



Larry Finney, Greene, Finney & Horton

### Risky Tightrope

Municipalities Walk It Everyday

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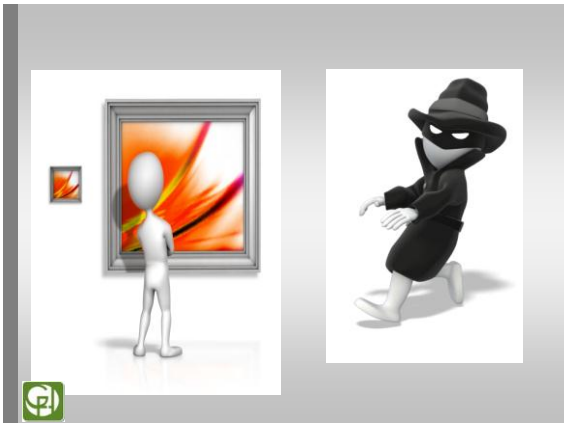
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WHICH IS LEAST RISKY?

	INVESTMENT A	INVESTMENT B	INVESTMENT C
LOWEST POTENTIAL RATE	5%	-2%	-5%
EXPECTED AVERAGE RATE	8%	-2%	8%
HIGHEST POTENTIAL RATE	12%	-2%	20%



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**What is Risk?**

- ▶ RISK-uncertainty of results
- ▶ Is risk good or bad?
- ▶ What kinds of risk do you manage?
  - ▶ Operational
  - ▶ Financial
  - ▶ Political
- ▶ What is our goal with risk?



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**Ethics and Ethical Conduct**



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**ETHICS**

- Keys:
  - What values do we want your municipality to stand for?
  - **How do we live that out?**
  - Leads to the **actual culture** that exists at your municipality
  - While every employee has a role in this, the leaders of your municipality lead the way and set the tone
- It is about TRUST and HONESTY
  - What you say and how you follow that up in actions leads to either a culture of trust or one of mistrust
  - Almost all of the time it is clear as to what the right thing to do is, but:
    - Do we do it?
    - When we are not sure do we seek advice from appropriate people?
    - Are we honest when we mess up? One of the best ways to build trust is to handle mistakes with integrity and transparency



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**ETHICS**

- Leads to REPUTATION!
  - The 2011 Edelman Trust Barometer®, shows “transparent and honest organization practices” and “an organization I can trust” in a virtual tie with product/service quality in public rankings of reputation factors.
  - Even product/service quality is arguably about integrity because it’s the surest way to honor your municipality’s commitment to serve its citizens well.



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**ETHICS**

- When it comes to ethical decisions, especially tough dilemmas, what is your ethics style?



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## RISK AND ETHICS

- Where does this lead?
  - Ethics
    - code of conduct,
    - conducting risk and ethics training; bring it up as much as possible
    - having employees sign statements saying they understand it and will abide by it,
    - and ensure the code is being lived out, especially when adversity hits or we make bad decisions




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## RISK AND ETHICS

- Ethics Code of Conduct
  - Vision, Mission
  - Values
  - Principles
  - Management support
  - Personal Responsibility
  - Compliance
  - Whistleblowers...
- See BP Code of Conduct example




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## RISK AND ETHICS

- Once the Code has been written, reviewed and approved then what?
- THAT IS THE EASY PART, NOW THE HARD PART BEGINS
  - It needs to be a living breathing document
  - Train, train, train at all levels of the organization
    - It says a lot when the head of the organization is there
  - Live it out-be careful what is in the code and what you say during training, because then EVERYONE must live it out day-to-day.
  - And when someone is unethical the rubber meets the road-what are you going to do, no matter who it is? Is the code just a bunch of words on piece of paper or are the our beliefs and values?

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## ETHICS-THE CODE of CONDUCT

- Build ethical conduct into your municipality:
  - Training on the code and on procedures/controls should happen periodically, but you can bring it up all of the time
  - Is “ethics” a part of employee evaluations?
  - Encourage discussion, especially when there is an ethical dilemma at your municipality or you read about an example from another entity




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## ETHICS-THE CODE of CONDUCT

- Once you have a vibrant ethics culture, go public with it
  - organizations that are open about their ethical standards and conduct seem to be more trustworthy than those who stay silent
  - Some even issue annual reports on ethics
- Talk it, walk it, live it-especially when adversity hits (remember MBWA?)
- Learn from your mistakes and celebrate the victories




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## RISK AND ETHICS

- So now what? I have read the code, I have been trained, I understand what I am supposed to do, and now my boss wants me to do something I am not sure is right or ethical for our company and for me personally. What do I do?
- This is where the code falls short, but training and having an open door policy can close the gaps.
- You can't write a code to deal with every ethical dilemma but you can train people on principles/practices that have proven over time to be effective
- But remember, every ethical dilemma is unique!

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## RISK AND ETHICS

- So now what? I have read the code, I have been trained, I understand what I am supposed to do, and now I have screwed up and make a bad decision; an honest one, but still a bad one. What do I do?
- If you are my manager, I have been watching you and you have shown me through your actions whether I should come tell you or not.
- The code says we will handle it properly and deal with it as an honest mistake. Is that what you will do? Or will you scream at me and even punish/discipline me for an honest mistake?

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## RISK AND ETHICS

- Where does this lead?
  - Risk-assess it regularly, follow through, update policies and procedures as needed, talk about it in meetings, include your staff in the assessment...

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**Financial Risk and Ethics**

The risk that we do not maximize and manage our resources as well as we could.

Good Value (efficient)

Safeguard what we have

Get Good Results (effective)

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### ASSESSING RISK

- This is where you get to think like a criminal
  - “Where is the risk when it comes to taking care of our resources?”
  - “If I wanted to take cash, a computer, or equipment how would I do it?”




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### ASSESSING RISK

- So at your municipality, how would you commit fraud and try to get away with it?




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### ASSESSING RISK

- We know from the past what people have tried to do:
  - Set up a separate cash account and transfer or deposit money to it
  - Get a second set of checks
  - Discourage segregation of duties
  - Create false vendors
  - Create false invoices
  - Overbill




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### ASSESSING RISK

- We know from the past what people have tried to do:
  - Don't write receipts when people make payments to your municipality
  - Cashing checks written to your municipality
  - Don't reconcile the bank statement properly or not include the bank statement with the reconciliation when someone else reviews it...
  - Use credit cards for personal purchases




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### ASSESSING RISK

- We know from the past what people have tried to do:
  - Take supplies, equipment...
  - Expense reports-charge for trips did not take, no detailed receipts...




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### ASSESSING RISK

- The second step is to see if our procedures/controls reduce those risks to an acceptable level




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ASSESSING RISK

- So what could we do for each of these?
  - Set up a separate cash account and transfer or deposit money to it
  - Get a second set of checks
  - Discourage segregation of duties
  - Create false vendors
  - Create false invoices
  - Overbill




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ASSESSING RISK

- So what could we do for each of these?
  - Don't write receipts when people make payments to your municipality
  - Cash checks written to your municipality
  - Don't reconcile the bank statement properly or not include the bank statement with the reconciliation when someone else reviews it...
  - Use credit cards for personal purchases




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ASSESSING RISK

- So what could we do for each of these?
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## RISK AND ETHICS

- Here is the biggest challenge you face:
  - Making sure all of this is lived out day-to-day as you manage your people and carry out your responsibility
  - So here are some reminders and thoughts from being in the battle and from watching on the outside...




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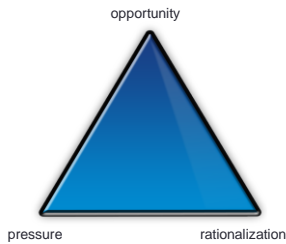
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## DON'T FORGET THE FRAUD RISK TRIANGLE

- You only have control over one of these, so take control!




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## INTERNAL CONTROLS ARE YOUR FRIEND



- Good controls =
  - Less risk
  - Protection for you if something goes wrong
  - Detection of errors or wrongdoing early
- Good controls are not just designed well but are being followed
- Trust but verify




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## CASH IS KING

- The M & M factors:
  - Morals
  - Money
- Watch it
  - Understand and review documents closely;
  - Ask questions so people know you are reviewing and paying attention




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## Document, document, document...



- There should be a paper or electronic trail for every transaction
  - Receipts whenever employees receive payments
  - Initials/signatures and dates when transactions and documents are approved




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## Document, document, document...



- Transactions, approvals and reviews should be timely, accurate and complete
- If you as a leader are not implementing procedures/controls properly, how can you expect your people to?
- Credit card transactions and logs!




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## BE UNPREDICTABLE

- Surprise people by what you ask for and what you look at
- If something does not make sense, ask; don't assume
- Ask detailed questions-let's your people know you are watching closely




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## THERE IS EVIL OUT THERE!



- The most common comment I hear on fraud cases is...
- The seven deadly sins describe all of us if we are really honest
  - Greed
  - Sloth
  - Envy
  - Pride




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## WHERE WE TEND TO SEE PROBLEMS



- Fraud is much more common where there is poor segregation of duties
- Fraud is usually more significant where people are not reviewing and paying attention like they should (be careful about trusting someone too much)
- Media attention comes no matter how big the fraud is




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### WHERE WE TEND TO SEE PROBLEMS



- Receipting timely and completely
- Depositing cash timely
- How do you know all of your receipts are getting into your financial system?
- No meaningful review of financial information for department, division, etc.

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### WHERE WE TEND TO SEE PROBLEMS



- Splitting purchase orders to stay under a certain \$ limit
- Using credit cards for personal use
- No review of credit card use

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### WHERE WE TEND TO SEE PROBLEMS



- Cash collections
  - Two people not collecting and counting the money together
- No meaningful analysis of how much should be collected versus how much is collected

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## HOW DO YOU HANDLE FRAUD WHEN IT OCCURS?



- Involve people with experience
- Investigate swiftly
- When you have the proof generally organizations either:
  - Quietly deal with it
  - Go after them firmly and make a point




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## SO WHAT?

- Leaders lead by the tone at the top and by example-crucial to walk the talk
- Preach, teach, talk and walk ethics every day
- Encourage owning mistakes by handling them properly
- Know where your risk is and address it
- Train your team
- Be unpredictable




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