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Fostering Intentional Financial Integrity

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Millard MacAdam

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The integrity of the financial records of any given organization (including local, state and federal governments) is critical to its successful long-term operation and meaningful survival and to the reputation and trust of its employees and other stakeholders. By demonstrating integrity in the development of financial records and reports, an organization as a whole promotes trust with all of its stakeholders and enhances its reputation.

Too many business owner, corporate leaders and government agency leaders have failed miserably in doing this over recent decades. Their corrupt, dishonest actions and lack of personal integrity and the provision of proper oversight have contributed to what is now a "norm" of dishonesty and dysfunction in significant numbers of America's governmental institutions, corporations, and privately owned businesses. The resulting badly run giant businesses and governmental agencies have, and continue to cost, all Americans greatly.

To move our nation back toward financial integrity and good functioning, it will take the determined actions of responsible government leaders, corporate executives, business owners and employees across America, people who will promote common sense, proven financial principles and insist assertively that financial integrity personally, in the conduct of business and in the running of government be intentional and consistent, not conditional.

After reviewing the "best financial practices" of selected corporations, small businesses and governmental agencies, I find a number of common financial principles emerge that can serve you as "litmus test" points to help you check out the relative financial integrity of any organization and then encourage its leaders to make it stronger.

Are the organization's internal reporting and controls in a sound condition? It is critical that all employees and officers of any given organization comply with U.S. Generally Accepted Accounting Principles (GAAP) and Financial Accounting Standards Board Regulations. In addition, a financially sound organization will be maintaining a system of internal controls to assure appropriate authorization, recording and accountability of assets. Employees share the responsibility for maintaining and complying with these controls and must never intentionally circumvent them.

In all high integrity organizations, finance and accounting officers and managers have a special fiduciary responsibility to ensure that finance and accounting practices support the full, fair, accurate, timely and understandable disclosure of the organization's financial results and condition. The use of alternative accounting treatment possible under U.S. GAAP must be properly justified and approved by an organization's top management.

Are any unlawful behaviors or decisions being made? It is unlawful for an organization's of

Officers, directors or any employee acting under their direction to improperly influence an organization's public accountants in the issuance of an organization's financial statements. The types of conduct that may be construed as improper influence include the following:

- Offering or paying bribes, including the offer of future employment contracts or non-audit services
- Providing an auditor with an inaccurate or misleading legal analysis
- Threatening to cancel or canceling an existing audit or non-audit engagement if the auditor objects to the organization's accounting
- Seeking to remove a partner from the audit engagement if the auditor objects to the organization's accounting
- Blackmailing or making physical threats

Do employees play a forthright role in assuring accurate organizational records? Most employees within an organization are involved with documents and reports of some kind, including preparing time sheets, expense reports, operating reports or inventory reports, approving invoices or signing for the receipt of materials. While they may not all be familiar with formal accounting procedures, each of them needs to be accountable for making sure that all of the organization's business records are complete, accurate and reliable.

All of an organization's transactions must be supported in reasonable detail, in the proper account and in the proper accounting period. Cash or other assets must not be maintained in any unrecorded or "off-the-books" fund for any purpose. Employees and managers must never make a false entry in any organization record or mislead, hide or disguise any financial or non-financial transaction for any reason. Falsifying business records or intentionally misclassifying transactions is a serious offense that should result in criminal prosecution and disciplinary action, including termination of employment.

Everyone within the organization needs to be watching out for any of the following situations. If

they are encountered, people should report the situation immediately.

- Inaccurate records such as inflated travel and entertainment expenses
- Misclassification of expenses (for example, cost versus capital)
- Errors on time sheets and invoices
- Improper acceleration or deferral of expenses or revenues
- Attempts to bypass review and approval procedures
- Financial results that do not appear to be consistent with performance

Is the management of records effective and efficient? Employees at all levels are responsible for the integrity and accuracy of their organization's records. These records serve as a basis for managing the organization's business and are important in meeting the organization's obligations to suppliers, distributors, government regulators, investors, creditors and customers.

An organization's records must be retained in accordance with the law and the organization's records policy. An organization's records include business documents in any format, including paper documents, voice mail, computer-based information such as e-mail, PDAs such as Palm or Blackberry, daily planners, computer files on disk or tape and any other medium that contains information about our organization and its business activities.

Understanding what documents to keep - and for how long - is important. Records that are subject to retention must not be discarded prior to the dates specified in our records retention schedule. In addition, you must never destroy or alter any document or record if you believe that it may be subject to a tax review, pending investigation, legal proceeding or audit. It is a serious violation of an organization's policy and viable Code of Conduct to alter or falsify information on any record or document. Failing to comply with an organization's records policies, even innocently, can result in serious business or legal repercussions. Records that have been intentionally altered, destroyed or falsified in order to conceal wrongdoing or impede, obstruct or influence a government investigation may result in penalties including fines, imprisonment of

up to 20 years or both.

If a person has questions about records management requirements, they should contact their supervisor or manager within their organization or any governmental institution they are concerned about.

Are accounting, controls and auditing complaints reported in a timely and direct way? Complaints related to accounting, internal control and auditing matters should be reported to the organization's General Counsel or Ethics Officer. Anonymous complaints can be made by letter without return address or signature to the organization's top leader. The investigation of a complaint is significantly enhanced when callers choose to identify themselves. A few non-U.S. countries, such as France, prefer that callers identify themselves. All complaints received about accounting matters should be forwarded promptly to the Audit Committee of the Board of Directors of the organization for investigation and resolution.

Consistent with proven best practices and policies, no one at any type or kind of organization, including any director, officer or employee should retaliate against any employee or any other individual who in good faith makes a complaint about or helps in the investigation of an organization's accounting, control or auditing matter. In addition, top leadership of any type or size organization should not tolerate any effort on the part of any party to identify any person who makes a report anonymously.

Examples of accounting, control or auditing concerns include:

- Fraud, misstatement, omission or deliberate error in preparing, evaluating, reviewing or auditing any of an organization's financial statements
- Fraud, misstatement, omission or deliberate error in recording and maintaining an organization's financial records
- Deficiencies or noncompliance with any of an organization's internal accounting controls
- Representations or false statements made to, or by, a senior officer or accountant regarding an organization's financial records, financial reports or audit reports
- Any deviation from full and fair reporting of the organization's financial condition

- Any effort to mislead, deceive or coerce the organization's external auditor in preparing, examining, auditing or reviewing any of the organization's financial statements or records
- Any other error, deficiency or weakness in the organization's financial statements, internal controls, auditing procedures or financial records or reports

Are investigations, inspections and inquiries responded to forthrightly? If anyone within an organization is asked to respond to requests by internal auditors, legal staff, independent accountants, and special counsel, their responses should be complete and truthful. They should include all relevant information, even if the request does not specifically ask that they do so.

Is a *Financial Integrity Check* and mutual accountability process in place? This process should include the asking of key questions during regularly scheduled staff meetings throughout an organization. Questions such as the above as well as personal questions such as, "Have you told the truth and taken only what is rightfully yours?" Other questions to include are those related to the key governing operating values that are espoused to guide the operations of the enterprise.

If you need help in mastering and implementing any of the skills and tactics mentioned, I'm here for you! Please visit the Call-A-Coach section of my web site for more information.

About the author:

Dr. Mac shares with business owners the practical knowledge and insights he gained as a small company CEO. He founded Sycamore Ranch, Inc. when 27 and as CEO led his partners and a staff of 100 for 16 years in developing and operating the 50 acre recreational facility. Years later, he integrated what he learned from his Doctoral program at USC with his practical business experiences and began consulting. For four decades Mac's coached business owners in mastering and applying "how to" leadership and managerial skills for: Hiring and retaining only the top ten percent producers; Optimally deploying and supervising staff to maximize their personal motivation; Developing high integrity leadership teams; Facilitating mutual performance accountability and peer coaching processes; and, Integrating his Intentional Business Integrity Process into their company operations. Mac has served leaders in manufacturing and high tech companies; accounting, banking and insurance enterprises;

medical and health care organizations; service and retail oriented businesses; as well as educational, governmental and non profit organizations. Q&A ProActive Leadership 888-648-5552 or MacAdam@PALConsulting

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