CFO Series

Driving Efficiency

Realizing More '*Bang for the Buck*'

October 20, 2026

Presented by: Anita Layton, MBA, CPA, CGMA

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How to Survive an Audit

Tactics to Reduce Stress and Get Through Audits with Confidence

Written By

Robert Berry

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About the Author



Robert Berry, MBA, CPA, CIA, CISA

Robert Berry is a Certified Public Accountant who actually likes people more than he does numbers. With more than 20 years in the risk, audit, and compliance sector, he is an internationally recognized speaker, trainer, author and podcast host. His most recent book, "Ask, Get, Perform: The Auditors Essential Guide to Asking Better Questions, Getting Better Answers, and Performing Better Audits," is changing the way auditors build relationships with clients. Robert divides his time between Alabama and Texas.

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Why Audits Feel So Stressful



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Today's Agenda

- Why audits feel so stressful?
- Understanding the types of audits
- Fieldwork survival tips
- Documentation do's and don'ts?
- Avoiding audit pitfalls
- And more...

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Why Audits Feel So Stressful

- You're being evaluated…
  but not always clearly



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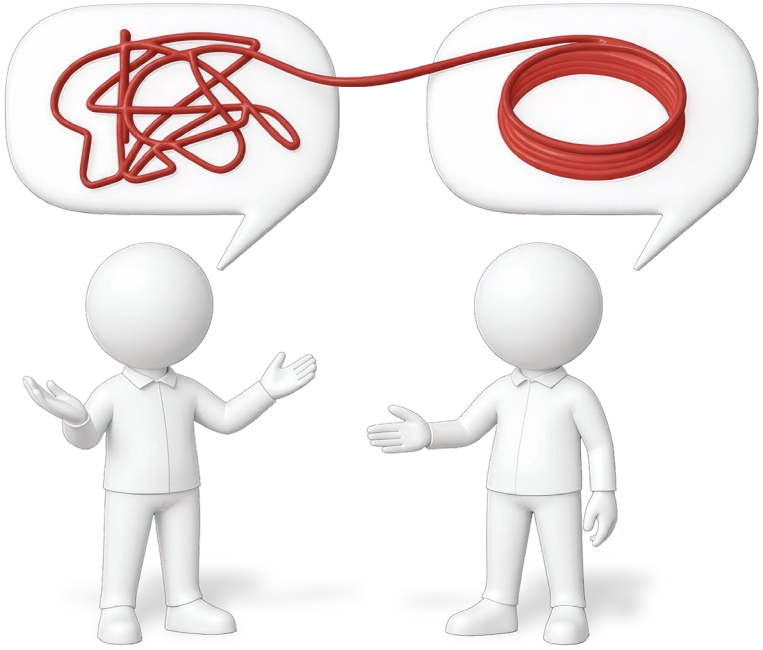
Why Audits Feel So Stressful

- Unclear requests, poor communication, tight deadlines, shifting scope, changing priorities, etc.



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Why Audits Feel So Stressful

- You're juggling your real job **and** the audit



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Why Audits Feel So Stressful

- Audit flashbacks are real



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Audit Stress Triggers

- They do not understand the business
- Being evaluated without clarity
- Shifting requests and timelines
- Two jobs, one person
- Lingering trauma from past audits



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The Audit From He**
(And What We Learned)

A client once told me the story of an audit where the auditors kept asking for things, one email at a time. It felt like death by a thousand PBCs (Prepared By Client requests).

Every time they thought
they were doing well,
ding!, another request.



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Polling Question 1

What Stresses You the Most?

Which of the following is a *common cause* of audit stress?

a) The audit team is always unqualified,
b) Clients typically hide information,
c) Unclear expectations and poor communication, or
d) Auditors never smile.



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Discussion Question 1

My Audit Experience (Reflection)

1) Write down a word or phrase that describes your last audit experience?

2) Then write down one thing you wish had gone differently?

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Understanding Different Types of Audits

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Not All Audits Are Created Equal

- External.
- Internal.
- Regulatory.
- Compliance.

They're all audits, but they're not all the same.

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External Audits
The Financial Truth Seekers

- Think GAAP or IFRS.
- Think risk.
- Think the public lens.



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Internal Audits
The Friend Who Tells You the Truth

- Risk,
- Controls, and
- Helping you do better before it's too late.

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Compliance Audits. Rules, Rules, and More Rules

- Industry-specific checklists.
- Fines and findings if you fail.



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Regulatory Exams. The Watchdogs With Teeth

- Government bodies that show up with authority and a mandate.



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Polling Question 2

What's the Difference?

What's the primary difference between internal and external audits?

a) External audits focus on compliance, internal audits focus on finances,
b) Internal audits are optional, external audits are not,
c) External audits provide an opinion on financials, internal audits focus on process and risk, or
d) Internal audits are always more detailed than external audits.

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Discussion Question 2

What's Your Audit Experience?

1. Which audit type do you encounter most often?
2. What's been your biggest challenge with it?



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Know the Type, Play the Right Role

Audit Type	Focus Area	Main Goal	Who Initiates
External	Financial statements	Accuracy and fair presentation	Third-party
Internal	Processes and controls	Improvement and risk reduction	Organization
Compliance	Regulations and standards	Rule adherence	Regulators
Regulatory	Legal compliance & conduct	Enforcement and protection	Agencies

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The Planning Phase.
Where the Tone Gets Set

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What Actually Happens in Planning?

Request →

Clarify scope →

Schedule →

Prep



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Where Planning Goes Off the Rails

- No clear point of contact
  → creates confusion.
- Incomplete or delayed document lists
  → slows everything.
- Scheduling walkthroughs after fieldwork starts
  → recipe for chaos.
- No system access
  → auditors stuck waiting.



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Prepping Your People (and Avoiding Panic)

- Tell staff what to expect.
- Assign a liaison.
- Clarify which areas will be impacted.
- Set expectations for responsiveness.

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Prepping Your Systems and Docs

Tech and documentation prep can make or break your momentum.

- Test auditor access early (don't wait).
- Organize folders so auditors don't have to dig.
- Use consistent naming
- Basically, make it easy for them to do their job, and they'll make your life easier too.



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Discussion Question 3

Does Your Team Know When an Audit is Coming?

1) Does your team get a formal notice, or does it just appear on someone's calendar?
2) What usually goes well?
3) What falls through the cracks?

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Your Planning Phase Checklist

- Audit liaison assigned
  - Both directions
- Scope clarified
- Access tested
- Documents organized
- Walkthroughs scheduled
- Timeline confirmed



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Polling Question 3

Reducing Confusion

What's the best way to reduce confusion during the planning phase?

a) Give auditors blanket access to shared folders,
b) Let them talk directly to whoever they want,
c) Assign a liaison and align on scope, timing, and expectations early, or
d) Wait until fieldwork starts to finalize plans.

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Fieldwork Survival Tips

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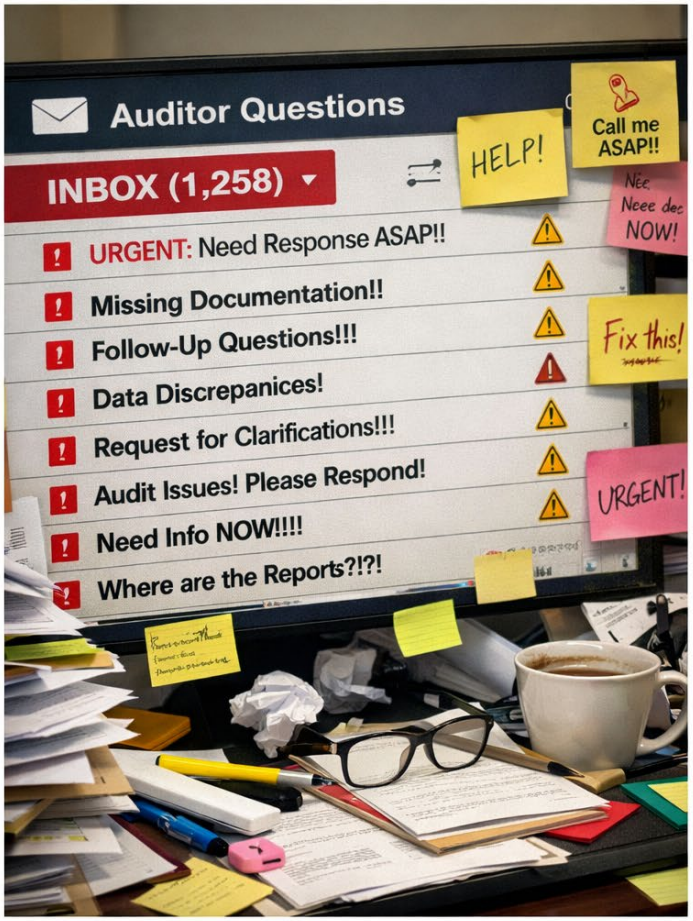
The Audit Gets Real

- Calm vs chaos





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What Auditors Are Doing vs. What You See

Auditors Are Doing	You See
Reviewing controls	Requesting policies
Testing samples	Asking for invoices
Conducting walkthroughs	Asking a ton of questions
Documenting findings	Asking the same thing twice

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When PBC Lists Multiply Like Rabbits



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Communication Makes or Breaks Fieldwork

Do	Don't
Confirm receipt	Leave requests hanging
Ask for clarification	Assume what they mean
Use document names that match the request	Upload 12 PDFs with no labels
Push back on scope creep (politely)	Say yes to everything

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How to Handle, '*Just One More Thing…*'

Managing scope creep

- Keep a shared tracker of requests
- Ask if new requests align with the audit scope?
- Escalate if needed—politely but firmly.

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Your Fieldwork Survival Kit

- Clarify requests
- Label documents clearly
- Set internal deadlines
- Track all PBC items
- Don’t be afraid to push back

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Polling Question 4

How To Respond?

What's the most helpful way to respond to a vague audit request?

a) Guess what they meant and send something,
b) Ignore it until they follow up,
c) Politely ask for clarification and intended purpose, or
d) Escalate to your supervisor immediately.

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Documentation Dos and Don'ts

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Documentation Isn't About Volume

- Documentation is communication.
- More documents ≠ better evidence.



What Auditors Are Really Looking For

1) Relevance
2) Traceability
3) Completeness
4) Consistency
5) Clarity



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What Auditors Are Really Looking For (recap)

- Does this relate to what you said happened?
- Can I trace it back to the process or transaction?
- Is something important missing?
- Does it match what others said?
- Can someone else understand this without you in the room?

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Not Everything.
The Right Things.

- Fewer, clearer documents beat bigger piles.



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The Anatomy of a Good Document Trail

Claim → Evidence → Explanation

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Good Evidence vs. Bad Evidence

Good

+ Clearly named file that matches the request
+ Date and time period visible
+ Clear link to a specific process, control, or transaction
+ Source identifiable (system, report, owner)
+ Supporting document referenced or cross-linked
+ Minimal but sufficient — no extra noise
+ Can stand alone without verbal explanation

Bad

x File names like v2-final-FINAL2.xls or new one.xlsx
x No date, or unclear reporting period
x No indication of what this proves
x Screenshot with no labels or explanation
x Personal notes or comments embedded
x Multiple versions uploaded with no guidance
x Requires you to "walk them through it"

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Additional Documentation Pitfalls

- Email chains as evidence
- Files saved on personal desktops
- No version control
- Verbal-only approvals
- Inconsistent naming conventions

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What Not to Include

If you wouldn't want it quoted… don't submit it, including;

- Personal notes
- Speculation
- Ambiguous comments
- Side conversations
- Drafts without context

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The Documentation Gut Check

Could someone else explain this without me?

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Polling Question 5

Why Do They Need More?

What most often causes auditors to request additional documentation?

a) Auditors changing their minds,
b) Missing technical rules,
c) Unclear, incomplete, or poorly explained documentation, or
d) Too many controls.

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Case Study 1

The Documentation Was There… Until It Wasn't

A mid-sized organization undergoes a routine internal audit covering vendor payments and approval controls.

Management is confident that:

- Policies exist
- Controls are designed
- No known issues

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Case Study 1 (cont.)

The Documentation Was There… Until It Wasn't

During fieldwork:

- Auditors request approval evidence for a sample of transactions
- The team provides multiple files for the same transaction
- Versions conflict slightly
- Some approvals are verbal but not documented
- Explanations vary by team member

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Case Study 1 (cont.)

The Documentation Was There… Until It Wasn't

The audit escalates:

- Additional samples are requested
- Walkthroughs are expanded
- A moderate finding is issued — despite no actual payment errors

Management feels blindsided.



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Responding to Findings, Don't Panic

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Don’t Let a Finding Derail You



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How Audit Findings Are Formed

From evidence to issue;

Evidence → Criteria → Gap → Impact → Finding

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The Finding That Wasn't



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Response Options

Not all findings deserve a fight;

a) Agree, or
b) Clarify, or
c) Challenge.



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Response Options

Response Type	When to Use It	What It Sounds Like
Agree	The issue is valid	"We agree with the observation and will…"
Clarify	The issue needs context	"We'd like to clarify the circumstances that led to…"
Challenge	The issue is inaccurate	"We respectfully disagree based on…"

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What a Good Response Looks Like

- Acknowledge the issue
- Brief explanation or context
- Specific corrective action
- Assigned owner
- Realistic timeline

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Before You Hit Reply…

- Listen more carefully
- Understand the full finding
- Ask clarifying questions
- Choose the right response strategy
- Write a five-part action plan
- Avoid the blame game

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Polling Question 6

Step One…

What's the first step in responding to a finding you disagree with?

a) Write a rebuttal immediately,
b) Ask clarifying questions to understand the full context,
c) Escalate to your supervisor, or
d) Refuse to respond until it's retracted.

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Polling Question 7

Common Causes?

What is the MOST common cause of audit rework?

a) Auditor inexperience,
b) Missing regulations,
c) Poor documentation and unclear explanations, or
d) Too many controls.



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Case Study 2 - Optional

The Finding That Didn't Need to Be a Fight

An audit identifies a control deviation related to monthly reconciliations:

- One month was completed late
- Approval occurred after the period close
- No financial misstatement occurred

The draft finding states:
"Reconciliations were not consistently completed and reviewed in a timely manner."

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Case Study 2 (cont.)

The Finding That Didn't Need to Be a Fight

Management reacts strongly:

- Long email response
- Pushes back aggressively
- Argues the issue is immaterial
- Cites workload and staffing challenges

The auditor pushes back harder.

- The tone deteriorates.
- The finding remains and worsens in wording.

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Polling Question 8

Disagreement?

1) Have you ever had a disagreement with an Auditor?
   a) Yes,
   b) No, or
   c) I'm not sure.
2) What happened?
   a) The Auditor made an error,
   b) The Auditor was correct,
   c) We 'agreed to disagree',
   d) We resolved the disagreement, or
   e) Other



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Wrap-Up & Commitments

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Audits are manageable when you understand the process.

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The Audit Confidence Loop

Prepare → Clarify → Document → Respond → Improve

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Audits Don't Have to be Feared.

They have to be handled.

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Thank You!

Please share your thoughts and comments.

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Internal Controls That Matter:

Protection with Simple, Smart and Scalable Practices

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Robert Berry is a Certified Public Accountant who actually likes people more than he does numbers. With more than 20 years in the risk, audit, and compliance sector, he is an internationally recognized speaker, trainer, author and podcast host. His most recent book, "Ask, Get, Perform: The Auditors Essential Guide to Asking Better Questions, Getting Better Answers, and Performing Better Audits," is changing the way auditors build relationships with clients. Robert divides his time between Alabama and Texas.

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Discussion Question #1

Internal Controls – Your Opinion

What's one word that comes to mind when you think of internal controls?



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Why Internal Controls Matter

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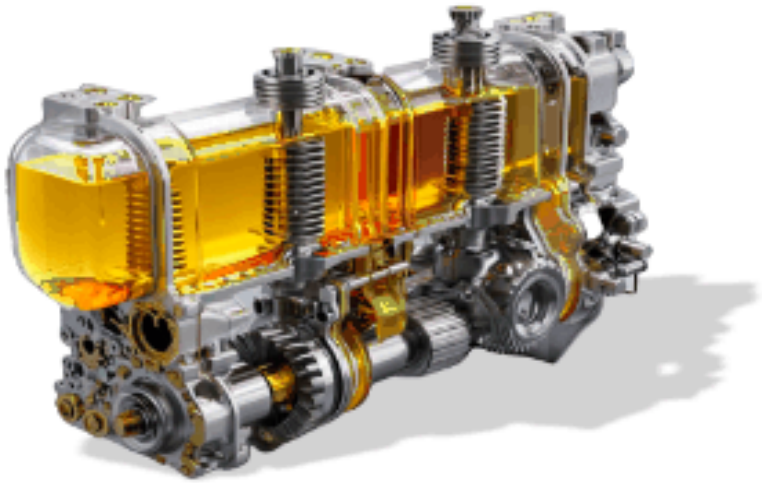
Let's Get One Thing Straight…

- Internal controls ≠ bureaucracy
- Internal controls = confidence, clarity, and prevention



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What Internal Controls Are - And What They're Not

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What Internal Controls Really Are

Internal controls are how you make sure what's supposed to happen…actually happens.

- Systems and processes that reduce risk
- Tools to ensure operations run as intended
- A way to protect assets, data, and decisions
- Scalable — not one-size-fits-all

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A Control is:

A policy, process, or activity that helps an organization achieve its goals, avoid risk, and protect resources.



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What Internal Controls Are NOT

Myth	Reality
Just for auditors	Actually for everyone
Expensive software	Many are human-based
Bureaucracy	Can streamline processes
A one-time setup	Require ongoing attention

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Controls Are

- ❌ Not just accounting rules
- ❌ Not a punishment
- ❌ Not optional
- ❌ Not perfect
- ❌ Not one-size-fits-all

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Polling Question #1

Controls At Your Company?

Which of these apply to your organization today?

a) We have some controls, but they're informal
b) We have formal controls, but they're outdated
c) We're unsure what counts as a control
d) We review and monitor controls regularly

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Polling Question #2

Why Internal Controls Matter

Why do internal controls matter most to an organization?

a) They help auditors complete their work faster
b) They ensure every error is prevented
c) They reduce risk and increase consistency in decision-making
d) They exist to satisfy regulatory requirements

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Why Even Small Organizations Need Controls

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“We’re too small for formal controls.”

– Said before every preventable disaster

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Real Case: The $89,000 Reimbursement

- A small nonprofit trusted its office manager,
- who reimbursed themself $89,000 in "expenses,"
- over 3 years, and
- no one noticed.

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Right-Sized, Not Red-Taped

Big Company	Small Company
9-step purchase order system	Simple budget limit + email approval
Full ERP role-based access	Single login with 2FA and password rotation
Monthly control self-assessments	Quarterly review by outside CPA, etc

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Polling Question #3

Why Even Small Organizations Need Controls?

Why are internal controls especially important in small organizations?

a) Small organizations face more regulations
b) Errors are more likely to occur
c) Fewer people means less need for controls
d) Risk is often concentrated in fewer hands

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COSO Simplified

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COSO - A Fancy Name for Common Sense

1) Are we serious about doing things right?
2) Do we know what could go wrong?
3) Do we have guardrails in place?
4) Is everyone doing what they're supposed to?
5) Are we paying attention to what's working and what's not?

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COSO's 5 Components Made Simple

The 5 components of internal control;

1) Control environment
2) Risk assessment
3) Control activities
4) Information & communication
5) Monitoring



https://www.coso.org/

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Control Environment: Where It All Starts

- Code of conduct
- Ethical leadership
- Job descriptions with responsibility clarity
- Clear expectations and consequences

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Risk Assessment: What Could Go Wrong?

- Risk of theft if only one person opens the mail
- Risk of error if manual entries are common
- Risk of bias if AI tools go unchecked

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Control Activities: The "Doing" Part

- Dual approvals
- Reconciliations
- Password protections
- Inventory counts
- Audit trails



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Information & Communication: Who Needs to Know What?

- Do employees know the rules?
- Are control exceptions reported?
- Is training provided and documented?
- Can people raise concerns safely?

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Monitoring: Are We Still in Control?

- Spot checks
- Control reviews
- Internal audits
- Feedback loops
- Exception reports



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Discussion Question #2

Let's Look at Your Organization

a) Which COSO component is strongest in your organization?

b) Which component is most overlooked?

1) Control environment
2) Risk assessment
3) Control activities
4) Information & communication
5) Monitoring

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Polling Question #4

COSO Simplified

What is the primary value of the COSO framework when applied correctly?

a) It provides detailed control checklists
b) It guarantees compliance with all regulations
c) It helps organizations think systematically about risk and control
d) It replaces the need for professional judgment

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Common Control Failures

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Common Breakdown #1
No Segregation of Duties

- One person handles everything
- No oversight, no double checks
- High risk for error, abuse, or fraud



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Common Breakdown #2
Lack of Documentation

- Verbal approvals only
- No audit trail
- Hard to prove what happened



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Common Breakdown #3 Over-Reliance on People

- "Trust-based" systems
- Key processes in one person's head
- No backup if they leave



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Common Breakdown #4 Inadequate Oversight

- Managers too busy to review
- Approvals rubber-stamped
- No one watching the watchers



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HEADLINES:
When It All Goes Public

- Embezzlement in a school district
- Local nonprofit loses donor funds
- Small biz accountant charged with theft
- All due to basic control failures



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Discussion Activity #1

Can You Spot the Failure?

On the next slides, you'll see three mini-scenarios. Individually or in your groups, discuss:

- What control(s) is missing?
- What could go wrong?
- What should have been in place?

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Discussion Activity #1 a

Can You Spot the Failure?

A small retail company's office manager handles payroll, approves overtime, and reconciles the bank account.

🔍 What control is missing?

💥 What could go wrong?

🛠️ What would you recommend?

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Discussion Activity #1 b

Can You Spot the Failure?

A department head approves vendor invoices over the phone while traveling, and the AP clerk pays them without additional review.

🔍 What's the risk here?

💥 What could go wrong?

🛠️ What control could prevent this?

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Discussion Activity #1 c

Can You Spot the Failure?

The only person who knows how to run a key report is on vacation. No one else can access the system or interpret the data.

🔍 What's the issue?

💥 What's the consequence?

🛠️ What's the fix?

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Case Study #3

Systemic Control Failure in Social Services Grant Oversight

In January 2026, multiple news outlets reported that a state audit found **widespread failures in internal controls and oversight** of the Minnesota Department of Human Services' Behavioral Health Administration grant programs.

The audit found the department did not comply with most grant requirements, had inadequate controls over $425 million in behavioral health grants, and, in many cases, could not provide complete or accurate documentation.

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Now that we've seen how things can go sideways, and sometimes spectacularly, you might be thinking,

'Okay, but how do we actually prevent these failures without creating more work or red tape?'

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Polling Question #5

What Internal Controls Are, and What They're Not?

Which statement best describes what an internal control actually is?

a) A documented policy or procedure
b) A checklist used during audits
c) A process that helps ensure objectives are achieved
d) A rule that prevents all mistakes

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Scalable Controls That Work

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Why Scalable Controls Matter

- Controls should protect—not paralyze
- Right-sized controls reduce risk without slowing you down
- A little intentionality goes a long way

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Simple Financial Control Example

✔ Good control:

Dual approval for payments over $1,000

❌ Bad control:

Only one person cuts and approves checks

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Operational Control Example

✔ Good control:

Inventory checklist at close of business

❌ Bad control:

“We trust our team to keep track”

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Compliance Control Example

✔ Good control:

Onboarding checklist for new employees

❌ Bad control:

HR “remembers” to do everything manually

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Human-Based vs. Tech-Based Controls

Human-Based	Tech-Based
Dual signatures	Workflow software
Rotation of duties	System-enforced access
Review checklists	Audit logs & alerts

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Discussion Activity #2

Redesign a Broken Control

Think of a real control in your organization that feels clunky, weak, or unclear.

In small groups or solo:

- Describe what's wrong with it?
- Redesign it using a scalable alternative (human or tech).
- Share 1 or 2 redesigned controls with the room.

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Polling Question #6

Scalable Controls That Work

What makes a control scalable as an organization grows?

a) It is highly detailed and complex
b) It can be expanded without redesigning the entire process
c) It requires specialized software
d) It is owned by senior management

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Tailoring Controls to Fit Your Organization

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Why Tailoring Matters?

- Overkill creates friction.
- Under-control invites risk.
- The goal is to have just enough to protect and perform.

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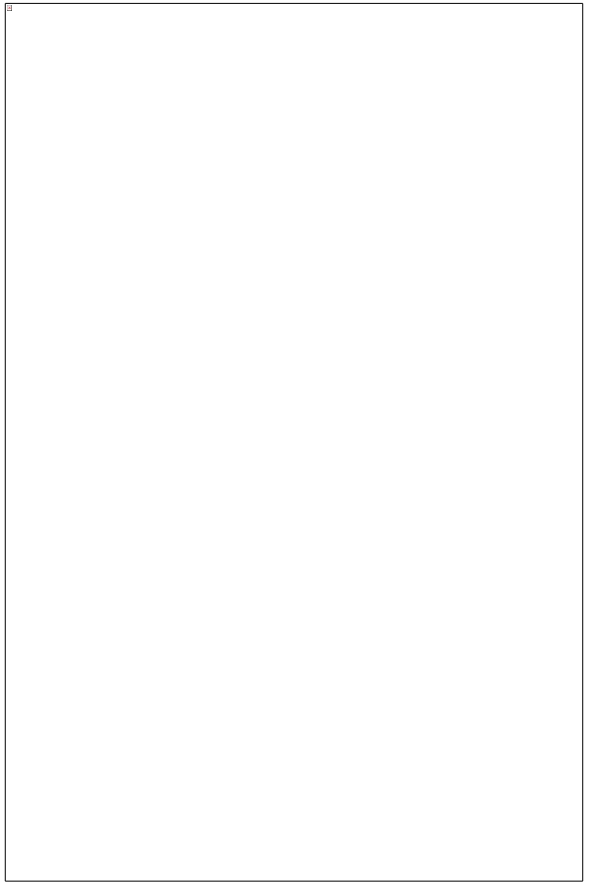
A Risk-Based Approach

Ask:

- "What could go wrong?"
- "How likely is it?"
- "What's the impact if it does?"



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The Control Scaling Spectrum

Level	Example: Vendor Payment Control
Minimal	Manager emails approval
Moderate	Dual signature policy for over $1,000
Maximum	Workflow software + segregation + monthly audit

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4 Questions to Right-Size a Control

- 💰 What's the cost of failure?
- 🔁 How often does this happen?
- 🧠 How complex is the task?
- 👥 Who's involved, and what's at stake?

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Polling Question #7

Tailoring Controls to Fit Your Organization

Why should internal controls be tailored to each organization?

a) Regulations allow unlimited flexibility
b) All organizations face identical risks
c) One-size-fits-all controls rarely address real risk
d) Tailoring reduces the need for monitoring

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Case Discussion #4

What's Too Much?
What's Too Little?

Have you ever worked somewhere where the controls were way too tight or nonexistent?

a) What did that feel like?

b) And what got missed?"

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Embedding Controls into Daily Life

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Culture Eats Controls for Breakfast

- Great controls fail without great habits.
- Build process memory, not process manuals.
- Make doing the right thing the path of least resistance.

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Training + Repetition = Habit

- One-time training ≠ control adoption
- Habits form through repeated action
- Controls fail without reinforcement

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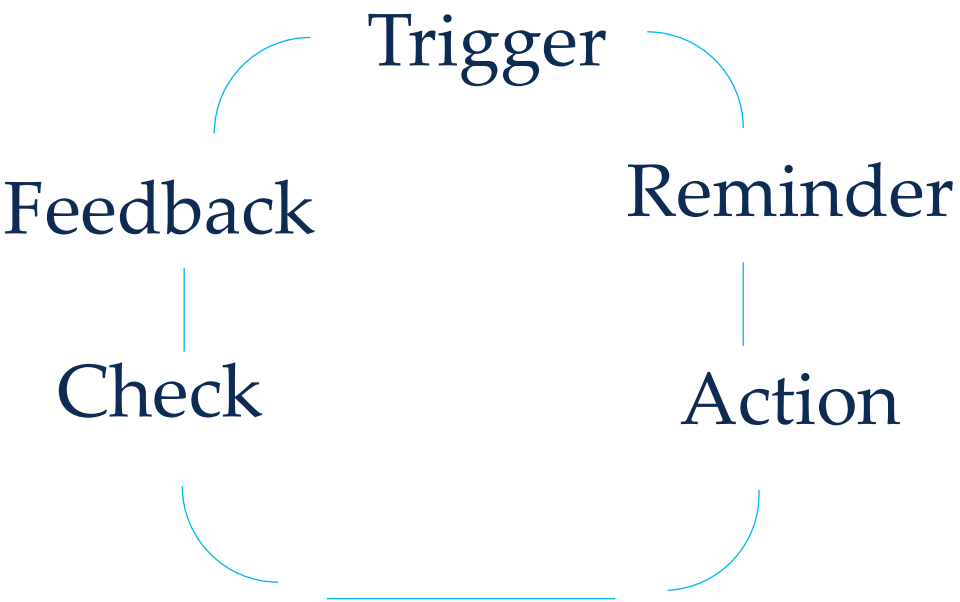
“Control as Routine” Lifecycle



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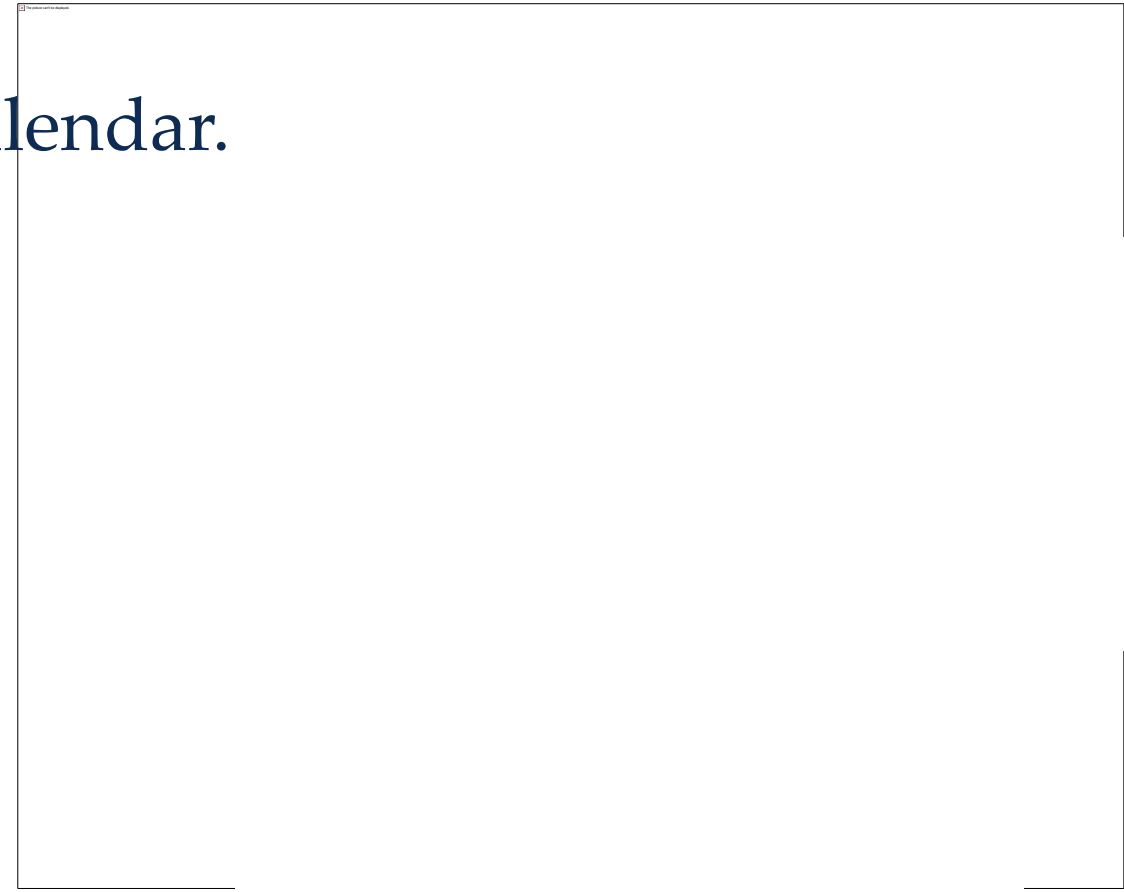
The Calendar Reconciliation Hack

We didn't need software.

We just needed a calendar.



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Reinforcement ≠ Policing

- Build accountability into the process
- Celebrate consistency, not just performance
- Visibility beats enforcement

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Polling Question #8

Embedding Controls

Which of the following best supports embedding a control into daily operations?

a) Adding more pages to your policy manual
b) Sending a one-time company-wide email
c) Building recurring reminders and tracking behavior
d) Reprimanding staff after missed deadlines

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Monitoring & Adapting Controls Over Time

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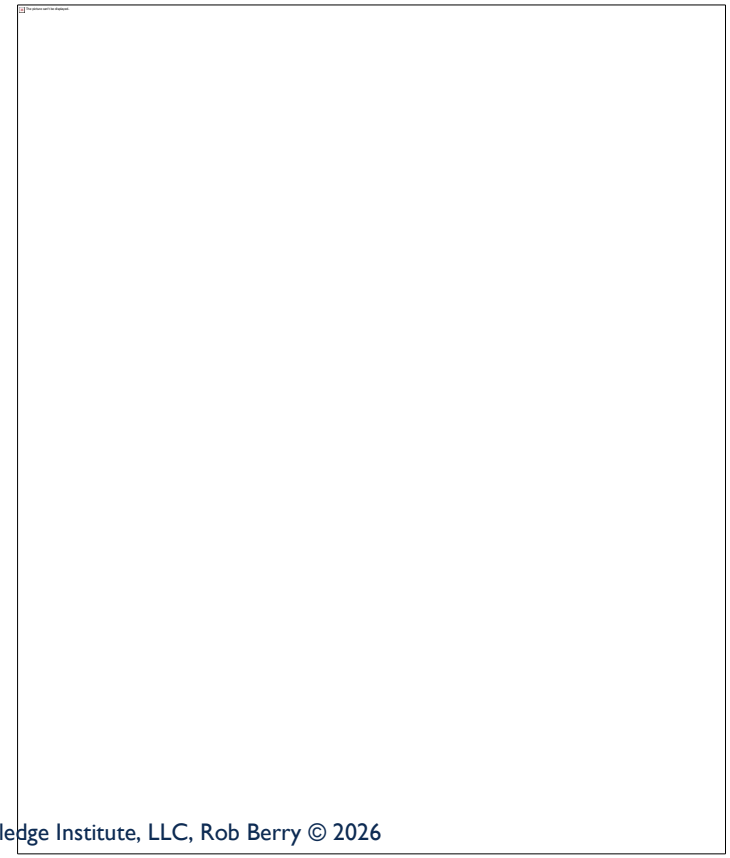
Controls Aren't Set-and-Forget

- Controls must evolve or they become invisible.



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Three Layers of Monitoring

1) Day-to-day oversight
   - Are people following the process?
2) Periodic review
   - Is the control still effective?
3) Trigger-based review
   - Has something changed that requires reevaluation?

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Control Health Dashboard

Control Name	Last Reviewed	Status	Followed?	Still Needed?
Vendor Approval	Jan 2024	🟢 Healthy	✅ Yes	✅ Yes
Remote Access Policy	Dec 2022	🟠 Stale	❌ No	✅ Yes
Petty Cash Log	Apr 2021	🔴 Obsolete	❌ No	❌ No

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Story: The Control That Lingered

It was still in the SOP...
but no one had done it in 3 years.

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Adapting Without Starting Over

- Start with what's working
- Look for patterns in control failures
- Involve your team in redesign
- Don't fear small changes—they matter

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Case Discussion #5

Control Check-In Snapshot

Control Name	Why It Exists	Is It Being Followed?	What's Not Working?	What Could Improve It?
e.g. Petty Cash Log	Prevent unauthorized use	Not consistently	No one reviews it weekly	Add a recurring reminder + signoff

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Polling Question #9

Reviewing Controls

What's a trigger-based review of a control?

a) A scheduled review that happens monthly
b) A review that only happens during audits
c) A review that happens when a process, system, or risk changes
d) A checklist performed by frontline employees daily

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Case Study #6 (Optional)

Alabama Motorsports Hall of Fame

A recent audit of the Alabama Motorsports Hall of Fame Commission uncovered 35 compliance failures and financial mismanagement over several years.

The report found that a former accounts manager mishandled nearly $237,000, including overpaying herself, failing to deposit cash sales, and authorizing questionable transactions.

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Wrap up

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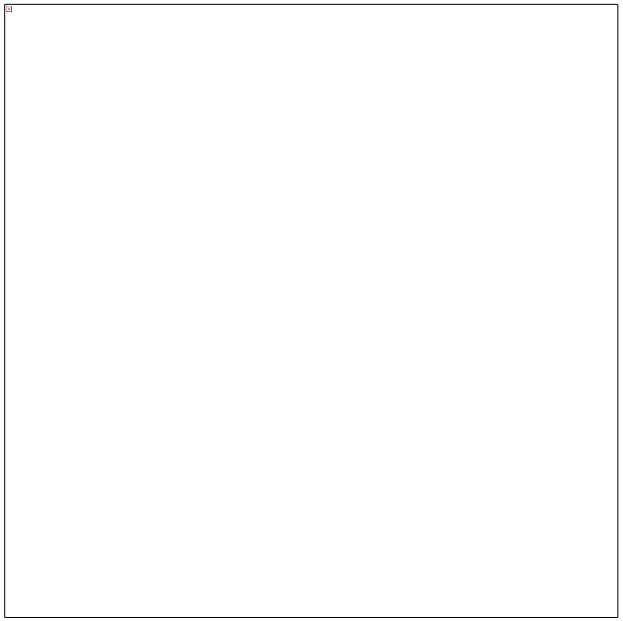
The Control Commitment Triangle

- One thing I'll re-examine
- One process I'll document
- One person I'll involve in a control conversation this week



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Polling Question #10

Controls Over Time

What is the best way to ensure internal controls remain effective over time?

a) Write detailed policies and never change them

b) Assign one person to oversee all controls permanently

c) Regularly evaluate and adapt controls based on risk and changes

d) Trust employees and avoid too much structure



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Thank You!

Please share your thoughts and comments.

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Lunch













Cash Flow Clarity

Effectively Communicate Cash Flows to Drive Better Decisions

Written by

Bob Mims

CPA

THE KNOWLEDGE INSTITUTE

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About the Author



Bob Mims, CPA, is an entrepreneur and accounting/management executive based in Memphis, TN. He has served as a CFO and CPO across various industries in the role of planning, modeling and accounting capacities. Bob has had the privilege of serving as chair on an AICPA committee and on two FASB advisory committees. During his ten years with the accounting firm KPMG, he was selected as national instructor of the year on three occasions.

Bob graduated from the University of Mississippi and enjoys outdoor sports with his wife, 5 children, 2 service dogs, and now 4 cats who think they are dogs.

Public Perception of Cash Flow



Reddit

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This Was Me…And Maybe You?



Reddit

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What Are We Doing?

- ✓Cash flow statements are confusing
- ✓Discussion of the three buckets of cash
- ✓Alternative means of presenting cash flows
- ✓Walk through another company's display of cash flows
- ✓Communicate to stakeholders in a useful manner, so they understand value

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Case Discussion #1

Cash Reporting

Steps/Questions - Assessment

- What problems are there with the cash flow statement?

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Polling Question

Which Statement is Most Confusing?

a) Balance sheet,
b) Income statement,
c) Cash flows,
d) Footnotes,
e) All of the above, or
f) Other.

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What's Wrong with Cash?

Cash, cash equivalents and restricted cash, beginning balances	$ 35,929	$ 39,789	$ 50,224
Operating activities:			
Net income	99,803	94,680	57,411
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation and amortization	11,104	11,284	11,056
Share-based compensation expense	9,038	7,906	6,829
Deferred income tax expense/(benefit)	895	(4,774)	(215)
Other	111	(147)	(97)
Changes in operating assets and liabilities:			
Accounts receivable, net	(1,823)	(10,125)	6,917
Inventories	1,484	(2,642)	(127)
Vendor non-trade receivables	(7,520)	(3,903)	1,553
Other current and non-current assets	(6,499)	(8,042)	(9,588)
Accounts payable	9,448	12,326	(4,062)
Deferred revenue	478	1,676	2,081
Other current and non-current liabilities	5,632	5,799	8,916
Cash generated by operating activities	122,151	104,038	80,674
Investing activities:			
Purchases of marketable securities	(76,923)	(109,558)	(114,938)
Proceeds from maturities of marketable securities	29,917	59,023	69,918
Proceeds from sales of marketable securities	37,446	47,460	50,473
Payments for acquisition of property, plant and equipment	(10,708)	(11,085)	(7,309)
Payments made in connection with business acquisitions, net	(306)	(33)	(1,524)
Other	(1,780)	(352)	(909)
Cash used in investing activities	(22,354)	(14,545)	(4,289)
Financing activities:			
Payments for taxes related to net share settlement of equity awards	(6,223)	(6,556)	(3,634)
Payments for dividends and dividend equivalents	(14,841)	(14,467)	(14,081)
Repurchases of common stock	(89,402)	(85,971)	(72,358)
Proceeds from issuance of term debt, net	5,465	20,393	16,091
Repayments of term debt	(9,543)	(8,750)	(12,629)
Proceeds from/(Repayments of) commercial paper, net	3,955	1,022	(963)
Other	(160)	976	754
Cash used in financing activities	(110,749)	(93,353)	(86,820)
Decrease in cash, cash equivalents and restricted cash	(10,952)	(3,860)	(10,435)
Cash, cash equivalents and restricted cash, ending balances	$ 24,977	$ 35,929	$ 39,789

Apple 10k

CASH FLOW STATEMENT EXPLAINED

Definition: Think of a cash flow statement like the money diary of a business. It **shows where the cash is coming from and where it is going over** a specific period, example: **(Imagine you're running a small grocery store.)**

Cash Flow from Operating Activities (Daily Business Operations)	**Cash Flow from Investing Activities** (Buying/Selling Big Stuff)	**Cash Flow from Financing Activities** (Borrowing & Repaying)
This shows **how much cash is coming in or going out from day-to-day activities.** **Cash In:** Money from selling groceries. **Cash Out:** Payments for rent, staff salaries, or buying vegetables.	This shows **cash spent on or earned from long-term investments.** **Cash Out**: Buying a delivery vehicle for the store. **Cash In**: Selling an old warehouse.	This tracks **cash from loans, issuing shares, or repaying debts.** **Cash In**: Taking a loan from the bank. **Cash Out**: Repaying the loan or distributing dividends to shareholders.
If positive: Your store is making money from its main business. **If negative:** You're spending more on operations than you're earning.	**If positive:** You're making money by selling assets. **If negative:** You're investing in growth (which isn't always bad).	**If positive:** You're raising funds. **If negative:** You're paying back debts or giving returns to investors.
Total CF= CFO + CFI + CFF	**Positive Cash Flow:** You have more money coming in than going out → financially healthy.	**Negative Cash Flow:** More money is leaving than coming in → potential trouble.

LinkedIn

Explain It to Me Like I'm 5



A Word on the Balance Sheet

Assets		
Current Assets		
Cash		32,800
Accounts Receivable		300
Prepaid Rent		1,000
Inventory		39,800
Total Current Assets		73,900
Long-term Assets		
Leasehold Improvements	100,000	
Accumulated Depreciation	(2,000)	98,000
Total Long-term Assets		98,000
Total Assets:		171,900

Liabilities	
Current Liabilities	
Accounts Payable	49,000
Accrued Expenses	450
Unearned Revenue	1,000
Total Current Liabilities	50,450
Long-term Liabilities	99,500
Total Liabilities	149,950
Owner's Equity	
Owner's Equity	
Retained Earnings	11,950
Common Stock	10,000
Total Owner's Equity	21,950
Total Liabilities and Owner's Equity	171,900

A Word on the Balance Sheet

Liabilities	
Current Liabilities	
Accounts Payable	49,000
Accrued Expenses	450
Unearned Revenue	1,000
Total Current Liabilities	50,450
Long-term Liabilities	99,500
Total Liabilities	149,950
Owner's Equity	
Owner's Equity	
Retained Earnings	11,950
Common Stock	10,000
Total Owner's Equity	21,950
Total Liabilities and Owner's Equity	171,900

- Cost of payables is likely 0 -2%
- Cost of debt and working capital is 5 to 10%
- Cost of imputed equity is usually 20 to 25%
- Blended cost of capital = 9%

Entries for Liabilities and Equity

Liabilities	
Current Liabilities	
Accounts Payable	49,000
Accrued Expenses	450
Unearned Revenue	1,000
Total Current Liabilities	50,450
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Owner's Equity	
Owner's Equity	
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- **Accounts Payable Entry**

Interest exp Zero
Interest Pay Zero

- **Debt Entry**

Interest exp $9M
Interest Pay $9M

- **Equity Entry ???**

Interest exp $30M
Interest Pay $30M

NI needs to beat $39Million

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A Word on the Balance Sheet

Can these assets earn you net revenue that beats your blended cost of liabilities?

Assets		
Current Assets		
Cash		32,800
Accounts Receivable		300
Prepaid Rent		1,000
Inventory		39,800
Total Current Assets		73,900
Long-term Assets		
Leasehold Improvements	100,000	
Accumulated Depreciation	(2,000)	98,000
Total Long-term Assets		98,000
Total Assets:		171,900

1.

Apple's Cash Flow

Apple Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years ended		
	September 24, 2022	September 25, 2021	September 26, 2020
Cash, cash equivalents and restricted cash, beginning balances	$ 35,929	$ 39,789	$ 50,224
Operating activities:			
Net income	99,803	94,680	57,411
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Decrease in cash, cash equivalents and restricted cash	(10,952)	(3,860)	(10,435)
Cash, cash equivalents and restricted cash, ending balances	$ 24,977	$ 35,929	$ 39,789
Supplemental cash flow disclosure:			
Cash paid for income taxes, net	$ 19,573	$ 25,385	$ 9,501
Cash paid for interest	$ 2,865	$ 2,687	$ 3,002

See accompanying Notes to Consolidated Financial Statements.

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Stakeholders After Cash Flow Report



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Insomnia Cured by Cash Flows



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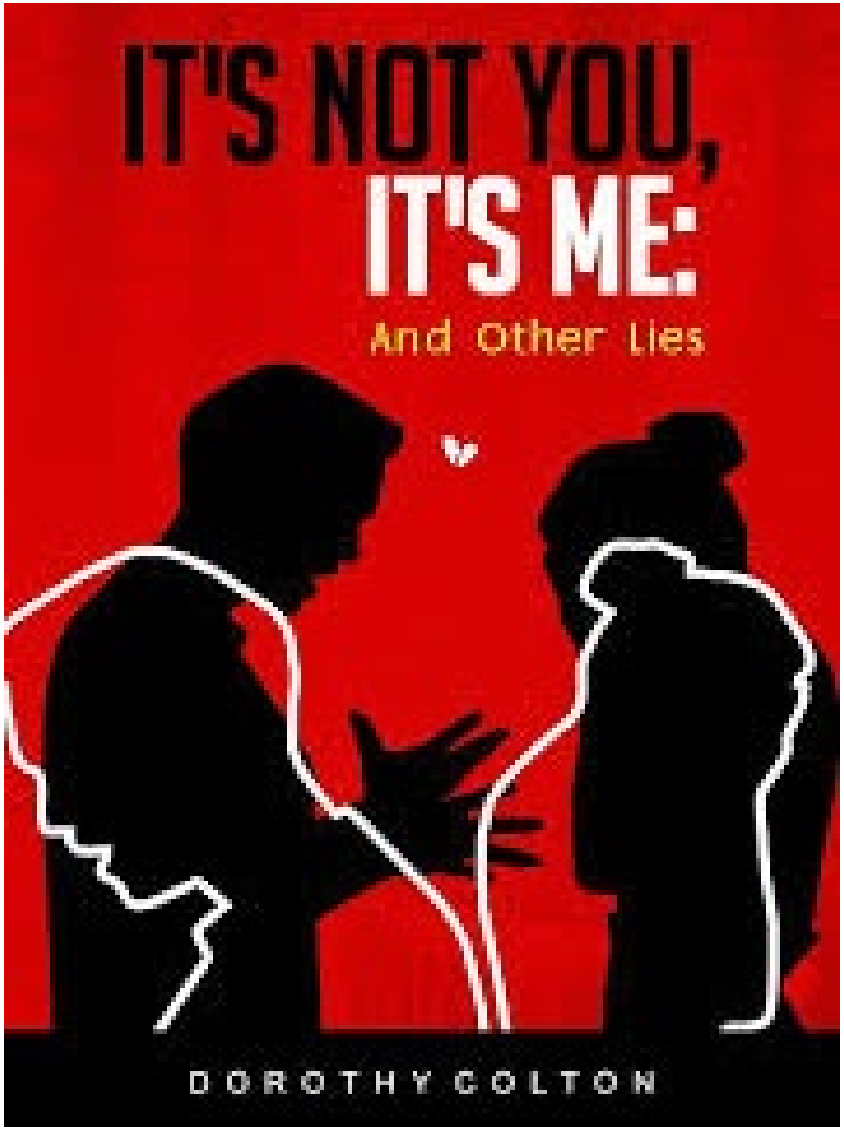
We Have to Break Up with Cash Flows



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Translating/Solving Cash Flows

FASB/GAAP	English
• Operating activities	• **Did we make money?**
• Investing activities	• **Did we buy any stuff?**
• Financing activities	• **Who believed in us enough to invest in us?**

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Let's Say This Together

- Did we make money (cash)?



Redbubble

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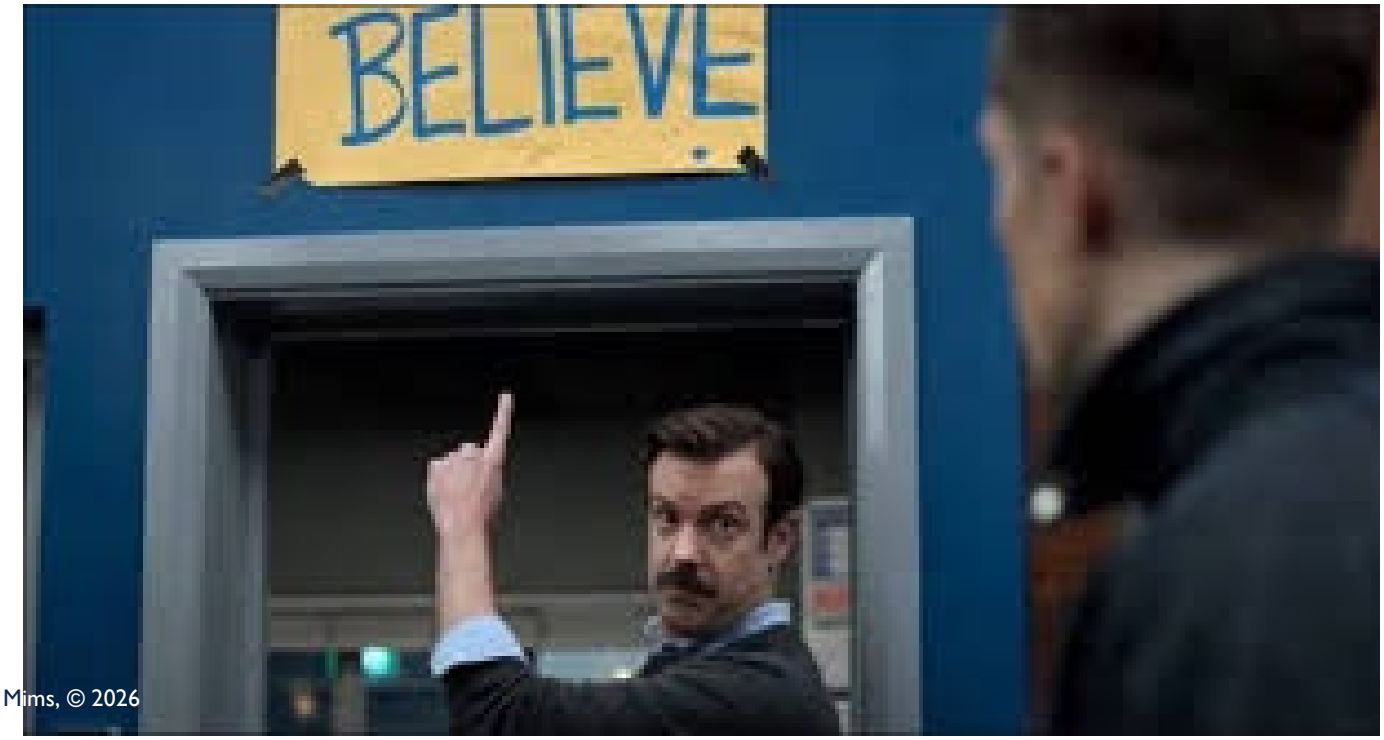
Let's Say This Together

- Did we buy or sell any stuff?



Let's Say This Together

- **Who believes in us enough to invest in us?**



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Polling Question

Who Do You Want to Explain It?

a) Ted Lasso,
b) My dogs,
c) Any five year old,
d) A CPA using acronyms and lots of syllables,
e) I'm a cat person, or
f) Other.

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1. Did We Make Money?

- Operating activities
  - Net income/(loss)
  - Other operations



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The Confusing Part of Operating

- Operating activities (other operations)
  - Adding depreciation – what is *that*?

- Things that don't even make sense
  - Receivables up so cash is down
  - Payables up so cash is up
  - Other assets up or down - ?



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Simplifying Cash from Operations

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Investing activities:			

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Apple
10k

Did Apple Make Money?

How we make money

	This year	Last year
Earnings before Depr/Amort and Int	$ 121,651	$ 108,949
Operating changes and Timing	$ 500	$ (4,911)
Cash from making money (Operations)	$ 122,151	$ 104,038

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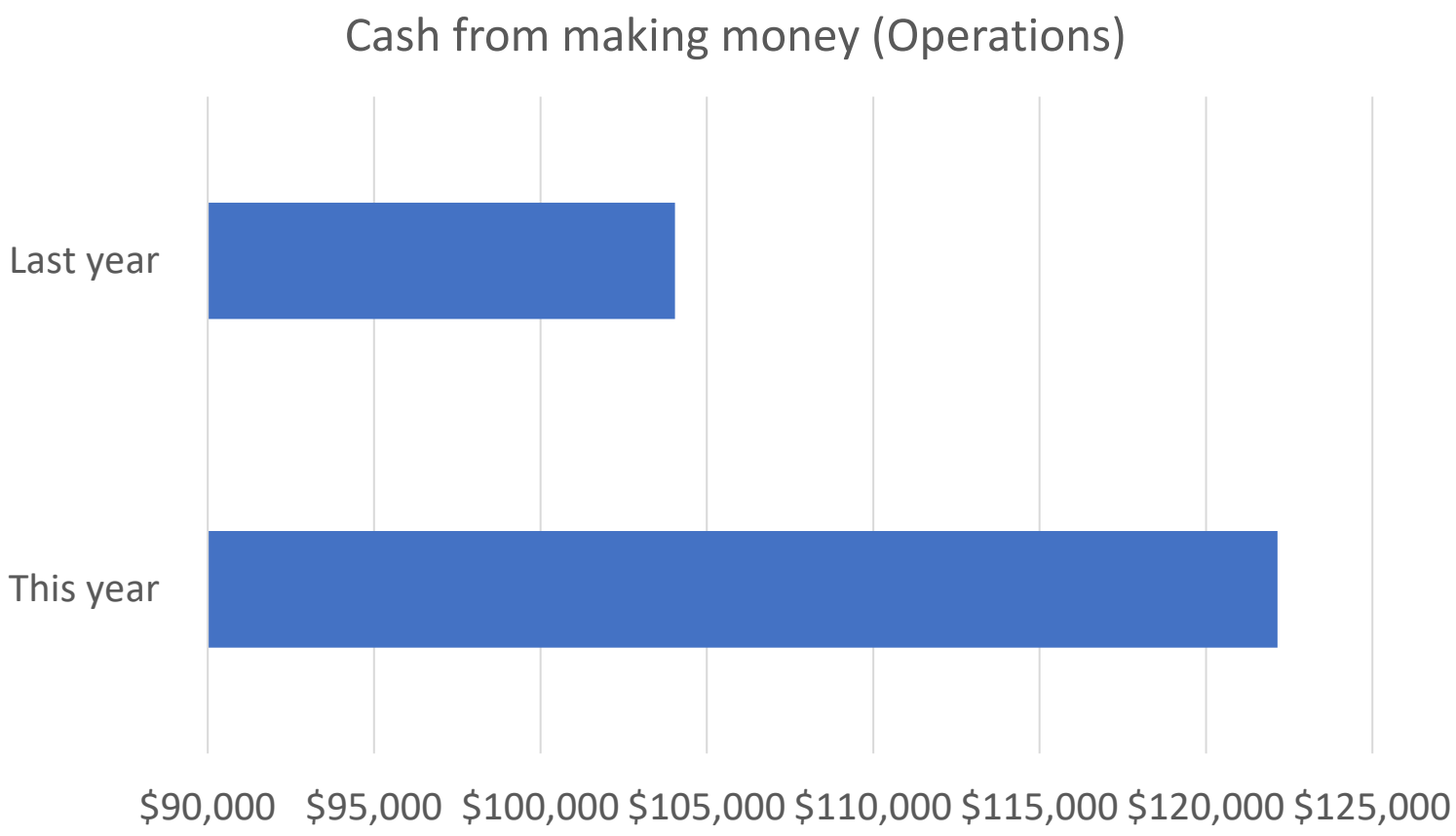
Simplifying Apple Cash Operations



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Excel Chart derived from Apple's 10K

But I Want More Details…FINE

Changes in operating assets and liabilities:			
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Cash generated by operating activities	122,151	104,038	80,674
Investing activities:			

- We need to do better at collecting AR or revenue is growing
- We are better at keeping inventory levels lower
- Payables are up which is giving us a $9B interest free loan

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Change in Accounts Receivable

"Increase in A/R is like putting the money in an ATM machine that we get to take out later, but not now."



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Change in Accounts Payable

"Increase in A/P is like writing a non-interest IOU to our vendors and we keep the cash."



"Decrease in A/P is paying that IOU and reducing cash."

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Operating Alternative Look



Operating activities

Use EBIDA (Earnings before depreciation and interest)

Changes in operating balance sheet timing



Two numbers…that's all

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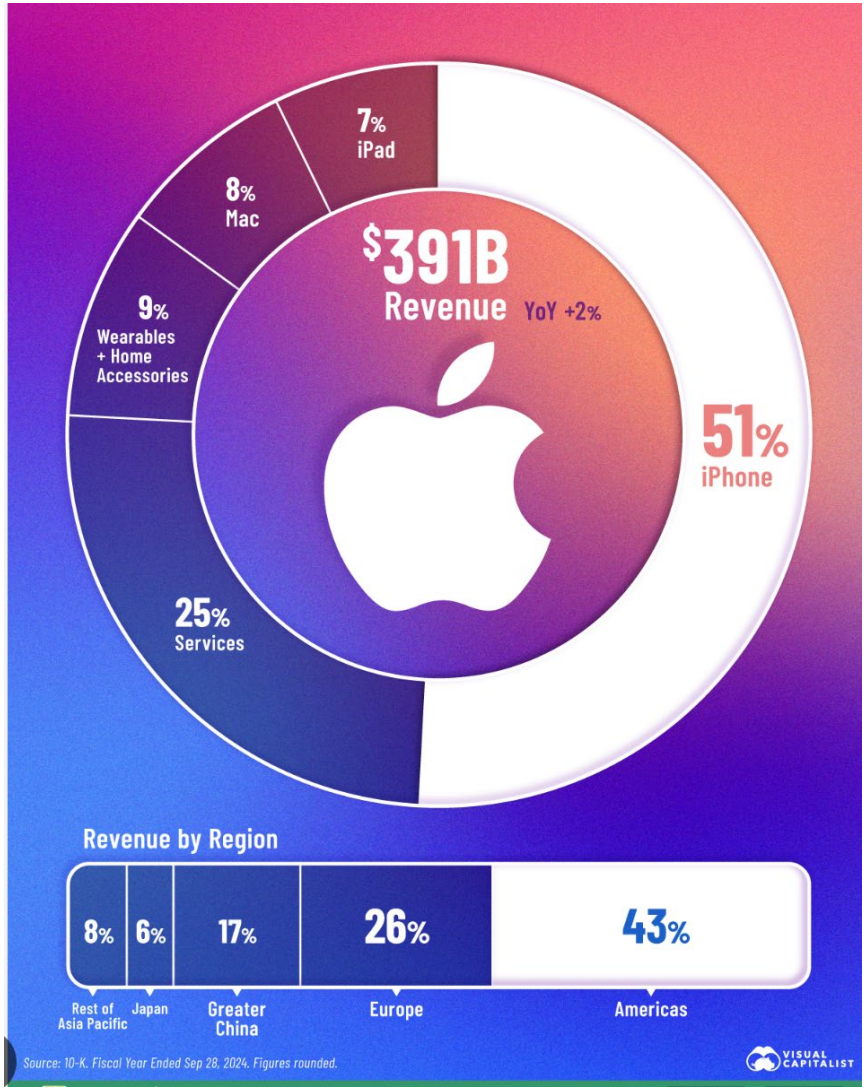
Sales Funnel



https://www.youtube.com/watch?v=5Uksz4awZfY

Money Starts with Revenue



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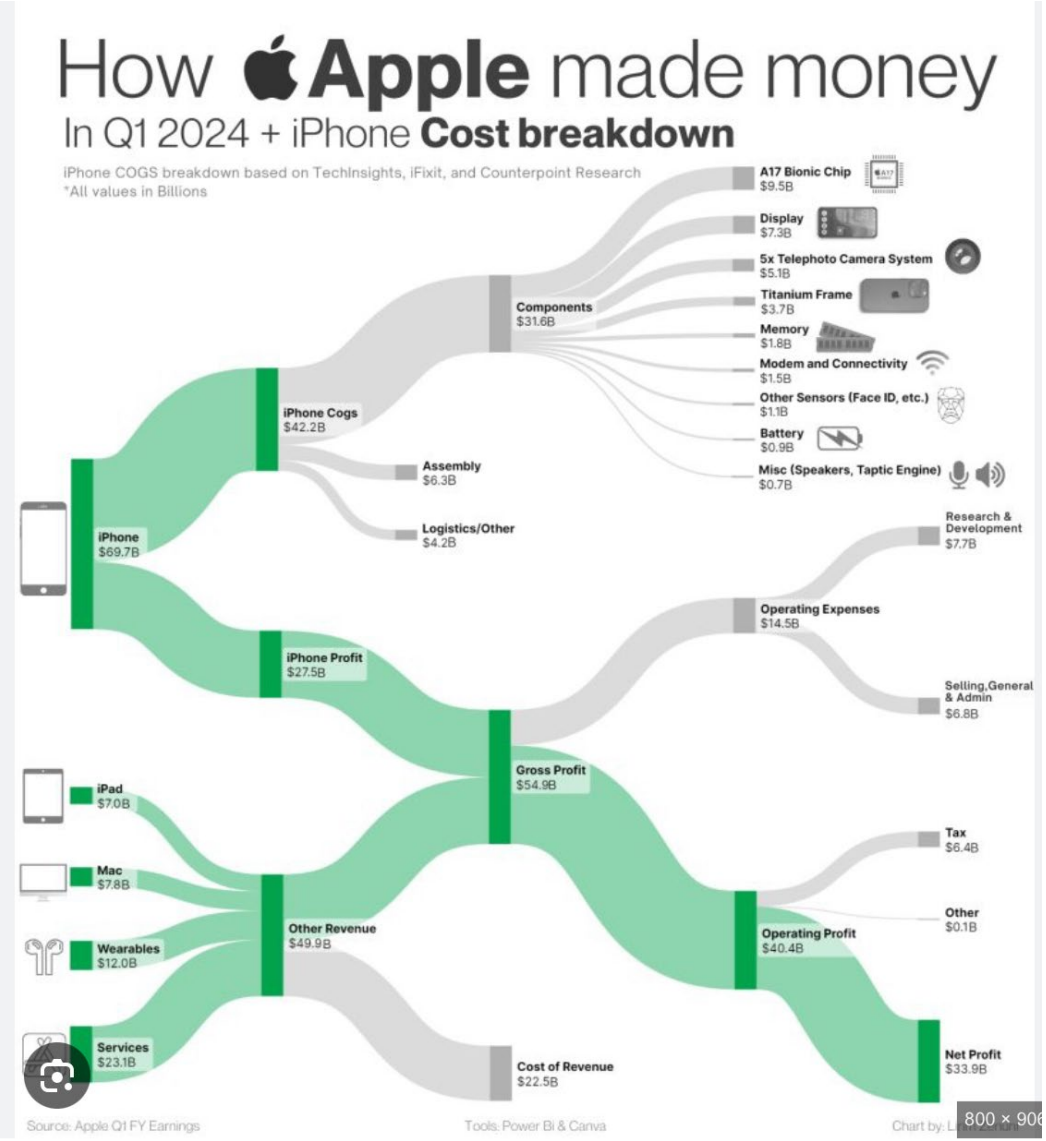
Did Apple Make Money?



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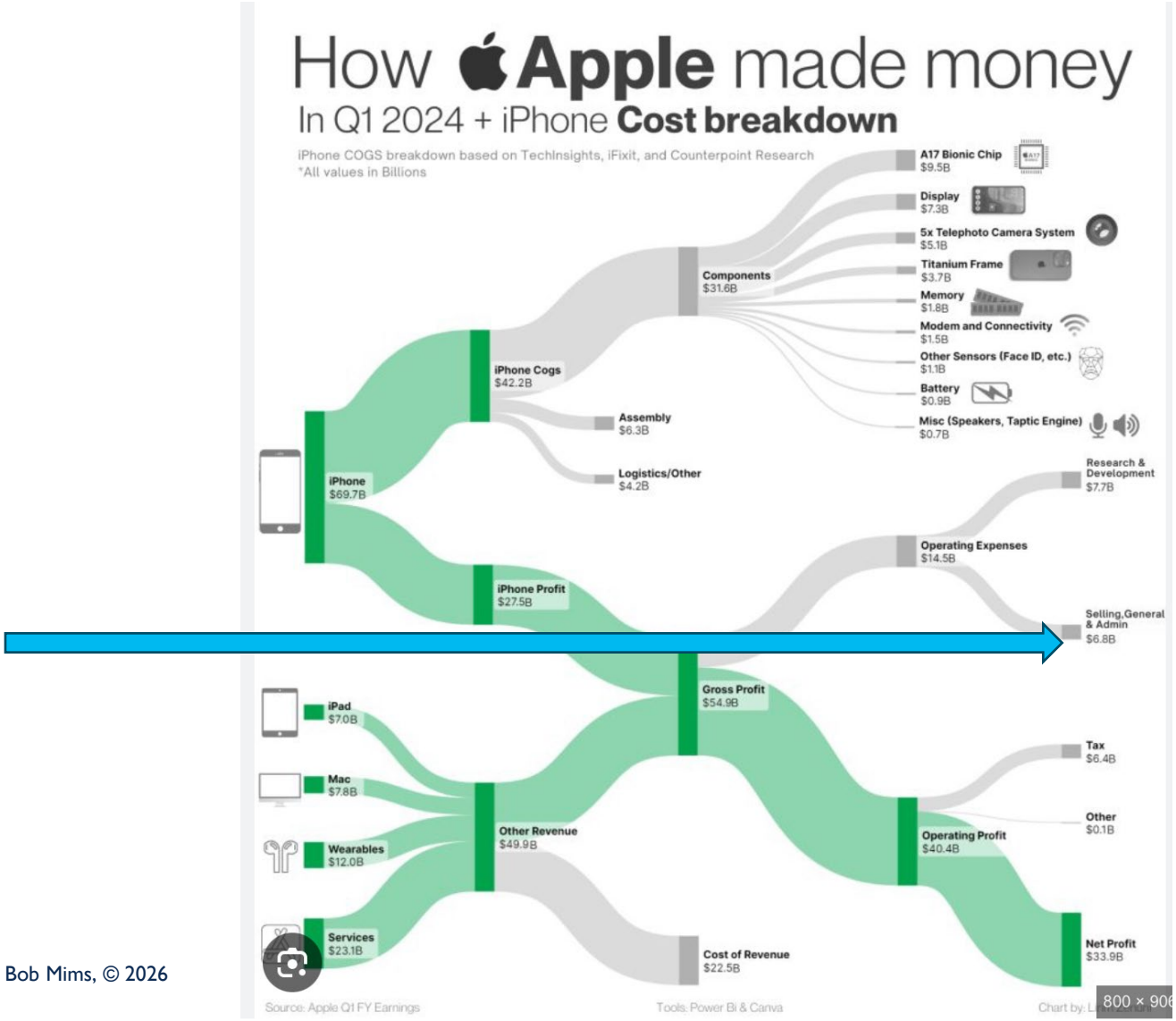
One More Point



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Polling Question

I Wish I'd Invested In?

a) Apple
b) Orange frozen concentrate
c) NVIDIA
d) Bitcoin
e) Florida real estate
f) Other.

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2. Did We Buy or Sell Any Stuff?

- Investing activities



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Did We Buy or Sell Any Stuff?

- Investing activities

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Proceeds from maturities of marketable securities	29,917	59,023	69,918
Proceeds from sales of marketable securities	37,446	47,460	50,473
Payments for acquisition of property, plant and equipment	(10,708)	(11,085)	(7,309)
Payments made in connection with business acquisitions, net	(306)	(33)	(1,524)
Other	(1,780)	(352)	(909)
Cash used in investing activities	(22,354)	(14,545)	(4,289)

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Did We Buy or Sell Any Stuff?

- Investing activities

Did we buy or sell stuff?	This year	Last year
Net investments made with cash	$ (9,560)	$ (3,055)
Equipment bought with cash	$ (12,796)	$ (11,470)

- We had to put some of this dough somewhere, so we invested about $10B
- We bought equipment of about $13B because we are loaded

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Polling Question

Favorite Apple Product?

a) iPhone
b) iPad
c) I cloud
d) I like Android
e) iMac
f) I like something that does not start with "i"



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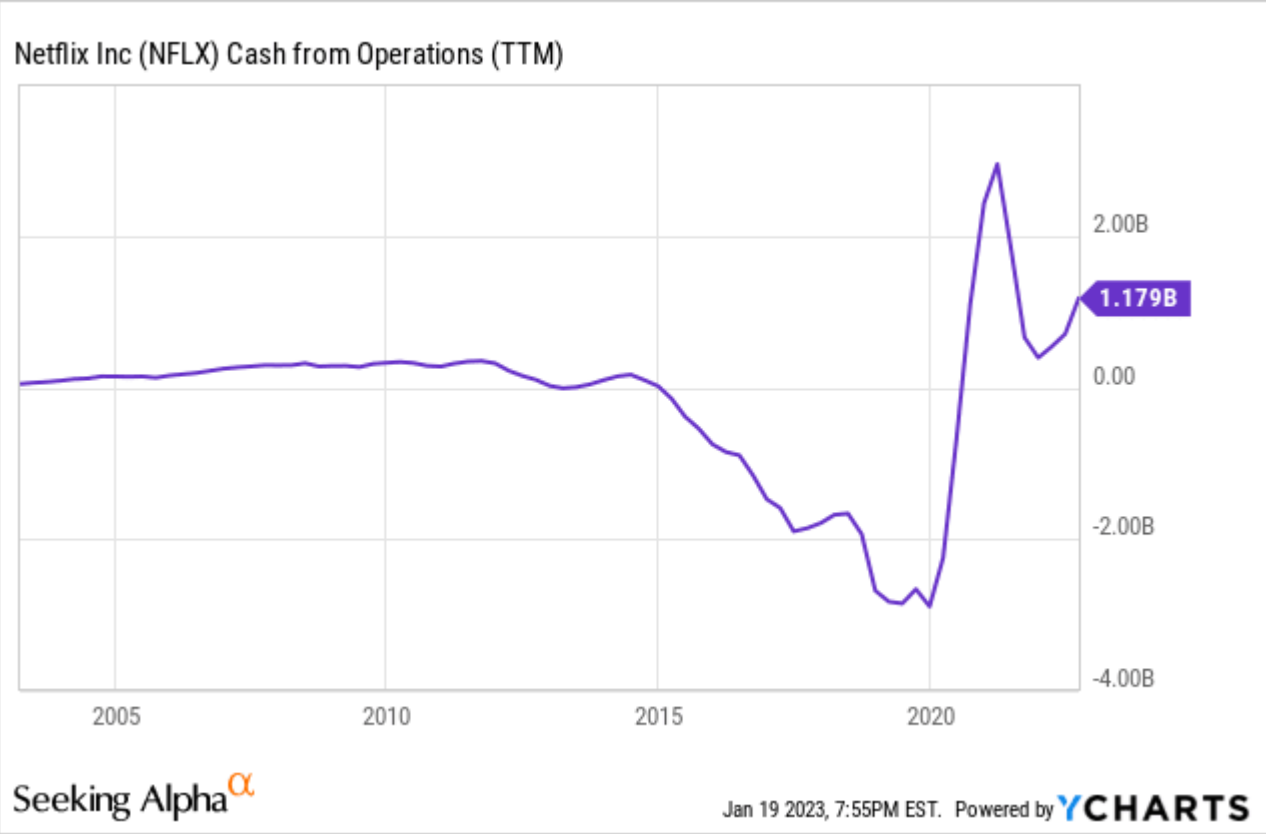
Understanding Cash and CapX

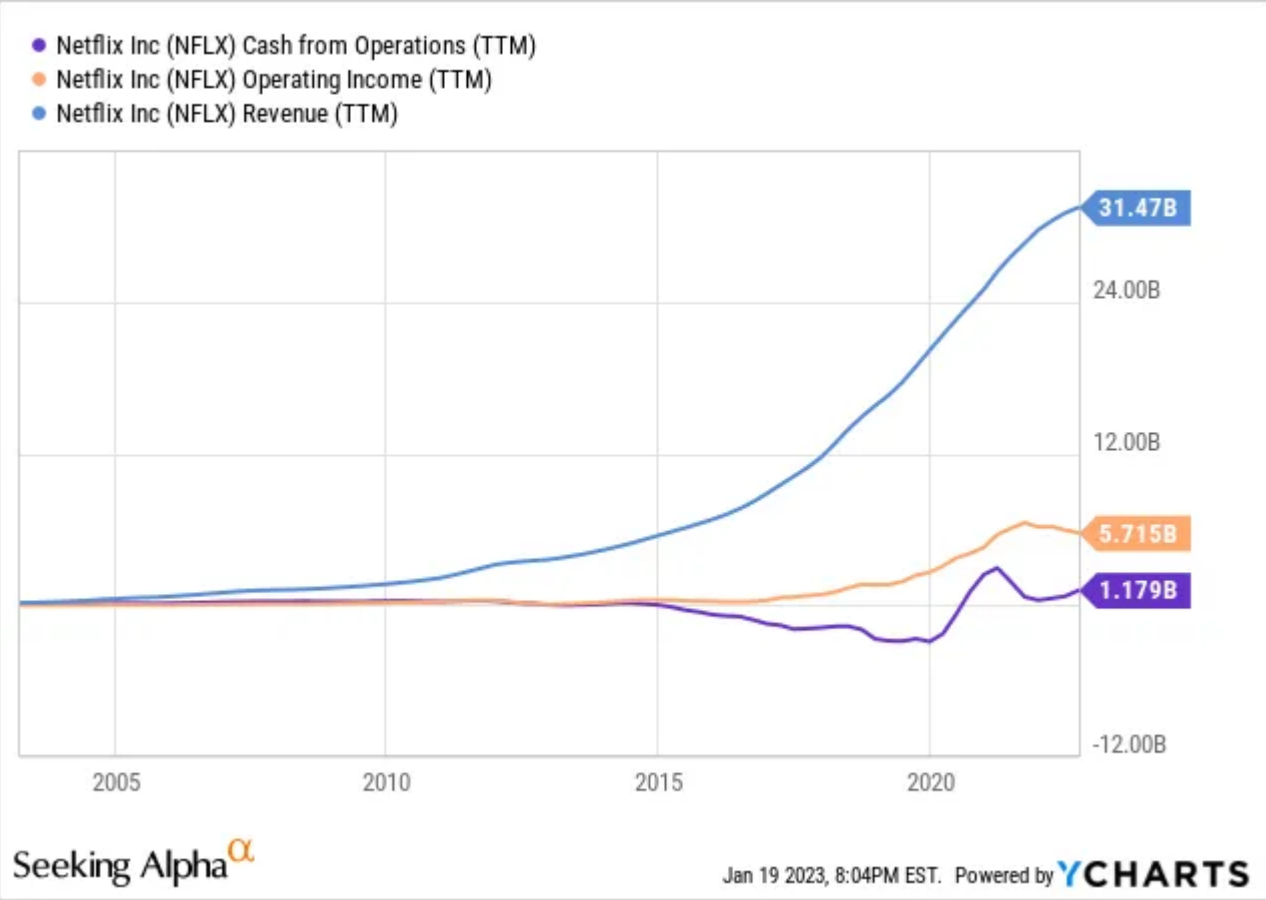


Facebook

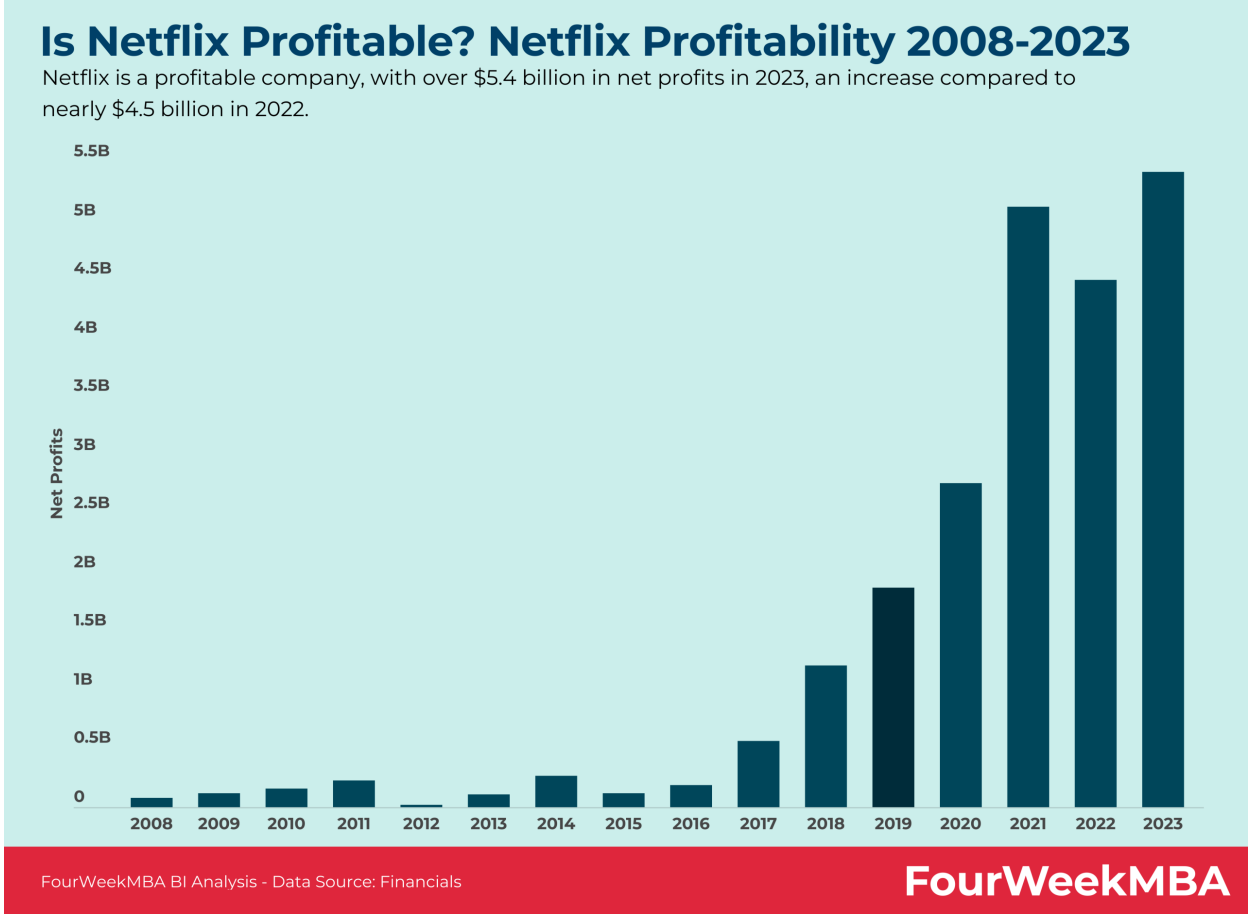
Netflix-CapX Story



Netflix-CapX Investment Paid Off



Netflix is Making Money



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Netflix Benefitted From High Speed



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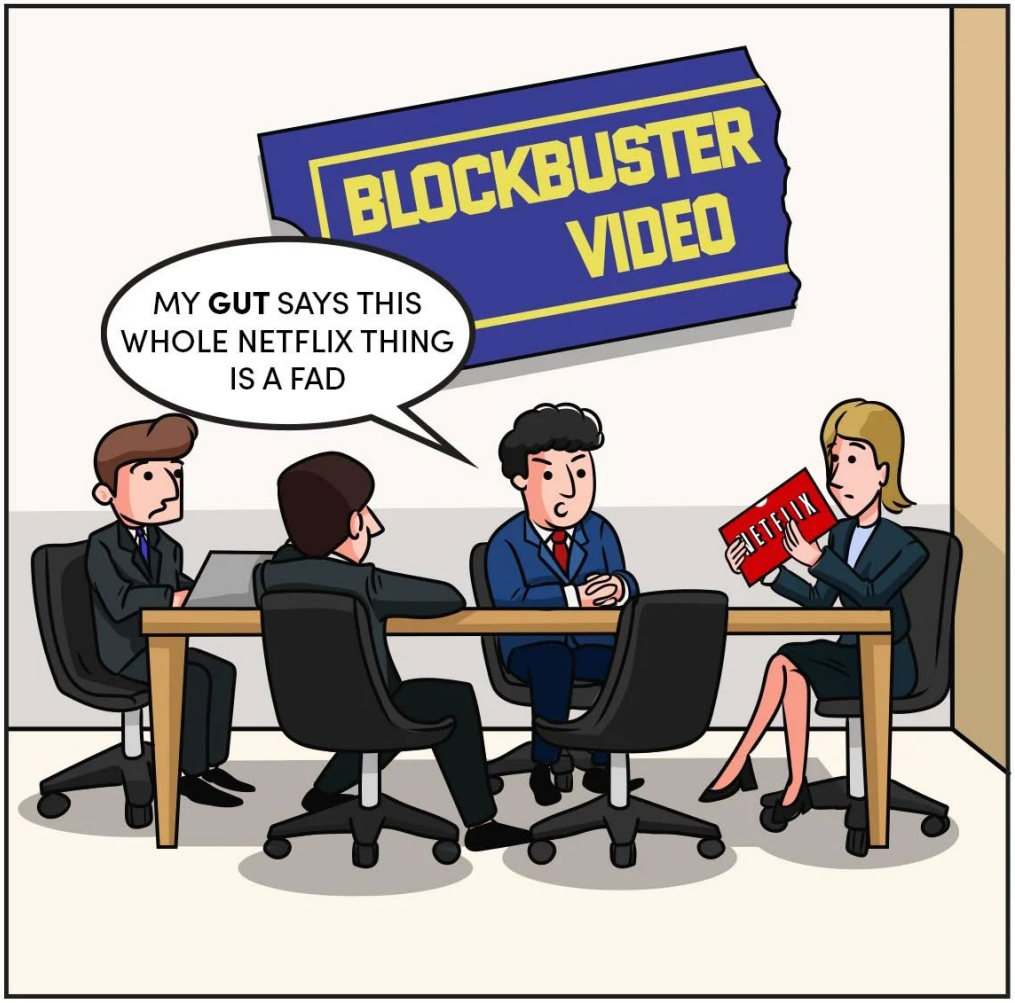
Raising Prices But Not Cash



Reducing Prices to Raise Cash



Case Discussion #2

Cash Decisions

1) Can you tell us a time that your organization, or one you have heard of, simply raised pricing to generate more cash?
   a) Did it work or fail?
2) Can you tell us a time that your organization, or one you have heard of, simply reduced prices to raise more cash?
   a) Did it work or fail?

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Always Look at Big Picture



NETFLIX

WHAT ANNOYS CUSTOMERS	WHAT DELIGHTS CUSTOMERS
Time-consuming store visits	Instant access from home
No catalogs, no recommendations	Smart content recommendation system
Late fees, late fees, late fees	Only subscription fees, unlimted rentals
Expensive VCR machine	Available on any smart devices

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Now We Want It Back



Facebook

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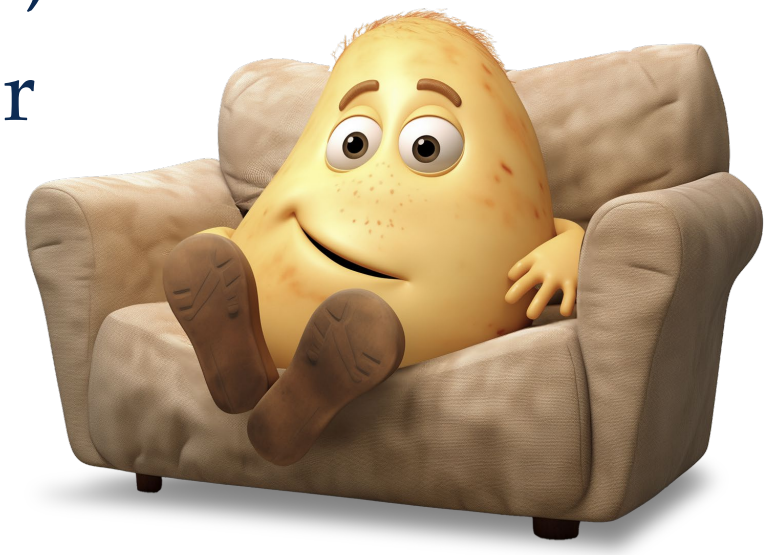
Polling Question

Favorite Streamer?

a) Netflix,
b) Less popular like Britbox,
c) Paramount Plus,
d) Still watching live TV,
e) I miss Blockbuster, or
f) Other.



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Sometimes the Truth is Obvious





Brilliant Maps

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3. Who Believed in Us?

- Financing activities
  - Bank?
  - Investors?
  - Ourselves?



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Who Believed in Us?

- Financing activities

Financing activities:			
Payments for taxes related to net share settlement of equity awards	(6,223)	(6,556)	(3,634)
Payments for dividends and dividend equivalents	(14,841)	(14,467)	(14,081)
Repurchases of common stock	(89,402)	(85,971)	(72,358)
Proceeds from issuance of term debt, net	5,465	20,393	16,091
Repayments of term debt	(9,543)	(8,750)	(12,629)
Proceeds from/(Repayments of) commercial paper, net	3,955	1,022	(963)
Other	(160)	976	754
Cash used in financing activities	(110,749)	(93,353)	(86,820)
Decrease in cash, cash equivalents and restricted cash	(10,952)	(3,860)	(10,435)
Cash, cash equivalents and restricted cash, ending balances	$ 24,977	$ 35,929	$ 39,789

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Who Believed in Us?

- Financing activities

Who believed in us?	This year	Last year
Apple believes in itself stock buyback	$ (89,402)	$ (85,971)
Apple pays their investors and employees	$ (21,064)	$ (21,023)
The Bank believes in us - Net loans	$ (263)	$ 13,641
We mostly believe in ourselves	$ (110,729)	$ (93,353)

- We made so much money that we just bought back more stock in us. **We believe in us.**

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Polling Question

Hardest Part of Cash Flows?

a) Making money
b) Buying and selling stuff
c) Getting banks to believe in us
d) Getting investors to believe in us
e) Other



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Business Is Hard - USA

Industry	2013	2014	2021	2023
🌾 Agriculture & Forestry	100%	88%	57%	51%
⚡ Utilities	100%	81%	48%	46%
🏭 Manufacturing	100%	83%	47%	44%
🏢 Real estate	100%	84%	48%	42%
🛒 Retail trade	100%	84%	47%	42%
🏗️ Construction	100%	76%	45%	40%
🎓 Education	100%	82%	43%	39%
🏨 Hospitality	100%	83%	43%	38%
💰 Finance	100%	81%	43%	38%
🩺 Health	100%	83%	44%	36%
🎭 Entertainment	100%	81%	39%	35%
🚚 Transportation	100%	79%	39%	34%
⚖️ Legal & Accounting	100%	77%	36%	31%
💻 Technology	100%	75%	34%	29%
⛏️ Mining, Oil & Gas	100%	79%	28%	25%

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Pew Research

Business Is Hard - Canada

Industry	1-Year Survival	5-Year Survival	10-Year Survival
Agriculture & Forestry	87.5%	66.2%	50.5%
Real Estate & Leasing	83.9%	58.7%	42.2%
Retail Trade	84.2%	58.3%	41.7%
Manufacturing	82.6%	57.7%	43.6%
Construction	76.0%	53.9%	40.1%
Accommodation & Food Services	82.5%	55.3%	38.2%
Finance & Insurance	80.9%	53.2%	37.5%
Wholesale Trade	77.0%	46.3%	30.9%
Mining & Oil Extraction	74.9%	48.0%	24.5%

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Sources = Statistics Canada and ISED

Polling Question

What is the Most Important Asset?

a) Cash
b) Investments
c) Intellectual property
d) Intangible assets
e) People
f) Other



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What is Your Most Important Asset?



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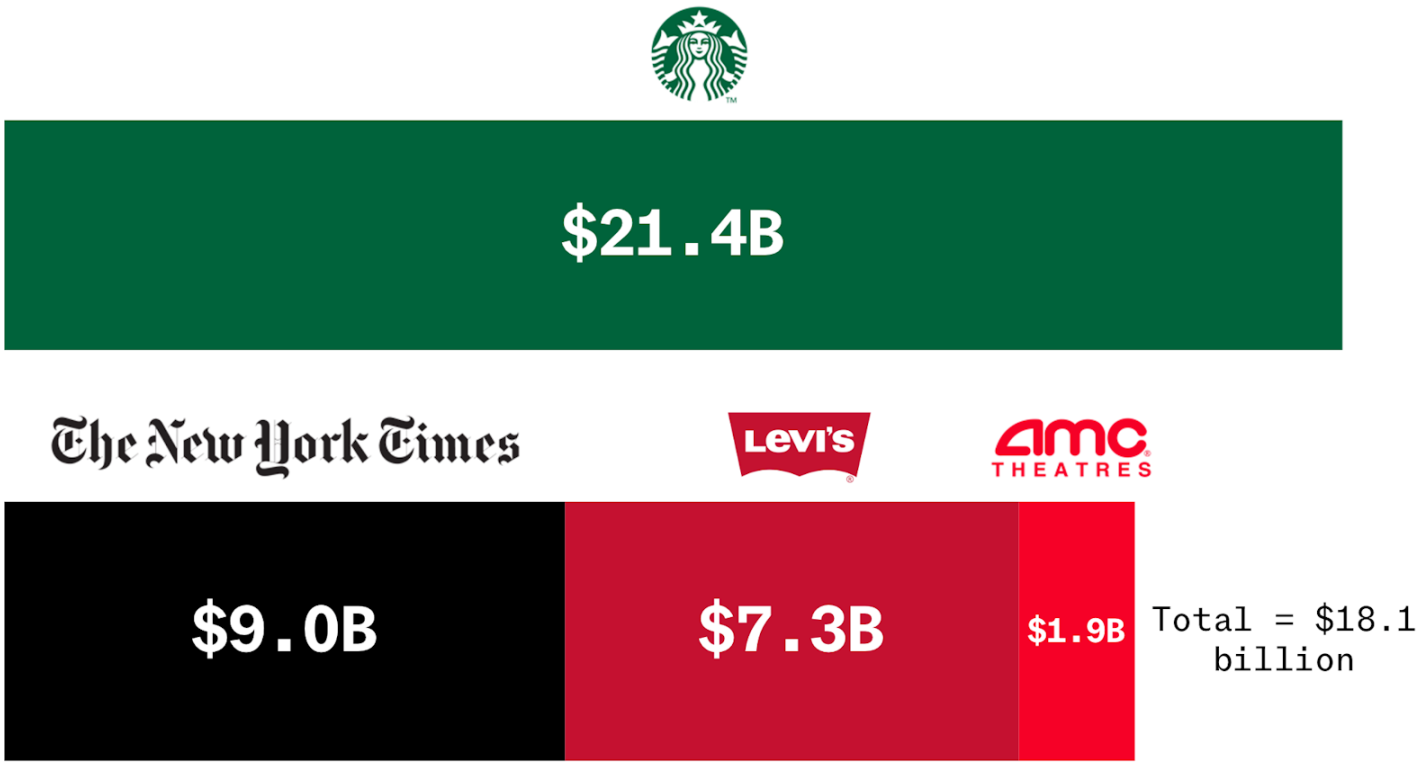
People Matter

NICCOL-STACK

Starbucks' New $20B+ Man

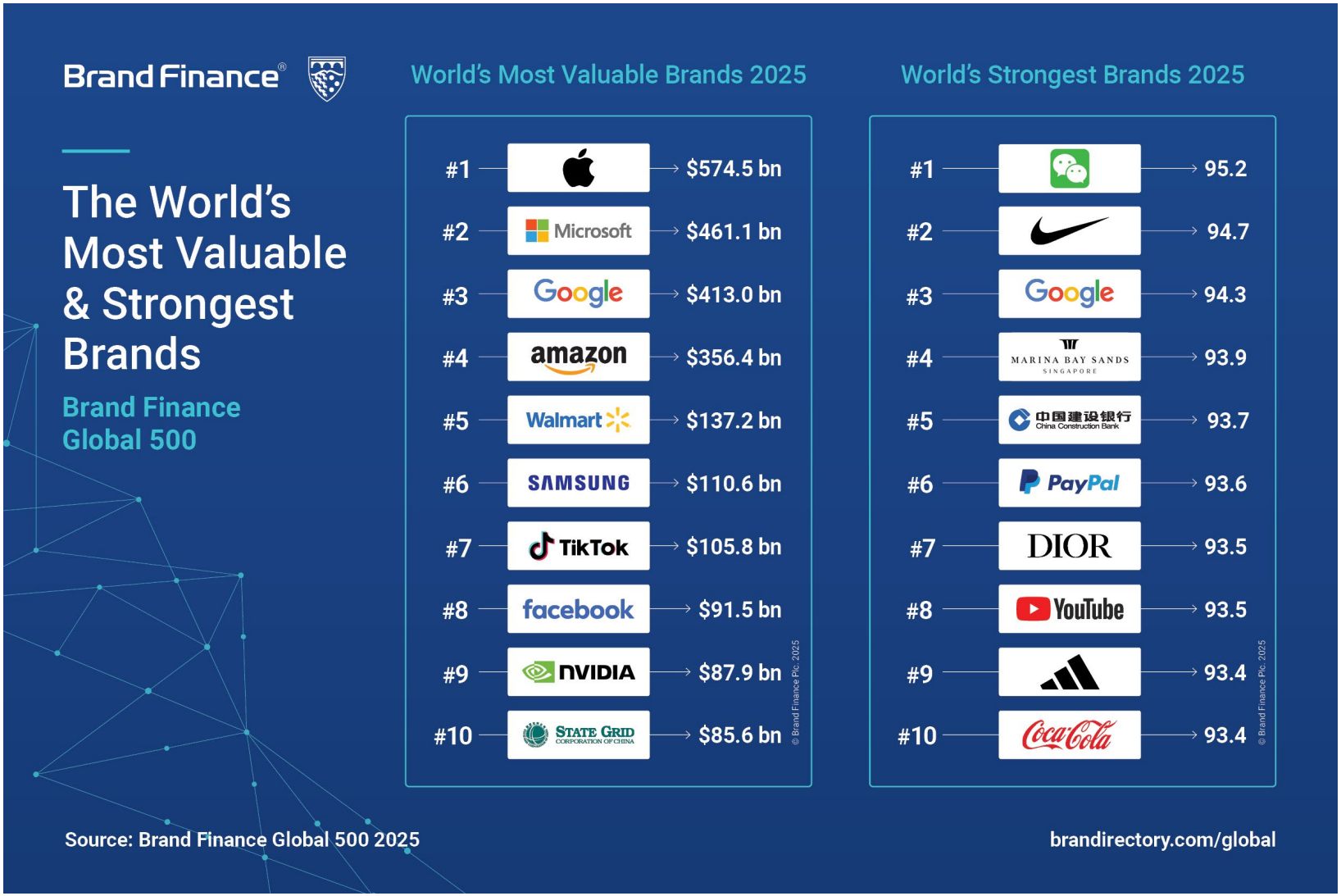
SBUX Market Cap. Change Yesterday vs. Selected Companies' Total Market Cap.



CHARTR

Source: Koyfin | Data as of Aug 13

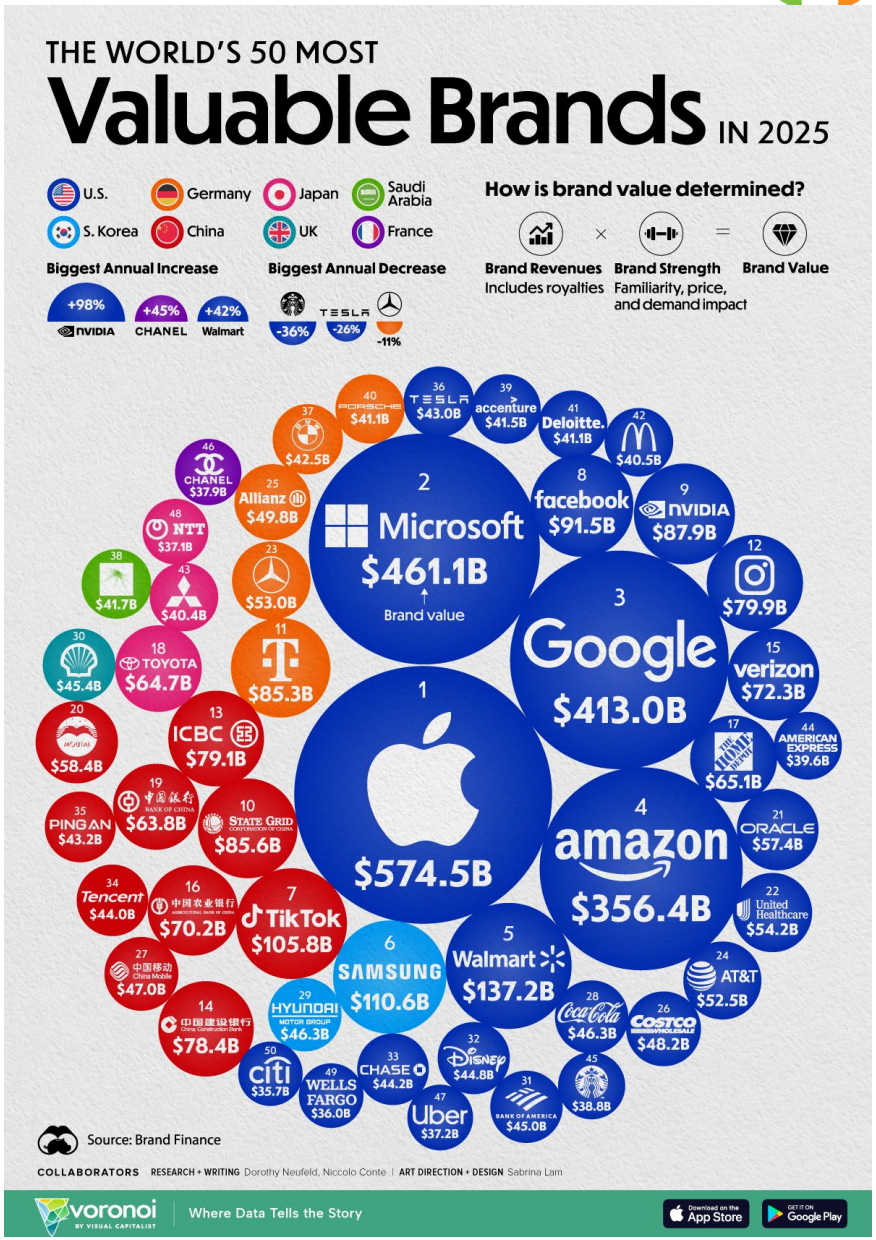
Brand Value and Cash Flow



Communicating Simply



Intangible Assets



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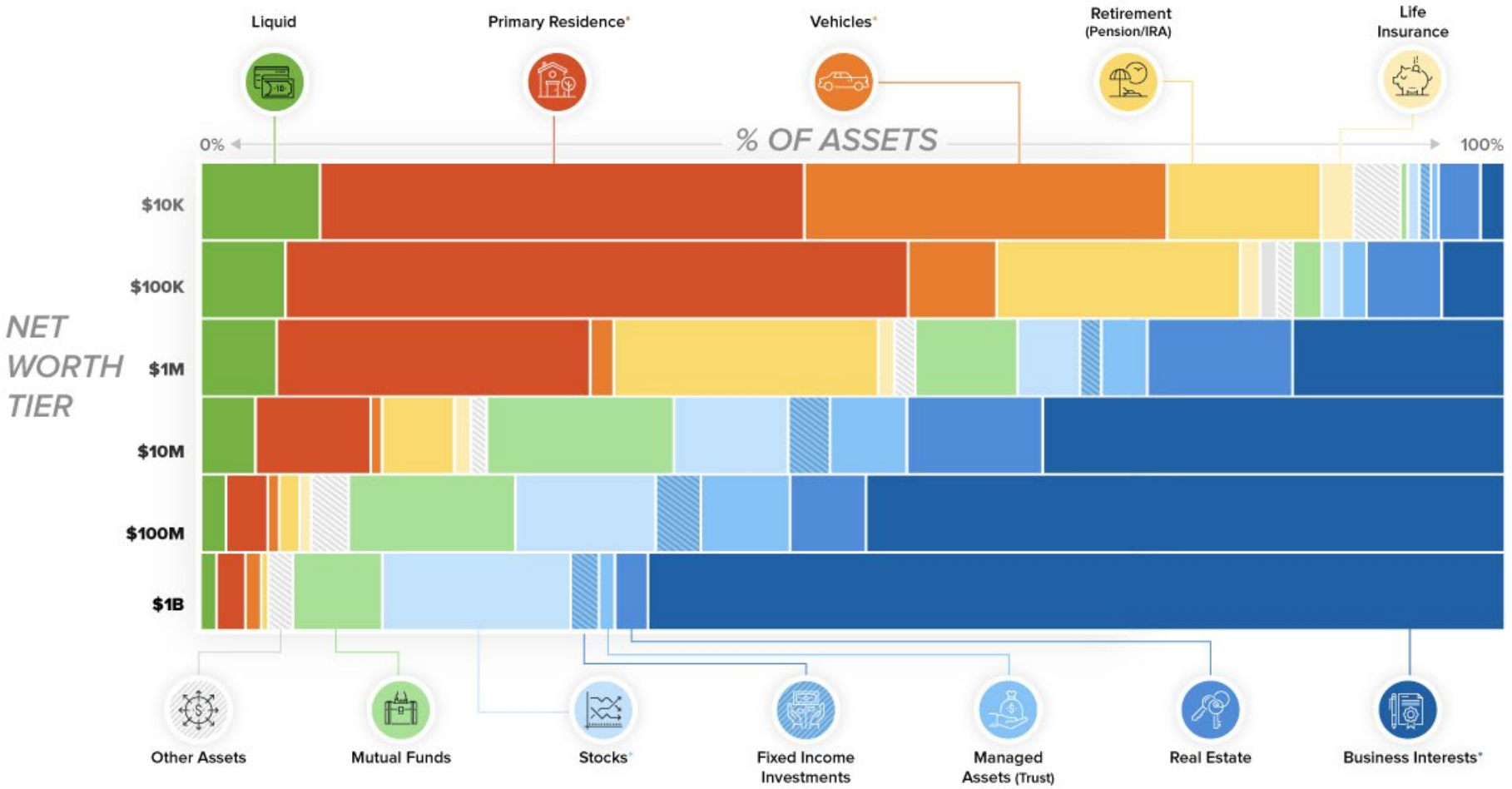
Cash Gets Deployed



Visual Capitalist

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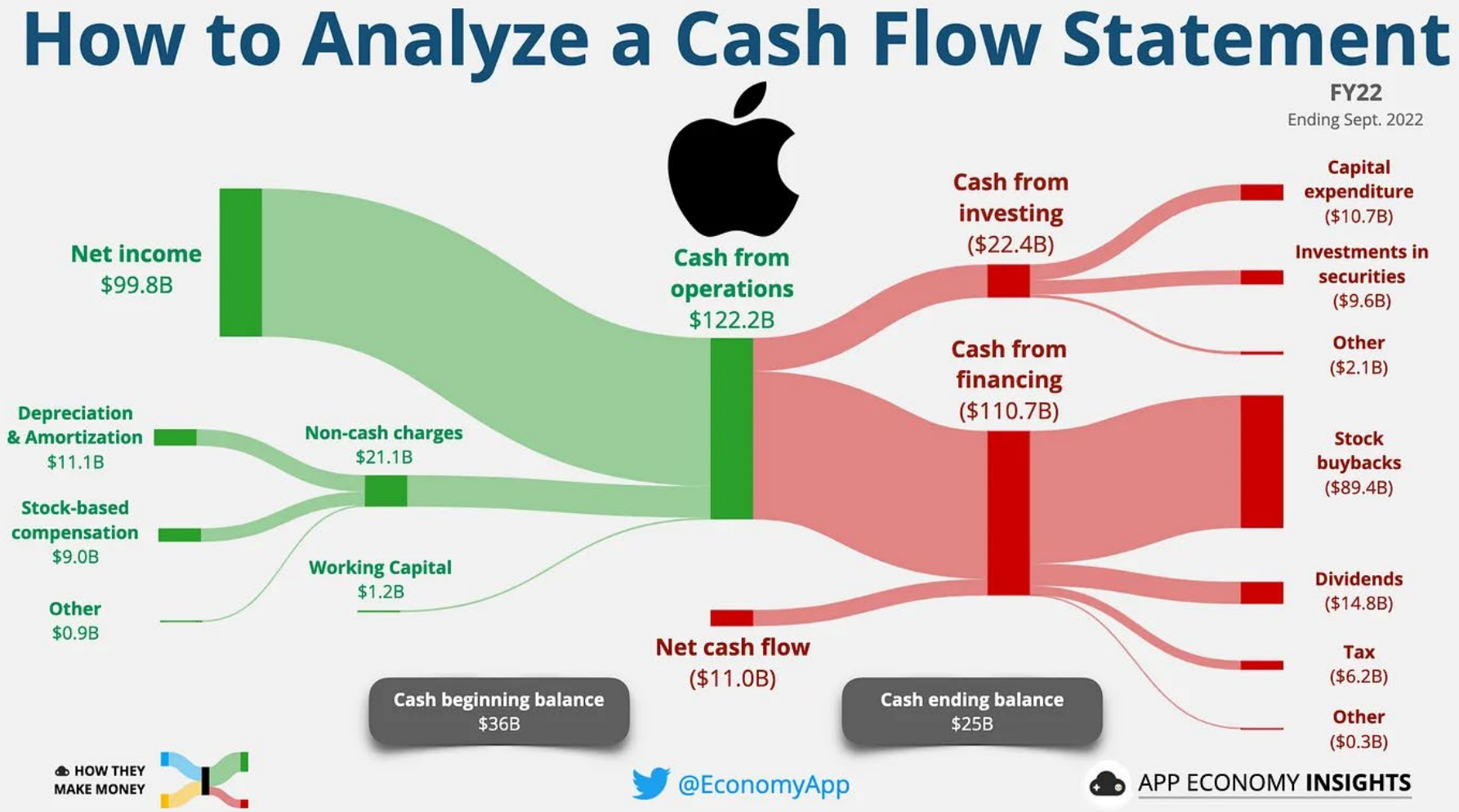
Summary – Keep the King Simple



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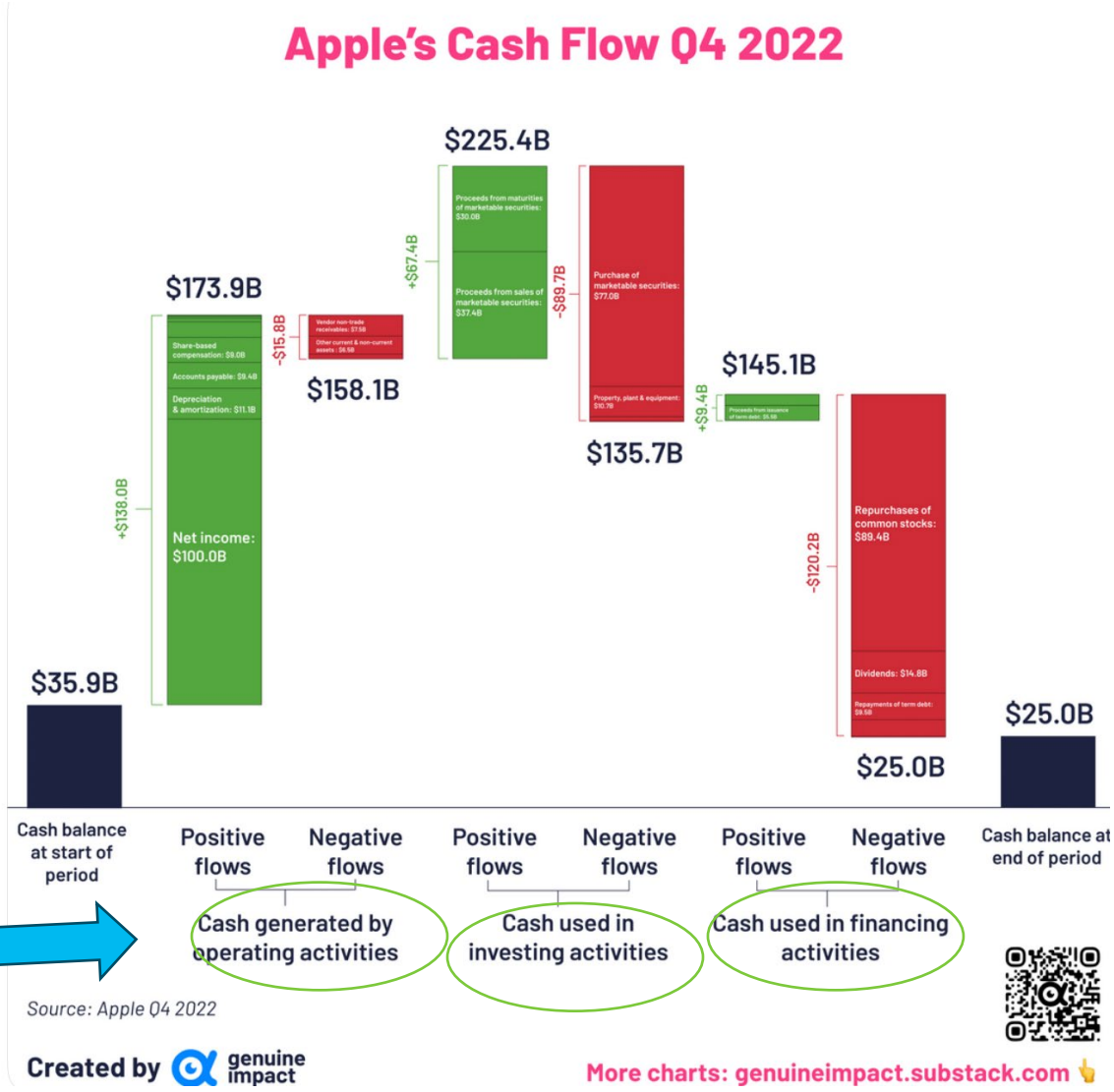
Another Way to View It



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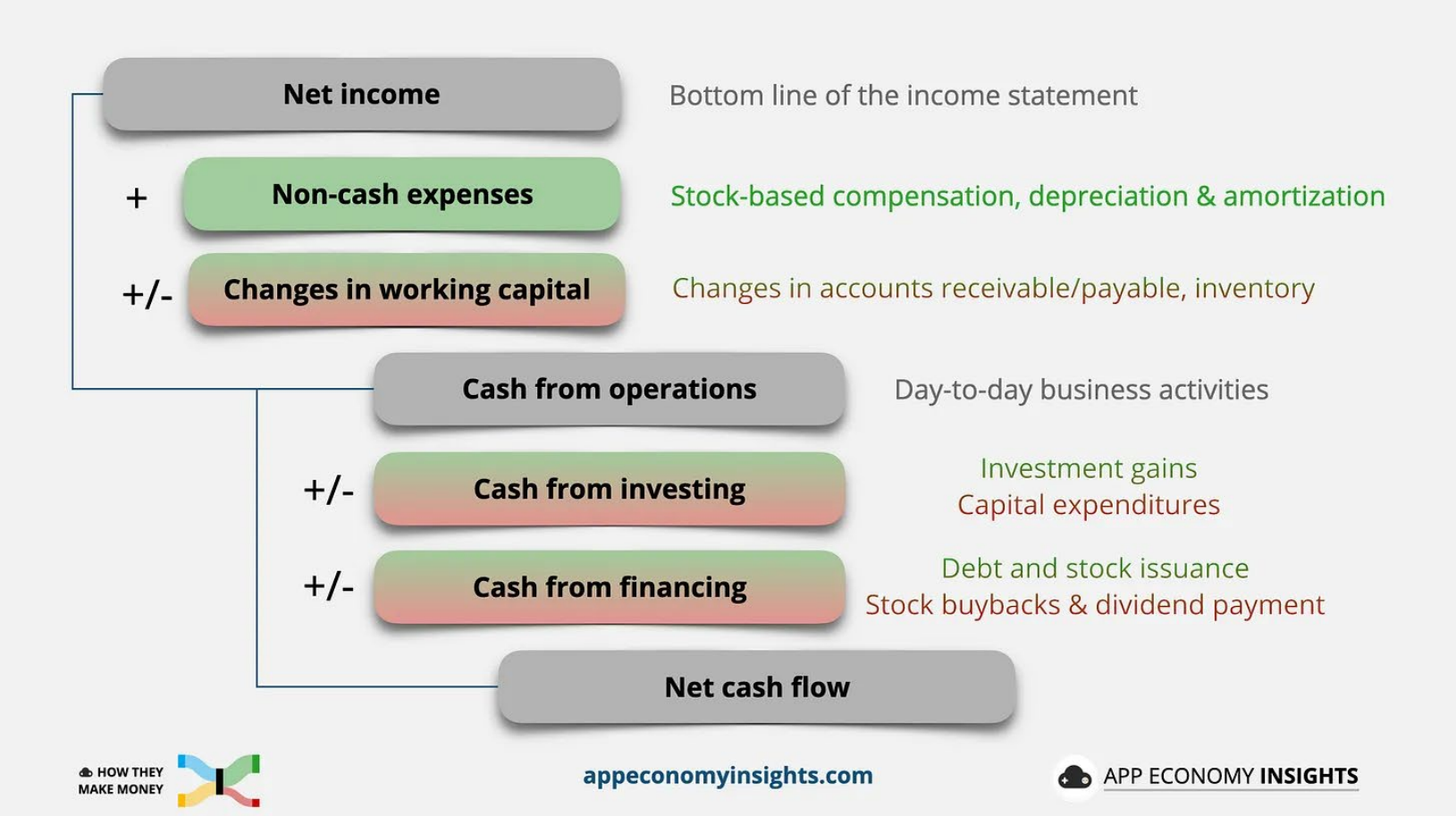
Understanding Cash and CAPX



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Polling Question

Your View of Cash?

a) It is king
b) It is king, queen, jack, ten, ace and the royal flush
c) It is important but does not earn me anything
d) Hard to forecast
e) Other



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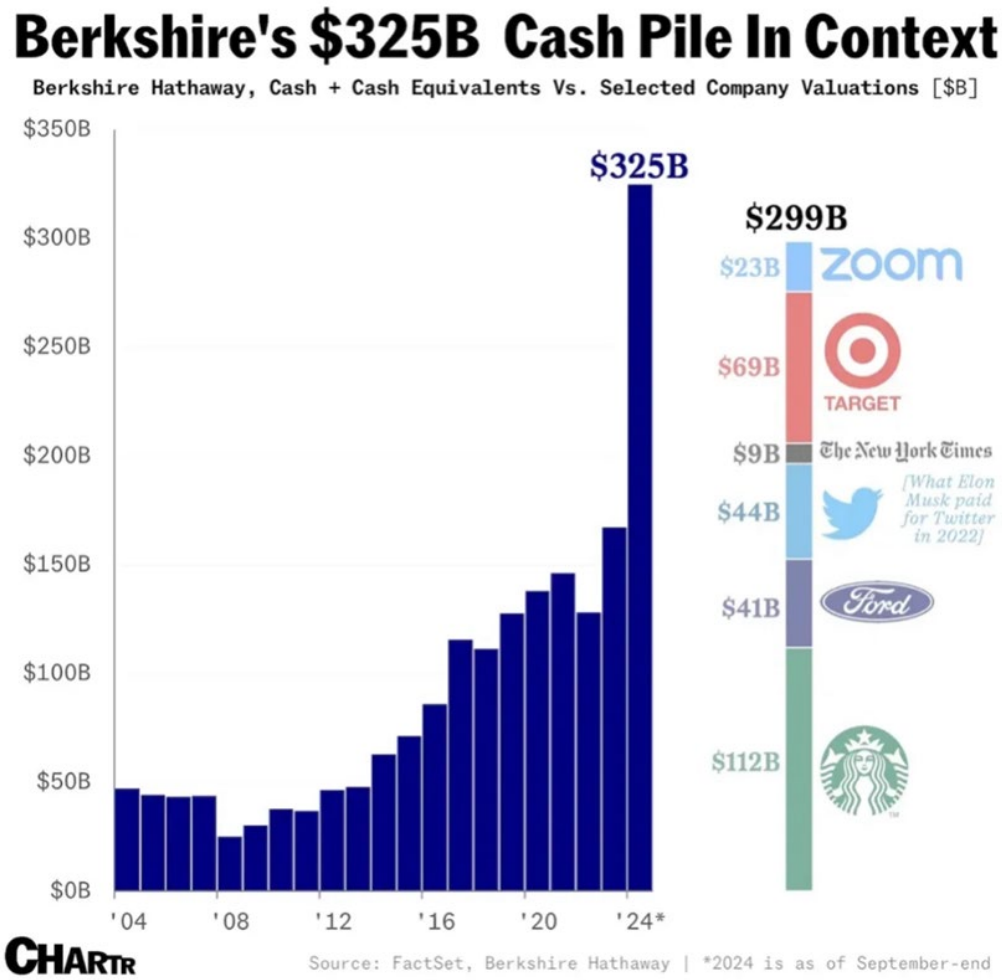
What About Managing Cash?



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Cash is Important to These Orgs



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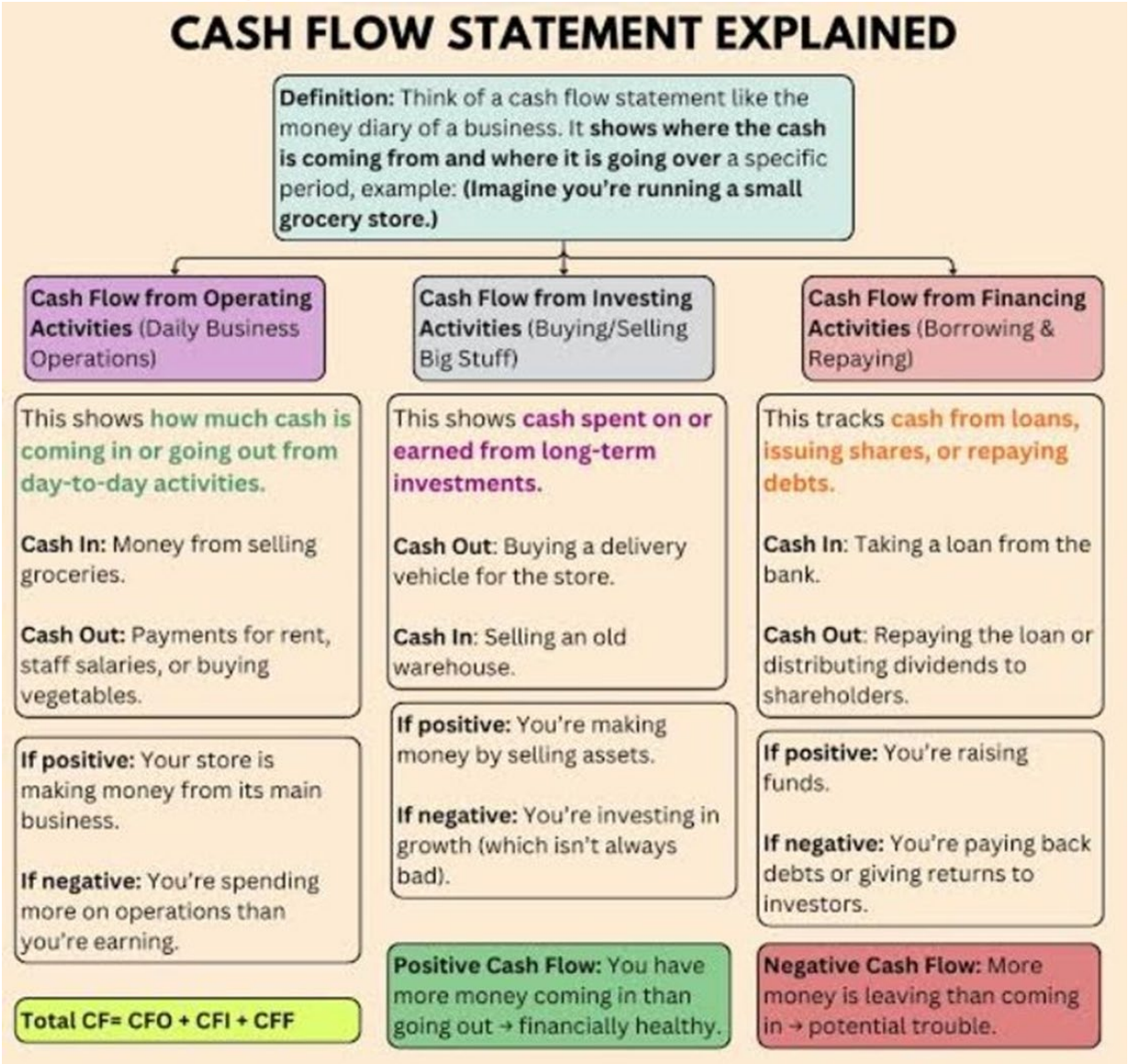
Explaining Cash Flow



LinkedIn

View of Cash Flow Reporting



"And do you swear that this quarterly sales report has no accounting tricks?"

Facebook

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Another Summary Way



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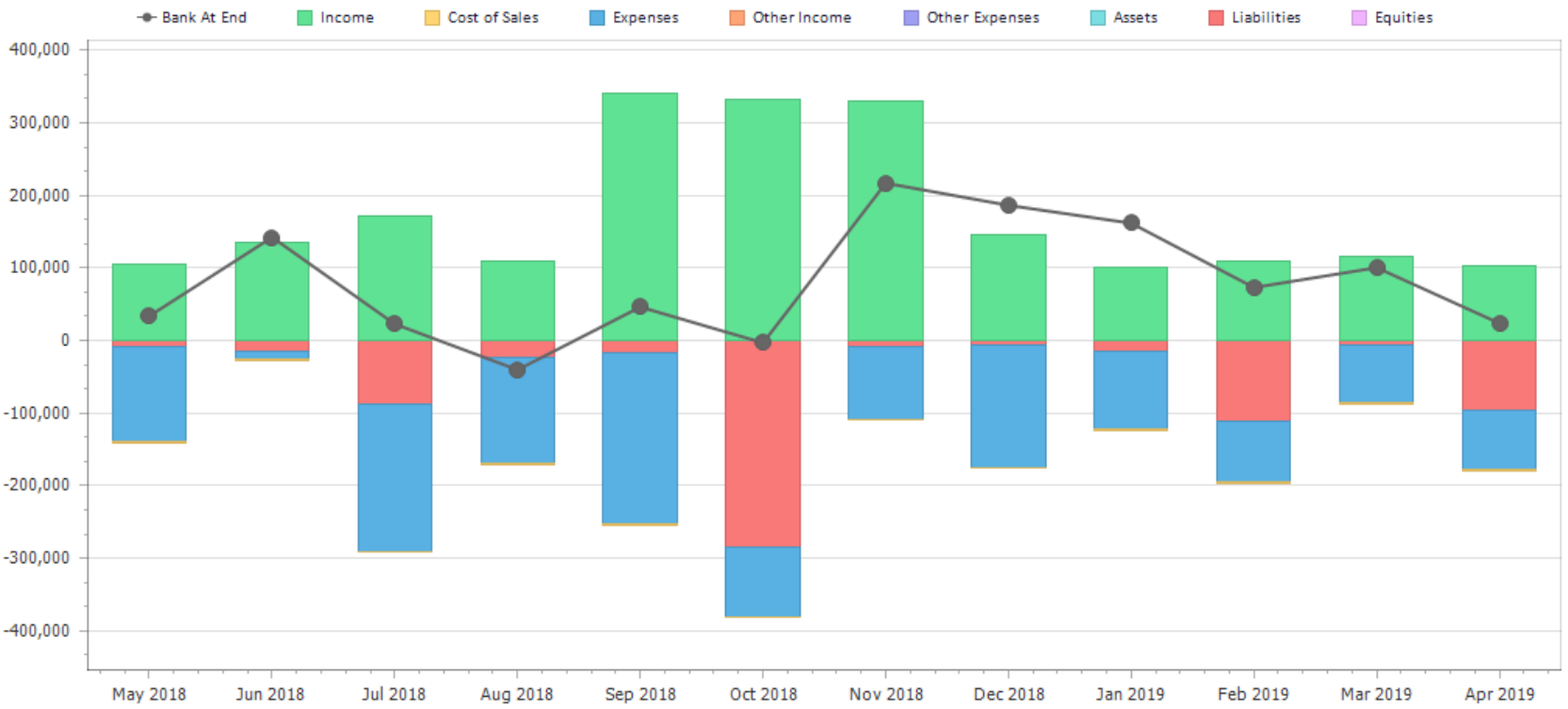
Another Example to Use

- Beginning Cash
- How much we made (Ebitda)
- Adjust for Balance Sheet timing
- Inc/(Dec) cash for debt or pay off
- Decrease for CapX
- Ending Cash

Modeling Cash

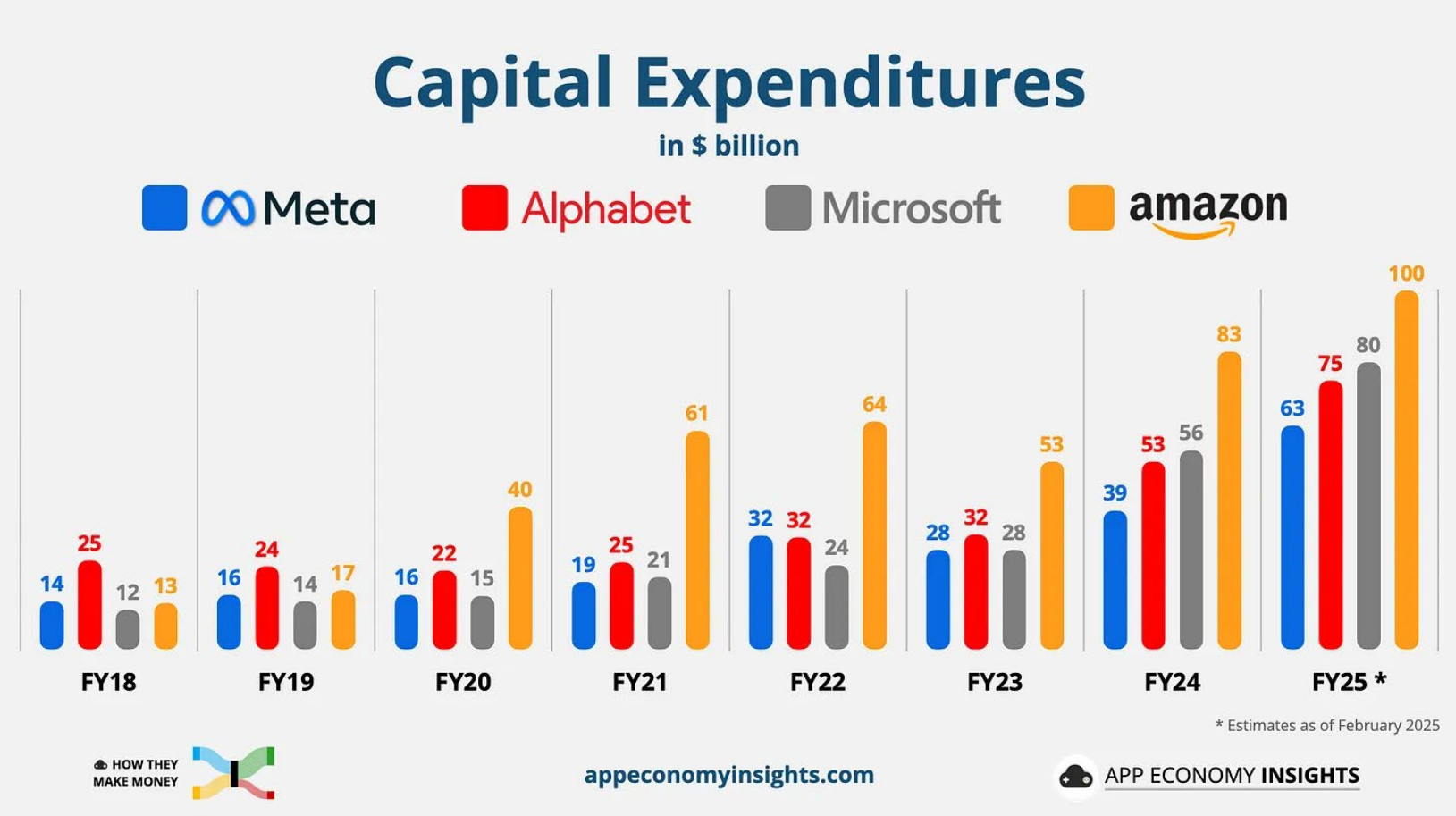
Cashflow Forecast — Not-for-Profit Inc. (AR Live)

MAY 2018 — APR 2019



Budget	Initial Budget Version
Account Tree	«Original Account Tree»

Amazon Building CapX



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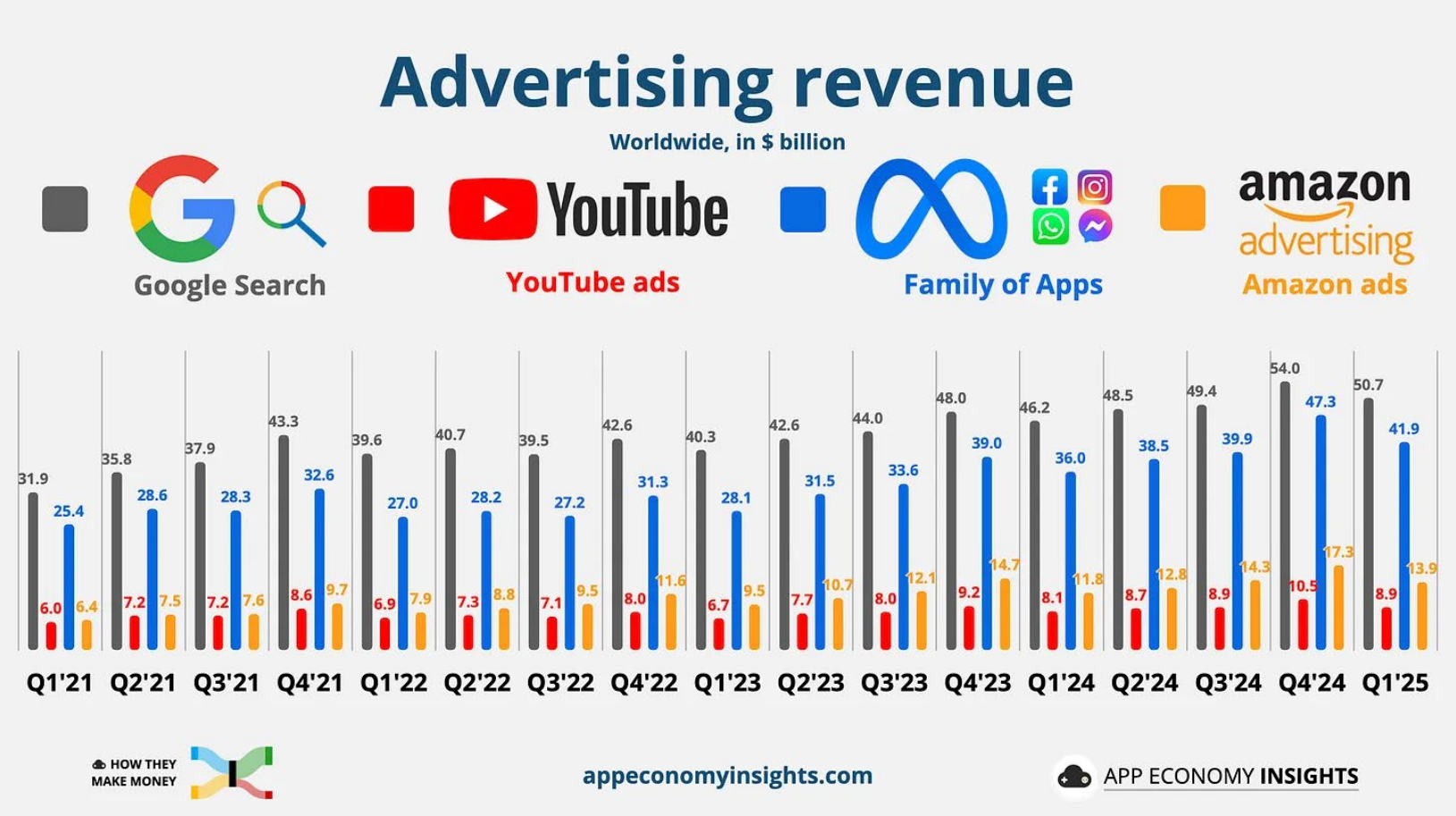
Advertising Has Changed



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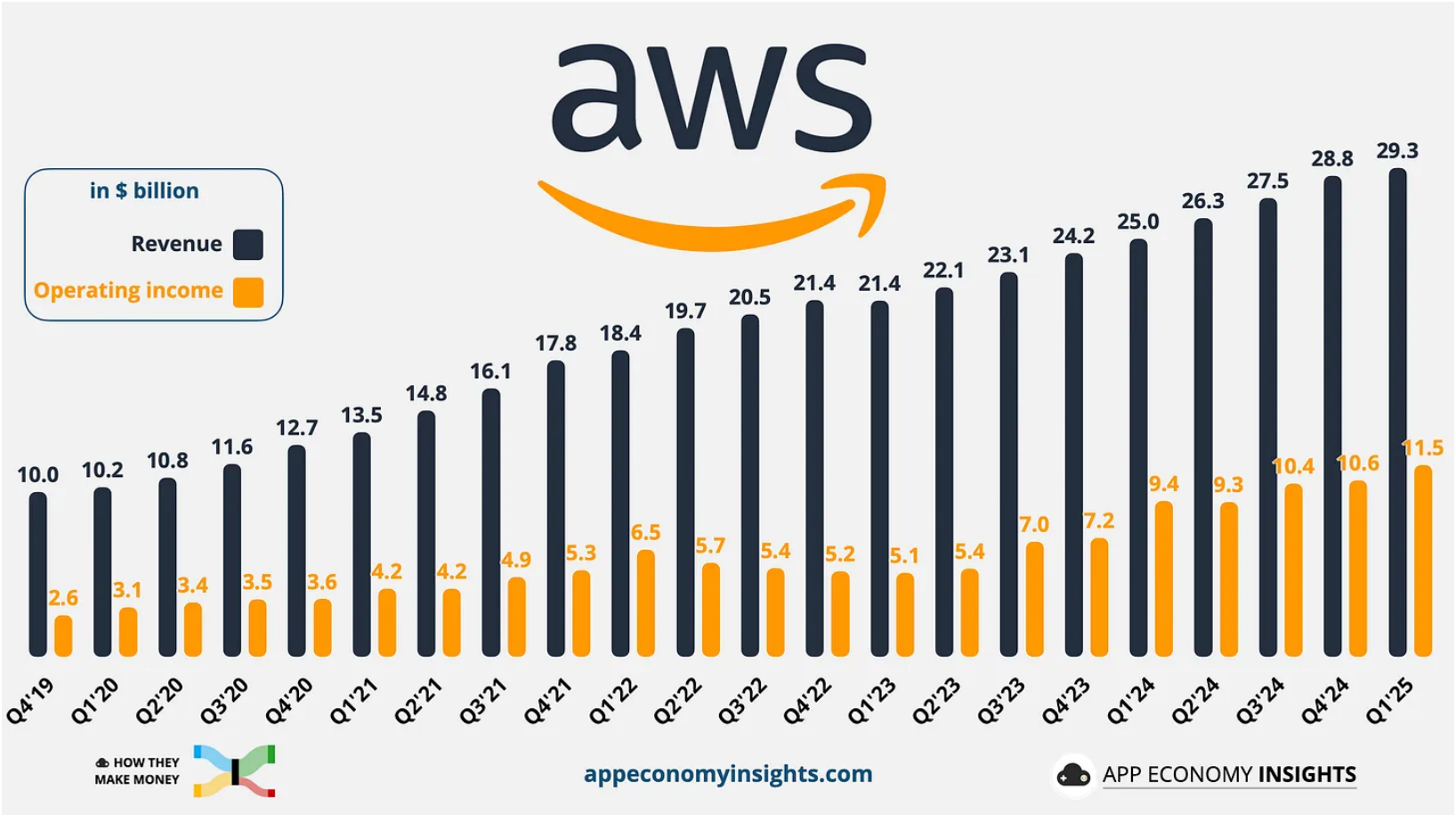
Amazon Revenue Growth



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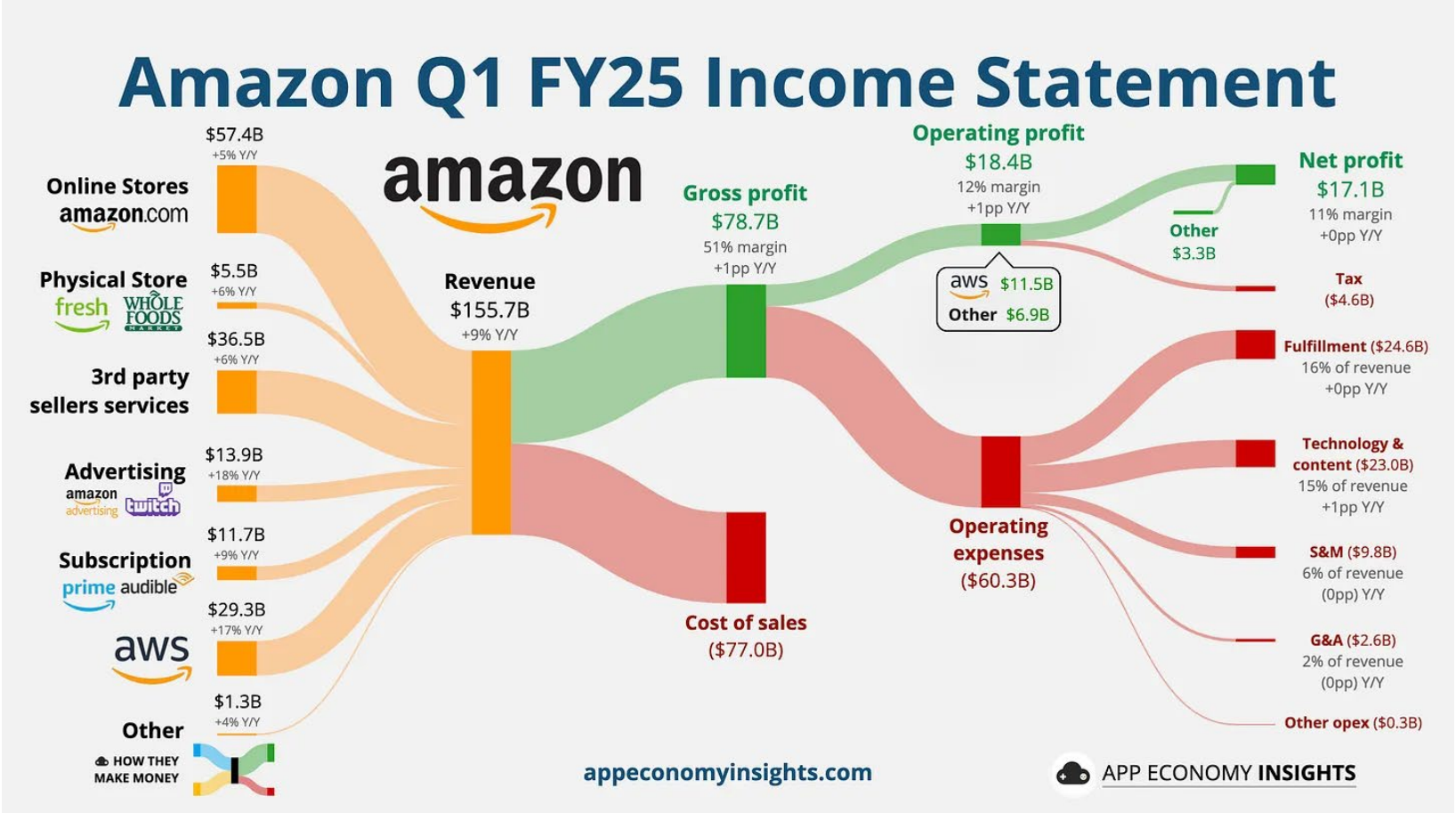
Amazon P&L



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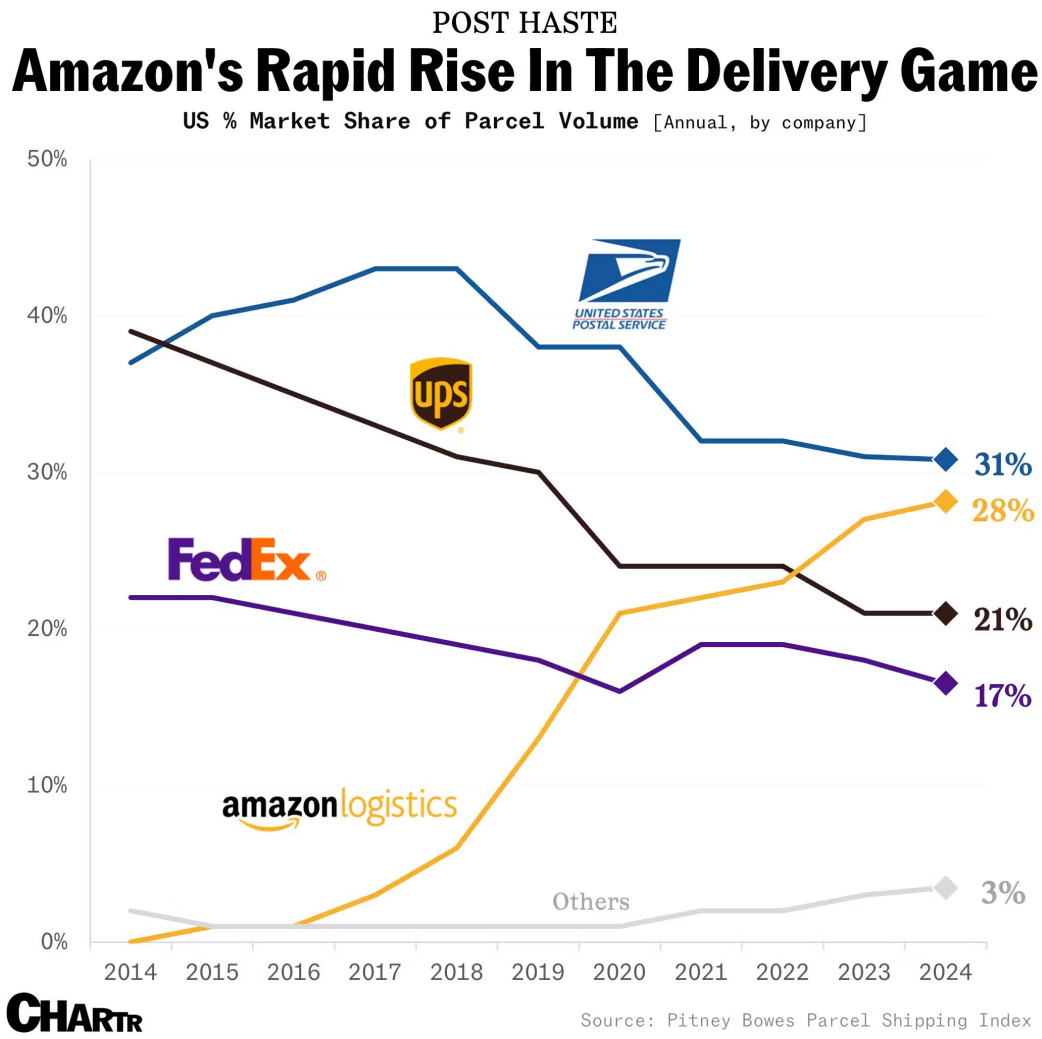
Cash Flow Leverage (Optional)



Amazon's Increased Logistics



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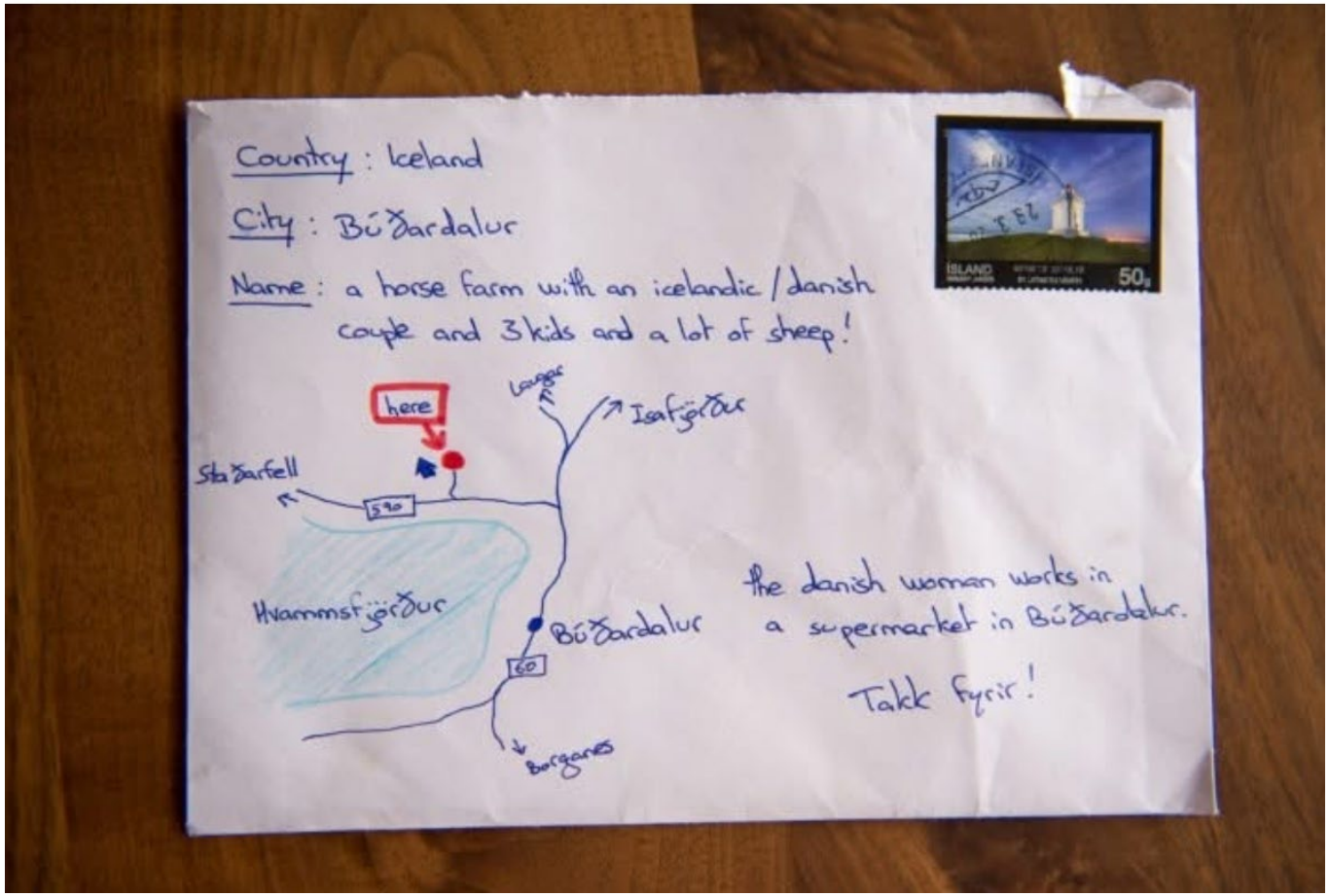
Go Mail

In lieu of an address, a tourist sketched a map of Búðardalur in Iceland, and it was successfully delivered



Example

Summary of Financial data ($ in Thousands)

	Beginning	Year 1	Year 2
Beginning cash	$22,000	$22,000	$11,634
Revenue			
Gross revenue	-	$27,786	$48,939
Total Revenue		**$27,786**	**$48,939**
Operational Cost of School Revenue Sold	-	$17,463	$25,181
Gross Margin		**$10,323**	**$23,758**
Corporate expenses		$4,820	$6,773
EBITDA		**$5,503**	**$16,985**
Depreciation and Amortization		$2,960	$4,067
Interest		-	198
Net income		**$2,543**	**$12,720**
Net Balance sheet (pay/rec changes)		(2,429)	
Debt for CapX		-	$4,756
Principal payments		-	879
CapX investment		13,440	5,484
Net cash flow		**($10,366)**	**$15,179**
Ending Cash	**$22,000**	**$11,634**	**$26,814**
Ending Debt		-	**$3,876**
Net Cash		**$11,634**	**$22,938**

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Explaining Cash Flows



What Did We Learn?

- Cash is _____
  - GAAP net income is **not**
- Simplify your cash reporting by breaking it down into understandable parts
- Educational burden is on us
- Tips and ideas on making cash flow come to life

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Thank You!

Please share your thoughts and comments.

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Link to Apple's 10K

1. Page 33 of the report is the statement of cash flows

2. https://s2.q4cdn.com/470004039/files/doc_financials/2022/q4/_10-K-2022-(As-Filed).pdf

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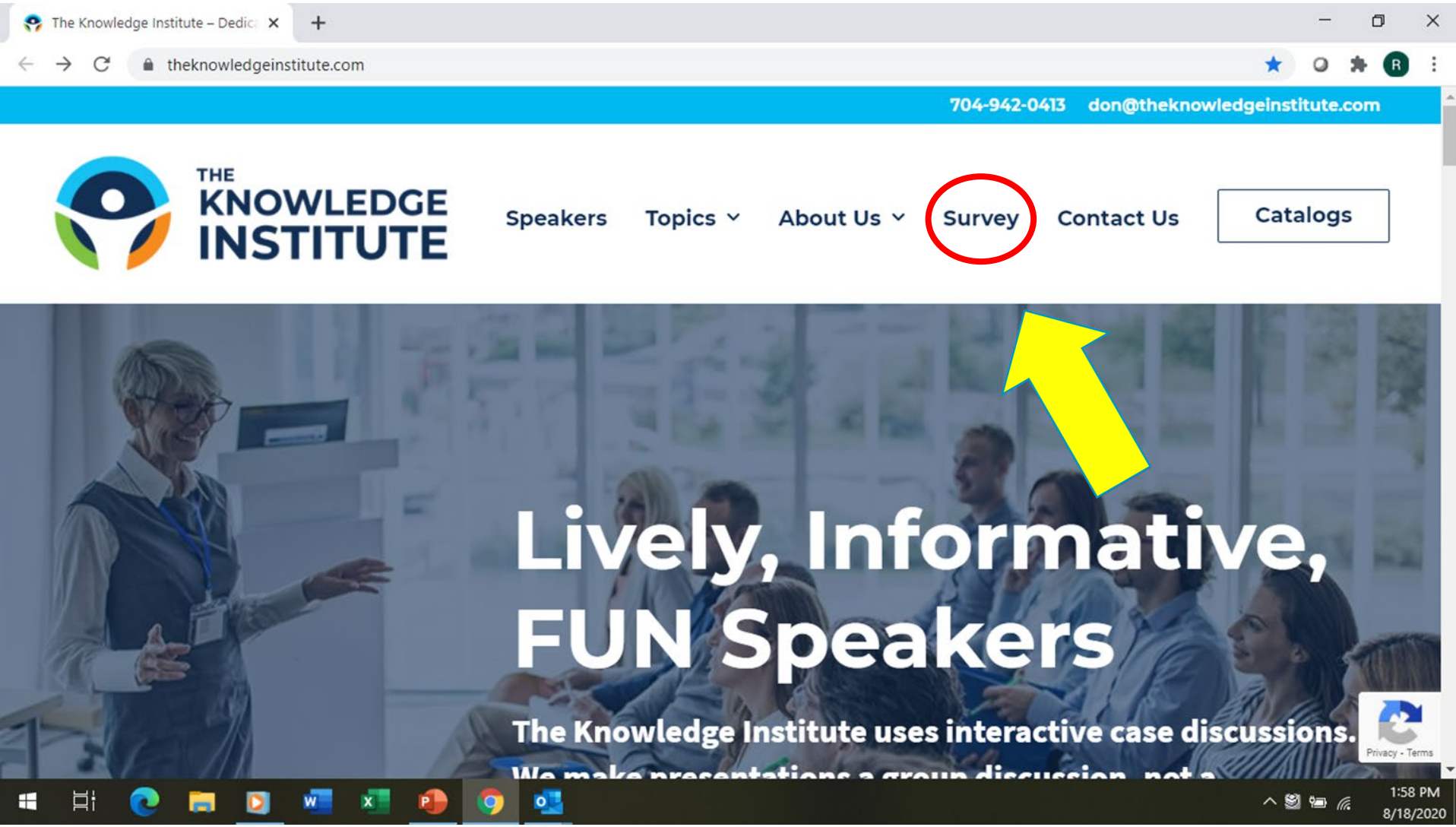

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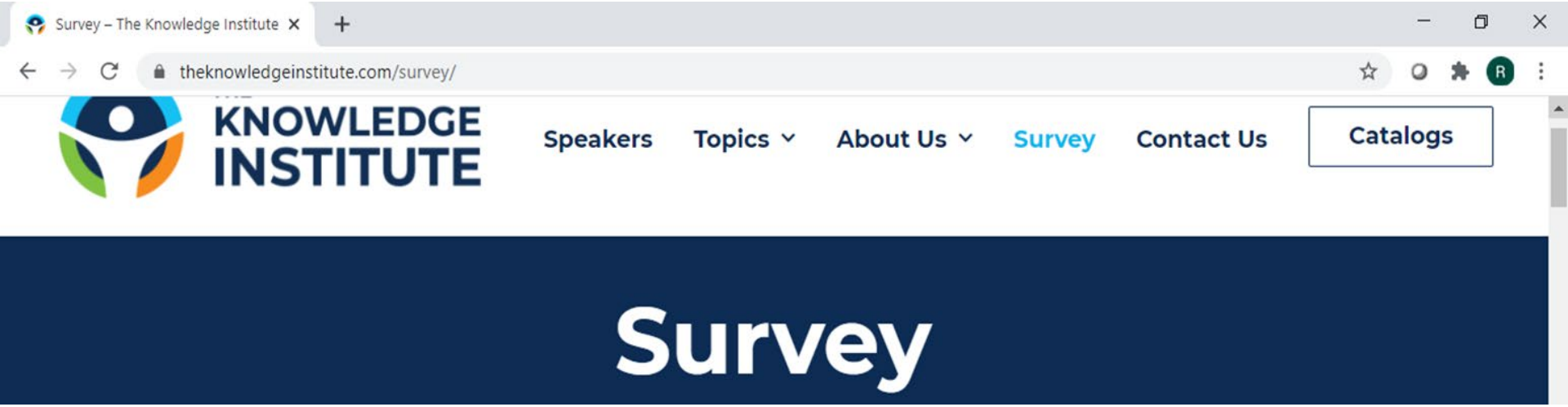

Survey

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Working Remotely; Best Practices.

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- ○ Probably Would Attend
- ○ Probably Would Not Attend
- ○ Would Not Attend

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This helps us help you!

Amazingly Crazy Fraud Cases

Fraud so Wild it Shouldn't be Real

Written By

Robert Berry

CPA, CIA, CISA, MBA

THE KNOWLEDGE INSTITUTE

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About the Author



Robert Berry, CPA, CIA, CISA, MBA

Robert Berry is a Certified Public Accountant who actually likes people more than he does numbers. With more than 20 years in the risk, audit, and compliance sector, he is an internationally recognized speaker, trainer, author and podcast host. His most recent book, "Ask, Get, Perform: The Auditors Essential Guide to Asking Better Questions, Getting Better Answers, and Performing Better Audits," is changing the way auditors build relationships with clients. Robert divides his time between Alabama and Texas.

rob@ThatAuditGuy.com

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Four Cases.
Four Very Different Paths.

- Same outcome.



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Why This Matters to You?

- You are not here to memorize facts.
- You are here to sharpen perception, and learn;
  a) What NOT to do?
  b) What errors to be alert for?

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One Guiding Question

What assumption in your organization would be most dangerous if wrong?



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Case #1 Santa Cruz

$38,700,000 Gone

- No hacker.
- No ransomware.
- No breach.



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Case #1 Santa Cruz

The Role

- Elected treasurer
- Custodian of public funds
- Long tenure
- High trust
- Low friction

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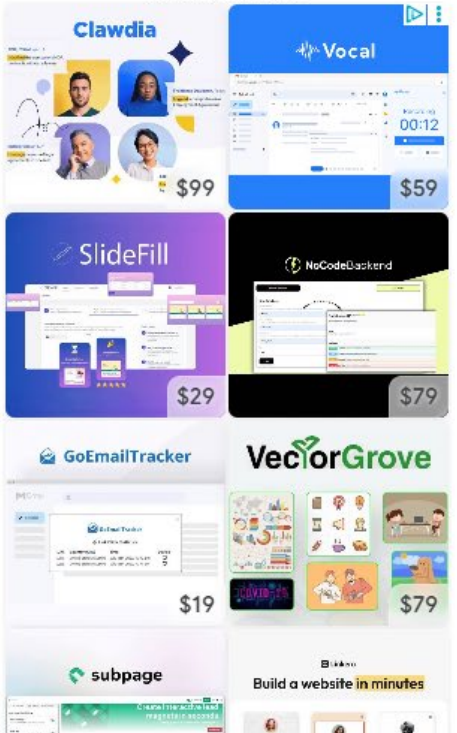
The Role

Former Santa Cruz County Treasurer Elizabeth Gutfahr walks into court

Published: Jun. 23, 2025 at 4:55 PM CDT

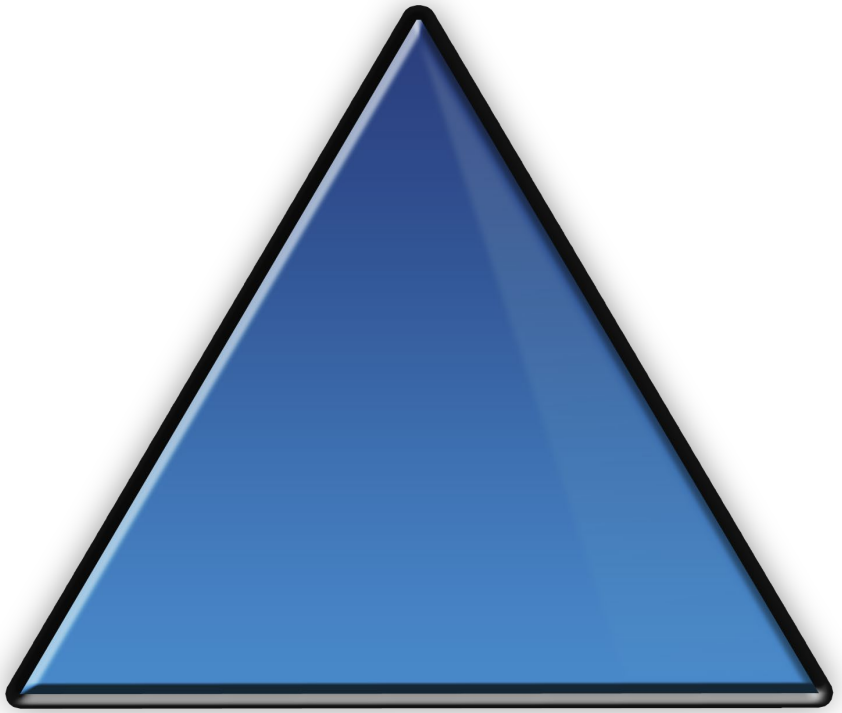


ADVERTISEMENT



Fraud Rarely Starts as "Fraud"

- Pressure
- Opportunity
- Rationalization



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Case #1 Santa Cruz

The Mechanics

- Two-step wire approval
- 187 wire transfers
- Fake companies
- Subordinate token used
- Records falsified

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Moral Disengagement

Federal criminal embezzlement charge against former Santa Cruz Treasurer

Elizabeth Gutfahr charged with stealing more than $38 Million in public money



NOGALES RESOURCES

- Nogales, AZ City Data
- Nogales, AZ City Government
- Greater Nogales Port Authority



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Discussion Question #1

What Are Some Red Flags That Were Missed?



Warning Signals That Were There

- Override of approval token
- No independent wire review
- Same person reconciling
- No duty rotation
- Investment reports not independently verified



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Overconfidence Bias



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Polling Question #1

Quick Pulse Check

What was the deeper failure here?

a) Lack of segregation
b) Poor reconciliation
c) Cultural over-trust in authority
d) Insufficient policy documentation

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Authority Suppresses Challenge



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What To Test Tomorrow?

- Audit override logs
- Rotate treasury duties
- Independently confirm investment balances
- Review token custody controls
- Test dual-control integrity

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Reflection

What assumption in your organization would be most dangerous if wrong?

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If You Thought That Was a Crazy Case…



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Case #2 Hansen Helicopters

$400,000,000

- 38 Accidents
- 10 Deaths
- Not a paperwork error.
- A business model.



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Case #2 Hansen Helicopters

The Environment

- CEO-controlled culture
- Shell companies
- Nominee ownership structur
- Regulatory evasion
- Revenue growth



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Hansen Helicopters CEO forfeited more than $70M

Pacific Daily News Jun 12, 2025 1

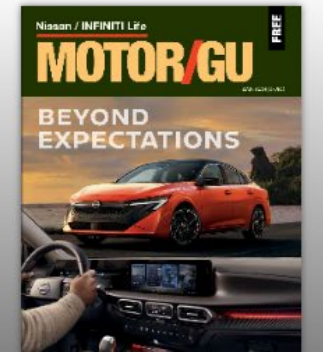


Hansen Helicopter Inc. owner John D. Walker Hansen, left, is escorted away from the District Court of Guam by his attorney, Mack Martin, after his initial appearance before the court on June 8, 2018.

PDN file photo The Knowledge Institute, LLC, Rob Berry © 2026

WEEKLY INSERTS





Normalization of Deviance



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How Processes Actually Drift?

- Step 1: Minor regulatory bypass
- Step 2: No immediate consequence
- Step 3: Revenue continues
- Step 4: Behavior repeats
- Step 5: Risk threshold expands

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Incentive Distortion

- Revenue growth
- Market dominance
- Operational speed
- Compliance as an “obstacle”

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Dominant Leadership & Suppressed Dissent

- Employees remain silent not because they approve, but because they fear consequences.
- Authority plus structured context often overrides personal discomfort.
- Silence does not equal agreement.
  - It often equals fear.

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Case #2 Hansen Helicopters

When Risk Becomes Routine

- 38 accidents
- 8 serious injuries
- 10 deaths



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Polling Question #2

Your Opinion?

Which psychological dynamic best explains how illegal practices continue?

a) Lack of technical expertise

b) One-time compliance failure

c) Normalization of deviance

d) Poor documentation

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Red Flags That Should Have Triggered Action

- Repeated regulatory anomalies
- Unusual ownership structures
- Shell company layering
- Revenue spikes without compliance transparency
- Incident clustering



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The Courage Question

What risk has your organization slowly reclassified as “acceptable”?



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The Employees Who Weren't Real

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Case #3

The Resume Looked Perfect

- U.S. citizen
- IT experience
- Remote-ready
- Interviewed well

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Case #3

What Was Actually Happening?

- Stolen identities
- Remote North Korean workers
- U.S.-based facilitators
- Server farm masking location
- Device routing inside the U.S.

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300 Companies. How?



- Recruiters
- Hiring Managers
- HR
- IT
- Finance
- No single owner of the whole risk.

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Truth Default

We assume people are telling the truth.



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The Bystander Effect in Operation

When responsibility is shared, action decreases.



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Where Technical Signals Could Appear

- Device shipping mismatches
- Repeated shipping addresses
- IP routing inconsistencies
- Multiple employees tied to overlapping infrastructure
- VPN masking patterns

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Normalcy Bias

If it looks normal enough, we treat it as normal.

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Polling Question #3

Primary Vulnerability?

What was the primary vulnerability exploited?

a) Weak password rules
b) Lack of background checks
c) Distributed trust across onboarding
d) Poor financial reporting

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What To Strengthen Tomorrow

- Cross-functional onboarding review
- Shared anomaly dashboard
- Shipping pattern monitoring
- Access vs role alignment reviews
- Cluster detection across hires

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Is Your Organizational Vulnerable?

Where in your organization is trust most fragmented?

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When Urgency Is High, Skepticism Drops.



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Case #4 Feeding Our Future

$250,000,000

- Federal child-nutrition funds
- Pandemic conditions
- Hundreds of fake meal sites

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Case #4 Feeding Our Future

The Environment

- Pandemic urgency
- Rapid fund deployment
- Reduced in-person oversight
- Community-based providers
- High-volume claims

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Moral Licensing

Doing good can make scrutiny feel wrong.



Scale Blindness

- High volume
- High velocity
- Low verification depth

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Red Flags That Should Have Stopped It

- Implausible meal counts
- Identical attendance rosters
- Inflated site numbers
- Rapid revenue spikes
- Lifestyle escalation



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Urgency Compresses Oversight



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Polling Question #4

Psychology?

What psychological factor most reduced skepticism in this case?

a) Technical incompetence,
b) Distributed trust,
c) Moral framing + urgency, or
d) Lack of written policies.



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What To Strengthen in Crisis Environments

- Predefined crisis controls
- Independent verification teams
- Real-time anomaly dashboards
- Capacity plausibility testing
- Lifestyle red-flag review





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Let's Talk About Your Organization

Where does urgency in your organization reduce skepticism?

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Polling Question #5

Your Experience?

Describe the craziest fraud you have ever seen or heard of?

Please respond in the chat?



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Bonus Case

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Case #5 (Optional)

Norval Morrisseau Art Forgery Ring



One of the fake Norval Morrisseau works seized by the Ontario Provincial Police and the Thunder Bay Police Service as part of the Project Totton investigation
Courtesy Ontario Provincial Police

The Knowledge Institute, LLC, Rob Berry © 2026

Case #5 (Optional)

Norval Morrisseau Art Forgeries

- Numerous interconnected criminal organizations
- 4,500 to +6,000 fakes sold worldwide, from roughly 1995 to 2019
- Estimated to be worth more than C$100m ($71m USA)

Victims;

- Collectors
- Cultural heritage

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Wrap up

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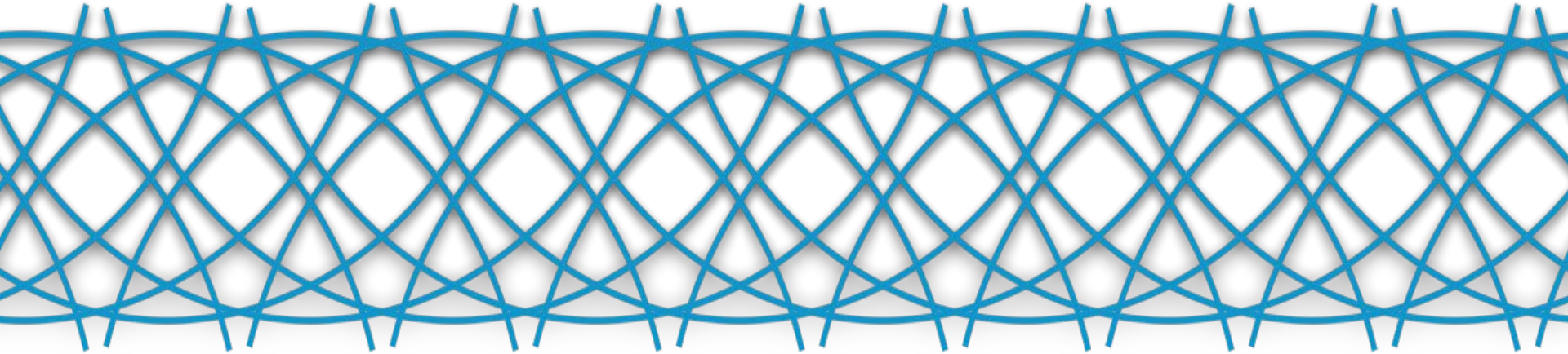
Frauds

- Different industries.
- One pattern.



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The Common Threads

- ✓Concentrated access
- ✓Normalized deviation
- ✓Distributed trust
- ✓Urgency-driven blindness

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Polling Question #6

Your Opinion?

Which of the common threads is the **most** common?

a) Concentrated access,
b) Normalized deviation,
c) Distributed trust, or
d) Urgency-driven blindness.



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The Psychological Pattern

- Trust
- Reduced friction
- Delayed challenge
- Repetition
- Escalation

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Fraud Is Rarely a Policy Failure

It's often a friction failure.

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Polling Question #7

Your Experience?

1) Have you seen, firsthand, a ‘friction failure’?
   a) Yes,
   b) No or,
   c) I’m not sure.
2) When was the most recent observation?
   a) _____

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Four Psychological Vulnerabilities

1) Over-trust
2) Drift
3) Fragmentation
4) Urgency

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Polling Question #8

Your Opinion?

Which psychological vulnerability is more prevalent?

a) Over-trust,
b) Drift,
c) Fragmentation,
d) Urgency, or
e) Other (Please describe _____?).

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The Question That Matters

Where in your organization is friction quietly decreasing?

Professional Skepticism

- Not cynicism.
- Not suspicion.
- Disciplined curiosity.

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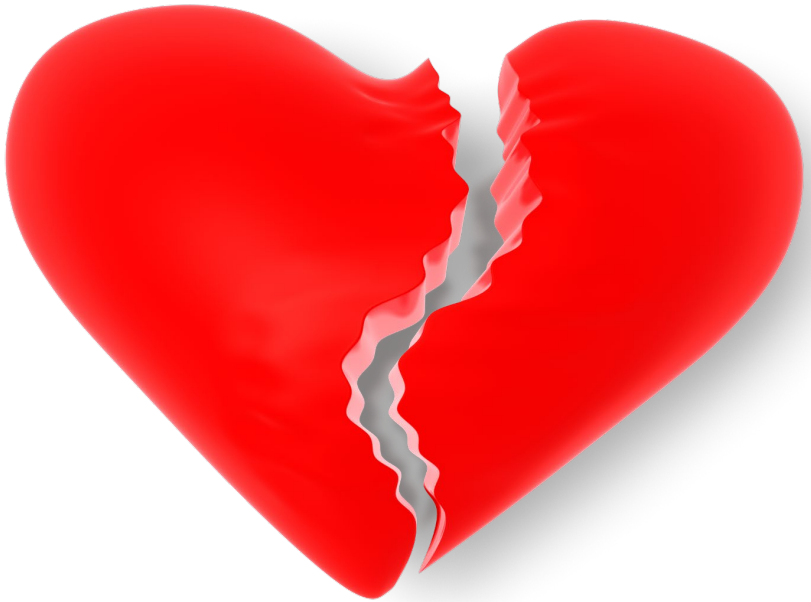
The Real Cost of Fraud

- Money is measurable.
- Trust is not.



One Final Question

What assumption in your organization would be most dangerous if wrong?



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Thank You!

Please share your thoughts and comments.

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Internal Controls That Matter

Protection with Simple, Smart and Scalable Practices

Written by

Robert Berry

MBA, CPA, CIA, CISA

A 2 Credit Hour Continuing Professional Education Seminar

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Case #3
Systemic Control Failure in Social Services Grant Oversight

Story Summary

In January 2026, multiple news outlets reported that a state audit found widespread failures in internal controls and oversight of the Minnesota Department of Human Services' Behavioral Health Administration grant programs. The audit found the department did not comply with most grant requirements, had inadequate controls over $425 million in behavioral health grants, and, in many cases, could not provide complete or accurate documentation.

The report highlighted:

- Failure to maintain adequate documentation for 63 of 71 grant agreements
- Early payments issued before formal agreements were signed
- Incomplete or missing oversight procedures
- Allegations of doctored and backdated documents
- Employees lacked required training and accountability structures

As a result, regulators and policymakers criticized leadership and calls for structural reform were widespread.

This case illustrates how **weak controls, lack of training, and absent oversight** can lead to audit findings that ripple out into public governance, political consequences, and loss of public trust.

Discussion

Discussion Questions

1. What types of internal control breakdowns can you identify in this scenario?
Encourage participants to categorize failures, such as:

2. Choose three COSO components that failed and explain how:
Participants should tie examples to:

3. What could have prevented this from escalating into a major public finding?

4. What would you recommend for remediation to restore confidence?
Realistic fixes like:

Case #6 (Optional)

Alabama Motorsports Hall of Fame Audit Finds Financial Mismanagement

A recent audit of the **Alabama Motorsports Hall of Fame Commission** uncovered **35 compliance failures and financial mismanagement** over several years. The report found that a former accounts manager mishandled nearly **$237,000**, including overpaying herself, failing to deposit cash sales, and authorizing questionable transactions. The audit has been referred to the Attorney General for collection.

https://abc3340.com/news/local/alabama-motorsports-hall-of-fame-audit-reveals-financial-mismanagement

Alabama Motorsports Hall of Fame is a nonprofit organization that preserves and showcases the state's motorsports history. An audit by the Alabama Department of Examiners of Public Accounts revealed:

- The *accounts manager* authorized personal overpayments to herself.
- Cash sales totaling $13,370 were *never deposited* into organizational accounts.
- Nearly $200,000 in transactions lacked clear justification or documentation.
- 35 major compliance and control failures were identified over a five-year period.

The audit was public, and leadership now must respond to findings and implement remediation plans.

Discussion

1. Which internal controls were clearly absent or weak?

2. How did these weaknesses lead to financial mismanagement?

3. What controls would you prioritize first if you were advising the organization?
Good answers include:

4. How could monitoring be improved without hiring new staff?

Local News

Audit of Minnesota DHS grant programs finds "widespread failures in oversight"

By Riley Moser

January 6, 2026 / 8:21 PM CST / CBS Minnesota

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An audit of the Minnesota Department of Human Services' Behavioral Health Administration grant programs found "widespread failures in oversight," according to a state watchdog.

The Office of the Legislative Auditor says the department "did not comply with most requirements tested for mental health and substance use disorder grants and did not have adequate internal controls over grant funds."

According to the audit, the Department of Human Services distributed more than $425 million in grants to 830 grantees between July 1, 2022, and Dec. 31, 2024.

Of 51 grant agreements, the report says more than half of the progress reports were missing or past due. The agency also could not prove that it completed 27 of 67 required monitoring visits, and for 24 visits involving 11 grantees, it could not provide any documentation.

One auditor noted that several documents were created by the Behavioral Health Administration only after the audit began and had been backdated in response to document requests.

CBS NEWS MINNESOTA

CBS MINNESOTA
Day care targeted in Nick Shirley video is now closed, records show



CBS TEXAS
Abbott orders Texas child care fraud probe after Minnesota scandal raises national alarms



CBS NEW YORK
NYS mental health services for children to get makeover



CBS MINNESOTA
Minnesota day cares brace for more compliance measures



CBS COLORADO
U.S. Fish and Wildlife Service threatens to take control of gray wolf reintroduction



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CBS CHICAGO
Judge to decide whether to dismiss use of force lawsuit against DHS,



Two grantees were overpaid, and the Behavioral Health Administration paid some grantees for work performed before it fully executed the grant agreements, according to the audit. The agency also made payments to grantees for costs that were either not incurred or not properly supported by source documents.

In a survey of employees at the Behavioral Health Administration, the report says 73% of respondents said they did not receive sufficient training to manage grants.

"Executive leadership has repetitively shown staff that they won't take the staff's concerns or questions seriously until something serious happens or it makes the news," one employee wrote in the survey.

State Sen. Mark Koran, R-North Branch, a member of the Legislative Audit Commission, says the audit shows that Department of Human Services leadership "failed at every level."

"The OLA report shows a complete breakdown in how DHS's Behavioral Health Administration manages hundreds of millions in taxpayer-funded grants," Koran said. "BHA failed to verify that grantees were providing the services they were paid for, failed to



CBS News Minnesota



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Shireen Gandhi, said she was "shocked" to learn the information included in the audit.

"With respect to the audit report, while it's upsetting that DHS has findings in areas we have placed concerted effort, the OLA's report highlights the importance of the grant compliance work already underway at the department. And the findings provide us with a road map for our focus going forward to continue strengthening oversight and integrity of behavioral health grants," Gandhi said. "I take the report seriously, I accept responsibility for the findings, and I will ensure DHS closes the findings."

The report comes amid a widening fraud scandal in the state. Criticism about Minnesota's fraud caused Gov. Tim Walz to announce on Monday that he is dropping his bid to be reelected to a third term.

On Sunday, the Trump administration began a massive deployment of hundreds of DHS agents to the Twin Cities area. Agents deployed from Homeland Security Investigations are expected to look into alleged fraud cases following last month's investigation by federal agents in Minneapolis that DHS Secretary Kristi Noem said was for "child care and other rampant fraud."

More than 90 people face federal charges as a result of fraud schemes that have been uncovered in Minnesota since 2021. Prosecutors estimate the total amount of fraud could reach $9 billion. The scandal started with a $250 million COVID-era scheme involving a nonprofit called Feeding Our Future, which was accused of stealing from the Federal Child Nutrition Program.

Since then, federal prosecutors have uncovered "large-scale fraud" in a housing program for seniors and people with disabilities, and a program that provides services to children with autism. The Trump administration is also probing claims of fraud by day care centers in Minnesota, which gained national attention after a conservative YouTube personality named Nick Shirley posted a video that showed him visiting federally backed child care centers around Minneapolis and finding no children there.

Watch CBS News
First responders choose us for a reaso
verizon frontline
Find out why

CBS News visited several of the centers named by Shirley and found that all but two of the facilities have active licenses, according to state records, and all active locations were visited by state regulators within the last six months.

Nicole Sganga, Camilo Montoya-Galvez and Jonah Kaplan contributed to this report.

More from CBS News

CBS MINNESOTA
Day care targeted in Nick Shirley video is now closed, records show



CBS TEXAS
Abbott orders Texas child care fraud probe after Minnesota scandal raises national alarms



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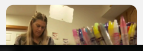

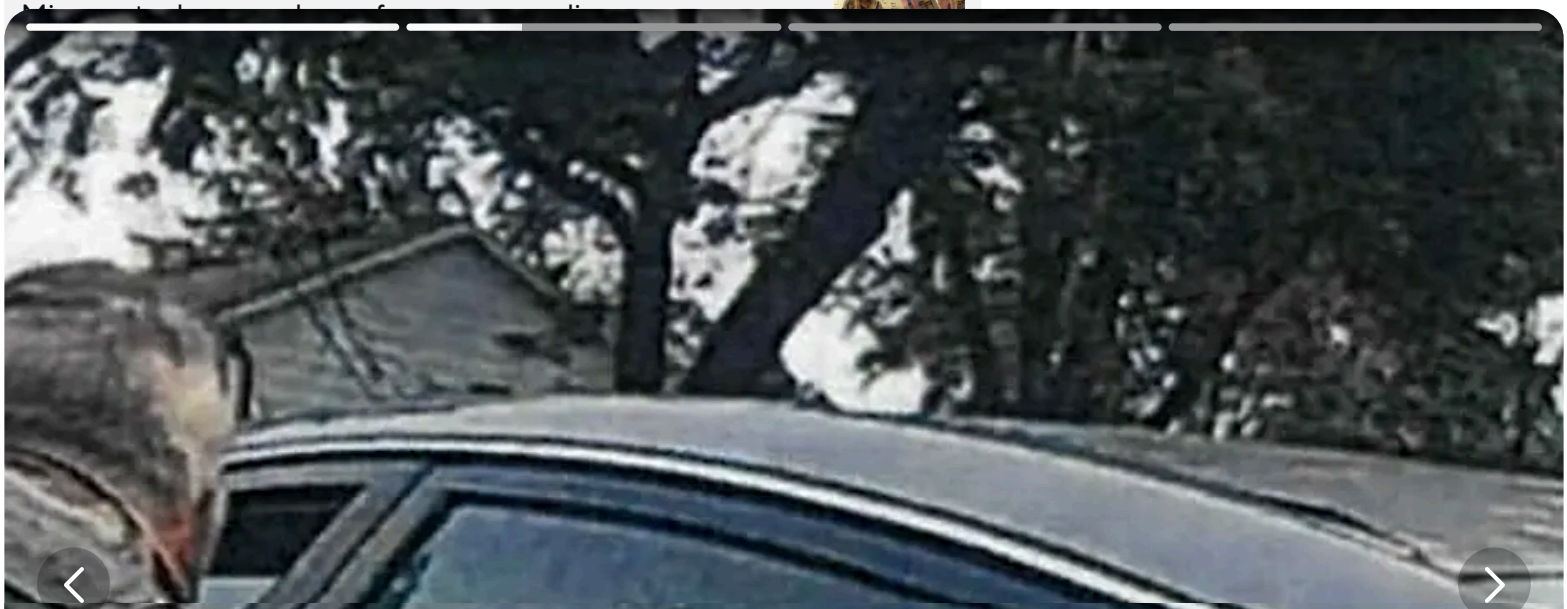

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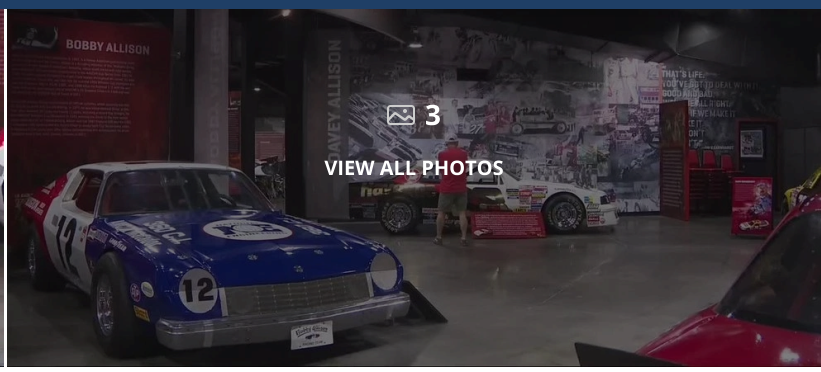
Alabama Motorsports Hall of Fame audit reveals financial mismanagement

by ABC 33/40
Fri, October 3, 2025 at 1:29 PM







International Motorsports Hall of Fame (abc3340.com)

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The Alabama Motor Sports Hall of Fame Commission is under investigation following an audit by the Alabama Department of Examiners of Public Accounts. The report, filed on Oct. 3, 2025, uncovered 35 compliance failures from October 2019 to September 2024, highlighting financial mismanagement and violations of state law.

A former accounts manager is accused of mishandling nearly $237,000, including overpaying herself by more than $26,000, failing to deposit $13,370 in cash sales, and authorizing nearly $200,000 in questionable transactions. The case has been referred to the Attorney General's Office for collection as the former manager has refused to repay the funds.

The audit also revealed improper sales of vehicles donated to the museum. A 1968 Camaro Pace Car was sold to the former executive director after $28,000 in repairs, and the director's spouse purchased a truck under suspicious circumstances. Additionally, some cars were auctioned using a commission member's personal bank account, bypassing state requirements.

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The Commission was found to have violated the Alabama Open Meetings Act, mishandled contracts, and failed to remit sales taxes on gift shop revenue. Contracts were improperly awarded to insiders, including a company owned by the current director's spouse.

Auditors criticized the Commission for failing to implement basic internal controls, resulting in unreconciled bank accounts and missing inventory records for historic memorabilia. Some funds were improperly deposited into a private nonprofit foundation's account linked to the Commission.

The report describes a culture of weak oversight, exposing public resources to fraud, waste, and abuse. "The Commission failed to design and implement even the most basic internal controls," auditors wrote.

The Attorney General is expected to pursue recovery of the $236,610.10 owed by the former accounts manager. The Commission has been directed to overhaul its financial practices, comply with state laws, and strengthen accountability measures. As the overseer of the International Motorsports Hall of Fame in Talladega, the Commission faces growing scrutiny over its ability to manage public funds and honor motorsports history responsibly.

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Former Alabama judge sentenced to 51 years for public office abuse

Here's how you know

IRS

Former Santa Cruz County treasurer sentenced to 10 years in prison for stealing over $38 million in county funds

Date: June 24, 2025

Contact: newsroom@ci.irs.gov

Tucson, AZ — Elizabeth Gutfahr, of Rio Rico, Arizona, was sentenced on June 23, 2025, by United States District Judge Rosemary C. Márquez to 120 months in prison, followed by three years of supervised release. Gutfahr previously pleaded guilty to Embezzlement by a Public Official, Money Laundering, and Tax Evasion. Gutfahr was also ordered to pay approximately $51.8 million in restitution to Santa Cruz County and the United States Treasury.

“The people of Santa Cruz County and all Arizonans have a right to expect their elected leaders to serve with integrity and in the best interest of their constituents,” said U.S. Attorney Timothy Courchaine. “Ms. Gutfahr stole more than money from the people of her county, she betrayed the confidence of the voters who elected her. This sentence shows that abuse of public trust will be punished.”

“Ms. Gutfahr violated her sworn duty by enriching herself with the public money she was entrusted to protect,” said Special Agent in Charge Carissa Messick of the IRS Criminal Investigation Phoenix Field Office. “Taxpayers deserve to know that their elected leaders are working in the community’s best interest — not just their own. IRS-CI remains committed to rooting out corruption at every level.”

“Ms. Gutfahr will now be held accountable for using her official position for huge financial gain at the expense of the residents of Santa Cruz County,” said FBI Phoenix Special Agent in Charge Heith Janke. “Each act of greed and dishonor negatively affected fundamental aspects of the county’s operations. The FBI continues to investigate public corruption cases, and we remain committed to identifying and pursuing those who violate the public’s trust.”

According to court documents, Gutfahr, who served as Santa Cruz County Treasurer from 2012 through 2024, embezzled and laundered approximately $38.7 million by wiring public funds from Santa Cruz County’s account to accounts in the names of fake companies she had created that performed no legitimate business. Gutfahr then used the money to purchase real estate, to renovate her family ranch, to pay expenses for her cattle business, and to buy at least 20 vehicles.

Gutfahr’s 10-year scheme involved approximately 187 wire transfers, which she was able to complete by undermining the two-step approval process required for transfers. Gutfahr used the token of a subordinate Santa Cruz County employee so that she could both initiate and approve the wire transfers. To cover up the scheme, Gutfahr falsified accounting records, cash reconciliation records, and reports of the County’s investment accounts, thereby hiding the millions of dollars that she had stolen from Santa Cruz County. Gutfahr also failed to report any of the stolen funds as income for tax purposes.

IRS-CI and the FBI conducted the investigation in this case. Assistant U.S. Attorney Jane L. Westby for the District of Arizona and Senior Litigation Counsel Nicholas W. Cannon of the Criminal Division’s Public Integrity Section handled the prosecution.

IRS Criminal Investigation (IRS-CI) is the law enforcement arm of the IRS, responsible for conducting financial crime investigations, including tax fraud, narcotics trafficking, money laundering, public corruption, healthcare fraud, identity theft and more. IRS-CI special agents are the only federal law

enforcement agents with investigative jurisdiction over violations of the Internal Revenue Code, obtaining a 90% federal conviction rate. The agency has 19 field offices located across the U.S. and 14 attaché posts abroad.

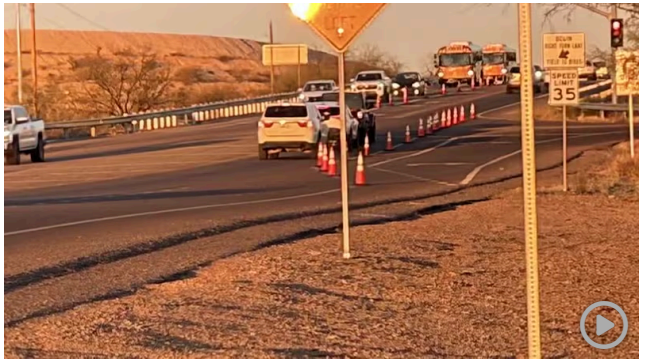
⚠ *News items may not be updated after their release. Please verify the date before relying on the language.*

Former Santa Cruz County Treasurer Elizabeth Gutfahr walks into court

Published: Jun. 23, 2025 at 4:55 PM CDT

Deadly hit-and-run shuts down part of Interstate 19

Updated: 3 hours ago



Tucson synagogues boost security after attacks in Middle East

Updated: 13 hours ago

The attacks in Iran and the Middle East have sparked concern for some religious communities in Tucson, particularly the Jewish community, who are concerned about possible antisemitic attacks.



US-Israeli strikes spark mixed reactions from protestors, Iranian community in Tucson

Updated: 13 hours ago

Less than 48 hours after the U.S. began airstrikes on Iran, a couple dozen protesters gathered in downtown Tucson Monday evening to speak out against the decision by the administration of President Donald Trump.



Crews battle two-alarm house fire near First, River

Updated: 14 hours ago

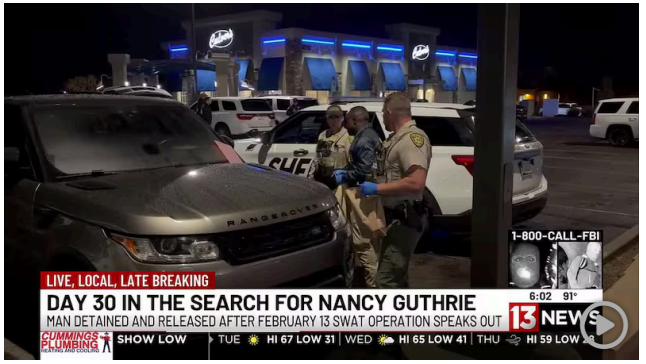
Crews responded to a two-alarm house fire near First and River on Monday, March 2. One person was transported to the hospital with injuries.



Two detained during Nancy Guthrie investigation speak out

Updated: 17 hours ago

Luke Daley and his mom, Mary Daley, sat down for an exclusive one-on-one interview with AZ Family's Briana Whitney.



Pima County opens Votemobile in time for RTA Next election

Updated: 17 hours ago

Pima County debuted its new mobile voting unit, called the "Votemobile," in Sells on Monday, March 2.



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Here's how you know

IRS

Former CEO of Guam helicopter company sentenced to 405 months in federal prison for criminal aviation violations

Date: June 12, 2025

Contact: newsroom@ci.irs.gov

Hagåtña, Guam — Shawn N. Anderson, United States Attorney for the Districts of Guam and the Northern Mariana Islands, announced that John D. Walker was sentenced on June 9, 2025 by Chief Judge Frances Tydingco-Gatewood in the District Court of Guam to 405 months imprisonment. On September 9, 2022, a jury returned guilty verdicts against Walker and his company, Hansen Helicopters, Inc., on 110 counts involving conspiracy to defraud the Federal Aviation Administration (“FAA”) and National Transportation Safety Board (“NTSB”), aircraft parts fraud that caused serious bodily injury and death, employing a mechanic without a mechanic’s certificate, registration violations involving helicopters, conspiracy to commit wire fraud, wire fraud, and money laundering. Walker was also ordered to pay a $250,000 fine, and a

$9,900 special assessment fee. Walker forfeited $58,407,513, which represented the proceeds of aircraft parts fraud and wire fraud, in addition to $11,770,000, which represented the amount of money involved in the money laundering offenses.

Hansen Helicopters, Inc., was found guilty of conspiracy to defraud the FAA and NTSB, in addition to aircraft parts fraud that caused serious bodily injury and death. Hansen received a five-year term of probation, a $4,900,000 fine, and a $2,000 special assessment fee.

Walker subverted aviation laws and regulations, enforced by the FAA and NTSB, which protect public health and safety. Walker used at least 48 shell companies, most incorporated internationally, to operate an illicit helicopter/pilot/mechanic leasing business in Guam. By concealing that his aircraft were unregistered or illegally registered, unairworthy, and maintained and operated by uncertificated airmen, Walker entered fraudulent lease agreements with numerous tuna boat companies. He earned over $400 million dollars through his scheme. He concealed his crimes by forging documents, counterfeiting aircraft parts, and bribing aviation officials.

“The defendants built helicopters from an assortment of discarded frames and counterfeit parts,” stated United States Attorney Anderson. “They blatantly disregarded aviation laws to build and operate aircraft that should never have left the ground. Fishing companies throughout the Pacific region relied on these aircraft for spotting tuna. Unfortunately, the defendants’ quest for money resulted in the deaths of many pilots. This was a difficult case to investigate and prosecute, but well worth federal resources. I commend our law enforcement partners on bringing these defendants to justice.”

“How many times have we heard, ’It’s just money…’ when it comes to financial crime?” asked Special Agent in Charge Adam Jobes, IRS Criminal Investigation (IRS-CI), Seattle Field Office. “This case shows that all too often, innocent people suffer catastrophic harm because of someone else’s greed. Financial crime is not victimless, and IRS-CI will continue to protect our communities from people like Mr. Walker who put their greed above all else.”

“Unchecked greed and flagrant disregard for aviation safety create a recipe for disaster with catastrophic results,” said Special Agent in Charge Cory LeGars of the Department of Transportation Office of Inspector General, Western Region. “This sentencing epitomizes the criminal justice system’s commitment to holding

individuals and companies accountable for egregious illicit conduct. I commend the relentless efforts of our special agents and the outstanding collaboration between our law enforcement, prosecutorial, and regulatory partners, whose collective efforts brought this complex and hazardous fraud scheme to justice."

"Over several years, Mr. Walker engaged in a multi-layered scheme to bribe public officials and defraud the government, significantly jeopardizing public safety in the process," said FBI Honolulu Special Agent in Charge David Porter. "The FBI remains steadfast and persistent in our efforts to investigate these schemes and bring bad actors to justice."

This investigation was conducted by the Internal Revenue Service Criminal Investigation, U.S. Department of Transportation, Federal Aviation Administration, Federal Bureau of Investigation, and in partnership with the Customs and Quarantine Agency of Guam.

Assistant United States Attorney Stephen F. Leon Guerrero, Special Assistant United States Attorney Marie L. Miller, and former Assistant U.S. Attorney Samantha R. Miller prosecuted this case.

IRS Criminal Investigation (IRS-CI) is the law enforcement arm of the IRS, responsible for conducting financial crime investigations, including tax fraud, narcotics trafficking, money laundering, public corruption, healthcare fraud, identity theft and more. IRS-CI special agents are the only federal law enforcement agents with investigative jurisdiction over violations of the Internal Revenue Code, obtaining a 90% federal conviction rate. The agency has 19 field offices located across the U.S. and 14 attaché posts abroad.

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REGULATIONS AND GOVERNMENT

Ex-Hansen Helicopters CEO Sentenced to 33 Years

CEO was found guilty of fraud related to unapproved aircraft parts



Hansen Helicopters CEO John Walker was convicted Friday on more than 100 counts related to fraud, bribery, and money laundering related to his Guam-based helicopter operation. A number of accidents have been associated with that operation. © U.S. Attorney's office

By **MARK HUBER** • Contributor

June 10, 2025

Former Hansen Helicopters CEO John D. Walker, 60, today was sentenced by federal judge Frances Tydingco-Gatewood to 33 years and nine months of confinement, meaning he likely will spend the rest of his life in federal prison. Walker was convicted of multiple counts of aircraft parts fraud, bribery, money laundering, and employing unlicensed pilots and mechanics by a jury in the Guam District Court in 2022 after an eight-month trial and has been in custody since. He will be credited for time served.

He was also fined $250,000 and ordered to serve three years of supervised release and to forfeit all assets connected to the crimes. The government estimated this amount at $400 million, but used Hansen's net sales over decades to calculate the amount. The actual value of his assets is around $58 million, according to court documents, including thousands of acres of Missouri farmland and a large collection of personal aircraft.

Hansen operated a fleet of 50 Hughes 369 helicopters for tuna spotting in the northwestern Pacific. The government charged that Walker, who purchased Hansen in 1998, conducted a decades-long, wide-reaching fraud scheme that involved using counterfeit aircraft parts and data plate swapping to create a fleet of "Frankenstein helicopters" registered to a variety of international shell companies.

The U.S. government asserted that his behavior was responsible in part for up to 30 crashes that claimed nine lives. Walker was one of several Hansen executives and suppliers originally indicted in 2018, along with former FAA inspector Timothy Cislo. Other defendants have either died, reached plea deals with prosecutors, or had their cases dismissed.

Walker was the first to be sentenced. He declined to make a statement in court during his sentencing.

https://www.guampdn.com/news/hansen-helicopters-ceo-forfeited-more-than-70m/article_673c1ffc-11a1-4534-890d-725e1bed6a0d.html

TOP STORY

Hansen Helicopters CEO forfeited more than $70M

Pacific Daily News
Jun 12, 2025



Hansen Helicopter Inc. owner John D. Walker Hansen, left, is escorted away from the District Court of Guam by his attorney, Mack Martin, after his initial appearance before the court on June 8, 2018.

PDN file photo

In addition to an almost 34-year federal prison sentence, Hansen Helicopters Inc. president and CEO John D. Walker forfeited more than $70 million, according to a news release from the U.S. Attorney's Office.

Walker and his company were sentenced in the District Court of Guam this week after being convicted of 110 counts involving:

- Conspiracy to defraud the Federal Aviation Administration and the National Transportation Safety Board.
- Aircraft parts fraud that caused serious injury and death.
- Employing a mechanic without a mechanic's certificate.
- Registration violations involving helicopters.
- Conspiracy to commit wire fraud, wire fraud, and money laundering.

In addition to a $250,000 fine and a $9,900 special assessment fee, Walker forfeited $58,407,513 representing the proceeds of aircraft fraud and wire fraud, and $11,770,000 representing money involved in money laundering expenses, according to prosecutors.

"The defendants built helicopters from an assortment of discarded frames and counterfeit parts," stated U.S. Attorney Shawn N. Anderson. "They blatantly disregarded aviation laws to build and operate aircraft that should never have left the ground."

Anderson said fishing companies throughout the Pacific region relied on these aircraft for spotting tuna.

“Unfortunately, the defendants’ quest for money resulted in the deaths of many pilots. This was a difficult case to investigate and prosecute, but well worth federal resources. I commend our law enforcement partners on bringing these defendants to justice,” he said.

Hansen Helicopters Inc. was found guilty of conspiracy to defraud the FAA and NTSB, in addition to aircraft parts fraud that caused serious bodily injury and death. Hansen received a five-year term of probation, a $4,900,000 fine, and a $2,000 special assessment fee.

Walker used at least 48 shell companies, most incorporated internationally, to operate an illicit helicopter/pilot/mechanic leasing business on Guam.

By concealing that his aircraft were unregistered or illegally registered, unairworthy, and maintained and operated by uncertificated airmen, Walker entered fraudulent lease agreements with numerous tuna boat companies.

He earned more than $400 million through his scheme, prosecutors said. He concealed his crimes by forging documents, counterfeiting aircraft parts, and bribing aviation officials.

During the trial, prosecutors said the company’s activities were linked to nine deaths and 16 serious injuries.

“Unchecked greed and flagrant disregard for aviation safety create a recipe for disaster with catastrophic results,” said Special Agent in Charge Cory LeGars of the Department of Transportation Office of Inspector General, Western Region. “This sentencing epitomizes the criminal justice system’s commitment to holding individuals and companies accountable for egregious illicit conduct.”

Walker, 60, was sentenced to 33 years and nine months in prison. He has been in custody since September 2022, so with credit for time served, he still has about 31 years left in federal prison.

“How many times have we heard, ’It’s just money…’ when it comes to financial crime?” asked Special Agent in Charge Adam Jobes, IRS Criminal Investigation, Seattle Field Office. “This case shows that all too often, innocent people suffer catastrophic harm because of someone else’s greed. Financial crime is not victimless.”

The investigation was conducted by the U.S. Department of Transportation, Federal Aviation Administration, Internal Revenue Service Criminal Investigation, the Federal Bureau of Investigation, and in partnership with the Guam Customs and Quarantine Agency.

Walker and other company officials were indicted in the case in 2018.

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Here's how you know

IRS

Arizona woman sentenced for $17M information technology worker fraud scheme that generated revenue for North Korea

Date: July 24, 2025

Contact: newsroom@ci.irs.gov

An Arizona woman was sentenced today to 102 months in prison for her role in a fraudulent scheme that assisted North Korean Information Technology (IT) workers posing as U.S. citizens and residents with obtaining remote IT positions at more than 300 U.S. companies. The scheme generated more than $17 million in illicit revenue for Chapman and for the Democratic People's Republic of Korea (DPRK or North Korea).

Christina Marie Chapman, of Litchfield Park, Arizona, pleaded guilty on Feb. 11 in the District of Columbia to conspiracy to commit wire fraud, aggravated identity theft, and conspiracy to launder monetary instruments. In addition to the 102-month prison term, U.S. District Court Judge Randolph D. Moss ordered

Chapman to serve three years of supervised release, to forfeit $284,555.92 that was to be paid to the North Koreans, and to pay a judgment of $176,850.

“Christina Chapman perpetrated a years’ long scheme that resulted in millions of dollars raised for the DPRK regime, exploited more than 300 American companies and government agencies, and stole dozens of identities of American citizens,” said Acting Assistant Attorney General Matthew R. Galeotti of the Justice Department’s Criminal Division. “Chapman made the wrong calculation: short term personal gains that inflict harm on our citizens and support a foreign adversary will have severe long-term consequences. I encourage companies to remain vigilant of these cyber threats, and warn individuals who may be tempted by similar schemes to take heed of today’s sentence.”

“North Korea is not just a threat to the homeland from afar. It is an enemy within. It is perpetrating fraud on American citizens, American companies, and American banks. It is a threat to Main Street in every sense of the word,” said U.S. Attorney Jeanine Ferris Pirro for the District of Columbia. “The call is coming from inside the house. If this happened to these big banks, to these Fortune 500, brand name, quintessential American companies, it can or is happening at your company. Corporations failing to verify virtual employees pose a security risk for all. You are the first line of defense against the North Korean threat.”

“Today’s sentencing brings justice to the victims whose identities were stolen for this international fraud scheme,” said Special Agent in Charge Carissa Messick of the IRS Criminal Investigation (IRS-CI) Phoenix Field Office. “The scheme was elaborate. If this sentencing proves anything, it’s that no amount of obfuscation will prevent IRS-CI and our law enforcement partners from tracking down those that wish to steal the identities of U.S. nationals, launder money, or engage in criminality that jeopardizes national security.”

“The North Korean regime has generated millions of dollars for its nuclear weapons program by victimizing American citizens, businesses, and financial institutions,” said Assistant Director Rozhavsky of the FBI’s Counterintelligence Division. “However, even an adversary as sophisticated as the North Korean government can't succeed without the assistance of willing U.S. citizens like Christina Chapman, who was sentenced today for her role in an elaborate scheme to defraud more than 300 American companies by

helping North Korean IT workers gain virtual employment and launder the money they earned. Today's sentencing demonstrates that the FBI will work tirelessly with our partners to defend the homeland and hold those accountable who aid our adversaries."

"The sentencing today demonstrates the great lengths to which the North Korean government will go in its efforts and resources to fund its illicit activities. The FBI continues to pursue these threat actors to disrupt their network and hold those accountable wherever they may be," said Special Agent in Charge Heith Janke of the FBI Phoenix Field Office.

The case involved one of the largest North Korean IT worker fraud schemes charged by the Department of Justice, with 68 identities stolen from victims in the United States and 309 U.S. businesses and two international businesses defrauded.

According to court documents, North Korea has deployed thousands of highly skilled IT workers around the world, including to the United States, to obtain remote employment using false, stolen, or borrowed identities of U.S. persons. To circumvent controls employed by U.S. companies to prevent the hiring of illicit overseas IT workers, the North Korean IT workers obtain assistance from U.S.-based collaborators.

Chapman helped North Korean IT workers obtain jobs at 309 U.S. companies, including Fortune 500 corporations. The impacted companies included a top-five major television network, a Silicon Valley technology company, an aerospace manufacturer, an American car maker, a luxury retail store, and a U.S media and entertainment company. Some of the companies were targeted by the IT workers, who maintained a repository of postings for companies that they wanted to employ them. The IT workers also attempted to obtain employment at two different U.S. government agencies, although these efforts were generally unsuccessful.

Chapman operated a "laptop farm" where she received and hosted computers from the U.S. companies at her home, deceiving the companies into believing that the work was being performed in the United States. Chapman also shipped 49 laptops and other devices supplied by U.S. companies to locations overseas, including multiple shipments to a city in China on the border with North Korea. More than 90 laptops were seized from Chapman's home following the execution of a search warrant in October 2023.

Christina Chapman organized and stored U.S. company laptops in her home, and included notes identifying the U.S. company and identity associated with each laptop.

Much of the millions of dollars in income generated by the scheme was falsely reported to the IRS and Social Security Administration in the names of actual U.S. individuals whose identities had been stolen or borrowed. Additionally, Chapman received and forged payroll checks in the names of the stolen identities used by the IT workers and received IT workers' wages through direct deposit from U.S. companies into her U.S. financial accounts. Chapman further transferred the proceeds from the scheme to individuals overseas.

This case was investigated by the IRS-CI Phoenix Field Office, and the FBI Phoenix Field Office. Assistance was provided by the FBI Chicago Field Office.

Trial Attorney Ashley R. Pungello of the Criminal Division's Computer Crime and Intellectual Property Section and Assistant U.S. Attorney Karen P. Seifert for the District of Columbia prosecuted the case, with assistance from Paralegal Specialist Jorge Casillas. Assistant U.S. Attorney Joshua Rothstein for the District of Columbia, the Victim Witness Unit, the U.S. Attorney's Office for the District of Arizona, and the National Security Division's National Security Cyber Section also provided assistance.

In a coordinated effort, FBI Phoenix also issued guidance for HR professionals on detecting North Korean IT workers, and the Department of State issued guidance on the North Korean IT worker threat.

Prior guidance was issued by the FBI, State Department, and the Department of the Treasury on this threat in a May 2022 advisory, and by the United States and the Republic of Korea (South Korea) in October 2023. The FBI issued updated guidance in May 2024 regarding the use of U.S. persons acting as facilitators by providing a U.S.-based location for U.S. companies to send devices and a U.S.-based internet connection for access to U.S. company networks and in January 2025 concerning the extortion and theft of sensitive company data by North Korean IT workers, along with recommended mitigations.

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Here's how you know

IRS

In landmark sentence, Feeding Our Future scheme leader sentenced to 28 years in prison

Date: August 6, 2025

Contact: newsroom@ci.irs.gov

MINNEAPOLIS – Today, United States District Judge Nancy E. Brasel sentenced Abdiaziz Shafii Farah, to 28 years in prison followed by 3 years of supervised release for his role in a $300 million fraud scheme that exploited a federally funded child nutrition program during the COVID-19 pandemic, announced Acting U.S. Attorney Joseph H. Thompson. Farah was also ordered to pay restitution in the amount of $47,920,514.

Farah played a leading and role in the Feeding Our Future case, the largest Covid-19 fraud scheme in the United States. According to public documents, Farah and his co-defendants stole more than $47 million in program funds by claiming to serve 18 million meals to kids at more than 30 food distribution sites. In June 2024, after a seven-week trial before Judge Brasel, a federal jury convicted Farah of conspiracy to commit wire fraud, conspiracy to commit federal programs bribery, false statements in a passport application, conspiracy to commit money laundering, two counts of federal programs bribery, six counts of wire fraud, and 11 counts of money laundering.

Farah was the co-owner of Empire Cuisine & Market, an entity that he enrolled in the Federal Child Nutrition Program in April 2020, during the early days of the Covid-19 pandemic. Farah was among the very first defendants to see an opportunity for fraud and exploit it. Farah immediately opened a number of fraudulent program sites and began falsely claiming to serve meals to thousands of children per day. Many of the purported "sites" served no meals at all and were nothing more than parking lots or vacant commercial spaces.

Farah and his co-defendants "papered-up" the fraudulent scheme, including by creating and submitting fraudulent meal counts and invoices. Farah was likewise involved in the scheme's use of phony rosters with fake children's names. Few of the names on the rosters matched the names of real students attending the local school districts, and many of the names used by Farah were absurd and obviously fake, names like "Serious Problem" and "Britishy Melony." In addition, Farah routinely directed the flow of fraudulent funds so that his co-conspirators got their "cuts" of the stolen taxpayer money. To keep the fraud going, Farah engaged in a corrupt "pay-to-play" system, where he paid thousands of dollars in bribes and kickbacks to personnel at Feeding Our Future and Partners in Nutrition.

Farah profited handsomely from his role in the scheme—he personally pocketed more than $8 million during his 18 months of involvement in the fraud. As presented at trial, Farah sent text messages to his co-defendants about their ill-gotten gains, stating "in 7 months if things stay the same you are a multi millionaire with 0 debt" and "Bro the next multi legit millionaires will be me and you."

Using the taxpayer money meant for needy kids, Farah purchased five luxury vehicles for himself in about six months, including over $300,000 for a Porsche, a GMC truck, and a Tesla. Farah used approximately $4.2 million in fraudulently-obtained taxpayer funds to purchase real estate throughout the Twin Cities and in Kentucky, which included buying two lakefront lots with the aim of building himself a multi-million-dollar home. Farah further sent the taxpayer money he stole overseas, purchasing real estate in Kenya and a high-rise apartment building in Nairobi. Farah laundered the fraud proceeds through China. This overseas money is beyond the reach of American law enforcement—neither these funds nor Farah's international real estate holdings have been, or can be, seized or forfeited.

In January 2022, when the Feeding Our Future search warrants were executed, federal agents seized Farah's U.S. passport from his home. In the wake of those searches, Farah retained an attorney and was told he was a target of the federal investigation. Two months later, on March 22, 2022, Farah went to the Minneapolis Passport Agency in downtown Minneapolis to apply for a new U.S. passport. Farah lied on his passport application, falsely claiming his passport was lost, rather than seized by federal agents. Farah obtained a new U.S. passport that day. Less than two weeks later, Farah attempted to leave the country, purchasing a one-way ticket to Kenya, where he owned property paid for by the taxpayer money he stole. Law enforcement acted quickly to charge Farah with passport fraud and take him into custody.

In June 2024, at the conclusion of his 7-week trial, Farah and others attempted to bribe a juror with $120,000 in cash in exchange for a not guilty verdict. Farah and four others were indicted in a separate federal case for the juror bribery scheme. Farah has pled guilty in the juror bribery case and is pending sentencing in that case before Judge David S. Doty. Today's sentence does not reflect Farah's attempt to bribe a juror; he will face an additional sentence in that case at a later date.

In imposing the 28-year sentence, Judge Brasel explained the defendant "came to this country as a refugee" and that "many of the opportunities" in Farah's life came through public agencies and non-profit organizations, noting that Farah received housing, school, a full-tuition college grant, and worked in the public sector. "Given that background, it is ironic at best that, as the government aimed no child went hungry during the pandemic, you saw the opportunity to fraudulently make money." Judge Brasel continued, "You achieved successes here in the United States and yet you've shown utter and flagrant disregard for the laws of the United States."

Judge Brasel found that Farah's crime was "breathtakingly elaborate" and that he acted out of "pure unmitigated greed." She told the defendant, "The repercussions of your crime will be felt in Minnesota and in your community—the refugee community—for a long time."

In arguing for a long sentence, Acting U.S. Attorney Joseph H. Thompson said, "This country gave Farah everything. A home. Citizenship. A free college education. After that he went on to public employment with the state of Minnesota. And how did he repay this country and this state? By robbing us blind. He has gotten

every opportunity, and this is how he used it. Farah didn't want the American dream. He wanted to be rich. He wanted to be wealthy. He thought he was entitled to it. He won the lottery of life, he was given everything by this country, and he repaid us with a life of crime. He has done untold damage to this state."

"Abdiaziz Shafii Farah's conviction serves as a stark reminder of the moral decay that can arise when individuals exploit systems designed to protect the most vulnerable among us," said Special Agent in Charge Alvin M. Winston, Sr. of FBI Minneapolis. "The egregious actions of Farah, who misappropriated over $28 million meant to nourish underserved children during a critical time, exemplify a betrayal of societal trust. Today's sentence not only underscores the legal repercussions of such greed, but also sends a resounding message: Justice will not only be swift, but also unyielding. The FBI, in concert with our law enforcement partners and the Minnesota U.S. Attorney's Office remains committed to holding accountable those who prey on the most defenseless in our communities."

The case is the result of an investigation by IRS Criminal Investigation, the FBI, and the U.S. Postal Inspection Service.

Acting U.S. Attorney Joseph H. Thompson, and Assistant U.S. Attorneys Harry M. Jacobs, Matthew S. Ebert, and Daniel W. Bobier prosecuted the case. Assistant U.S. Attorney Craig Baune is handling the seizure and forfeiture of assets.

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