

Become the Altruistic Accountant

By Michael A. Crawford, CPA



Mike Crawford is Chairman Emeritus of Crawford & Associates, P.C., an Oklahoma City-based CPA firm dedicated to state and local government accounting and consulting. Crawford is a past president of the Oklahoma Society of CPAs, an inductee into the Oklahoma Accounting Hall of Fame, and is past vice chairman of the Governmental Accounting Standards Advisory Council. Over the past 30 years, he has authored a number of professional guides, practice aids and articles on topics of governmental accounting, auditing and ethics.

Picture this: a CPA working as a mid-level accountant for an information technology consulting company discovers through posting some journal entries provided by the company's CFO, that the company's interim financial statements contain a revenue recognition error that, while quantitatively immaterial, results in the company reporting compliance with a loan covenant for which it would otherwise be in noncompliance with if the error were corrected. Compliance with the existing loan covenant is necessary for the company to qualify for a new low interest loan that it is seeking. The CPA is concerned that the company's top management, board and the loaning institution will be misinformed as to the company's level of compliance if the error is not corrected and could make misguided decisions as a result of this misinformation. After alerting the company CFO of this error, the CFO indicates that the error amount is immaterial and does not require adjustment, and further indicates that no adjustment to correct this error will be made.

Now suppose that the CPA is new to the company, having just been hired within the last year after graduating from college and passing the CPA exam. The CPA's family is expecting twins in a few months and the CPA desperately needs the generous health insurance benefits provided by the company. The CPA is concerned about job security if this matter is pursued

any further. Furthermore, the current job market is weak and the likelihood of securing another job in the near term is questionable at best.

Quite a dilemma!

In today's complex society, it seems that CPAs are more frequently finding themselves in these difficult situations faced with ethical dilemmas that have competing compelling reasons to take different actions. Consider the case above. On one hand, the CPA is faced with a convincing reason to remain quiet about the accounting error to preserve his or her job and the related health care benefits for the best interest of the CPA's family. However, at the same time, the CPA has an equally persuasive reason to report or further communicate the accounting error in the best interest of the company, the loaning financial institution, the public and the accounting profession.

These are not easy choices.

However, in my opinion, the most difficult situations or ethical dilemmas should be resolved with a focus on an often-forgotten and overarching principle of moral human behavior — altruism.

Simply stated, altruism is the call to help or serve others with nothing expected to be received in return. It is the spirit of altruism that gives an individual the impulse to jump into a river to save a drowning person even when he or she is not a good swimmer, or to enter a burning house to save another person at his or her own risk. Altruism is a common human

trait that finds itself in most cultures and religions around the world, although not always applied by all followers of such cultures and religions. Altruistic behavior can be characterized as:

- Truly selfless giving of oneself to others or striving for the betterment of others with absolutely no secondary motives;
- Selfless actions without the expectation of recognition, admiration or even appreciation in return;
- Selfless actions even when one knows that nobody else knows about it or will know about it;
- Selfless actions or sacrifices that may even be made in the face of direct harm or suffering to one's self; and
- The opposite of "you scratch my back and I'll scratch yours," "quid pro quo" and "egoism."

When applied to the accounting profession, altruism can be more specifically defined as the call to serve the public interest with nothing expected to be received in return. Accounting professionals play a vital role in a free market society by being relied upon to present the truth in a fair and accurate manner to protect the public interest — the collective well-being of the community of people and institutions the profession serves. It is important to remember that accounting is not just an occupation, it is a profession. While occupations are individualized, a profession is the collective effort of a group of individuals sharing a common calling to act in the spirit of public service and for the end good of the public. A professional accountant's actions do not only reflect on themselves as individuals, but also reflect on the accounting profession as a whole and on all within the group.

The American Institute of Certified Public Accountants (AICPA), in the preamble to its Code of Professional Conduct, provides a hint of the expectation of altruistic behavior by stating that the CPA assumes an

obligation of self-discipline above and beyond the requirements of laws and regulations and calls for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage. While this preamble is valid and honorable, it rightly discusses the expectation of the CPA's behavior from the standpoint of it being an obligation to serve the public interest. However, altruism is different from obligation or duty. Altruism invokes the call to do what is good out of a sense of a natural desire to enhance the welfare of others, while duty involves doing what is good because of a moral or professional obligation to do so. As professional accountants and human beings, we should not have to be reminded that it is our obligation to be honorable and serve the interest of others. Instead, we should be naturally altruistic and strive to consistently act upon the natural desire to serve the interests of others in every aspect of our everyday lives.

In the earlier example, the altruistic action or natural desire should be to report or further communicate the accounting error in the best interest of the company, the loaning financial institution, the public interest and the accounting profession even at the risk of losing his or her job. To be truly altruistic, the CPA's action must be selfless for the interest of the public trust, even if it involves self sacrifice.

The AICPA Code of Conduct provides guidance as to a number of core principles including integrity, objectivity and independence and due care, and also includes a vast array of specific ethics rules and rulings. The Code of Conduct is an important resource guide and greatly important to the professional accountant as a reminder of the CPA's obligations. However, these principles, rules and rulings do not compensate for bad character; they merely guide those who wish to be guided. Therefore, each and every day, the CPA's work should be conducted with altruistic motives in

ultimate service of the public interest.

In meeting the demanding objectives of protecting the public's interest in an ever-changing and complex environment, the accountant often faces issues of ethics and professional conduct that require taking difficult actions or making difficult decisions. While the professional accountant may feel grounded in strong moral principles, one's moral principles truly become tested in situations where it is inconvenient to apply them. So even when it is inopportune to do so, the altruistic accountant maintains the integrity and objectivity necessary to place the public's interest and the interests of others ahead of his or her own interests, no matter what the consequences may be.

In addition to altruism being one of the overriding moral laws that should govern all human behavior, it should also be the overarching moral principal guiding the actions of the professional accountant. Altruism is its own reward. Applying altruism can provide the most profound sense of joy one can experience and can be the most meaningful of all human experiences. So, I encourage all of you to dedicate yourselves to being altruistic accountants and human beings, and keep in mind that life on earth is available for a limited time only, so live a life worth living through honorable service to others. €



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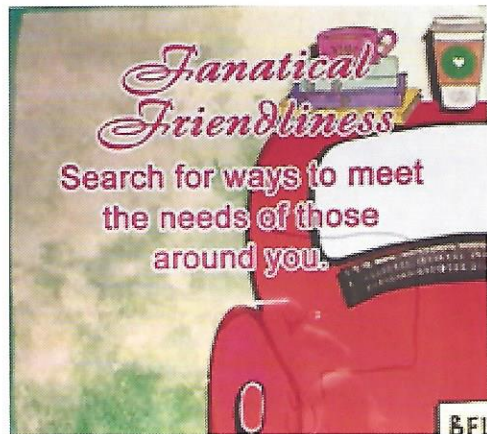
Practice fanatical friendliness

By Mike Crawford, CPA

When did the Golden Rule become more bronze? The basic human ideal of treating others as you would want to be treated appears to have lost much of its luster these days.

Since my retirement, I find myself with more unencumbered time on my hands and a compulsion to observe the conduct of others. As a volunteer for a cancer care environment, I do witness individuals performing endearing acts of kindness for others. However, I am troubled by a more discouraging trend in our society toward a selfish mindset among many. We've all seen the evidence of this disturbing new norm—mean-spirited social media posts often demonstrating a deep-seated intolerance for those who think differently, the ever-increasing impersonal nature of emails and texts, impatient and inconsiderate drivers on our streets and shoppers in our stores, as well as workers with bad attitudes consumed by their own problems rather than a focus on customer service or teamwork, just to name a few. It breaks my heart to see the direction we collectively seem to be moving toward our interpersonal relationships.

These discouraging thoughts weighed heavily on my mind one day when I was volunteering. During a break, I saw a sign that caught my attention. I took a quick picture of it so I wouldn't forget its simple message:



The sign's directive serves as a reminder that "fanatical friendliness" goes beyond doing periodic good deeds for others when we are asked to help. It requires us to seek opportunities to fulfill the needs of others, which also goes beyond treating others how we would want to be treated. So, in the spirit of promoting fanatical friendliness, here are four simple ways to cultivate a servant's heart and enrich the lives of those around you:

1. Embrace the power of one. All too often, it seems we avoid opportunities to take positive action to be helpful to others by making convenient excuses, such as "With everything I have going on, I don't have enough time or resources to get involved," or "My small effort won't make a real difference in the big scheme of things." However, it's important to remember that it doesn't always take a great deal of effort, time or resources to make a difference in someone's life. Whether it's giving directions to someone who is lost, helping someone carry heavy packages, offering money to someone in desperate need of financial assistance or helping a coworker meet a pressing deadline, there are endless opportunities to help meet the needs of others in small ways.

"Helping one person might not change the whole world, but it could change the world for one person." -Paul Shane Spear

2. Personalize communications. It seems our personal contact with each other has been reduced to a series of generic comments, shares, button clicks, emojis and endless abbreviations. We hardly talk to each other anymore because technology makes it increasingly easy to avoid it. It's as though the quantity of people with whom we connect is more important than the quality of the connection. While convenient, these connections are often impersonal and unfriendly.

Consider this simple example: Think about the many times on social media you wish someone a happy birthday or anniversary, congratulate them on an accomplishment or say thank you. When I receive such posts, they mean so much more to me when someone takes a moment to personalize it and writes, “Happy Birthday, Mike” or “Thank You, Mike.” Let’s get back to being friendlier with each other. Take time to learn the first names of people you run into often and always greet them by name, like your branch bank tellers, store checkout clerks, waiters and waitresses, mail carriers, hair salon staff and others.

“There are no strangers here. Only friends you haven’t yet met.” - William Butler Yeats

3. Show respect. When did compliance with laws, rules and social guidelines become purely optional? Let’s take road safety as an example. I may not remember it correctly from driver’s education, but I thought speed limits, undistracted driving, adequate distance between vehicles, use of blinkers and other driving

requirements applied to all of us on the road equally. Unfortunately, for many drivers, consideration for the safety of others has taken a back seat to their own needs. Each day is filled with opportunities to be more considerate of others, whether it’s socially important matters—like being safer and more courteous on our streets or only smoking outdoors so others won’t be subjected to secondhand smoke—or simple courtesies—like letting someone with only a few grocery items go ahead of you in the checkout line when you have a full cart or waiting for an elevator to empty first before trying to enter it.

“Consider the rights of others before your own feelings, and the feelings of others before your own rights.” - John Wooden

4. Offer the benefit of the doubt. Why do we assume we know all the true facts on issues when we are posting comments on social media, discussing a controversial issue with another person or gossiping in a group? All too often we act as though we are privy to firsthand knowledge of all

the facts and circumstances, when in fact we may know very little about the issue or situation at hand. One of my favorite quotes about this is attributed to the ancient Greek philosopher Socrates: “The only true wisdom is knowing you know nothing.” We must be careful about judging others, because we don’t really know what their life journey has been or is all about. Assume good intentions from others and don’t rush to judge.

“Never look down on anybody unless you are helping them up.” - Rev. Jesse Jackson

With all of the events that occur every day around us, wouldn’t this world be so much nicer if we were all ambassadors of fanatical friendliness? Search for ways to make the lives of those around you better and see how much kinder the world will look to you.

“There is but one just use of power, and it is to serve people.” - George H. W. Bush

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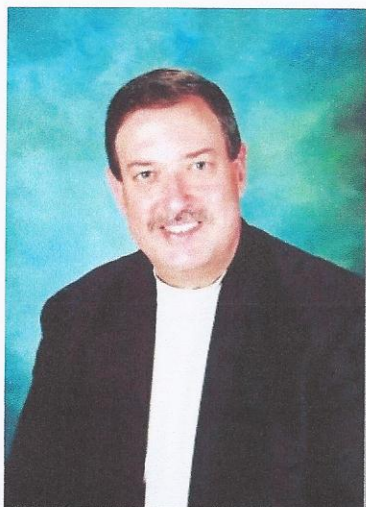
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A Formula for Success



By Michael A. Crawford, CPA

There are few rewards greater in life than the gratifying feeling one gets from serving others and exceeding their expectations. Whether it's bringing home grades higher than your parents expected, instinctively helping a senior citizen carry packages to his or her car, closing the office to take employees and their families on a seven-day cruise or postponing a planned vacation to attend an emergency client meeting, when our actions unexpectedly make someone happy, the reward can be great.

Just as success in preparing a balance sheet is tied directly to the basic accounting formula "Assets – Liabilities = Equity," success in serving others in business and life can also be tied to a formula:

Perception – Expectation = Satisfaction

Although I don't remember where I read it, I came across this conceptual satisfaction formula more than 40 years ago and it has served as the cornerstone for my business and personal life in regards to serving others ever since. Simply stated, the level of satisfaction an individual obtains is in direct correlation to whether they perceive their expectations have been met or exceeded. In looking at this formula in terms of numbers, a satisfaction level result of zero would indicate the individual's expectations were met, a positive number result for satisfaction would indicate their expectations were exceeded, and a negative number would indicate expectations were not met.

For example, assume an individual's expectation level to be moderate (say a five on a 10-point scale), and the level of service they perceive to have received is relatively high (let's say an eight), then the formula for success would indicate they will be quite satisfied with the service we have provided

(*Perception* level of eight, minus *Expectation* level of five = *Satisfaction* level of positive three).

I know, this sounds so basic and simple, but it has served me well. In fact, a great part of the success of my firm's governmental accounting and consulting practice over the past 27 years is owed to the application of this formula. I created Crawford & Associates in 1984 in large part because of my observation, based on my first hand knowledge as a government finance director, that state and local governments were not being served well by the public accounting profession, and an opportunity existed to create a successful practice dedicated solely to the interest of governments. At that time, for many CPA firms, state and local government clients were considered low risk engagements and sources of non-busy season, summer work that had a primary objective of helping keep firm staff busy during that normally slow time. In my opinion, state and local government engagements were often overstaffed, served as a training ground for new employees and were untimely and non-responsive to the basic needs of the government's elected officials, management and staff.

As a result of these experiences, I felt that governments' *expectations* for public accounting services had been set at a low level, and it would be easy to exceed these expectations. I was convinced that a CPA practice dedicated solely to serving these governments year round and offering experienced, personalized, hand-holding service on a timely basis would easily create *perceptions* of a high level of service they were not accustomed to receiving, and thereby result in a high level of *satisfaction*. Because most of the government entities across the country are small and have very basic needs, I didn't need to be technically brilliant, just understanding, attentive and

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responsive to those needs. My perceived opportunity and approach to client satisfaction turned out to be a successful reality as evidenced by our firm's growth from a one-man local consulting practice operated from a spare bedroom in 1984 to an international accounting and consulting practice with five shareholders and more than 20 employees in 2011.

Understand client perception.

The one component of the satisfaction formula that is most often misunderstood is perception. While it is always important to be factual and truthful, interestingly enough, in terms of the level of satisfaction achieved in serving clients, it may be less important how technically brilliant the work or work product is and more important that the client understands it and perceives that it has met or exceeded their needs and expectations. For example, I may have prepared the most technically accurate and comprehensive financial report the client has ever received; however, if the client is the primary user of the report and it is beyond their ability to understand it, it becomes unusable to them and I have likely failed to satisfy the client. To use a quote attributed to Robertson Davies in *The Wordsmith Dictionary of Quotes*, "The eye only sees what the mind is prepared to comprehend."

To illustrate, I offer the following true story. In 2001, I was attending a meeting of the city council of a small Oklahoma municipality and making my presentation of their annual financial statements and related audit. When I proudly completed my 20-minute comprehensive and technically sound presentation, I asked if there were any questions. All I could see in their faces was that unresponsive, deer-in-the-headlights look, and I could tell there was some hesitancy on the part of the city council members to speak up. Finally one gentleman made a comment and asked a question that I will never forget. He said "Mister, I don't understand anything you just said. Can you just tell me on a scale of one to ten how we're doing?" I was caught by surprise, but felt I should say something, so I said, "I don't know, maybe a three." To which he responded "Thanks, that's all I wanted to know."

I didn't have a factual basis to say three other than my knowledge that the city's financial condition was weak and deteriorating. As I was driving home that night, I began thinking about how I could legitimately answer and support the answer to that gentleman's simple question. It was from this unsatisfied city council member's query that the idea for the Performer[®] was born.

The Performer[®] is our firm's copyrighted and trademarked financial analysis and rating tool for use in measuring a government's financial health, performance and capability. It uses a series of financial ratios and indicators, benchmark comparisons, charts and graphs, a weighted average rating methodology and a rating scale of one to 10 to communicate financial information in a user-friendly and understandable way for non-accountants. For example, instead of referring to the pension plan funding ratio as the technically correct "Pension Plan Actuarial Funded Status," the Performer[®] asks and answers the question "Will we be able to pay our employees' pensions when they retire?" Instead of referring to the most commonly used liquidity ratio as the industry recognized phrase "current ratio," we ask and answer the question "Do we have enough cash to pay our vendors and employees on time?" Remember, the eyes and ears only see and hear what the mind is prepared to comprehend.

Since its development more than 10 years ago, the Performer[®] has become a very popular and widely used financial management tool for governments around the world. It was the subject of a 2003 article in the AICPA's publication *The CPA Letter*, and is even featured in college governmental accounting textbooks used around the country. Who would have ever dreamed that such a relatively basic idea that sprung from a simple query by a small town elected official would have blossomed into such a popular service?

Be cautious.

I do need to offer a word of caution about the successes that can come from applying the satisfaction formula. Once we have consistently exceeded the expectations of others, we tend to drive up their level of

expectation with regards to future service. Because of these ever-changing expectations, we must continuously strive to find new ways to achieve a perception that the quality of service we are providing meets or exceeds these new expectations. However, this is not all bad. It does keep us on our toes and results in finding new and better ways to serve all our clients. Also, when we are competing with other professionals for one of our current client's business, the competing professionals will most likely be held to these higher expectation levels too. If they are unable to meet or exceed these higher expectations, then client satisfaction levels will be low and the client's business will likely return to us.

Apply to everyday life.

While the satisfaction formula can be successfully applied to business life, it can be equally rewarding in applying it to your personal life. True happiness comes from honorable service to others. Whether serving clients, an employer, employees or co-workers, family members, the community, friends or perfect strangers, doing something good for them that exceeds their expectations will come with many rewards. However, honorable service means one must put the interest and welfare of others ahead of their own and be willing to make sacrifices. While it is not always the easiest approach to take, each day we should look for opportunities to enhance the lives of others in unexpected ways. It could be simple things such as using some of our savings to give a needed but unexpected gift, taking time out of a busy schedule to help another find his or her destination, offering to put our work on hold to help another employee who is struggling to meet a deadline, or simply staying later at work than planned in order to timely answer all emails.

Let's encourage each other to live each day with the mindset of the satisfaction formula and search out and take advantage of opportunities to better the lives of others through exceeding their expectations. ☺

Protecting the Public's Trust in Government

The Importance of Internal Controls over Misappropriation of Government Assets

By: Michael A. Crawford, CPA



Mike Crawford, CPA, is chairman emeritus of Crawford & Associates, P.C., an Oklahoma City-based CPA firm dedicated to state and local government accounting and consulting. Crawford is a past president of the Oklahoma Society of CPAs, an inductee into the Oklahoma Accounting Hall of Fame, and is past vice-chairman of the Governmental Accounting Standards Advisory Council. Over the past 30 years, he has authored a number of professional guides, practice aids and articles on topics of governmental accounting, auditing and ethics. Although Crawford is retired from active practice, he continues to serve others as an author, consultant and public speaker.

It seems as though every other day, media report instances of wrong doing or lapse in moral judgment by government officials or employees. What can we do to put ourselves in a better position to prevent or detect such actions before they become a detriment to public trust? The key to preventing and detecting misappropriation of assets lies in the proper design and implementation of an effective system of internal control. A system of internal control is put in place to keep the government on course toward its goals and achievement of its mission, while at the same time minimizing surprises along the way.

Internal control is broadly defined as an entity's process, affected by the entity's board, management and personnel, designed to provide reasonable assurance regarding the achievement of certain objectives. In the context of financial management, these control processes should provide reasonable assurance that reliable and fairly presented financial statements will be prepared, that there will be compliance with financial-related laws and regulations, and that the government's assets will be adequately safeguarded.

However, internal control is not a panacea. The internal control process can help an entity achieve its objectives. Yet no matter how well-designed and implemented, it can only provide reasonable — not absolute — assurance of achieving those objectives. For example, although controls may be adequately designed and in place, control objectives may still be unachieved

resulting from: (1) simple errors and mistakes, (2) faulty judgments in decision making, (3) circumvention by collusion and (4) management override of controls. Finally, the design of internal controls must be considered within the context of resource constraints and cost effectiveness.

Design an effective system of internal control.

Internal control processes can generally be classified into one of the following five components of an integrated internal control framework:

1. **Control environment:** The tone of the organization influencing the control consciousness of its people, such as a well-communicated and understood code of conduct, an effective management style and interest in controls by the governing body.
2. **Risk assessment:** The identification and analysis of relevant risks to achieving the control objectives, such as risks of noncompliance with legal spending requirements and risks of misappropriation of assets for personal use.
3. **Control activities:** Policies and procedures that help ensure actions are taken to address the identified risks, such as effective policies and procedures related to the segregation of incompatible duties, authorization and processing of purchase documents and controls over access to cash and certain other assets.

(GOVERNMENT cont. 10)

(GOVERNMENT from 8)

4. Information and communication:

The information and communication systems, both manual and automated, that make it possible to operate, control and report the entity's activities, such as an effective information technology systems, sufficient internal and external reporting systems and proper channels of internal and external communications.

5. Monitoring: The on-going monitoring and evaluation of the effectiveness of the other four components of the internal control framework through internal and external audit activities and governing body and management oversight; a well-recognized system of monitoring can also be an effective deterrent to misappropriation of assets.

For internal controls to be properly designed and effectively operated, each of these five integrated elements must be working together. The evaluation of the effectiveness of the design and operation of internal controls should be focused on the identification of control objectives, the specific risks associated with achieving those objectives and the internal controls designed to minimize those risks. In other words, you should define (1) what we want to accomplish, (2) what could go wrong and (3) what should be done about it.

For example, one of the objectives of internal controls over misappropriation of assets (what we want to accomplish) is to ensure that all revenue collected is properly deposited and not misappropriated. When evaluating the effectiveness of internals in regards to this control objective, you would consider what specific risks exist that could result in not achieving the control objective (what could go wrong) and then identify the specific internal controls needed to minimize those risks (what we should do about it). This process is illustrated in the table above right.

It is important to note that in the above example, the risks of not achieving

Control Objective (what we want to accomplish): Ensure that all revenue collected is properly recorded, deposited and not misappropriated.	
Specific Risks (what could go wrong)	Controls to Minimize the Risks (what should be done about it)
Cash receipts could be intentionally misappropriated and not recorded or deposited.	Establish proper segregation of duties by assigning cash collections duties to individuals not involved in the billing, adjustment, and posting processes. Implement a daily cash drawer balancing process performed or witnessed by an individual not involved in the cash collection process. Compare daily cash postings in the revenue or receipt subsidiary ledgers with supporting cash receipts and the actual amount of cash collected and deposited.
Cash receipts from one customer could be inappropriately applied to another customer's accounts.	Review aged accounts receivable reports on a timely basis and follow up on old or unusual outstanding balances.
Cash receipts may not be protected from unauthorized access.	Use locking cash drawers and safes and ensure cash drawers and safes are locked when not in use. Make deposits on a daily basis and only keep minimal amounts in a safe or vault overnight.

the control objective of ensuring that all revenue collected is properly deposited and not misappropriated are addressed with internal control processes that specifically respond to each risk. This type of approach to identifying and addressing specific risks is the most effective way to prevent and detect misappropriation of assets in government from the perspective of the design of internal controls.

Establish key controls.

While the design and implementation of an effective system of internal control requires a thorough evaluation of control objectives and risks, there are certain broad "key" types of controls that should be considered in the design of controls over misappropriation of assets. These controls include:

- Authorization and approval: Controls over billing, receipting and spending that involve delegation of authority with specified limitations and approval requirements (e.g., identifying who is authorized to make certain purchases or authorize billing adjustments, setting limits where advance approval is needed, indicating who must review and sign documents for evidence of approval, etc.).
- Security over access: Controls over access to cash and other assets susceptible to theft, purchase authorization documents, signature stamps, checks and computer system processes that safeguard assets

(GOVERNMENT cont. 35)

(GOVERNMENT from 10)

from loss or misappropriation (e.g. maintaining locked safes, cash drawers and frequently changing computer access codes).

- Segregation of duties: Controls that do not put a single individual in a position to be able to commit a fraud or misappropriate resources and then be able to conceal it (e.g. preventing the same individual from billing, collecting and posting utility revenue; or placing an order for goods or services, acknowledging the receipt of those goods, and also authorizing payment).
- Review and oversight: Controls that provide sufficient monitoring over revenue and expenditure activities, the reconciliation and investigation of unresolved questions and differences, and the ultimate resolution of those questions or differences (e.g. a comparison of budget and actual amounts to look for unexplained variances, periodic internal audits, etc.).

Identify and address fraud risks.

Identifying fraud is difficult because, unlike identifying errors in judgment or application, fraud involves an attempt to conceal. Therefore, it is important to be alert to certain conditions that may be present in an organization that could heighten the risk of fraudulent

activity. Popular guidance in the area of fraud awareness indicates that most frauds contain all of the following three elements:

1. Motive or pressure: The reason an individual decides to engage in fraudulent behavior. Examples include unmanageable personal financial obligations, excessive gambling or other addictive vices, adverse employment relationships or living beyond one's means.
2. Opportunity: The condition that provides an individual the ability to perpetrate the fraud. Examples include unrestricted access to cash or other assets, inadequate segregation of incompatible duties, inadequate monitoring or oversight, or records are in disarray and difficult to follow or trace.
3. Rationalization: The mindset of the individual that allows him or her to justify fraudulent actions. Examples include employee displeasure or dissatisfaction with job or compensation, or revenge for unfair treatment, just a temporary borrowing that will be paid back, "everyone does it so it's not a big deal" or "no harm, no foul."

To enhance your ability to identify fraud in an organization, you must understand these three elements and

constantly be alert for evidence of their existence and watch for warning signs or red flags of potential fraud.

Identify potential fraud red flags.

Indicators of a heightened risk of fraud resulting in misappropriation of government assets could include the following red flags that should not be discounted or overlooked:

- Employees are scared of superiors and there is evidence of management override. In other words, management bypasses controls or overrides lower-level decisions for personal gain;
- Employees do not take or refuse to take vacations or extended periods of time off or carry unusually high unused leave balances;
- Employees with fraud opportunities exhibit evidence of fraud motives or pressures, such as unusual behavior, personal financial problems, excessive gambling or living beyond their means;
- The daily balancing of cash drawer shows consistent differences, especially in even dollar amounts;
- Bank deposits are not being made on a timely and consistent basis;
- Bank statements are difficult to reconcile to the accounting records or consistently have unreconciled differences;
- IRS notices arrive for untimely tax

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Never Underestimate the Value.



- deposits or failure to make required deposits;
- Communications are received from regulatory authorities regarding noncompliance;
- Unexplained budget and actual variances for revenues or expenditures exist;
- Certain transactions are subjected to special handling outside normal policies and procedures;
- Key purchasing or payment documentation is lacking or does not exist, such as no evidence of receiving advices;
- Invoices are faxed, only in photocopy form, or appear altered;
- Vendors have only post office box addresses;
- Contracts or invoices are in amounts just under the dollar threshold that would require bidding or pre-approval;
- Frequent exceptions or waivers are made to competitive bidding requirements;
- There is evidence of excessive use of sole source purchases or certain vendors appear to consistently obtain all or an extraordinary share of the business;
- Payments are made to unfamiliar employees or terminated employees;
- Family relationships exist within the same entity or department where

unusual or questionable spending has occurred; or

- Tips or complaints regarding misappropriation of assets or fraud are ignored or not investigated.

When any of these fraud red flags are present, they must not be overlooked. Appropriate follow up is needed to ensure they are not indicators of an actual fraud.

Learn tips for preventing or detecting fraud.

Even the best of internal controls may not be sufficient to prevent or detect fraudulent activities because the individual(s) perpetrating the fraud are also doing their best to conceal the fraud. Therefore, it is especially important to be alert to the indicators of potential fraudulent activities. The following guidance will help you be more alert to potential fraud and enhance your ability to prevent or detect it.

1. **Do not just go through the motions.** Avoid the work mentality of just performing steps in a process without thinking about what you are doing. Supervisors should reinforce with employees the need to pay attention to their tasks and the consequences for failure to be responsible in carrying out those tasks.
2. **Don't fall into the "see no evil; hear no evil" trap.** Avoid putting blind

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trust in any individual, thereby failing to recognize or acknowledge fraud warning signs or red flags. Realize that anyone can commit fraud and, when faced with warning signs, prove to yourself that it is not fraud.

3. **Beware of the king.** Look out for positional immunity, or upper level management or the governing body rationalizing that rules or controls don't apply to them because of their position. These conditions generally present themselves as management override of existing processes or controls. Identify someone within or outside the organization to whom you can report such activities without jeopardizing your job.
4. **Don't succumb to "new kid on the block" syndrome.** Don't give into to the thinking that new employees are not yet competent in their position and therefore not in a position to question why certain things are happening. New employees are generally not prejudiced by past policies, procedures and practices. Supervisors should take all employee questions seriously, and employees doing the questioning should question more than just a single individual.
- 5 **Avoid a lack-of-time rationalization.** Beware of workload overload and do not use this excuse to rationalize why designed internal controls cannot be followed. For example, it may take more time to reconcile differences noted in bank reconciliations, but that

reconciliation is essential to managing fraud risks. When faced with workload overload, reevaluate assignment of duties and, if necessary, demand more resources by explaining the consequences of fraud.

6. **Beware of those who say, "Don't invade my space."** Beware of employees who do not want any other individual performing their tasks or learning what they do. Encourage cross-training, periodic rotation of duties and mandatory vacations for all employees and positions.
7. **Don't accept that it must not be for your eyes.** Be concerned when you are denied access to requested records that support the work to which you are assigned; report such activities and lack of openness to appropriate supervisors and do not give up on the unfulfilled request.
8. **Don't rationalize by thinking it's none of your business.** Don't look the other way when faced with signs of fraudulent or unethical behavior by rationalizing that the activities are none of your business. Work to create an environment within the organization that fosters ethical and responsible behavior and the reporting of lapses in such behavior.
9. **Don't think it's over your head.** Avoid failing to question activities, events or transactions that appear unusual because you feel you do not fully understand the situation or circumstances. Individuals involved

in fraudulent activities often rely on the complexity of the circumstances to help them conceal such fraud. Continue to educate yourself and ask for simplification in reports and explanations.

10. **Realize there's often a bad apple in the bunch.** Even with the best of internal controls, some people are just morally challenged and are looking for ways to commit fraud or improperly benefit themselves or gain an advantage. Do your due diligence in hiring employees by learning as much as possible about their background and ethics and always be on the lookout for the bad apple.

Government officials are entrusted with public resources and are responsible for carrying out public functions efficiently, economically, effectively and ethically, while achieving desired program objectives and providing public services. Therefore, it is essential that government officials and employees embrace the concepts of transparency and accountability for their use of public resources. An actual misappropriation of assets from embezzlement or wrongful spending or the mere perception of such acts through lack of transparency can be the downfall of public trust. An effective system of internal control must be put in place to keep the government on course toward its goals and objectives, to manage the risks associated with misappropriation of assets and to maintain and protect the public trust. ©

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Right Versus Wrong or Right Versus Not-So-Right?

By: **Michael A. Crawford, CPA**



Mike Crawford is Chairman Emeritus of Crawford & Associates, P.C., an Oklahoma City-based CPA firm dedicated to state and local government accounting and consulting. Crawford is a past president of the Oklahoma Society of CPAs, an inductee into the Oklahoma Accounting Hall of Fame, the 2011 recipient of the OSCPAs Public Service Award and is past vice chairman of the Governmental Accounting Standards Advisory Council. Over the past 30 years, he has authored a number of professional guides, practice aids and articles on topics of governmental accounting, auditing and ethics.

Assume you're driving down a stretch of interstate highway where road construction has recently been completed. All the construction road barriers have been removed and no road workers are present. However, the temporary 60-mph speed limit signs (the normal speed limit is 75 mph) have not yet been taken down. You decide to drive 75 mph. Are you doing anything wrong?

Your answer may depend on your "ethical orientation." You probably didn't even realize you had an ethical orientation. Simply stated, ethical orientation describes tendencies acquired through moral development that a person tends to follow when faced with making decisions that involve ethical dilemmas.

Generally, based on moral development, most of us are oriented toward one of two ethical decision making camps: (1) ethics of justice or (2) ethics of care.

An ethics of justice orientation is based on rigid and equal application of laws, rules, principles or policies with little flexibility or exceptions. It's also based on views of absolutes in distinguishing right from wrong, in that an action is either right or wrong regardless of the circumstances. In other words, actions taken in response to ethical dilemmas are inherently right (truthfulness, respect, honoring promises) or inherently wrong (breaking the law, lying, theft, broken promises). Conversely, an ethics of care orientation is based on a sense of responsibility to do good deeds or reduce harm and suffering with considerable flexibility and consideration of exceptions to laws, rules, principles and policies. It's based on views of variables in distinguishing right from wrong in that some actions might be viewed as right versus not-so-right or wrong versus not-so-wrong. In other words, actions taken in

response to ethical dilemmas are those that produce more overall good than harm in the circumstances.

For example, in the scenario above, an individual with an ethics of justice orientation would generally approach this dilemma from the perspective that "what is posted is the law" and that it is wrong to drive 75 mph when 60 mph is still posted. However, an individual with an ethics of care orientation would generally approach this from the "no harm, no foul" perspective and feel that the temporary signs were intended to be removed and, in this circumstance, it is safe to drive 75 mph.

Regardless of your ethical orientation, it is important to consider the perspectives of both orientations when making decisions about the actions one should take when faced with ethical dilemmas. The perspective of the two different orientations actually works as a check and balance on the limitations of the other. Taking an action from an ethics of justice orientation merely because the action is not against the law could still result in a harmful action that is morally inappropriate. For example, if there are road construction workers repairing a bridge on a highway and there have been no work zone or reduced speed limit signs posted, while it may not be against the law to drive the normal speed limit on that stretch of road at that time, it would be morally inappropriate to not slow down for the safety of the construction workers.

At the same time, taking an action from an ethics of care orientation that may do more good than harm for an individual while being illegal, unfair or unsafe to others is also morally inappropriate. For example, exceeding the speed limit in a personal car in a residential neighborhood to take an injured individual to a hospital (rather than using an ambulance) may be

(ETHICS cont. on 28)

(ETHICS cont. from 16)

good for the injured individual's well-being but is against the law and risks doing significant harm to others.

So, when faced with having to make tough decisions in our professional or personal lives, always remember to consider the perspectives of both ethics of justice and ethics of care, and take the action that is the most honest, fair and respectful action that still advances the common good with the least amount of harm.

By the way, let me share with you the fact that most law enforcement officers clearly have strong ethics of justice orientations. Because as the highway patrol officer (being unsympathetic to my ethics of care argument) explained while writing me a ticket for driving 75 mph in the posted 60 mph former work zone, "What's posted is the law, my friend." ☺

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