



GARY ZEUNE & ASSOCIATES

Training, Writing and Consulting in:
Fraud and Audit Failures
Leadership: Skills and Strategies
Productivity Performance Measures

10356 Wellington Blvd., Suite D
Powell, OH 43065
Phone 614-761-8911
Fax 206-202-0880
gzfraud@bigfoot.com
www.TheProsAndTheCons.com

Auditing:
Solving 17
Common Problems
in the
Risk Assessment Standards

THE WALL STREET JOURNAL

May 25, 1999

Ex-Cons Find Peace and Paycheck On the Burgeoning Lecture Circuit

By JOSHUA HARRIS PRAGER

Staff Reporter of THE WALL STREET JOURNAL

Webster Hubbell hasn't even taken his seat on the speakers' dais, and the 325 accountants in the audience are already snickering.

The former presidential confidant and Whitewater figure has come to the Cobb Galleria outside Atlanta to "educate" a convention of certified public accountants in how to detect financial impropriety. Mr. Hubbell is currently under indictment for evading the collection of tax and for lying to federal investigators (he has pleaded not guilty).

In 1994, Mr. Hubbell pleaded guilty to mail fraud and tax evasion while a partner at the Rose Law Firm in Little Rock, Ark. He served 18 months of a 21-month sentence and is free on parole. "You might as well learn from the best," Audrey McCrary, a well-dressed CPA, says to the colleague seated beside her.

The master of ceremonies, Gary Zeune, plays to the crowd as he introduces Mr. Hubbell. "Webb," he crows, "why the hell did you do this?"



So starts another gig for the Pros & the Cons, a speaking troupe of white-collar criminals now in its second year. The group is the brainchild of Mr. Zeune (rhymes with "tiny"), a 50-year-old CPA from Columbus, Ohio. Mr. Hubbell is his prized recruit.

Mr. Zeune's speakers are right at home on the modern corporate-lecture circuit, which is starting to resemble daytime talk-show circles. Everest climbers, sports coaches, even a former hostage, whose inspirational routine is based on being shot in the head -- all make regular appearances at lunch-hour talks and corporate retreats.

Over the past decade, the number of speakers on the lecture circuit has at least quadrupled, according to the National Speakers Association, a Tempe, Ariz., group that promotes and trains its members, whose median income from speaking in 1997 was \$73,000, more than double the 1990 figure of \$30,000.

Mr. Zeune's speakers require some special handling. Forget about panel discussions: the federal court system's probation division requires **ex-cons** to obtain special dispensation to knowingly have contact with one another. Before booking one of Mr. Zeune's speakers, CPA societies commonly check first with the FBI to

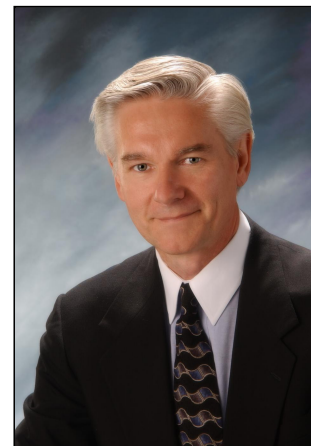
make sure that they are allowed to lecture under the terms of their parole and that their claims to

being **ex-cons** are, in fact, legitimate. "Face it. Accountants are damn conservative," says Mr. Zeune. "I'm sort of surprised they do this at all."

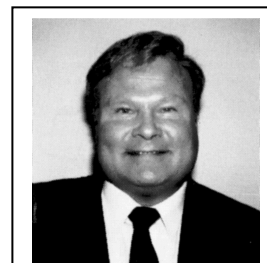
Some doubt the effectiveness of the Pros & the Cons as a fraud deterrent. "I think the group is fairly entertaining, but I'm not sure it helps us," says David Nesbitt, an FBI agent in Ventura, Calif., who oversaw fraud investigations in Los Angeles from 1990 to 1998.

Public speaking does seem to benefit the speakers.

"Guys in Gary's group are dealing better than other white-collar criminals," says Mark Morze, one of Mr. Zeune's speakers, who served more than four years in jail for his role in ZZZZ Best



Gary Zeune, Founder
The Pros & The Cons



Mark Morze

Co., the carpet-cleaning enterprise that bilked banks and investors for some \$100 million back in the 1980s. "Guys who are in denial pay the price forever," Mr. Morze says.

"It's kind of like an alcoholic talking about what happened to them when they started drinking," Mr. Hubbell says. "There's something about confession."

And then there's the paycheck. "There's not too many people who want to hire 50-something-year-old ex-convicts," says Nicholas Wallace, another one of Mr. Zeune's speakers, who spent almost seven years in jail for his role in a \$350 million fraud at ESM Government Securities Inc., a Fort Lauderdale, Fla., brokerage house that defrauded Ohio's state banking commission in the 1980s. When Mr. Wallace went to prison in 1987, he had \$1.8 million. When he got out, after legal fees and a divorce, he had \$800. Mr. Hubbell says that he owes \$3 million in legal fees.

Mr. Zeune grew up the eldest of four children on a dairy farm and became a CPA in 1973. He worked a number of jobs until 1988, when he found his niche behind the podium, lecturing accountants on financial statements and other bean-counting basics.

In 1994, Mr. Zeune added a new topic to his repertoire: preventing fraud. To spice it up, he looked for an **ex-con** to appear with him. He found 30-year-old Barry Minkow, who had founded ZZZZ Best at age 16 and was then serving a 7 1/2-year prison sentence for stealing \$26 million. Mr. Minkow got permission from his parole officer and took the job.

Suddenly, sleep-inducing lectures on the mechanics of fraud came alive. "I was the steak, Barry was the sizzle," says Mr. Zeune. Indeed, the very attributes that enabled Mr. Minkow to hoodwink sophisticated bankers and private investors -- charm, aplomb, ingenuity -- served him well as a speaker. Mr. Zeune, meanwhile, wrote a book, "The CEO's Complete Guide to Committing Fraud."

When Mr. Minkow decided to give up lecturing and become an evangelical Protestant minister, Mr. Zeune asked ZZZZ Best's Mr. Morze to come aboard -- without ever having heard him speak: "I said, 'Gee whiz. He stole \$100 million. How bad [a speaker] can he be?'"

Mr. Zeune, who had come to know about 40 FBI agents through his fraud lectures, began to ask them to recommend other newly released white-collar criminals. Soon, he was paring back his own speaking schedule in order to promote his **ex-cons**.

Snagging Mr. Hubbell was a coup. Last summer, during one of Mr. Zeune's routine canvasses of the **ex-con** landscape for new talent, he came across the National Center on Institutions and Alternatives, an Alexandria, Va., research center on criminal justice. Mr. Hubbell was working there part-time as a senior research fellow soon after his release in 1996 from federal prison in Cumberland, Md. The two linked up.

Mr. Hubbell's Atlanta appearance is only his third for Mr. Zeune. Earlier, he had appeared nervous while waiting for it to begin, his fingers fidgeting with a pink Sweet 'n Low wrapper he'd just emptied into his second cup of coffee. Now, with Mr. Zeune's blunt introduction hanging in the air, the audience waits for an answer.

Mr. Hubbell offers a brief description of how the effects of fraud can snowball. Soon, his self-effacing manner begins to win over the crowd. "The last time I was in Atlanta," he says in his soft Southern drawl, "I was under suicide watch." (He'd been in Atlanta as a prisoner in transit, and his guards were worried about his safety.)

He describes the despair of confessing his crimes to his children and tells of a corporate CEO he met in prison who is now busing tables at a Mexican restaurant. Finally, he explains how he executed fraud: "I was hiding my payments for personal expenses in the bill."

His advice on how to identify red flags seems to find its mark. "How often do I really pay attention to someone's lifestyle?" wonders Barbara Jesup, director of internal audit at AFC Enterprises, an Atlanta restaurant company.

The speech concluded, Mr. Zeune is all smiles. Mr. Hubbell was less amused. "There's that shame factor that's hard to overcome," he says.

NOTE Photos of Hubbell and Morze inserted by Mr. Zeune.



GARY ZEUNE & ASSOCIATES

Training, Writing and Consulting in:
Fraud and Audit Failures
Leadership: Skills and Strategies
Productivity Performance Measures

10356 Wellington Blvd., Suite D
Powell, OH 43065
Phone 614-761-8911
gzfraud@bigfoot.com
www.TheProsAndTheCons.com

Profiled In

1. Wall Street Journal
2. New York Times
3. CFO Magazine
4. Sunday Herald (Canada)
5. Miami Herald
6. National Post (Canada)
7. Business First
8. San Antonio Express
9. Washington Post
10. Report on Fraud (Kroll Int'l)
11. Risk Management Journal
12. Spirit
13. Houston Chronicle
14. Baltimore Sun
15. Forbes
16. Denver Post
17. Columbus Dispatch
18. North County Times
19. Pittsburgh Tribune-Review
20. Associated Press article
21. Corporate Crime Reporter
22. Successful Meetings
23. The American
24. Entrepreneur Magazine
25. Independent Record
26. Daily Reporter
27. Athens News
28. San Antonio News Express
29. INC. Magazine
30. McCleans (Canada)
31. Executive Counsel
32. South Florida Sun Sentinel

Published In

1. Business Credit
2. Corporate Counsel
3. CPA Mutual Insurance
4. White Collar Crime Fighter
5. Ohio Society of CPAs
6. FMN Online
7. Strategic Finance
8. AuditNet
9. NC Board of Accountancy
10. RMA Journal (Risk Management Assn)
11. Business First
12. Wisconsin Institute of CPAs
13. New Jersey Society of CPAs
14. Louisiana Society of CPAs
15. Oregon Society of CPAs
16. Colorado Society of CPAs
17. AccountingWeb.com
18. Journal of Working Capital Management
19. Michigan Association of CPAs
20. National Conference of CPA Practitioners
21. Alaska CPA Society
22. Nebraska CPA Society
23. West Virginia CPA Society
24. Massachusetts CPA Society
25. Iowa CPA Society
26. Oklahoma CPA Society
27. North Carolina CPA Society
28. NH Society of CPAs

CPA Firm Training

1. Mellott & Mellott
2. Yeo & Yeo, P.C.
3. Scott + McElveen
4. Bowman & Company
5. Grant Thornton
6. KPMG Peat Marwick
7. Berry Dunn McNeil & Parker
8. Olsen, Thielen & Co.
9. Packer, Thomas & Co.
10. Hahn Loeser & Parks
11. Cindrich, Mahalak & Co.
12. The Morehouse Firm
13. Boulay, Heutmaker, Zibell
14. Suby VonHaden & Associates
15. Blackman & Sloop, CPAs
16. Deloitte & Touche
17. Rea + Associates
18. Summers Spencer & Callison,
19. Clark Nuber
20. Beard Miller

Corporate Training

1. SEC
2. Dept of Justice
3. FBI
4. Federal Reserve Bank
5. National Association of Securities Dealers
6. Old Republic Title
7. NationalLease
8. Southern Gas Association
9. Retail Industry Leaders Assn
10. Young Presidents Organization
11. National City Bank
12. National Rural Electric Coop
13. SAS Institute Inc.
14. American Corporate Counsel
15. Am Society of Industrial Security

CPA and Accounting Groups We've Taught For.....

Alabama	Georgia	Maryland	New Jersey	South Carolina
Alaska	Hawaii	Massachusetts	New York	South Dakota
Arizona	Idaho	Michigan	North Carolina	Tennessee
Arkansas	Illinois	Minnesota	North Dakota	Texas
California	Indiana	Mississippi	Ohio	Utah
Colorado	Iowa	Missouri	Oklahoma	AICPA
Connecticut	Kansas	Montana	Oregon	IIA
Delaware	Louisiana	Nebraska	Pennsylvania	IMA
	New			



GARY D. ZEUNE
The Pros & The Cons
10356 Wellington Blvd Suite D
Powell, OH 43065

Office 614-761-8911
Fax 206-202-0880

gzfraud@bigfoot.com

www.TheProsAndTheCons.com

TRAINING AND CONSULTING

Using 35 years of experience in auditing, corporate finance, and investment banking, Gary D. Zeune, CPA, provides CPAs, attorneys and executives with hands-on experience in fraud and corporate strategy performance improvement. Mr. Zeune instructs courses for:

- ❑ FBI National Training Academy
- ❑ Office of the U.S. Attorney
- ❑ The SEC Institute
- ❑ National Association of Securities Dealers
- ❑ North American Securities Administrators Association
- ❑ American Society for Industrial Security
- ❑ Over 35 state CPA societies and bar associations
- ❑ American Institute of CPAs
- ❑ American Management Association
- ❑ Institute of Management Accountants
- ❑ Entrepreneurship Institute
- ❑ Treasury Management Association
- ❑ Private classes for numerous companies and accounting firms.

Mr. Zeune has instructed Strategy Formulation and Implementation in the Executive MBA Program and Accounting and Honors Finance at The Ohio State University. He is also a member of the Education Executive Council and is past chairman of the Education Marketing and Public Relations Committees of The Ohio Society of CPAs. His other memberships include: the American Institute of CPAs, and the Regulation of Public Offerings Committee of the Ohio Division of Securities.

Prior to forming his consulting practice in 1986, Mr. Zeune was an Assistant Vice President of Corporate Finance at The Ohio Company, a Columbus, Ohio investment banking firm. He also spent more than five years in Treasury and Finance at Wendy's International, where he was responsible for mergers and acquisitions, financial and SEC reporting, and corporate finance. He was on the audit staff of Ernst & Ernst from 1973 to 1977; and taught accounting at Ohio University from 1970 to 1973, where he received his bachelors in mathematics and masters in accounting, with honors.

ARTICLES AND BOOKS

Mr. Zeune is also widely published. He has published more than 40 professional articles and is the author of *The CEO's Complete Guide to Committing Fraud* and *Outside the Box Performance*. He has been a member of the Editorial Advisory Boards of the *Journal of Working Capital Management* and *The Ohio CPA Journal*.

For Deloitte & Touche, he authored *Financing Business Growth* and has completed the first draft of *The Complete Guide to Buying or Selling a Closely Held Business*, two books in the firm's Entrepreneurial Series. He has authored chapters for two books published by Warren Gorham Lamont, the world's largest financial publisher: *Accessing the Capital Markets* and *Options for Raising Capital*.

WHITE COLLAR CRIMINALS

Mr. Zeune has the ONLY speaker's bureau in the country specializing in white-collar criminals — The Pros & The Cons. Mr. Zeune's speakers tell their stories of how and they committed their crimes. Their frauds range from \$18,000 to \$350 million. Speakers include CPAs, attorneys, and business people. The frauds include:

- ❑ Mark Morze created 10,000 phony documents to steal \$100 million in the infamous ZZZZ Best Carpet Cleaning fraud (86% of the revenue was fake and no one found it)
- ❑ Fred Shapiro defrauded nearly every major financial institution in the City of Philadelphia to the tune of \$8.6M. He is a former attorney, accountant, educator and inmate. Fred worked undercover with the U.S. attorney's office and the FBI in a drug and money laundering operation in an effort to minimize his sentence.
- ❑ Nick Wallace committed a \$350 million fraud as the President of ESM Government Securities resulting in the collapse of the Ohio Saving & Loan Guarantee Fund, and the bankruptcy of 69 Ohio S&Ls
- ❑ Dunlap Cannon was the largest real estate closing attorney in Memphis. He went to prison for 32 months for stealing \$5 million from his clients.
- ❑ Suffering from medical expenses and family deaths, bookkeeper Teri Lynn Norwood stole \$18,000, promising to pay it back. She ran out of time.

100% No-Risk Guarantee

Mr. Zeune's executive education training is consistently rated at least a 4.7 on a 5-point scale. If you are not satisfied for any reason, if you don't learn at least 10 new things you can use the following day, there are no fees or expenses. PERIOD.

ARTICLES

VIDEOS



Articles at www.TheProsAndTheCons.com

Would your clients, staff, customers, vendors or another group you belong benefit from one of these articles?
Email Gary Zeune at gzfraud@bigfoot.com for reprint permission.

Are Immaterial Amounts Ever Material – Gary Zeune, CPA

Embezzling from MCI easy, ex con says - By Joe Napsha, Pittsburgh Tribune Review

Who Needs to be president when you can give speeches? - By Ralph De La Cruz, Lifestyle Columnist, Sun-Sentinel.com

Whitewater Drowned Webb Hubbell - By Bruce Rubenstein, Executive Counsel

Got Problems? 10 steps to effectively implementing the new Risk Assessment Standards – Ohio Society of CPAs
By Gary D. Zeune

Do You Have What It Takes to Be a Fraudster? Lessons from an Honest Person Turned Felon – White Collar Crime Fightre By Chuck Gallagher

Want better internal controls? Tell a story - By Elaine Gregory & Gary D. Zeune

Wrong Strategy + Wrong People = Fraud/Theft/Abuse - By Gary D. Zeune

Auditors And Airport Screeners Have Similar Blind Spots - By Gary Zeune, CPA

Should Auditors Be Airport Screeners? Or why they both miss what they're paid to detect. - By Gary Zeune, CPA

Ex-con: Cunningham Faces Rough Road In Prison - By William Finn Bennett

Walt Pavlo USA TODAY Ethics training -

Gary Zeune on Fraudsters Speaking Out on Fraud The Corporate Counsel - Podcast

OU alumnus examines corporate crime, criminals - By Ashley Ferguson

Ex-cons tout ethics through corporate speakers bureau - By Sarah Anderson

Man's Lifestyle Sold Investors - By Jim Woods

"The Pros of Cons" - By Michael Goldstein

Legal Audits: Does Your Borrower Need A Checkup? - Schottenstein, Zox & Dunn.

An Ex-Con Tells How to Avoid Being Conned. - By Fred Shapiro, in White-Collar Crime Fighter. December, 2004.

Does your compensation system encourage illegal activity? - By Gary D. Zeune, CPA, Published in White Color Crime Fighter in November 2004

Speaker explains how corporate con men get away with it - By Jim Phillips [Athens NEWS Senior Writer] in The Athens News in October 2004

How to Foster Fraud : Forget Ethics - By Gary D. Zeune in White Color Crime Fighter in August 2004

Your Auditors Can Stop Fraud , If they know what to look for - By Stephen Pedneault published in White Color Crime Fighter in August 2004

After Serving Time, Executives Now Serve Up Advice - by CHRISTOPHER S. STEWART in The New York Times

Local CPA, ex-cons attempt to spread word that crime doesn't pay - by SEAN CASEY [Daily Reporter Staff Writer] in Central Ohio Source " The Daily Reporter"

The costs of not securing personally identifiable Data - By Benjamin Wright "The Information Systems Audit and Control Assn." Site : www.isaca.org

Ex-Cons find peace and paycheck on the Burgeoning lecture circuit - By Joshua Harris Prager published in Wall Street Journal May 25th, 2004

Felons become educators for Business - By Mitch Moxley [Financial Post] Published in National Post July 17, 2004

A new regard for ethics on the job - By MEREDITH COHN [SUN STAFF] Originally Published JULY 9, 2004

The pros of preventing cons - White-collar criminals help companies avoid fraud in their midst By Chiree McCain, For Business First - June 25, 2004

Are You Teaching Your Employees to Steal? - By Founder Gary D. Zeune, CPA in Strategic Finance

When it's one of your own a first-person account of Fraud Inside A Bank - by ex-con Dave London in RMA Journal

FRAUD HAPPENS : How an honest employee crossed the line - by Teri Lyn Norwood Published in White - Collar Crime Fighter Magazine , November 2003

Internal theft can destroy years of small business owner's work - by Jane Applegate

Fraud and Theft Start Small - by Founder Gary Zeune in NJ CPA Society Journal

How to Predict When People Will Embezzle - by Founder Gary Zeune in White Collar Crime Fighter

Hubbell details life of fraud - September, 2000 in San Antonio Express

Speaking with Conviction - from Report on Fraud

Corporate crooks hit lecture circuit - from Denver Post

Ex-Con Tells How Auditors Failed to Help Clients Guard Against Fraud - by Mark Morze in White Collar Crime Fighter

Preventing Your Firm's "Enron" - by Founder Gary Zeune in Ohio CPA Journal

SAS 99 17 Ways to Protect Yourself From Malpractice - by Founder Gary Zeune in 7 CPA journals

Regulation SAS 99 Aimed at Curbing Company Fraud - from Bizjournals , March 2004

Business First Auditors' Alert: How NOT to Get Sued Under Fraud Auditing Standards - by Founder Gary Zeune in White Collar Crime Fighter

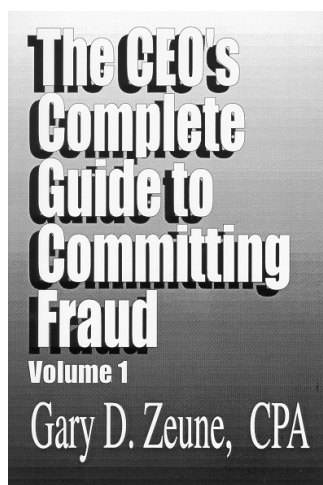
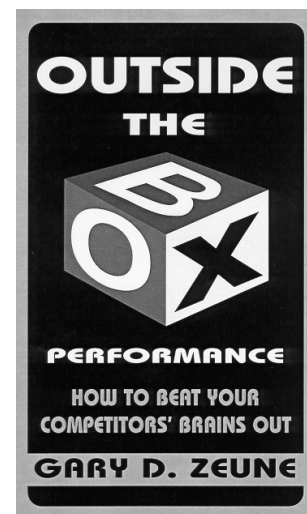
SAS 99 Friend or Foe - by Founder Gary Zeune in two publications

(SAS 99 RMA) Look Out! New fraud auditing standard holds worrisome implications for financial statement reliability : interview with Gary Zeune in RMA Journal (for banking industry)

Like an article.....Email Gary Zeune at gzfraud@bigfoot.com for reprint permission.

Want More Info? Order the Book!

Outside the Box Performance: How to Beat Your Competitors' Brains Out is packed with the techniques small and mid-size world-class companies use to become and stay competitive, and make a ton of money. Learn the secrets to unlock the multitude of new techniques which "drive" your profitability. This book compliments the class and provides new ideas to incorporate in your business. For example, do you know what the basis of competition will be in the next 10 years? It's around you ALL the time. You expect it everyday as a customer. Or, how to beat your competitors by asking your customers two simple questions? If not, sit back and learn how to "beat your competitors' brains out!"



Don't you want to know how Barry Minkow and Mark Morze stole \$100 million from investors in the ZZZZ Best Carpet Cleaning fraud, right under the noses of auditors, underwriters and lawyers? The first chapter of 100 pages in *The CEO's Complete Guide to Committing Fraud* tells you. It also has 8 chapters on other frauds: computer, real estate, fake financial statements, public company frauds, and a chapter by an auditor who became the target of a fraud investigation, just 4 weeks after becoming the engagement partner.

Risk-Free Lifetime Guarantee: Gary Zeune's books are fully guaranteed. If they **ever** fail to meet your expectations, even after you've written in them, marked them up, torn pages out, return for a full refund.

I need the following copies of Mr. Zeune's books. Price: 1 @ \$19.95: 2 to 5 @ \$15.95 6+ @ \$12.95

_____ *The CEO's Complete Guide to Committing Fraud* (300 pages)
 _____ *Outside the Box Performance* (200 pages)

_____ Number of books ordered

1 @ \$19.95

2 - 5 @ \$15.95 each

6+ @ \$12.95 each

Postage/Shipping _____ \$5.00

Total _____

Checks make payable to:

Gary Zeune
 10356 Wellington Blvd Suite D
 Powell, OH 43065
 Office 614-761-8911
 Fax 801-751-6283
 Email gzfraud@bigfoot.com
 Web www.bigfoot.com/~gzfraud

Name _____

Company _____

Address _____

City _____ State _____ Zip _____

Phone _____ Fax _____

Email _____

Address is: Firm Home



Auditing: Solving 17 Problems in the Risk Assessment Standards

Gary Zeune, CPA
The Pros & The Cons
10356 Wellington Blvd, Suite D
Powell, OH 43065
Phone 614-761-8911
Fax 206-202-0880
gzfraud@bigfoot.com
www.TheProsAndTheCons.com



Required Legal Stuff



These materials were developed by Gary D. Zeune. The following policies govern their use:

1. These materials are intended for use in group study situations and were not developed for self study or reference uses. These materials are copyrighted. Reproduction of the manual or any portion of it is prohibited unless written permission has been obtained from Gary D. Zeune.
2. These materials were prepared solely for the purpose of continuing professional education. They are distributed with the understanding that Gary Zeune is not engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional should be sought.
3. Participants are advised that the Statement on Standards for Formal Continuing Education (CPE) Programs places responsibility on both the individual participant and the program sponsor to maintain a record of attendance at a CPE program.
4. The information the participant should keep on each program is (a) sponsor's name, (b) title and/or description of content, (c) date(s) of the program, (d) location, (e) number of CPE contact hours. This information is found in the printed program for most courses or conferences and/or in a CPE attendance record form. Either or both of these documents should be kept for an appropriate period to enable regular periodic reporting to jurisdictional board(s) and to professional organizations requiring such reports.

Free: Leading Edge Information Every Week

Stay up to date with Mr. Zeune's free electronic newsletter.

Send an email gzfraud@bigfoot.com with SUBSCRIBE FRAUD in the subject line and include your email address in the body.

There is no cost and you can unsubscribe at any time.

"Just wanted to let you know that I appreciate being on your distribution list. I have found that there are many items that you refer to me that are helpful."

. . .Mike McGlynn



Newsletter Example

1. [Authorities find investigator's body near Charlotte, N.C.](#)
AP via Yahoo! News Tue, 20 May 2008 6:55 PM PDT
Authorities searching a wooded area on Tuesday found the body of a North Carolina insurance investigator who prosecutors believe was killed by the owner of an agency she was **auditing**.
1. [Former accounting professor pleads guilty to grand theft](#)
A former assistant professor of accounting at the University of Tampa has pleaded guilty to stealing \$120,000 from the American Spaniel Club. She was accused of writing 71 Spaniel Club checks to herself between July 2006 and March 2007 to feed an Internet gambling addiction.
1. [Half-million tricked by telemarketing fraud](#) [these companies had to have accountants....hope none were CPAs.....gdz]
CNNMoney.com via Yahoo! Finance Tue, 20 May 2008 10:09 AM PDT
The Federal Trade Commission unfurled Tuesday results of an enormous telemarketing **fraud** sweep, saying it had filed more than 180 cases that represent thousands of alleged victims and millions of dollars in losses.



Manual Posted Online

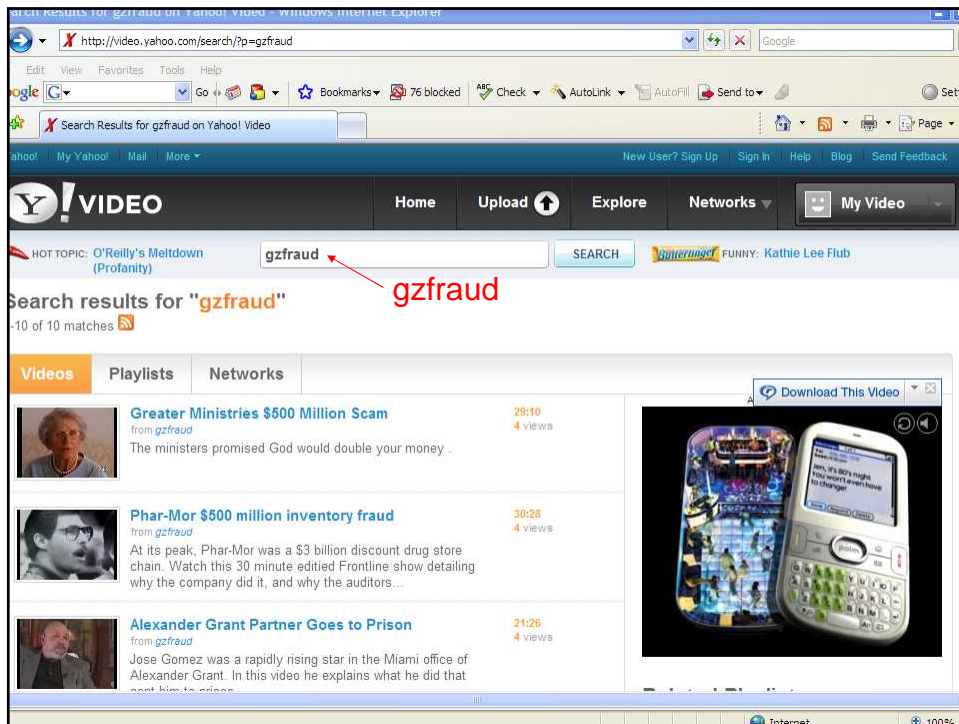


The manual with blanks filled in will be posted by the end of next week at www.TheProsAndTheCons.com/manuals.

The screenshot shows a web browser window displaying a YouTube search for "gzfraud". The search bar contains "gzfraud" and a red arrow points to it with the text "gzfraud" written next to it. Below the search bar, the results are sorted by "Relevance" and show four video thumbnails:

Video Title	Added	Views	Duration	Rating
Barry Minkow Master Mind of the	7 months ago	2,996	05:21	★★★★★
Girl Scout Leader Steals \$5000	3 weeks ago	15	00:42	no rating
Ex-con Fred Shapiro Explains His Fraud	2 months ago	328	09:46	★★★★★
Teri Lyn Norwood "My Life as a Thief"	6 months ago	380	07:39	no rating

Below these results, there are more video thumbnails with titles like "White collar criminal", "White Collar Criminal", "Car Dealer Try to", and "Countrywide". On the right side of the page, there is a banner for "ROLLING STONES" and a text box that reads: "Videos under 10 minutes. See Video.Yahoo.com for videos more than 10 minutes."



What We'll Cover

1. Risk Standards Overview
2. SAS 102 Defining Professional Standards
3. SAS 103 Audit Documentation
4. SAS 104-111 Risk Assessment Standards
5. SQCS No. 7

RAS17 © Gary Zeune, CPA

8



Problems/Solutions

#	Problem	Slides
1	How to change years of practice to minimize your malpractice liability	14, 15, 17, 18, 29, 36
2	What's not OK as technical training and proficiency	49
3	Learn how a new client puts you and your firm at risk....and you won't even know it	38, 73
4	Do you need to realign existence/ observation/ valuation assertions	56
5	How the Risk Standards differ from previous requirements	43
6	Planning and supervision is not _____	89, 91



Problem/Solution

7	Learn why the new materiality is NOT a percentage or amount	41
8	You've found a misstatement.....now what's required	71
9	Do you know when ANY amount of misstatement is material	64
10	Learn the two best, no cost, ways to protect yourself	70, 71, 85, 86
11	When is what management tells you NOT audit evidence	24, 35



Problem/Solution

12	Find out when you're required to document internal controls	51, 57
13	Get the 3 simple questions for the required understanding of controls	46, 94, 95, 108
14	Learn when you required to dig deeper	58
15	When should you audit more than year end numbers	74,107, 110
16	When should you audit more than year end numbers	109
17	If you don't comply with this one requirement you are not permitted to issue any kind of opinion	19



Accountants Under Fire



For decades the accounting profession basked in the highest kind of public confidence. Now all at once there are more than 50 major lawsuits pending against the big public accounting firms, charging irregularities and negligence in preparing earnings reports and other financial statements. With equal suddenness a barrage of public criticism has landed on the profession for its highly flexible "generally accepted accounting principles." Perhaps most worrisome of all to the CPAs and to the management that employ them, the Securities & Exchange Commission has been issuing thinly disguised threats to take unilateral action if the accountants themselves do not quickly tighten up their rules.

Under the present accounting rules, there is a very fine line between "maximizing" and plain, old-fashioned, manipulation.

FORBES, May 15, _____

1967



Where Risk Comes From.....

"The vast majority [at 90% where the potential damages exceed \$10 million] of serious cases brought against accounting firms allege failures to comply with generally accepted auditing standards," *Accountants' Liability*, Practising Law Institute, Goldwasser, Arnold & Eickemeyer. Dan is a member of the Auditing Standards Board, past chair of the firm's Professional Liability Litigation Practice Group and has defended professionals in 200 liability cases.

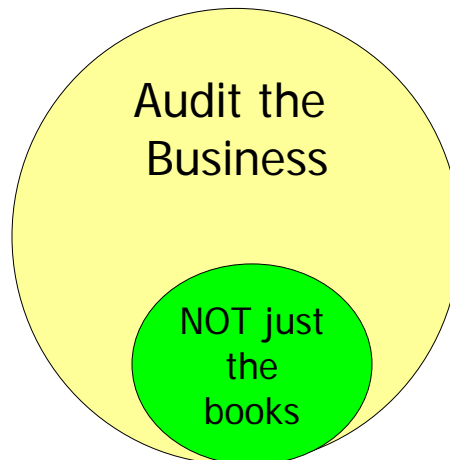


Dan Goldwasser
212-407-7710

dgoldwasser@vedderprice.com



Problem #1 Minimize Malpractice



Problem #1 GAAP + GAAS Not Good Enough

1. Liability requires scienter
2. Scienter = intentional or reckless conduct evincing a deliberate disregard for the consequences

Solution: Failure to follow firm's professional standards
often evidence of scienter

Accounting, Auditing & Financial Malpractice, page 189.

Are You Protected?



Question: If you miss a material misstatement, get sued, and can show with a parade of experts that you performed a GAAS audit, that you put all the check marks in all the right boxes, is the jury bound to find you not liable?

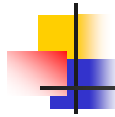
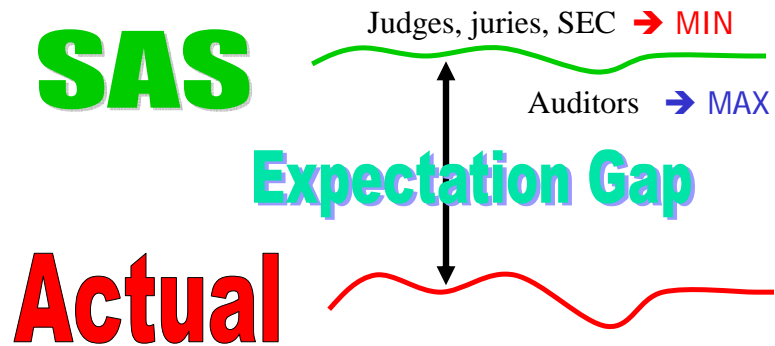
Yes No

Why?

GAAP and GAAS are NOT the law.



Problem #1 Expectation Gap Risk



Problem #1 At the END of EVERY Auditing Standard

Note: *Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the Institute designated to issue pronouncements on auditing matters. Rule 202, Compliance With Standards, of the Institute's Code of Professional Conduct requires compliance with these standards in an audit of a non-issuer.*

Solution: Put this requirement in the FRONT of EVERY audit standard and every **AUDIT PROGRAM** .



Problem #17

To Issue an Opinion You MUST

Comply with EVERY auditing standard on EVERY engagement. Otherwise you have violated GAAS.

What are two other things you have violated.....

1. Professional ethics
2. AICPA and accountancy board rules



Recall The Report

Q: If you have violated GAAS do you HAVE TO recall your report Y N

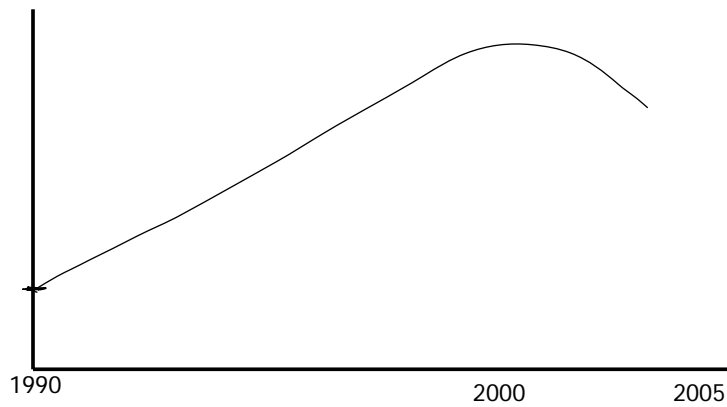
Why: Violating GAAS doesn't mean your report is wrong

Q: BUT, if you don't comply with an auditing standard will that provide plaintiff's atty a cause of action?

A: Probably YES. A plaintiff will look for any failure to follow GAAS.



When We Get New Auditing Standards



SAS 102

Defining Professional Requirements In Statements On Auditing Standards

Defines the responsibility that the requirements impose on the auditor



SAS 102 Must and Should

1. **MUST** = *Unconditional requirements* – The auditor or practitioner is required to comply with an unconditional requirement in all cases in which the circumstances exist to which the unconditional requirement applies.
2. **SHOULD** = *Presumptively mandatory requirements* – The auditor or practitioner is also required to comply with a presumptively mandatory requirement in all cases in which the circumstances exist to which the presumptively mandatory requirement applies; however, in rare circumstances the auditor or practitioner may depart from a presumptively mandatory requirement provided he or she documents the justification for departure and how alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement.



Problem #11: Must and Should

1. What do you consider a *rare* _____%,
2. Then you must perform _____% of *shoulds*
3. If you depart from a "should" you MUST document what you did and how the procedure was at least as effective as the procedure in the standard

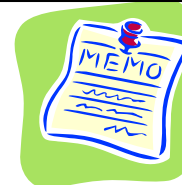
Solution: Review EVERY audit program for

compliance with "SHOULDs"

SAS 103 Summary Audit Documentation



SAS 103



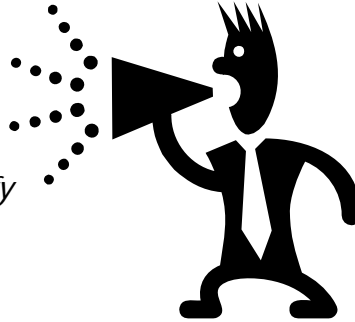
1. Work papers should be in sufficient detail for an *experienced* [internal or external] auditor *without* a connection to the audit to understand:
 1. Work performed
 2. Results of the work
 3. Evidence obtained
 4. Conclusions reached
 5. Accounting records agree or reconcile with the financial statements or other information

Auditing Tip: The work papers are REQUIRED TO

SAS 103

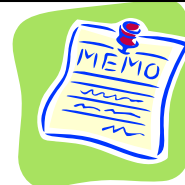


Oral explanations on their own do not represent sufficient support for the work the auditor performed or conclusions the auditor reached but may be used by the auditor to clarify or explain information contained in the audit documentation.



Audit Tip: Oral explanations are NOT **AUDIT EVIDENCE**.

SAS 103 FINISH The File



1. Assemble the final audit engagement file within 60 [calendar...gdz] days following the report release date
 1. After 60 days – no deletion or discarding of existing audit documentation is permitted
 2. After 60 days – appropriately document subsequent additions
2. Must retain files for at least five years from the report release date, or longer if otherwise required



Problem #1 SAS 103



Audit Behavior: Some will 'rationalize' not completing and 'locking down' the file....."Everything is OK. There's nothing WRONG. I'll DO IT LATER."

Solution: To maximize compliance, and minimize risk, adopt a firm policy that your report isn't released until work papers are **FINAL**.



SAS 104 – 111 Risk Assessment Standards



Risk Assessment Standards

104	Amends SAS 1 Due Professional Care
105	Amends SAS 95 GAAS
106	Audit Evidence
107	Audit Risk and Materiality
108	Planning and Supervision
109	Understanding the Entity and It's Environment
110	Performing Audit Procedures in Response to Risk and Evaluating the Evidence
111	Amends SAS 39 on Auditing Sampling



SAS 104 – 111 Three Objectives

1. More in-depth understanding of client and its environment, including internal controls, to identify risk of material misstatement (error or fraud) and how the client mitigates them
2. More rigorous assessment of the risks of where and how the financial statements could be materially misstated
3. Improve linkage between the auditor's assessed risks and the nature, timing and extent of audit procedures performed in response to those risks



Risk Assessment Procedures Overview



SAS 104 – 111 AICPA Comments

1. "The standards will result in more effective audits as a result of better risk assessments and improved design and performance of audit procedures to respond to the risks. These standards will better help auditors focus on those areas where risk of misstatement is the greatest," John Fogarty, Chairman, Auditing Standards Board.
2. "These standards, along with our standard on fraud [SAS 99...gdz], get to the very heart of the audit process. Implementation of the new standards may require auditors to change their approach and perhaps the nature of the audit procedures performed. We believe that these standards, with support from the AICPA, will allow our members to find ways to improve the effectiveness of their audit engagements," Chuck Landes, AICPA VP, Professional Standards and Services.



Problem #11 Protecting Yourself

Audit Tip: Who else has read these comments and will attempt to use them to set the level of audit quality?

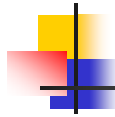
Attorneys who _____ **sue auditors** _____

Solution: What's your best protection?

Don't accept audit just because client will **pay you.**

Solution: What is next best protection?

Comply with the _____ **standards** _____



Problem #1: How the Risk Standards Affect Past Practice

1. Can't rely on just 'canned' audit programs

Solution: Canned audit programs are the starting point, not the **end point**.

1. No longer OK to default to maximum risk

Solution: Maximum risk means zero/no controls so will nearly always have to evaluate/document



SAS 104 – 111 New Requirement



Complying with the linkage requirements will require auditors to do one of the most difficult and time consuming tasks:

THINK

Re-Writing the Canon
Michael Ramos, AuditWatch.com

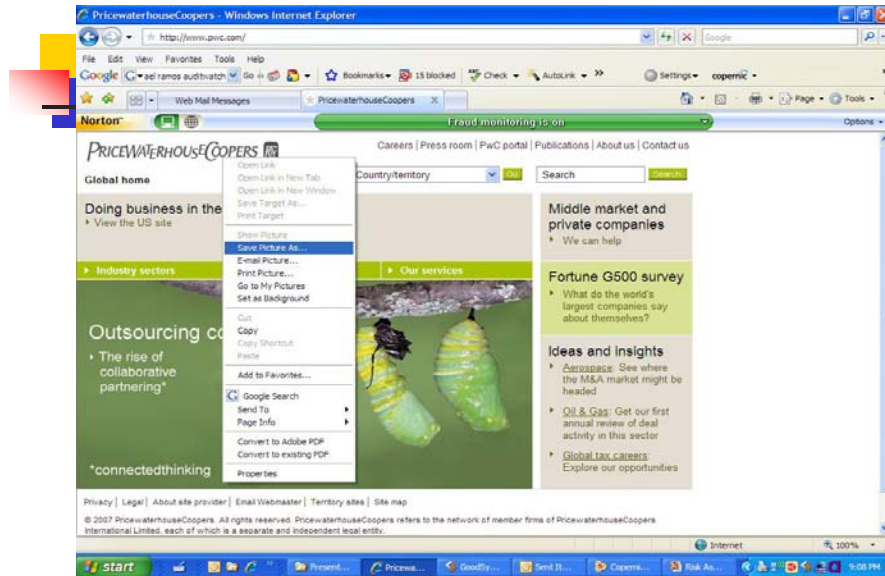


Problem #3: What a Few Clients Will Do

Some clients, afraid they can't 'pass' the new scrutiny, will fire your firm and send the user financial statements with a **FAKE opinion**.

Solution: Engagement letter paragraph that if you're fired or level of service changes **you'll notify user.**

Fake Opinions



SAS 104

Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures (“Due Professional Care in the Performance of Work”)



Problem #7: New Reasonable Assurance

1. SAS 104 expands *reasonable assurance*
2. Audit risk to be limited to low level
3. *"...the auditor must plan and perform the audit to obtain sufficient appropriate audit evidence so that audit risk will be limited to a low level..."*
4. High, but not absolute, assurance is now reasonable assurance in the opinion that statements are free of material misstatement due to error or fraud

Solution: You have a POSITIVE, AFFIRMATIVE, duty to audit to a low level of risk



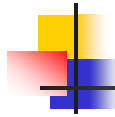
SAS 105

***Amendment to Statement on
Auditing Standards No. 95,
Generally Accepted Auditing Standards***



Problem #5: Key Requirements and How They Affect Current Standards

Key Provisions	Difference
<div style="border: 2px dashed red; padding: 10px;"><p>Adapted from: Understanding the New Auditing Standards Related to Risk Assessment, AICPA</p></div>	

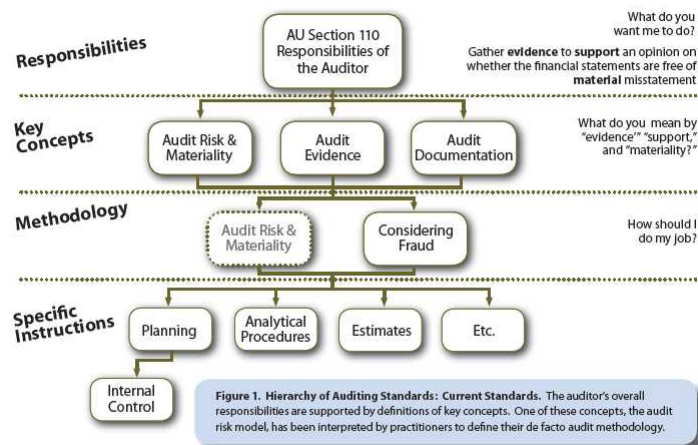


SAS 105 Amends GAAS

Key Provisions	Difference
Expands second standard of field work from understanding "internal controls" to "the entity and its environment including internal control"	Understanding controls was part of planning Must understand client and environment to assess risk to form an opinion "Canned" audit programs not appropriate



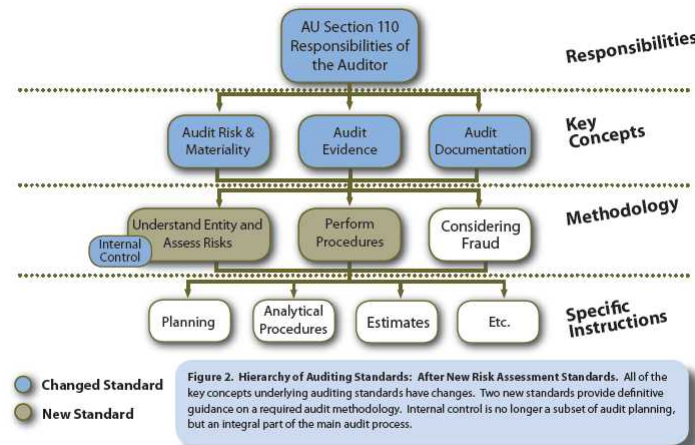
Old Hierarchy



AuditWatch.com



Problem #13: New Hierarchy



AuditWatch.com



Grandma's Treasures



8-15
©2007 Bill Keane Inc.
Dist. by King Features Synd.
www.keane.com

Bill Keane

"Why don't you have any things on these bottom shelves, Grandma?"

Grandma loves and trusts her grandchildren so why put keepsakes out of reach?

Trust is NOT a **CONTROL**



SAS 105 ASB Changes Voice

Standards of Field Work

1. **The auditor must** ~~The work is to be~~ adequately planned ~~the work~~ and **must properly supervise** any assistants, if any, ~~are to be properly supervised.~~
2. **The auditor must obtain a** ~~A sufficient understanding of the entity and its environment, including its internal control, is to be obtained to assess the risk of material misstatement of the financial statements whether due to error or fraud, plan the audit and to design~~ **determine** the nature, timing, and extent of **further audit procedures** ~~tests to be performed.~~
3. **The auditor must obtain** ~~sufficient~~ **appropriate** ¹ **audit evidence** ~~competent evidential matter is to be obtained by performing~~ **audit procedures** ~~inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.~~

Audit Tip: Why did ASB changed from passive to **active** voice? To leave no doubt what is **REQUIRED**

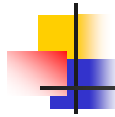


Problem #2: SAS 105 Amends GAAS

General Standards

1. The audit **must** be performed by a person or persons having adequate technical training and proficiency as an auditor.

Solution: Adequate technical training and proficiency is NOT handing someone **last year's work papers** and saying "Just follow last year's **audit program**"



SAS 106

Audit Evidence

Supersedes Statement on Auditing Standards No. 31, Evidential Matter, as amended, AICPA, Professional Standards.



Problem #12: Management Assertions Are Not Audit Evidence

Key Provisions	Difference
Guidance on uses and limitations of inquiry as an audit procedure	Inquiry alone is NOT sufficient to evaluate the design of control(s) and determine whether it has (they have) been implemented

Solution: What management tells you (assertions) is what you're supposed to be AUDITING.



SAS 106 Audit Evidence

Key Provisions	Difference
Recategorizes assertions into classes of..... Transactions Account balances Presentation and disclosure	Presentation and disclosure includes new assertion that information should be 'expressed clearly'

"Expressed Clearly"



Audit Tip: List at least one 'user' you have reviewed the financial statements to assure they are 'expressed clearly' and you don't violate SAS 106? _____

What publications do you read to stay current on business news affecting your clients and their industries?

SAS 106 Basic Concepts

1. Audit evidence.....
 1. Sufficiency is quantity
 2. Appropriateness is quality
 2. Is interrelated
 1. Greater risk requires more evidence
 2. Higher quality, less evidence
 3. More low quality evidence isn't a substitute
- Audit Tip: Evidence is cumulative so team should TALK



SAS 106 Other Audit Evidence

1. SHOULD obtain
 1. Minutes of meetings
 2. Confirmations from third parties
 3. Controls manuals
 4. Inquiry, observation, inspection
 5. Industry analysts' reports
 6. Benchmarking data
2. Because accounting records alone are NOT sufficient appropriate audit evidence
3. If information is inconsistent, SHOULD resolve



Problem #4: Audit Evidence

1. Audit evidence supports some assertions but not others
2. Inventory observation supports existence but not rights and obligations assertion
3. Revenue
 1. AR collections after YE supports existence and valuation but not cutoff

Solution: Look at Purchase orders

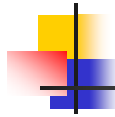
P12 if there is no appropriate alternative, difficulty or expense is not a valid reason to omit an audit procedure



Problem #12: Audit Evidence

13.....the auditor does not examine all ... available evidence the auditor may find it necessary to rely on audit evidence that is persuasive rather than conclusive; however, to obtain reasonable assurance, the auditor must not be satisfied with audit evidence that is less than persuasive. The auditor should use professional judgment and should exercise professional skepticism in evaluating the quantity and quality of audit evidence, and thus its sufficiency and appropriateness, to support the audit opinion.

Solution: Don't believe it just because client TELLS YOU



Problem 14# Types of Procedures

1. Risk assessment procedures – understanding of the entity and the environment – unconditional requirement

Audit Tip: No longer audit just the financial records



Understanding the Client



1. What business is Xerox in **COPIER BUSINESS**
2. 1970 The COPIER Company is **INTERNAL**
3. 1995 The DOCUMENT Company is **EXTERNAL**
4. Early 2000s Xerox nearly went bankrupt
5. WHY **Internet** which is a **Disruptive Technology**
6. What business is Xerox in **INFORMATION DISTRIBUTION**

Auditing Tip: Simply adding up the numbers does NOT mean you **UNDERSTAND** the business.



Do You Understand Your Client's Business?



1. Do you know what business your client is in?
Yes No
2. What business is your favorite client in _____?
3. What are the 3 major reasons your client's customers do business with your client instead of a competitor?
1. _____
2. _____
3. _____



SAS 107

Audit Risk and Materiality in Conducting an Audit *(Supersedes Statement on Auditing Standards No. 47, Audit Risk and Materiality in Conducting an Audit)*



SAS 107 Audit Risk and Materiality

Key Provisions	Difference
Must consider audit risk and must determine materiality level	OLD: "should consider" NEW: "must consider" Explicitly states identify and assess risk of material misstatements
Risk is judgment but SHOULD be documented	Effectively eliminates ability to "default" to maximum control risk



SAS 107 Audit Risk and Materiality

1. Audit Risk and Materiality are to be considered together to design the nature/timing/extent of audit procedures and evaluate the results
2. Audit risk = failure to detect material misstatement
3. Individually or in aggregate
4. Quantitative AND qualitative
5. What users EXPECT is your professional judgment
6. Users as a **group**

Audit Tip: Do you know what users are doing with the audited financial statements? Y N



Problem #8: SAS 107 Materiality

Statement of Financial Accounting Concepts No. 2, *Qualitative Characteristics of Accounting Information*, defines *materiality* as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

Solution: There is NO **% OR \$** in the definition.

Solution: If users would make a different decision, then the amount/transaction/event is **MATERIAL**.



SAS 107 Nature/Causes of Misstatements

1. Misstatements are two types:
 1. Known
 2. Likely
 2. Misstatements have two sources: error or fraud
 3. Errors are **unintentional**
 4. Fraud is **intentional**
 5. Tell the difference...ACTIONS
- Audit Tip: Did someone violate a control they used to **comply with** _?



SAS 107 Nature/Causes of Misstatements

1. Inaccurate gathering or processing data
2. Amount, classification or presentation under GAAP
3. Omission of element, account or item
4. Disclosure not GAAP
5. Omission of disclosure
6. Incorrect accounting estimate from oversight, misinterpretation, unreasonableness or inappropriateness



Deloitte partner James Fazio

1. 2003 audit of Ligand Pharmaceuticals
2. Losing money but stock price 4 in early 2003, to a peak of almost \$25 in the spring of 2004
3. WHY stock price increased Sales increasing
4. Fazio "was perceived as a quality risk", supervisor testified to PCAOB
5. Encouraged to resign
6. No additional supervision
7. Barred from public company audits for 2 years



Deloitte partner James Fazio

1. Aggressive sales at quarter end to meet sales goals
2. 4Q 2003 sales
 1. October \$1.1 million
 2. November \$3.3 million
 3. December \$43.4 million
3. Reported poor sales in 2005
4. Hired new auditor
5. Restated 2003 to cut revenue more than 1/2



Deloitte partner James Fazio

1. Fazio failed to perform appropriate and adequate audit procedures of Ligand's sales of products for which a right of return existed and failed to supervise others.....that adequately took into account [that] Ligand had consistently and substantially underestimated its product returns...
2. Firm consented to a \$1m penalty
3. Implemented changes to its practices and will carry out further improvements to the way it documents quality control



Problem #10: SAS 107 When is Fraud Material

- 10 Although the auditor has no responsibility to plan and perform the audit to detect immaterial misstatements, there is a distinction in the auditor's response to detected misstatements depending on whether those misstatements are caused by error or fraud. When the auditor encounters evidence of potential fraud, regardless of its materiality, the auditor should consider the implications for the integrity of management or employees and the possible effect on other aspects of the audit.

Solution: ANY misstatement due to fraud is material. So there is NO such thing as an immaterial illegal amount.

Problem #8: No Longer Acceptable

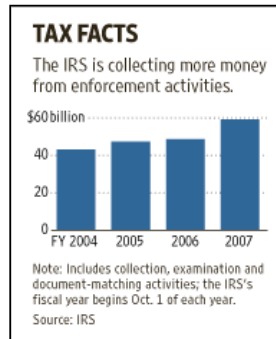
Don't put yourself and firm at risk.....

Solution: Use Risk Standards to adopt

ZERO Tolerance

IRS To Combat Cheating

1. Close \$290 billion tax gap
2. Politically easier to collect taxes due
3. IRS studies: Reporting increases compliance
4. Cost-basis reporting of securities
5. Funding increasing 4.3% but
6. Enforcement funding up 7%
7. \$100,000
8. \$1MM+ income audits up 84%





Problem #3: SAS 107 Financial Statement Risk

1. Client size and complexity and auditor experience and knowledge
2. Should consider 'pervasive' risk [Management override](#)

Solution: If you're asked to propose on a client in an industry or area you know little or nothing about, why [would the company ask you to propose?](#)



Problem #15: SAS 107 Responsibility

1. Inherent risk and control risk are entity's
2. Audit risk is auditors
3. Auditor should not assume that a misstatement is an isolated occurrence

Solution: If you find a misstatement, you're likely to [find more](#). So dig deeper. Look under the _____.





SAS 107 Qualitative Misstatements

1. Trends, especially profitability
2. Change loss to income or vice versa
3. Compliance with agreements, contracts, regulations
4. Statutory or regulatory reporting requirements
5. Hides a change in earnings or other economic data
6. Compensation...small amount could trigger a bonus
7. Sensitivity: illegal payments, contract violations, conflicts
8. Recurring vs. non-recurring
9. Operating vs. non-operating

SAS 107 p60

RAS17 © Gary Zeune, CPA

75



SAS 107 Qualitative Misstatements

1. Buy-sell agreements [+divorce....gdz]
2. Precise amount is misstated
3. Management motivation: pattern of bias, won't correct misstatements, intentionally not following GAAP
4. Offsetting significant different misstatements
5. Currently immaterial but consider future effect
6. Has management incurred the cost to develop a system to calculate immaterial amounts
7. Undetected misstatements would affect opinion

SAS 107 p60

RAS17 © Gary Zeune, CPA

76



Recognizing Regulatory Risk



Air Florida



Pan Am

PEOPLEExpress

Audit Tip: In 1978, the airline industry was deregulated.



Subprime Mortgage Meltdown

Still Falling

The Case-Shiller U.S. home-price index; change from a year earlier



1. \$100 billion losses....so far
2. Affect 8 of 10 companies??
3. 2 million families
4. Recession????



Polaroid



1. Edwin Land 1937
2. Revolutionary technology
3. 1970s One-Step best selling
4. Stopped camera production 2006 Film 2008
5. Digital cameras disruptive technology

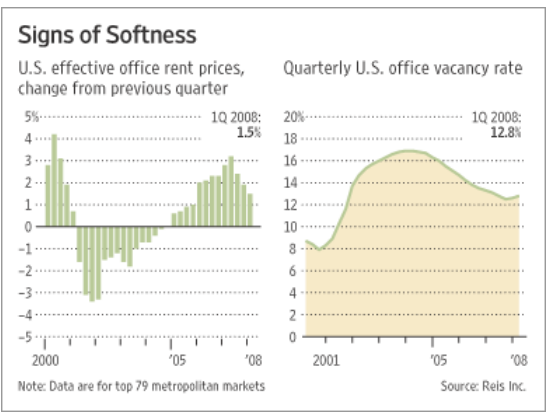
Tip: What technology will disrupt your or your client's business and create a risk of material misstatement?

Subprime Mortgage Headlines

1. FBI Probes 14 Companies Over Subprime Turmoil
2. Some Colleges Are Jeopardized by Tight Credit
3. Smaller Lenders Feeling Squeeze of Credit Crunch
4. Spitzer takes aim at subprime lenders
5. Bank ratings may be cut on bond insurer woes: S&P
6. Exelon reports subprime-mortgage exposure
7. Moody's says subprime loss estimates a "crapshoot"
8. Assurant earnings down 52% on subprime trouble



Business Office Rentals Fall



1. Rents down
2. Vacancy up
3. Audit risk to.....
 1. Landlords
 2. Property owners
 3. New builds
 4. Job growth
 5. Many others

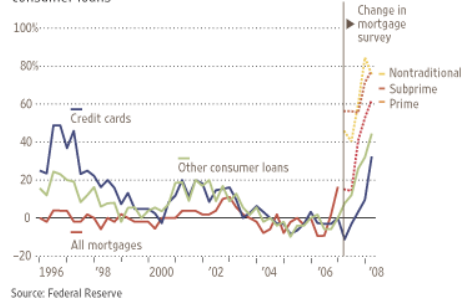


Credit Crunch

1. Fed surveys senior loan officers
 2. Lending slowing
 3. Constrain spending and investment
 4. Raising credit card requirements and lowering credit limits
 5. Student loans
- Tip: Have you factored credit availability into your audit?

Harder to Borrow

Net percentage of banks that reported tightening lending standards for residential mortgages and consumer loans



SAS 107 Consideration of Misstatements

1. MUST Aggregate identified uncorrected misstatements
2. Includes known and likely
3. Uncorrected from prior periods
4. If client does not correct known and likely misstatements should consider qualitative effects and implications for the opinion

Audit Tip: If management won't correct a known misstatement of any amount, do you want them as a client _____?

RAS17 © Gary Zeune, CPA

83

Change System...Change Behavior



Audit Tip: Anytime you change a 'system' of ANY kind, people will ALWAYS change their BEHAVIOR _____

RAS17 © Gary Zeune, CPA

84



Problem #10: Newspaper Materiality

A little number is material when it gets you or your company or firm on the front page of the paper.



Solution: If you wouldn't want people to read the item in paper, don't do it.



Problem #10: Little Numbers That Are Material

Bank loan covenant requires minimum income	\$1,000,000
1 st pass at income	\$980,000
Reduced bad debt expense	+\$31,000
Income	\$1,011,000



Company gets clean opinion



Goes bankrupt



Bank sues



Firm 'conspired' with borrower

Solution: Little numbers are material if they accomplish a _____

SIGNIFICANT EVENT



SAS 108

Planning and Supervision

(Supersedes "Appointment of the Independent Auditor," as amended, of Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures, AICPA, Professional Standards; and supersedes Statement on Auditing Standards No. 22, Planning and Supervision)



SAS 108

Key Provisions	Difference
Guidance on..... Appointment of the auditor Establish an understanding Preliminary activities Overall strategy Audit plan Specialized skills IT assistance First engagement issues Supervision	Guidance from existing SASs "Audit approach" replaced by overall audit strategy Broad approach re: scope, deadlines, financial reporting issues Audit plan = detailed audit program SHOULD obtain written understanding

Problem #6: SAS 108




The first standard of field work,
“The auditor must adequately
plan the work and must properly
supervise any assistants.”

Solution: Proper planning and supervision is NOT
“Here’s last year’s work papers. Go forth and audit.”

Problem #6: SAS 108 Planning Includes

1. Planning is not a discrete phase but starts with acceptance and continues throughout
2. Understanding with the client
3. Appointment, including successor/predecessor communications and acceptance
 1. Early vs. last minute appointment

Solution: Protect yourself from risky clients DON'T ACCEPT



Problem #6: SAS 108 Planning Includes (cont'd)

1. Continuance of client relationship
2. Overall audit strategy
3. MUST have a written audit plan
4. Need for specialized skills
5. Communications may be held with management or those responsible for governance, but do not affect auditor responsibility to plan and perform the audit

Solution: Although it's very difficult to acknowledge you need help are you willing to risk a **MALPRACTICE SUIT**



SAS 109

***Understanding the Entity
and Its Environment and
Assessing the Risks of
Material Misstatement***



SAS 109 Entity and Environment

Key Provisions	Difference
SHOULD assess risk at both financial statement level and assertion level	Determine how risk at statement level may cause risk at assertion level
Requires evaluation of design of controls and if client has implemented	OLD: understand to plan the audit NEW: Requires determination if controls will prevent or detect and correct material misstatements to support the opinion Can't 'default' to maximum risk



Problem #13: SAS 109 Overview

1. Requires understanding beyond acct/financial issues
2. Requires understanding the risk of industry, regulatory, legal, political and environmental issues
3. "Per Joyce, controls are strong" won't work anymore

Solution: "Can't audit what you don't understand."



Problem #15: SAS 109 Understanding Controls

Solution: Understanding controls is NOT having the controller the _____ complete the checklist _____.

Solution: If you can't complete the checklist then you don't understand controls and you are violating SAS .109

Solution: No matter how strong controls are, management can ALWAYS _____ **override them** _____.



SAS 109 Understanding Includes

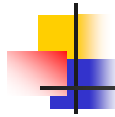
1. Industry, regulatory and other factors
2. Nature of the entity – operations, ownership, governance, legal form
3. Objectives and strategies and business risks
4. Financial performance
5. Internal control, including accounting policies

Audit Tip: Even if you 'understand' controls, it does NOT mean they are actually _____ **OPERATING** _____



SAS 109 Appendices

1. Appendix A: Illustrative Financial Statement Assertions
2. Appendix B: Examples of Substantive Procedures Illustrations for Inventories of a Manufacturing Company



SAS 110

***Performing Audit Procedures in
Response to Assessed Risks and
Evaluating the Audit Evidence Obtained***



SAS 110 Performing Procedures

Key Provisions	Difference
Guidance on overall responses to risk of material misstatement at financial statement level and nature of the responses	Previous standards had responses in audit planning 110 'repositions' risk consideration to make assessment as a result of and in conjunction with risk assessment procedures Requires consideration of how risk at statement level affects individual assertions to design and perform further audit procedures



SAS 110 Performing Procedures

Key Provisions	Difference
Further audit procedures include tests of controls or substantive tests, SHOULD respond to risk of material misstatement	Previous standard embedded responsive procedures in audit risk Requires clear linkage from understanding the entity to risk assessment to further audit procedures Required to document linkage



SAS 110 Performing Procedures

Key Provisions	Difference
Guidance to determine nature, timing, and extent of audit procedures	Addresses issues not previously in standards States further audit procedures is most important in responding to risk of material misstatement Increased audit procedures will not compensate if they do not specifically address risk



SAS 110 Performing Procedures

Key Provisions	Difference
Continued	Perform substantive procedures on all audits <ol style="list-style-type: none">1. Each material class of transactions, account balances and disclosure regardless of risk of material misstatement2. Agree statements and notes to accounting records3. Examine material journal entries and other adjustments



SAS 110 Performing Procedures

[SAS 110] provides guidance about implementing the third standard of field work, as follows: The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.



SAS 110 Overall Responses to Risk

1. Professional skepticism in gathering and evaluating
2. More experienced staff
3. Specialized skills or specialists
4. Supervision
5. Unpredictability
6. Change nature, timing or extent of further audit procedures

Audit Tip: Where have you seen these before SAS 99



SAS 110 Nature of Further Audit Procedures

1. Audit procedure based on risk of material misstatement
2. Example.....contracts
 1. Inspect
 2. Confirm with independent 3rd party
 3. Management representation
3. Use of nonfinancial or budget data



SAS 110 Extent of Further Audit Procedures

1. Quantity of audit procedures
 1. Examples Sample sizes or inventory counts
2. Audit procedure effective ONLY IF
 1. Relevant to the risk and is Reliable
 2. Example: sampling....size, selection, exceptions

Audit Tip: No longer acceptable to 'comply' with GAAS by simply meeting the WEIGH-IN TEST



Problem #15: SAS 110 Nature of Tests of Controls


34 The absence of **misstatements** detected by a substantive procedure does not provide audit evidence that controls related to the relevant assertion being tested are **effective**; however, ... A material misstatement detected by the auditor's procedures that was not identified by the entity SHOULD be regarded as at least a significant deficiency and a strong indicator that a **material weakness** in internal control exists and SHOULD be communicated to management and those charged with governance.

Solution: Don't get lulled into a **false sense of security**



Problem #13: SAS 110 Timing of Tests of Controls

1. Test for all periods you intend to **rely on**
2. If test at an interim period what has **changed**
 1. Personnel or processes
 2. Is there a log of IT program changes
 3. Ex. Can bookkeeper/controller **turn off audit trail**
3. Relying on prior period controls
 1. Must test at least once every **3 years**
 2. NOT every control in **Year 1**, then **skip 2 years**
4. MUST test every year if the control mitigates a **significant risk**



Problem #16: SAS 110 Substantive Procedures

1. If identify a significant risk of material misstatement SHOULD perform specific procedure to respond
 1. Earnings expectations look for **inflating revenue**
 2. Invoicing before **shipment**
 3. **Confirm** details with customer including
 1. Dates, rights of return, nonfinancial personnel

Solution: Talk to nonfinancial personnel....BECAUSE the financial folks **KNOW WHAT YOU WANT TO HEAR**



Problem #15: SAS 110 Timing of Substantive Procedures

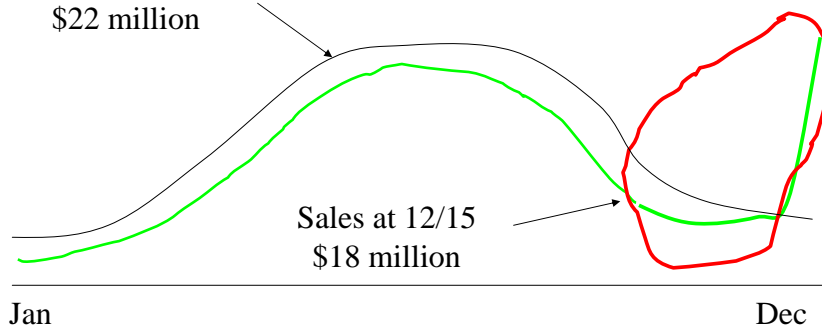
1. If substantive procedures are performed at interim date, then must update with further substantive procedures
2. Compare interim balances/results with period end
3. If material misstatement due to fraud consider changing timing ie, don't rely on **interim work**
4. If detect misstatements in interim, SHOULD consider modifying **risk assessment**

Solution: If detect INTENTIONAL misstatements in interim, or period end, that involves management, should you **withdraw**???

Anticipated Results The Hockey Stick



Lumber Yard
3-year average sales
\$22 million



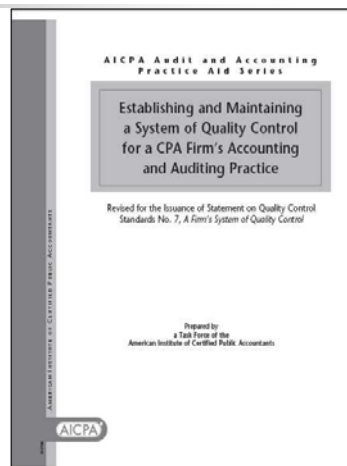
Statement on Quality Control Standards No. 7

Establishing and Maintaining a System of Quality Control

AICPA Audit and Accounting Practice Aid

142 pages, product no. 006636, \$40/\$50

Slides adapted from AICPA
Hotline 888-777-7077

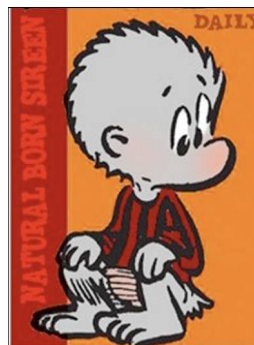


Statement on Quality Control Standards No. 7

We have meet the enemy.....

and they is us.

.....Pogo



SQCS No. 7 Overview



1. Issued October 2007
2. Supersedes ALL previous SQCSs
3. Effective January 1, 2009
4. AICPA Code of Professional Conduct requires practicing in a firm with a system of QC to ensure services are competently delivered and properly supervised
5. Applies to audits, reviews, compilations, and other attest engagements



SQCS No. 7 Difference



1. Defines *engagement quality control review* (EQCR)
2. Requires criteria to determine which engagements are subject to EQCR
3. Read with AICPA Code of Professional Conduct



SQCS No. 7 REQUIRED



1. The firm **MUST** establish a system of quality control to provide reasonable assurance that...
 1. Firm and personnel comply with professional standards and regulatory and legal requirements
 2. Reports are appropriate
2. QC consists of **POLICIES** to achieve these objectives and **PROCEDURES** to implement and monitor

Tip: A QC system is an unconditional requirement. It is NOT optional.



Documentation



1. Required to DOCUMENT QC policies and procedures
 1. How much depends on firm characteristics

2. Required to COMMUNICATE QC policies and procedures
 1. SQCS 7.... not required to be in writing but strongly encouraged

Tip: To protect yourself from staff from he said/she said put it in writing and obtain signature



Required Elements of QC



1. Leadership (Tone at the Top)
2. Ethical requirements
3. Acceptance and continuance of clients/engagements
4. Human resources
5. Engagement performance
6. Monitoring



Leadership Responsibilities



Objective.....promote quality-oriented culture

1. Requires assignment of personnel so profits don't override quality of work
2. Personnel evaluations, compensation and promotions should demonstrate the firm's overarching commitment to quality



Ethical Requirements



Objective....reasonable assurance that firm and personnel comply with ethical requirements

1. Guidance on independence
2. Communicate independence
3. Identify and evaluate threats
4. Obtain WRITTEN confirmation EVERY YEAR from all personnel required to be independent



Acceptance and Continuation of Clients and Engagements



Objective....firm should accept clients or continue engagements only when it....

1. Has evaluated client integrity and the risks
2. Is competent and has the capabilities and resources
3. Complies with legal and ethical requirements
4. Engagement understanding, preferably in writing
5. Establish withdrawal procedures
6. Document how issues are resolved



Human Resources



Objective....reasonable assurance of sufficient personnel with the necessary capabilities, competence and commitment to ethical principals

1. Recruiting and hiring
2. Capabilities and competencies
3. Assigning personnel
4. Professional development
5. Performance evaluation, compensation, advancement



Engagement Performance



Objective....engagements are consistently performed in accordance with professional standards and regulatory and legal requirements, and the firm or engagement partner issues reports that are appropriate in the circumstances



Engagement Performance



Detailed guidance on...

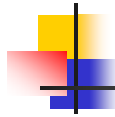
1. Engagement performance
2. Supervision responsibilities
3. Review responsibilities
4. Engagement documentation
5. Consultation policies and procedures
6. Resolution of differences of opinion
 1. Release of the report prohibited until resolved



Engagement QC Review



1. Establish criteria to determine if an EQCR should be performed
2. Evaluate all engagements against the criteria
3. Complete an EQCR for all engagements that meet the criteria BEFORE the report is released
4. Establish procedures re: nature, timing, extent, and documentation of EQCR



EQCR - Procedures



1. Objective evaluation of significant judgments and conclusions reached to formulate the report
2. Read statements or other information, the report, and whether the report is appropriate
3. Review documentation for significant judgments and the conclusions
4. Discussions with the engagement partner
5. Extent depends on engagement complexity and risk report might not be appropriate



Monitoring



Objective....reasonable assurance that QC policies and procedures are....

1. Relevant
2. Adequate
3. Operating effectively
4. Complied with in practice



Monitoring - Requirements



1. ONGOING evaluation of design and effectiveness
2. Responsibility must be a partner's
3. Performance must be assigned to competent staff
4. Must perform sufficiently comprehensive procedures



Monitoring



Monitoring through...

1. Engagement Quality Control Review
2. Post-inspection review of work papers, reports, client's statements for selected engagements
3. Inspection procedures
4. Self-inspection
 1. Not a good idea but not prohibited
 2. Higher risk noncompliance will not be detected



Monitoring - Communication



To engagement partners and others....

1. Deficiencies
2. Recommended remedial action

To all relevant personnel....

1. Monitoring results at least once a year

Monitoring – Complaints and Documentation



1. Complaints and allegations
 1. Clear channels for concerns without fear of reprisal
 2. Document complaints and responses

2. Documentation
 1. Operation of each element of QC system
 2. Retain long enough to determine compliance with monitoring procedures and for peer review

Google Audit Planning

Do you Google your client and executive names to plan the audit? Yes No

If not, explain why not



Looking the Other Way



Willful blindness	A person tries to avoid knowing something that will incriminate him. Defendant "knows" anyway because of the high probability of its existence.
Deliberate ignorance	People who, recognizing the likelihood of wrongdoing, consciously refuse to take basic steps to discern the truth.
Conscience avoidance	If a defendant claims a lack of knowledge, and the facts suggest a conscious course to avoid learning the truth, then the defendant may be charged with knowledge.
"Good soldier"	"I was just following orders", doesn't work. WHY not <u>You're a CPA</u> .



BDO Seidman False Sign-Off

1. Stephen Nardi, Philly assurance practice director
2. Technical guidance, scheduling and assignment of personnel, directly supervised most audit managers, influenced promotion decisions
3. Assigned audit manager Anne Marie Fitzpatrick to Hemispherx Biopharma's 2004 audit
4. She completed planning then Nardi stopped her Hemispherx work and assigned her to another client
5. Field work was completed without supervision and was never reviewed as required by BDO policy

BDO Seidman False Sign-Off

1. Nardi authorized release of report which was included in the company's Form 10K
2. QC partners announced routine inspection and Hemispherx had been selected
3. Pre-QC Review of the file disclosed lack of initials on work
4. Nardi told Fitzpatrick to initial, sign and backdate
5. Nardi has been barred from public accounting but can petition after 1 year
6. Fitzgerald was censured and resigned

BDO Seidman False Sign-Off

1. www.pcaobus.org/Enforcement/Disciplinary_Proceedings/2007/12-14_Nardi.pdf

Tip: Why would QC team disclose what audit files they were going to review

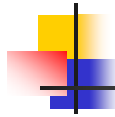
Tip: What are the odds the Heispherx work papers are the only ones that had false sign-off



Auditors Gone Bad



1. Sept 2007 SEC charged 69 firms with failure to register as auditors of public companies
2. Collectively issued 60 reports on 53 companies between Nov 2003 and Oct 2005
3. www.sec.gov/news/press/2007/2007-183.htm



Financial Reporting Fraud



Nick Wallace

1. Wallace President ESM Government Securities
2. Home State S&L
3. \$350 million fraud
4. Bankrupted 69 S&Ls
5. 2 suicides
6. Wallace 6½ years in prison
7. Gomez 4½ years in prison
8. Audit Tip: _____

You have to watch your staff



Jose Gomez, Partner
Alexander Grant
A&A South Florida



Gross Margin



1. Mark Morze, CFO, ZZZZ Best Carpet Cleaning
2. Pepperdine University
3. Toastmaster Speaking Champion
4. Fraud: Ex-Con Tells All Part II
5. 10,000 phony documents **fake**
6. \$50 million revenue, 86% was **what's wrong with this document???**
7. "If you were my auditor, _____"
8. Reported 50 to 60% gross margins, but the industry average was **8½%**.



Understanding Client and Environment



Capitol Bank Bldg

ZZZ BEST CARPET AND FURNITURE CLEANING COMPANY
 1811 LAMOND DEL RIO - SOUTH, SUITE 104, SAN DIEGO, CA 92108 - (619) 892-1891
 7040 DANBY AVE., SUITE 208, REDDING, CA 96001 - (530) 244-7811
 8218 THOUSAND OAKS BLVD., THOUSAND OAKS, CA 91320 - (805) 495-0652
 7208 SOUTH FUCHS RD., SUITE 100, ANAHEIM, CA 92801 - (714) 491-2877
 8480 CALLE REAL, GOLETA, CA 93117 - (805) 662-6140

WORK ORDER CONTRACT
 NO 18886
 CHECKS PAYABLE TO ZZZZ BEST OR BARRY MARCHON

CUSTOMER'S NAME: Intellectual Appraisal Services
ADDRESS: 5430 Van Nuys Blvd., Suite #308
CITY & ZIP: Van Nuys, Ca 91401
Attention: Tom Padgett

Age of Carpet: 3+2=2+3=5
Age of Upholstery: 2+
Date: 4-8-86
Cleaner: Check D, MC, D, BA, D
Cleaner's Name: B/H

QUANTITY	THE FOLLOWING ARTICLES ARE TO BE CLEANED SUBJECT TO THE PRICES LISTED HEREON AND THE CONDITIONS STATED BELOW	PRICE PER	ESTIMATE	AMOUNT
1	CARPET CLEANING WATER DAMAGE / FLOOD DAMAGE			
1	REPAIRS FURNITURE MOVING (emergency)	62,425.00		62,425.00
2	LAPOLYESTER FURNITURE CLEANING AND REPAIR (all)	563,750.00		563,750.00
3	PRE-CONDITIONING STORE ALL FURNITURE DURING REMODELING	147,175.00		147,175.00
4	DUPONT NYLON NEW UNDERLAYMENT (pub floor) & PLANK	1,023,078.31		1,023,078.31
5	WBC FLOORING INCLUDES CARPET/VINYL/ETILE/LINOLEUM	1,819,578.70		1,819,578.70
6	BATHYEN ANDING ALSO TECHNIQUE	833,828.00		833,828.00
7	SHAMPOO CRON MOLDINGS/BASEBOARDS, FLOOR CASTING	1,021,042.71		1,021,042.71
	SUPERVISION/MANAGEMENT RENTAL OF SPECIAL EQUIPMENT	1,145,240.00		1,145,240.00
	SUB TOTAL			6,716,128.42
	SALES TAX			301,122.12
	ADJUSTMENTS			
	TOTAL			7,017,250.54

OTHER FLOORS MAY BE SLIPPERY WHEN WET: 375,000 each on 1st floor

TERMS: ZZZZ BEST DOES NOT GUARANTEE DOES NOT CLEAN THE CUSTOMER HAS BEEN ADVISED CAUSE OF EXTREMELY POOR CONDITION OF FABRIC THAT IT MAY BE NECESSARY TO PAYING COSTS FOR ZZZZ BEST TO REMOVE FABRIC.

CONDITIONS: ZZZZ BEST agrees to perform the service indicated in a clean and workmanlike manner using the best materials and methods available. The customer agrees that ZZZZ BEST shall not be liable for the return to the customer of any DISCOLORATION, STAIN, OR DAMAGE TO ANYTHING REMOVED OR TO BE REMOVED IN CONNECTION WITH THE SERVICE. THE CUSTOMER agrees to pay for any DISCOLORATION, STAIN, OR DAMAGE TO ANYTHING REMOVED OR TO BE REMOVED IN CONNECTION WITH THE SERVICE. THE CUSTOMER agrees to pay for any DISCOLORATION, STAIN, OR DAMAGE TO ANYTHING REMOVED OR TO BE REMOVED IN CONNECTION WITH THE SERVICE.

BECAUSE BUILDING WAS UNDER-WATER THERE IS SEVERE FLOODING AND SEWAGE BACK-UP THROUGHOUT, ELEVEN STORES WERE COMPLETELY DAMAGED. COMPLETE GERMICIDAL AND ANTI-BACTERIAL RINSE THROUGHOUT. NEW CARPET/FLOORING INSTALLED WHERE NEEDED.

DATE: 4-13-86

CUSTOMER'S SIGNATURE: [Signature]

ESTIMATED COMPLETION: AUGUST 29th 1986

CUSTOMER'S SIGNATURE: [Signature]



Gross Margin



1. Fraud 5+ years
2. Sole practitioner, local firm, Big-8
3. E&W WHY **knew the least about the industry**
4. E&W would be **the easiest to fool**
5. Failure to understand cost E&W **\$3 million**



Next time you are asked to propose on a client that you know little or nothing about the industry, ask

WHY are they asking us?



False Sign-Off Survey Results



Signing off on work when in fact it wasn't done	
Sample slice	%
% of CPAs who observed False Sign-off	25
Auditing experience last 10 years	27
Auditors with some Big 4 experience	26
Auditors with only Big 4 experience	25
Auditors with only Big 4 in last 10 years	28

False Sign-Off Survey Results



Sample slice	%
What % do you THINK commit false sign off	26
If HAVE detected false sign-off	17
If HAVE NOT detected false sign-off	32
What happened to the person	
Personally spoke to person	58
Person was terminated	9

False Sign-Off



1. WHY COMMIT Come in under budget
2. WHAT TO SIGN OFF Something not expected to change
3. PAY AND PROMOTION Keep client and boss happy
4. WHY NOT DETECTED Assume the work was done
5. WHY TRUST
6. HOW TO MINIMIZE Audit the auditors

Audit Tip: What are you doing to **NOT** hire staff that cheat and put you and your firm at risk?



What Auditors Do Wrong

1. Telling the client what you're going to do
2. Letting client prepare workpapers
3. Do same thing every year
4. False sign-off of audit work by staff
5. Don't rewrite audit programs
6. Staff ask the client how to perform audit steps
7. Trust client too much
8. Don't understand the client's business
9. Accept deducting personal expenses



What Auditors Do Wrong

10. Don't "listen" for red flags
11. Don't read industry trade publications
12. Haven't talked to client about fraud
13. Don't graph information
14. Audit only what's there
15. No leading or predictive indicators
16. Think Accuracy = Truth
17. Never get actual bank deposit items

Silver Bridge

1. Critical joint
2. Years of corrosion/neglect
3. 46
4. Mandatory federal inspections
5. 70,000, 12%, structurally deficient
6. "It had been there all your life. And then, it was just gone."

Tip: NEVER let your

**GUARD
DOWN**



Do NOT Park Here



These men have just finished placing solid steel pillars in concrete to stop vehicles from parking on the pavement outside a sports bar downtown.

How long do you think it will be before they realize where their vehicle is **parked**?

Audit Tip: **THINK** about what you're doing

It Takes Only a Second

1. Drunk pickup driver goes wrong way on freeway
2. Kills 5, including 8 month old, returning home to Michigan from visiting family in Maryland

Risk Tip: Just like driving, you have to pay attention every single minute because RISK can happen — **ANYTIME** —



Recognizing Risk



Audit Tip: We discount risk unless the threat is **IMMEDIATE**.



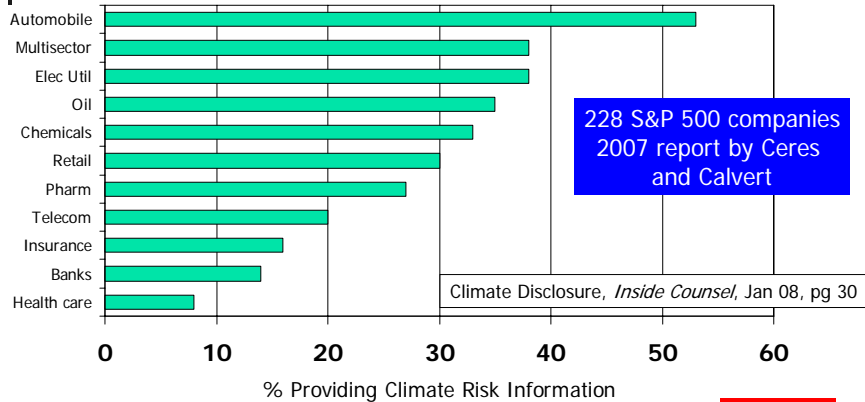
Climate Risk



1. 22 investors with \$1.4 trillion meeting with SEC
2. Uniform disclosure
3. NY AG investigation securities violations by power companies
4. Sens. Joe Lieberman and Kurt Warner
 1. America's Climate Security Act of 2007
 2. Material climate change risk
5. Shareholder resolutions sky rocketing
6. General discussion to quantification



Climate Risk Current Disclosure



Audit Tip: Once public companies disclose, who's next **BANKS** _?



Mall Owners at Risk

1. Subprime meltdown
2. Weak consumer spending
3. Retail sales declining
4. Linens 'n Things in bankruptcy
5. Foot Locker closed 274 stores in 2007 + expects to close 140 in 2008
6. Zale closed 100 stores
7. Wilsons closing 158 of 260 stores
8. 2008 new construction will add 3.5% more sf in 2008

Rising Vacancies

Combined U.S. vacancy rate for malls and shopping centers



Source: Reis Inc.



Sudoku Accounting





© Thavee/Dist. by NEA, Inc.

Beetle Bailey



Transparent Reporting



1. New England Journal of Medicine
2. 2006 article suggested annual CT scans could reduce death rate from lung cancer
3. Scans improve detection, not necessarily death rate
4. Lead authors received
 1. Royalties from GE which makes 
 2. Vector Group, parent of Liggett Group, contributed \$3.6 million but says it "had no control or influence over the research" which sells 



Transparent Reporting

1. "Although the science....should be judged on its merits, one cannot fully appreciate a study's meaning without acknowledging the subtle biases in design and interpretation that may arise when a sponsor stands to gain from the report. Because of these subtleties, it is especially important that any such associations be made clear to the *Journals* readers, who can then judge their relevance for themselves."



Transparent Reporting

1. "Our goal is that readers be fully informed about funding sources. It is the responsibility of authors to disclose fully and appropriately the sources of funding of their studies. We expect that authors will be particularly attentive to transparency in reporting if a funding entity has a vested interest in the outcome. The public's trust in biomedical research depends on it."
2. Editorial, *Full Disclosure and the Funding of Biomedical Research*, www.nejm.org April 2, 2008.



Transparent Reporting

1. You're a doctor reading the article to make decisions to treat your cancer patients.
Would you want to **know about the funding**?

Q: If transparency of who pays for medical research is a good idea so readers are fully informed, then why don't our opinion **disclose who paid for the audit**?

REALLY Smart People Who Do REALLY Dumb Stuff





Mark Everson

1. Commissioner of IRS
2. President + CEO of American Red Cross
3. 35,000 employees + 1 million volunteers



Tip: What stupid thing did he do



Paige Roberts, CEO
Mississippi Red Cross
161



Steven Karvellas

1. U of Penn in Philadelphia
2. NY Mercantile Exchange trader
3. Dual trader for
4. Led compliance committee
5. Guilty of 1 count each commodities fraud and tampering with evidence
6. Cherry-picked trades
7. Told subordinate to destroy tickets
8. 5 months jail + \$850,000



Reuters

"The shocking collapse of Enron indicates that our Exchange does wear a white hat in the financial world. We illustrate how markets should operate, honestly and with openness and transparency that gains the public's trust. Re-electing me will help to insure that our positive message is broadcast in the press and throughout the government. ... "

Sincerely,
Steven J. Karvellas

Harry Stonecipher

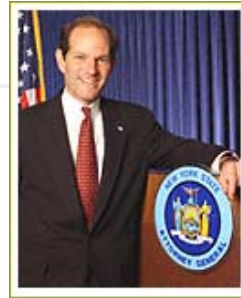


1. Boeing CEO Forced to Resign
2. Returned to rebuild company
3. Poor judgment impaired his ability to lead
4. Office romances have serious legal complications
5. It's not the relationship, it's the lack of JUDGMENT
6. He headed up the team that wrote the CODE OF CONDUCT

Elliott Spitzer

1. NY Attorney General
2. Collected billions over Enron
3. \$4000+/night

Tip: Flawed people can do good work.



Ashley Alexandra Dupre

Behavior



Tip: People ALWAYS change their behavior depending on the SITUATION

Pay Systems



Q: Why is Dagwood taking the rest of the week off?

A: Because he's probably on salary or hourly pay.

Tip: People behave the way you pay them to BEHAVE.



Change System, Change Behavior

1. Lobbyist required to register and report lobbying but many don't
2. Why not Little oversight and penalty
3. Result.....Jack Abramoff
4. Honest Leadership and Open Government Act of 2007
5. Stop undue influence with dinners at fancy restaurants
6. Illegal to buy \$20 dinner but not illegal to make a \$1000 campaign contribution so lobbyists make a contribution and have the member of Congress buy dinner



Convicted lobbyist
Jack Abramoff



Transparent Reporting

1. New England Journal of Medicine
2. 2006 article suggested annual CT scans could reduce death rate from lung cancer
3. Scans improve detection, not necessarily death rate
4. Lead authors received
 1. Royalties from GE which makes _____
 2. Vector Group, parent of Liggett Group, contributed \$3.6 million but says it "had no control or influence over the research" which sells _____





Transparent Reporting

1. "Although the science....should be judged on its merits, one cannot fully appreciate a study's meaning without acknowledging the subtle biases in design and interpretation that may arise when a sponsor stands to gain from the report. Because of these subtleties, it is especially important that any such associations be made clear to the *Journals* readers, who can then judge their relevance for themselves."



Transparent Reporting

1. "Our goal is that readers be fully informed about funding sources. It is the responsibility of authors to disclose fully and appropriately the sources of funding of their studies. We expect that authors will be particularly attentive to transparency in reporting if a funding entity has a vested interest in the outcome. The public's trust in biomedical research depends on it."
2. Editorial, *Full Disclosure and the Funding of Biomedical Research*, www.nejm.org April 2, 2008.

Transparent Reporting

1. You're a doctor reading the article to make decisions to treat your cancer patients.
Would you want to know about the **funding** _?

Q: If transparency of who pays for medical research is a good idea so readers are fully informed, then why don't our opinions disclose who **paid for the audit** _?

Ford SUV Recall



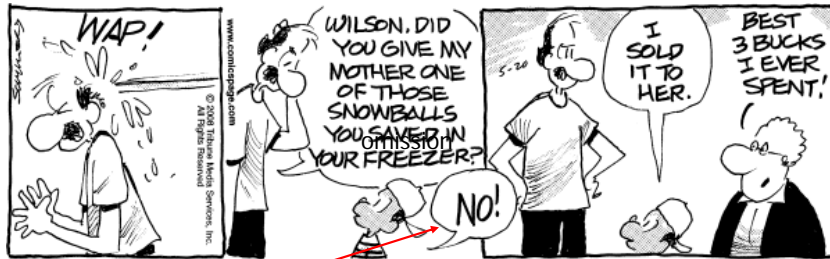
1. Voluntary recall of 9.6 million vehicles
2. Ford sent Peter Romans 5 recall notices to disconnect or repair cruise control on his 2001 Ford Explorer
3. "lead to a fire at any time"
4. House fire
5. Romans had minor burns and smoke inhalation
6. Billy 51, Ami 16, Caleb 12 were **KILLED**

Audit Tip: Always pay attention to the





The Middletons



Tip: "NO!" is true but is also a lie of omission.



Remember



Getting an audit is a
PRIVLEDGE,
not a **RIGHT.**