

## Factors to consider in your office environment

Chart adapted from Jack Bologna's *Forensic Accounting Review* (1985)

Your office is closer to...	High Potential for abuse	Lower Potential for abuse
Planning	Centralized, short range, reactive only, constant cycle of "crises"	Collaborative & forward looking, uses lessons learned, all hands involved.
Structure and control	Regimented, inflexible, vertically aligned, bureaucratic/territorial	Systematic, collegial, open to innovation, horizontal or nearly "flat" organization
Leadership styles	Feared, impulsive, highly emotional, partial, profiteer, insecure/suspicious	Respected, professional, fair, risk taker, market or customer oriented, secure
Basis of Authority	Top management only, rigid rules strongly enforced, centralized or "buck passing"	Delegation to appropriate levels, reasonable rules, fair and impartial enforcement of rules
Reward Systems	Punitive (stick), politically doled out, monetary rewards <i>only</i>	Reinforcing (carrot), fairly distributed, varied (recognition, promotion, assignments/responsibility) as well as \$\$\$.
Code of Ethics	Ambivalent, go with the flow, not established or "a complete waste of time"	Clearly set, regularly updated, trend data, "this is the way we do business"
Internal Relationships	Cutthroat, hostile, dog-eat-dog, "You lose - I win"	Competitive, supportive, "You look good, We look good"
External Relationships	Hostile, always "worse case scenario," few repeat customers or referrals.	Professional, "win-win," many customer referrals and high loyalty
Growth, loyalty	Erratic, high turnover. "Countdown clocks" showing time to retirement	Steady, low turnover. Former employees still keep in touch, make referrals.
Success is measured by...	Working harder ("Why are you still standing there?") Monetary /Metrics only	Working smarter ("Tell me more about that idea...") Metrics/Attitudes/Outcomes
Reports and documents	Reports are formalistic, with minimal impact or information. No real accountability for contents or outcomes.	Reports make sense, adequate to requirements & not burdensome. More open communications & ownership of message.

The four factors that generally affect employees in their ethical decisions are 1) Laws, rules, regulations, 2) Organizational culture and ethical codes, 3) Social pressures, and 4) the tension between personal standards and organizational needs.

When pressures are met with opportunities, rationalizations can make the "bad" choices attractive and acceptable to the employee. Fraud is hidden – otherwise they're busted.

Supporting materials from Joseph T. Wells, CFE, CPA *Encyclopedia of Fraud*, 3d Edition (2007).

## Suggestions for Reviewing/Improving Internal Controls

Remember: Your efforts will only be as effective as the *least* trained staff member who has access to your systems: your “weakest link.”

- 1) It’s not too late to start keeping records, logs, lists, initiate Control procedures and processes.
- 2) Separate duties over key functions and assets (2+ persons)
- 3) Set up authorization and approval processes
- 4) Review (or establish) Custody and Security arrangements
- 5) Review and Reconcile transactions (or ask for an audit)
- 6) Physical controls over “things” *and* Data
- 7) Training and supervision for controls, policies, procedures
- 8) Documentation and records for all of the above activities
- 9) Cost/Benefit analysis: Are we being cost/mission effective?
- 10) Is top management setting the appropriate “Tone at the Top?” If not, why not? What are you going to do about it?

“The difference between a moral man and a man of honor is that the latter regrets a discreditable act, even when it has worked and he has not been caught.”

**H. L. Mencken**, *Prejudices: Fourth Series.* (1924), U.S. Editor (1880-1956).

Ethical standards are best demonstrated by what you are willing to accept from or give to someone else for something of perceived value. Value, like beauty, is in the eye of the beholder. What matters to me may be worthless to you. Ethics is more than mere rules, it is how we choose to live and conduct ourselves in an ever-changing, imperfect world.

Richard Woodford “MAMIAF 2010”