38 year old employee pleaded guilty to mail fraud and tax fraud and was accused of defrauding their employer out of \$231,501 between February 2005 and October 2009.
- A 47 year old employee pleaded guilty to wire fraud and tax fraud and was accused of defrauding their employer out of \$486,106 between March 2007 and October 2009.
- A 39 year old employee pleaded guilty to wire fraud and tax fraud and was accused of defrauding their employer out of \$296,368 between October 2005 and January 2007.
- A 36 year old employee pleaded guilty to mail fraud and filing a false tax return and was accused of defrauding their employer out of \$948,334 between 2000 and November 2007.

According to a U.S. Attorney, the above mentioned cases were largely a result of poor internal controls of the businesses. And the costs to the businesses are still ongoing as it took years for these employees to be prosecuted, and law suits for recoveries and damages are still ongoing.

Here are some very basic tips to help prevent or detect occupational frauds in your business:

- Increase reviews of cash operations, inventory, expenses, and billings.
- Make sure that someone either internally or externally is helping to keep you and your organization up to speed on fraud and employee theft trends, issues and mitigation strategies.
- Institute employee and management training on fraud and ethics.
- Develop policies and procedures that address fraud and ethical expectations.
- Have your anti-fraud controls assessed periodically and implement new controls as needed.
- Ensure your accounting firm is including reviews for fraud and employee theft. If they do not, hire a competent forensic accounting firm to do a periodic review.

Working to prevent and detect fraud is very similar to working to prevent termites or even staying healthy. In order to reduce their impacts, it requires periodic assessments by professional, along with the implementation of preventive and detective measures. Small anti-fraud costs spent up front can have a significant impact on the dollar value and longevity of occupational fraud down the road. Fraud unfortunately happens, just be proactive so it doesn't have to happen to you.

For more information about Employee Investigations and Compliance, you can contact Ryan Hubbs CFE, CIA, PHR, CCSA, Senior Manager, Matson Driscoll & Damico LLP at rhubbs@mdd.com or 713-621-3010.

Sources: Greater Houston Partnership; Houston Chronicle; Houston Business Journal; Ryan Hubbs, Senior Manager, Matson Driscoll & Damico LLP