

Imagine

what we can do together

Accounting & Management Newsletter for Grant Schools

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.

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

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Red Flags: Don't Miss the Warning Signs

by Jill A. Shaw, CPA, Partner

According to a recent study by the Association of Certified Fraud Examiners, over 40% of all fraud is detected by a tip, such as a whistleblower. When fraud occurs, the first thing asked is, "How did we miss that?" Conducting an analysis after a fraud occurs often shows red flags that were present. Organizations that train staff to identify warning signs or red flags can make a huge difference in fraud prevention and detection. A red flag is a set of circumstances that are unusual in nature or vary from normal activity. It is a signal that something is out of the ordinary and may need to be investigated.

Often times, we get so entrenched in our day-to-day tasks that small warning signs go unnoticed until the fraud has grown significantly. Not all red flags carry equal weight; therefore each red flag should be investigated as the organization deems necessary.

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Save the Date - 2015 Grant School Conference

Heinfeld, Meech & Co. is proud to be presenting our 9th annual conference specifically for grant schools and other BIA-funded entities on Thursday and Friday, **April 23 and 24** in Laughlin, Nevada.

Details and online registration will be sent out in February. Visit www.heinfeldmeech.com/hmu for information on other upcoming trainings.



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Also in This Issue

When Trust Leads to Fraud

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When Trust Leads to Fraud

by Joshua Jumper, CPA, Audit Manager

Executive Assistants tend to be the “go to” people at organizations big and small. They seem to know the answer to any question (or who will know the answer) and wear many hats. This also means that they know how the organization works - and how to take advantage of it.

Recently, a large non-profit in the Midwest saw one of their executive assistants do just this. She was the executive assistant to the Chief Operating Officer and was known to go “above and beyond” her job title and would help out wherever needed. Due to the trust placed in her by the COO, she was able to commit the following frauds:

- She was given access to use the organization credit card to make miscellaneous purchases. Although the approver for these purchases was the COO, no one reviewed them in great detail. She was able to forge the COO signature easily knowing that it would slip through.
- She had the ability to create open purchase orders, even though her normal job duties had nothing to do with the purchasing process. This allowed her to create fake purchases. Specifically, she forged payouts to “kids in need”, who happened to be her own kids.
- Additionally, she was the keeper of one of the petty cash boxes at the organization. She then skimmed cash off the top and left no receipts.
- The assistant also was given an organization-issued cell phone. This privilege was abused and she racked up overage charges of \$1,000 per month.
- The COO rarely reviewed the assistant’s timesheets. She knew this was the case and essentially would approve her own timecard, with numerous hours of unapproved overtime.

As you can see, she spread her fraud across a variety of areas to avoid arousing immediate suspicion. How could this happen?

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Changing our Perspective

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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? ■

When Trust Leads to Fraud

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As can be the case with many non-profits: the organization was so focused on its mission that time and resources were not allocated to internal controls. This leads to weaknesses that can be taken advantage of. The key to these frauds was that they all started small. However, the individual schemes being used got bigger and bigger until eventually it was caught. In total, she embezzled more than \$100,000 in less than 10 months.

The biggest lesson to learn from this case is that internal controls must be valued by a non-profit organization as much as its mission. Internal controls cannot be an afterthought or employees will take advantage of weaknesses when they are presented with them. So while positions like executive assistants can be critical to non-profit operations, internal controls must be in place to prevent them from taking advantage of the trust placed in them. ■

About Our Firm

Heinfeld, Meech & Co., P.C., CPAs and Business Consultants, serves public schools throughout Arizona and New Mexico, with offices in Flagstaff, Tucson, and Phoenix.

We are focused exclusively on providing accounting and auditing services to governmental and not-for-profit entities. Our active involvement keep us informed about emerging issues affecting Community Schools and Dormitories. We offer this free newsletter to you as part of our commitment to providing resources and training to business personnel at Community Schools and Dormitories.

For more about our firm, please visit our web site at www.heinfeldmeech.com.

Red Flags

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Consider these red flags that are common in fraudulent activity:

- Employees that refuse to take vacation or sick leave
- Employees who are easily annoyed at reasonable questioning
- Employees that rewrite records under the guise of neatness in presentation
- Employees with financial troubles such as personal debt or credit problems
- Employees with few or no payroll deductions
- Employees with unusual work schedules
- Employees that turn down promotions or transfers



Does your organization watch out for these types of red flags? In today's environment, it is essential that policies and procedures are put into place for reporting irregularities and/or suspected fraud. If possible, your government should provide some type of anonymous reporting mechanism, such as a fraud hotline. It is a myth that all frauds are big schemes that should have been uncovered sooner or have been easier to detect. The reality is that most frauds start small and increase in size until something becomes noticeably different or unusual. Employees that are trained to notice and report red flags are the best line of defense to prevent a little bitty fraud from becoming a large fraud left to grow.

If you have found potential fraudulent activities at your organization, our team can help. Contact Karin Smith at (602) 277-9449, ext 327 or karins@heinfeldmeech.com, or CW Payne at (928) 774-4201, ext 204 or cwp@heinfeldmeech.com. ■