


Leadership – The Tone @ the Top:
 Using COSO Internal Controls to Build & Lead Effective Teams
 COSO is the Effective Foundation




Presented by:
 Billy Morehead, Ph.D., CPA, CGFM, CPM
 AGA Past National President and
 Professor of Accountancy
 Mississippi College, Clinton, Mississippi

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Think Big!
 "Where there is no vision the people
 perish." — Proverbs 29:18

Act Courageously!
 "If one advances confidently in the
 direction of his dreams, and endeavors to
 live the life which he has imagined, he
 will meet with success..." — Henry
 David Thoreau

Make a Difference!
 "The greatest danger for most of us is
 not that our aim is too high and we miss
 it, but that it is too low and we reach
 it." — Michelangelo

3



Think Big!

Most of us Accountants are in the
 "service" business; and, we must:

- Have a VISION & a MISSION
- Be Mission/Results-Focused
- Be Customer & Stakeholder Driven

4

Act Courageously!

- Lead the way!
- Dare to be BOLD!
- Take appropriate RISKS!
- Break the molds
- Influence Others!

5

Make a Difference!

- Serve Others
- Don't Accept the Status Quo
- Bring down Barriers!
- Be the Change YOU Want to Be!

6

Key Points:



- The "right choice" is sometimes obscured by considerations never before faced by our professional predecessors
- Often, there is no obvious line between "right and wrong"

7

Key Points:

- We find ourselves on a "slippery slope" when it comes to finding the best course of action
- Rules can't always be relied upon to supply the answer
- New ethical issues emerge every day due to rapid changes in technology



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Key Points:

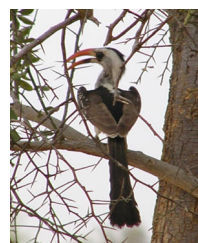


- Public trust in our financial systems and profession depends on keeping high standards of conduct among those who handle financial affairs.
- Without basic trust in our government, economy, currency, and business practices, the system would collapse.

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Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of entity's objectives with regard to:



- Reliability of financial reporting
- Effectiveness and efficiency of operations, and
- Compliance with applicable laws and regulations

Source: AICPA SAS 115 10

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Codification of 17 principles embedded in the original Framework

Control Environment

- Demonstrates commitment to integrity and ethical values
- Exercises oversight responsibility
- Establishes structure, authority and responsibility
- Demonstrates commitment to competence
- Enforces accountability

Risk Assessment

- Specifies relevant objectives
- Identifies and analyzes risk
- Assesses fraud risk
- Identifies and analyzes significant change

Control Activities

- Selects and develops control activities
- Selects and develops general controls over technology
- Deploys through policies and procedures

Information & Communication

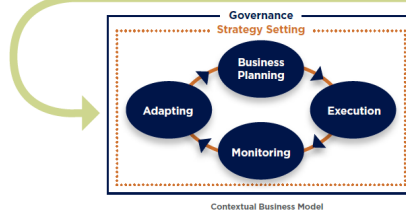
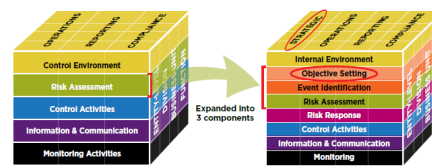
- Uses relevant information
- Communicates internally
- Communicates externally

Monitoring Activities

- Conducts ongoing and/or separate evaluations
- Evaluates and communicates deficiencies

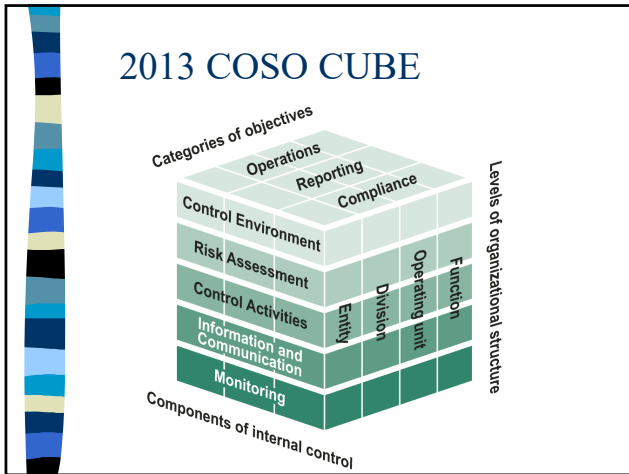
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The Relationships Between the ICIF, ERMIF and Contextual Business Model

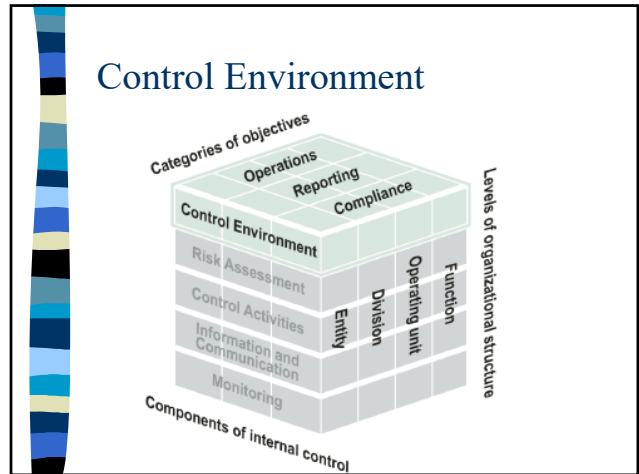


Source: COSO, Prosvirni, & IMA (DelLoach & Thomson) – Improving Organizational Performance & Governance 12

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Control Environment

It is the foundation for effective internal control, providing discipline and structure.

The control environment sets the tone of an organization influencing the control consciousness of its people.

15

Management's Philosophy and Operating Style

Management philosophy is the set of shared beliefs and attitudes characterizing how the agency handles everything it does, from developing and implementing strategy to day-to-day activities. This philosophy reflects the agency's values, influencing its culture and operating style, and affects how well fiscal programs can implement, maintain, and enforce control.

MAAPP Manual Section 30 16

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Management's Philosophy and Operating Style

Management philosophy appears in policy statements, oral and written communications, and decision-making. Management reinforces the philosophy more with everyday actions than with its words.

MAAPP Manual Section 30 17

17

Management's Philosophy and Operating Style

- Approach to taking and monitoring business risks
- Attitudes and actions toward financial reporting (conservative or aggressive application of GAAP, conscientiousness and conservatism when developing accounting estimates)
- Attitude toward information processing and accounting functions and personnel

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Risk Assessment



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Risk – What Is It?



- Anything bad that might happen and prevent us from achieving our objectives.
- Why should you care?

Because every manager is a risk manager.

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Risk Assessment

Assessing the risks facing the entity as it seeks to achieve its objectives.

Provides the basis for developing appropriate risk responses.


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Ongoing Comprehensive Fraud Risk Management Process

COSO/ACFE: Fraud Risk Management Guide Executive Summary – September 2016

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Possible Responses to Risk



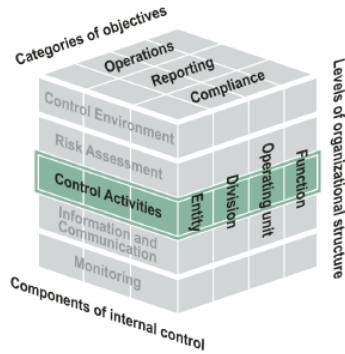
- 1. Avoid it.
- 2. Live with it.
- 3. Share it (or transfer it to someone else).
- 4. Attempt to manage it.

23

This Guy Assesses Risk

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Control Activities



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Control Activities

The actions management establish through policies and procedures to achieve objectives and respond to risks in the internal control system, including the entity's information systems.

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Examples of Common Categories of Control Activities

- Top-level reviews of actual performance
- Reviews by management at the functional or activity level
- Management of human capital
- Controls over information processing
- Physical control over vulnerable assets
- Establishment and review of performance measures and indicators

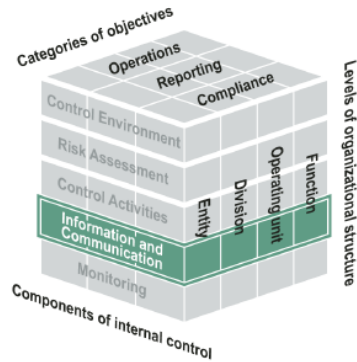
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Examples of Common Categories of Control Activities

- Segregation of duties
- Proper execution of transactions
- Accurate and timely recording of transactions
- Access restrictions to and accountability for resources and records
- Appropriate documentation of transactions and internal control

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Information & Communication



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Information & Communication

The quality information management and personnel communicate and use to support the internal control system.

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Appropriate Methods of Communication

- Audience
- Nature of Information
- Availability
- Cost
- Legal or regulatory requirements

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Information Processing Objectives

- Completeness
- Accuracy
- Validity

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Billy's Rules to Live By...

What Makes Communicating Work?

Knowing the difference between Spaghetti and Waffles...

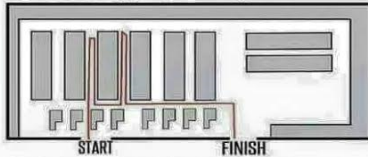


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An illustration of ineffective communication

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A man shopping at Target.



A woman shopping at Target.



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Husbands are the best people to share secrets with. they'll never tell anyone, Because they aren't even Listening.



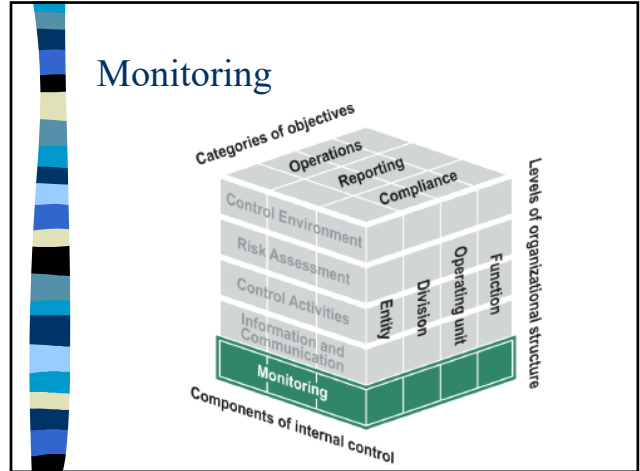
www.facebook.com/ShutUpImStillTalking

36

“Never trust the people you cheat with.
They will throw you under the bus.”
Marianne M. Jennings

“Three people can keep a secret if two
are dead.” Ben Franklin

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Monitoring

Activities management establishes and operates to assess the quality performance over time and promptly resolve the finding of audits and other reviews.

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Monitoring Activities

- Establishment of a baseline
- IC system monitoring
- Reporting of issues
- Evaluation of issues & results
- Corrective actions


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The Establishment of Internal Control Is
MANAGEMENT'S
Responsibility.

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Internal Control, No Matter How Well Designed and Operated, Can Only Provide **REASONABLE Assurance** Regarding Achievement of an Entity's Control Objectives.

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Limitations of Internal Control

- Not a cure all
- Suitability of objectives used in establishing IC system
- Cannot ensure entity's success or survival
- Cannot ensure entity will achieve operation, financial reporting, and compliance objectives
- Effectiveness limited by human judgment, hasty & faulty decision making
- External events beyond entity's control

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- 
- System can breakdown due to misunderstandings, mistakes in judgment, or errors committed due to carelessness, distraction, or fatigue
 - Only as effective as the people who are responsible for its functioning
 - Collusion can result in control failure
 - Limited resources (cost/benefit)
 - excessive control is costly & counterproductive
 - too little control presents undue risk to entity

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Evaluating Controls is Not a One Time Thing

Processes change, positions are not replaced, budget reductions, new threats emerge...

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Epic Failure in Controls

Remember: internal controls will only work if you actually use them and use them correctly.



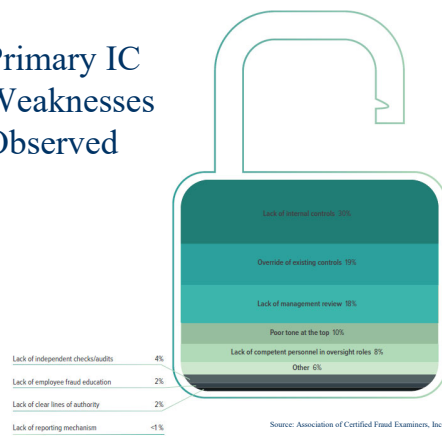
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Billy's Rules to Live By...

- Integrity is Job One!
- Public Service is its Own Reward
- Take Time to Think
- Focus on Results, not Ideology
- Beware of the Status Quo
- Prepare for the "Ugly"

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Primary IC Weaknesses Observed



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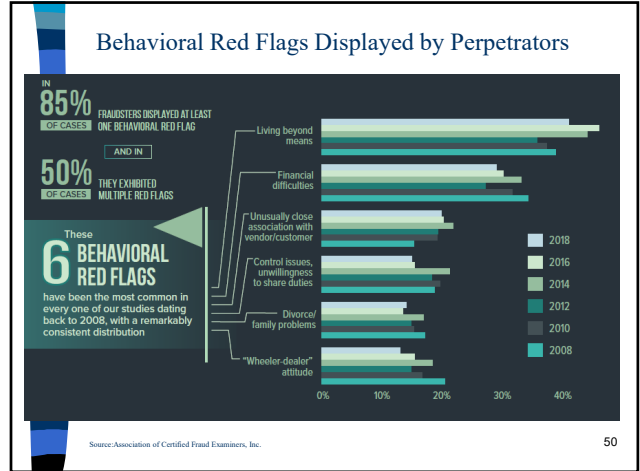
Red Flags: Behavioral

- Never takes a vacation
- Comes in early, leaves late
- Lifestyle doesn't seem to match salary or a lifestyle that suddenly increases substantially.
- High personal debt
- Behavioral change



Note – partial list on red flags.

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Red Flags - Organizational

- Lack of ethical tone at the top.
- Lack of documented policies and procedures.
- Low employee morale.
- High employee turnover.
- Lack of cooperation with auditor.

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WorldCom... The White Elephant of Corporate Failure in Mississippi




52

Miss. Dept. of Human Services

Auditor Arrests Former Director of DHS and Co-Conspirators in Largest Public Embezzlement Case in State History

February 5, 2020

Defendants Accused of Obtaining Millions in Funds Intended for Poor

JACKSON, Miss. – Special agents from the office of State Auditor Shad White have arrested John Davis, the former Director of the Mississippi Department of Human Services (DHS); former DHS employee Latimer Smith; Dr. Nancy New, owner and Director of the Mississippi Community Education Center (MCEC) and New Learning, Inc.; Zach New, Assistant Executive Director of MCEC; Anne McGrew, accountant for MCEC; and Brett DiBlase in connection with a multimillion-dollar embezzlement scheme. The indictments include a range of violations involving fraud and embezzlement.

Auditors concluded, after an eight-month investigation, that the accused conspired to illegally obtain millions in public funds from the Temporary Assistance for Needy Families (TANF) program administered by DHS. Defendants used a variety of business entities and schemes to defraud the taxpayers.

"The funds that were illegally obtained in this case were intended to help the poorest among us. The funds were instead taken by a group of influential people for their own benefit, and the scheme is massive. It ends today," said Auditor White.

Over \$50 Million

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Mississippi Dept. of Corrections Commissioner Chris Epps



- Single Source Contracts worth Millions
- Contract kickbacks

<http://www.msnbc.com/cip/11785976/has-mc-business-unit-center-pleas-in-epps-harbors-case>

54

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Judicial Bribery: Scruggs, Balducci, Langston, & former State Auditor, Steve Patterson



found me 350,000 in
money that I have occurred
to be 429.

P. J. Apple
Nov. 23, 2000



- Dickie Scruggs
- Steve Patterson
- Tim Balducci
- Joey Langston
- Presley L. Blake
- Judge Henry Lackey (the good guy)

"we were in the Holy Land seeking edification and returned home to this mess," Deborah Patterson (wife of Steve)

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Warren County Administrator Shelly Ashley-Palmtree

<http://www.wgpr.com/news/central-mississippi/former-warren-county-circuit-clerk-pleads-guilty-to-embezzlement/26315994>

- Embezzlement Of \$818,252
- 5-year sentence
- Restitution \$1.04 million



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Neshoba County Administrator Benjie Coats



- Overtime payments scam (30,000 hours)
- Restitution of \$1.3 million from four employees:
 - Benjie Coats (administrator)
 - Tommy Gomillion (payroll clerk)
 - Julie Faye Russell (purchasing clerk)
 - Jill Watkins (comptroller)

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Mississippi State Hospital – Scrap Metal Fraud



Three former employees colluded to dispose of scrap metal and pocket the proceeds rather than submit to the hospital business office.

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Ball, Louisiana Mayor and Town Clerk Plead Guilty

U.S. Attorney's Office
February 05, 2011

Western District of Louisiana
(318) 676-3641

ALEXANDRIA, LA—United States Attorney Stephanie A. Finley announced today that Roy E. Hebron, former mayor of the town of Ball, Louisiana entered a guilty plea today to a charge of conspiracy to defraud the Federal Emergency Management Agency (FEMA) following Hurricane Gustav. The government's plea agreement with Hebron required him to resign from his office as mayor. The resignation is effective immediately. Pleading to the same charge was Brenda Kimball, the clerk of the town of Ball.

Jay L. Barber, former sheriff for the town of Ball; Anthony Akmeche, police officer and Laverne James, previously pled guilty to related charges and were cooperating with the government.

Hebron, 56, and Kimball, 54, admitted at guilty plea hearings today before U.S. District Judge Dee D. Drvil that they conspired to submit false statements to FEMA in an application for benefits to be paid in connection with the Presidential Disaster Declaration for the state of Louisiana in September 2006, for Hurricane Gustav. Hebron and Kimball admitted to lying to the government by overstating the use of town vehicles and equipment and hours worked by town employees to receive government funds to which they individually and the town of Ball were not entitled. Hebron served as mayor of Ball, Louisiana from 1988 until 2011.

Hebron and Kimball face a maximum penalty of five years in prison, a \$250,000 fine, or both. Hebron and Kimball remain free while pending their sentencing hearing set for May 6, 2011.

This case was investigated by Special Agent Randolph J. Deaton, IV of the Federal Bureau of Investigation and Special Agents Rick Perry and Steven Monachello of the United States Department of Homeland Security - Office of Inspector General. The case was prosecuted by Assistant United States Attorney Cythera D. Jernigan and First Assistant United States Attorney Alexander C. Van Hook.

Source: FBI, NOLA Division, February 5, 2011.

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Billy's Rules to Live By...

- Prepare for the "Ugly"

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Mississippi Delta & Delta State University

- Knightline Industries – falsified claims against the federal government for “doctored” invoices of legitimate work.
- Multiple parties (University, County, State, Federal, and Knightline)
- Knightline owner fined and spent 18 months in federal prison.

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Mississippi Delta & Delta State University

368 SECTION 19. (1) Delta State University is authorized to
 369 lease to Knight Line Products, Inc., of Cleveland, Mississippi,
 370 approximately 8.4237 acres of real property located between U.S.
 371 Highway No. 61, U.S. Highway No. 61 Bypass and Old U.S. Highway
 372 No. 61 in Bolivar County and described in the September 19, 2002,
 373 survey plat prepared by Eley Engineering, P.A., of Cleveland,
 374 Mississippi, for Knight Line Products, Inc. The term of the lease
 375 may be for not more than ninety-nine (99) years. The lease shall
 376 provide that Knight Line Products, Inc., shall pay rent annually
 377 to Delta State University, and that the amount of the rent shall
 378 be subject to adjustment every ten (10) years, based on the fair
 379 market value of the leased property without improvements.

380 (2) Any lease executed between Delta State University and
 381 Knight Line Products, Inc., before the effective date of this act
 382 that is in conformity with the provisions of subsection (1) of
 383 this section is ratified, approved and confirmed.

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Mississippi Delta & Delta State University

Memphis Business Journal

BUSINESS PULSE SURVEY: Tax time

Regional report

Knight Line to expand

Memphis Business Journal - March 28, 2003 by **Michael Paulk**

MRRIGOLD, Miss. -- A manufacturer of motorcycles, Knight Line Products, Inc., plans to invest about \$1.3 million to expand its production operations in this Bolivar County community.

**Dirt-bike plant to support 85 jobs
Knight Line completing \$1.3M facility in Mississippi**

03/15/2003

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Mississippi Delta & Delta State University

4/22/06

State audits Knight Line project.
By ROBERT SMITH
CLEVELAND NEWS LEADER

Chamber of Commerce caught in Knight Line bind
By ROBERT SMITH
CLEVELAND NEWS LEADER

State briefs county on Knight Line audit findings
By ROBERT SMITH
CLEVELAND NEWS LEADER

FRIDAY

Knight attorney says client tried to recoup losses

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Mississippi Delta & Delta State University

Grant fraud brings programs into question

By Joshua Howard Berger

MERRIGOLD — Don Knight may not know much about economic development, but he seems to know a business opportunity when he sees one.

Knight, a Cleveland businessman who has spent much of his life working with motorcycles and ATVs, had an idea to manufacture motorcycles for the European endurance racing circuit.

As an entrepreneur in the mid-Mississippi Delta, Knight learned he was eligible for special federal loans designed to create jobs and bring businesses to the region. Through his company, Knightline Products, Knight applied to the Bolivar County Board of Supervisors for loans to build a motorcycle factory in Merrigold. The county, which agreed to

AT A GLANCE

MOEZA survives Bolivar, Holmes, Humphreys, Lafayette, Sunflower and Washington counties. It initially received \$40 million from the U.S. government to make loans and grants that would help fight poverty in the Delta. By 2006, MOEZA had received almost \$210 million from public and private sources, according to its page on the U.S. Department of Agriculture Web site.

help fund Knight's project, got the money from the Mississippi Development Authority and the Mid-Delta Empowerment Zone Alliance — which, in turn, got the money from the federal government under various programs designed to foster economic development in the most impoverished parts of the country.

In retrospect, it is unclear whether Knight ever planned to build motorcycles in Merrigold. What is clear — based on

charges brought against Knight in federal court, to which he pleaded guilty last December and for which he is scheduled to be sentenced Monday — is that from 2002 to 2005, Knight provided a series of fraudulent checks and invoices to defraud the government of more than \$460,000 in funds intended to reduce poverty in the Delta.

Knight will face up to 10 years of prison time, a \$500,000 fine, three years of probation and

restoration of the misappropriated money.

Knight's is not the only recent case of development assistance gone wrong in the region.

In January, two other area men — Milton Tidwell, the former mayor of Waukegan, and Kenneth Blockett, a Cleveland building contractor — were sentenced to prison time and ordered to repay more than \$500,000 in funds misappropriated from a grant intended to build a household chemical factory outside Mansard Bayou and bring 49 jobs to the area.

Such stories are not the tales of economic marginalization that so many Delta residents face but are the more sinister stories of elected officials and business leaders abusing their neighbors' poverty for their own gain.

See **FRAUD, 3B**

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Mississippi Delta & Delta State University

United States District Court

SUBPOENA TO TESTIFY BEFORE GRAND JURY

Billy Morehead
Delta State University
1003 West Sunflower Road
Cleveland, MS 38733

YOU ARE ALSO COMMANDED to bring with you the following document(s) or object(s):*

Any and all ORIGINAL documents relating to Don Knight, Knight Line Products, Gas Gas, Inc., TNC, Inc. and Knight Sports Center.

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Mississippi Delta & Delta State University

ROBERT SMITH: Supes should hang their heads

That's why they ought to hang their heads over this Knight Line Products fiasco. The supes were right in the middle of helping to basically flush down the community toilet more than \$1 million of tax money, state and federal. I looked for signs of remorse on the supervisors' faces Monday, but found none, and they'll be basking their chests again this summer at budget-drafting time about their financial conservatism if we'll let them do it.

Based on what I've picked up in the last couple of days, though, it seems the supes should also be ashamed to have done business with a man (Don Knight) who apparently couldn't tell the difference between a lease and a purchase. If you accept as gospel the remarks attributed to Knight's lawyer, Boyd Atkinson, in a news report published elsewhere, then Knight needed help figuring out that he only held a lease to a piece of property in the Merigold area owned by Delta State University.

That's strange because a copy of House Bill 1664 from the 2003 session of the Mississippi Legislature (it's posted online, boys and girls) clearly gives Delta State University the authority to lease (not sell) the property at issue to Knight Line Products for up to 99 years. The legislation, co-sponsored by Charlie Capps Jr. of Cleveland, is perfectly clear. The operative word is "lease," not "sell."

All Mr. Knight needed to do was read the bill. He hardly needed a lawyer (Atkinson has been quoted as saying Knight learned through his representation that he didn't own the property) to explain it.

CLEVELAND NEWS LEADER

County sues couple and Knight Line co.

By Robert Smith
The Cleveland News Leader

Donald Knight in November 2002 sued other developers.

Knights say it's Brown's fault

By Robert Smith
The Cleveland News Leader

Don and Charlotte Knight and Knight Line Products say Brown County should be able to accept any money from them through a lawsuit in regard to the failed Knight Line Products venture, and they blame former county administrator Adrian Brown, but their things have turned up.

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Mississippi Delta & Delta State University

DON'T FORGET TO VOTE!
Polls open til 7 p.m.

The Bolivar Commercial
No. 33 No. 28
Established 1784

12 Pages • Cleveland, MS 38732 • 50 Cents • www.bolivarcom.com

TUESDAY
MARCH 11, 2008

INSIDE Today's Edition

10:11
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Knight sentenced to 18 months in prison

By Larry Roper
The Bolivar Commercial

Cleveland resident Don Knight was sentenced to 18 months in federal prison on Monday in the U.S. District Court of Southern Mississippi.

A 2006 federal grand jury indictment charged Knight with conspiracy to defraud the U.S. government of \$1.1 million in federal loan guarantees for Knight Line Products, Inc. of Hattiesburg, Miss.

The indictment was returned in Hattiesburg on Monday. Knight was arrested on the same day.

At the time of his arrest, Knight was in the U.S. District Court of Southern Mississippi.

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Everyone in an Organization Has Some Responsibility for Internal Control; However, **MANAGEMENT** Is Responsible!

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Most Common Reason Fraud Occurs

Blind Trust...One person is given **complete control** of the financial process without any oversight or monitoring from the supervisor or department head.

(simply signing does not = oversight)

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In a time of budget cuts be careful to consider the internal control impact.



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And you must remember why this matters...

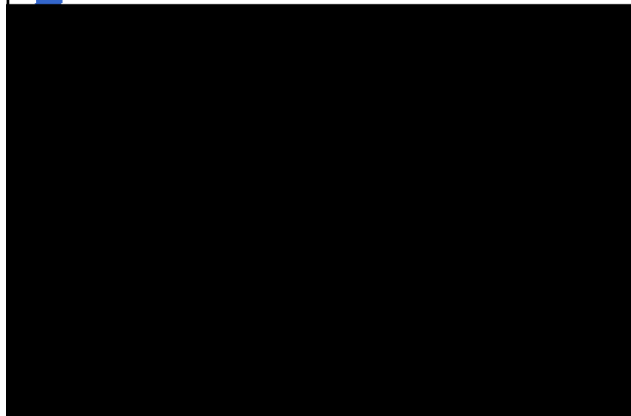


- For every dollar you lose to a compliance failure and its remediation, it's a dollar lost to your primary mission.
- For every dollar you lose to fraud and its remediation, it's a dollar lost to your primary mission.
- This doesn't even factor in morale effects of a substantial event.

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When you think you have the perfect mouse trap....



75



TO



Three Things To Remember...

...even if you forget most of what we've discussed today...


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...the #1 deterrent to fraud is...

...the perception of detection....

raise this through strong internal control and lower the risk of fraud



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#2 thing to remember...

...controls matter in deterring fraud and achieving success.


You are an educator for internal controls.

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#3 thing to remember...

...the “Tone at the Top” (and middle) *really does matter*, but what you do matters more than what you say or a written policy.


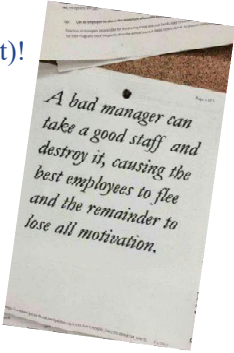


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Billy's Rules to Live By...

Leaders...Lead!
Managers...manage (direct)!

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Billy's Rules to Live By...

- Be Candid
- Be "Strong and Courageous"
- Balance "fear" and "faith"

"A 'no' uttered from the deepest conviction is better than a 'yes' merely uttered to please, or worse, to avoid trouble."
Mahatma Gandhi

"The enemy is fear. We think it is hate; but, it is fear."
Mahatma Gandhi

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Billy's Rules to Live By...

- KNOW your gifts
- FOCUS on your gifts
- USE your gifts
- IMPROVE your gifts
- DON'T covet other's gifts

82


"Be enthusiastic as a leader. You cannot light a fire with a wet match." Anonymous

83

Billy's Rules to Live By...

- Take Risks (Have Courage; Cultivate Change)
- Lead by Being Led
- A Good Leader is Decisive
- Leaders do not create followers ... they create more leaders
- Communicate!!!

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“A sign of a good leader is not how many followers you have, but how many leaders you create.” Mahatma Gandhi

**LEADERS DON'T
CREATE FOLLOWERS,
THEY CREATE
MORE LEADERS.**

TOM PETERS


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Billy's Rules to Live By...


- Select the Right People
- Empower Your Associates
- **TEAMWORK**
- Build Consensus (Persuade rather than coerce)
- Keep an Open Mind (& Open Door)
- Leaders put others first; themselves second
- Share the Spotlight (say "Please" & "Thank You")

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“Great leaders build trust and collaboration while focusing on developing people's capacities rather than focusing on their limitations.” Leithwood

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Billy's Rules to Live By...

- Be Consistent
- Stay Balanced (family, life, diet, & exercise)
- “Phone” a FRIEND
- Follow YOUR Dream

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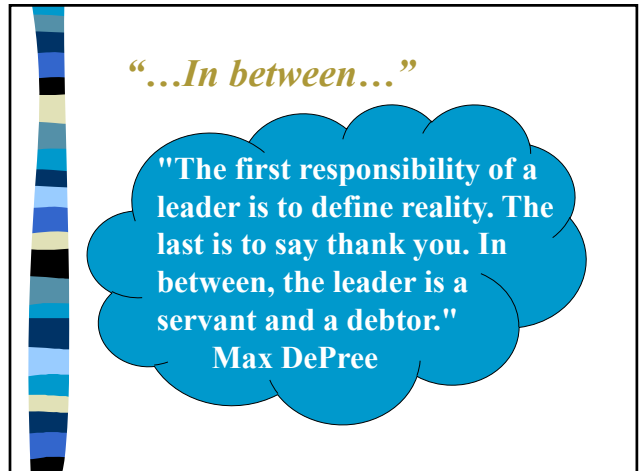
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The Survivor



In Africa every morning, a gazelle awakens knowing it must outrun the fastest lion if it wants to stay alive.

Every morning, a lion awakens knowing it must run faster than the slowest gazelle or it will starve to death.

It makes no difference whether you are a lion or a gazelle; when the sun comes up, you better start running.

~Author Unknown~

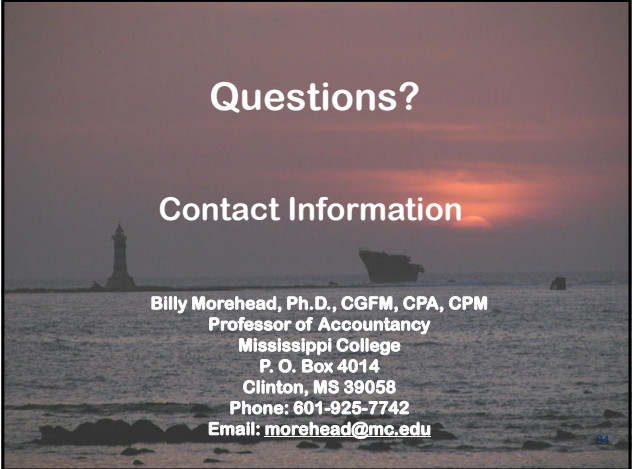
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Questions?

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