

A rearview mirror with a black frame and a silver backing. The text is centered on the mirror's surface.

*Adjusting Your Review Mirror  
For the Road Ahead*

Sharleen Smith  
Director of Outreach  
Troy University, Global



Where does your energy  
come from?

*The past or the future?*



## Adjusting Your Rearview Mirror

- 1. Defines who we are and how we experience ourselves.*
- 2. Brings clarity to past situations that will overshadow the future.*
- 3. Adds balance to living in the past and walking out the future.*
- 4. Forces you to engage in the future.*

*Rearview Mirror:  
Defines who we are and how we experience ourselves.*

We identify ourselves and experience ourselves as we see ourselves.

The past provides plenty of room for second-guessing and self-criticizing.

People who lead fulfilling lives are unusually good at surrounding themselves with fulfilling mirrors.



*Rearview Mirror:  
Defines who we are and how we experience ourselves.*



The myth of happiness is that particular desired achievements or outcomes will lead to forever fulfillment.

You choose the mirror which can fuel ongoing joy and satisfaction or not.

## *Rearview Mirror:*

*Brings clarity to past situations that will overshadow the future.*

The rearview mirror isn't there for us to see what we've already driven past; it's there to give us an idea of what's approaching from behind.



We are held back from a brighter future and become stagnant when:

- we spend too much time thinking about past mistakes
- use past experiences as proof of what's to come
- do not let go of the past.

## *Rearview Mirror:*

*Brings clarity to past situations that will overshadow the future.*



Avoid wasting time and energy fighting conditions you cannot change.

We can use that knowledge on the things we have the power to change so we make more positive, wiser, and empowered decisions in the future.

*Rearview Mirror:  
Adds balance to living in the past and walking out the future.*



Look back to look forward ... do not hang out in the past,  
but know that the past has contributed to our present  
and our future is impacted by the past.

*Rearview Mirror:  
Adds balance to living in the past and walking out the future.*



Reject the status quo and  
establish a constant state of readiness  
to embark on roads untraveled and territory uncharted.

*Rearview Mirror:  
Adds balance to living in the past and walking out the future.*



Memory lane can be the expressway to success when our past reality intersects with our present to impact our purposed future.

*Rearview Mirror:  
Forces us to engage in the future.*



We grow intellectually and emotionally when we seek out new, challenging, stimulating experiences.

When we set our calendars, we define who we will be.

Happy New Year! "Out with the old" and "in with the new."

Congrats! Keep moving.

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Glance  
at what lies behind  
but gaze  
at what is ahead.



**What can your future hold?**

**People**

**Process**

**Product**



*Look in the rearview mirror long enough to see that you are purposely positioned for the future.*

# More Efficiency in Processes: Secrets to get things through the Comptroller's Office



Presented To: AGA Montgomery Spring 2018 PDT

Presented By: Jamie D. Jackson, Accounting Manager  
Taylor Freeman, Staff Accountant

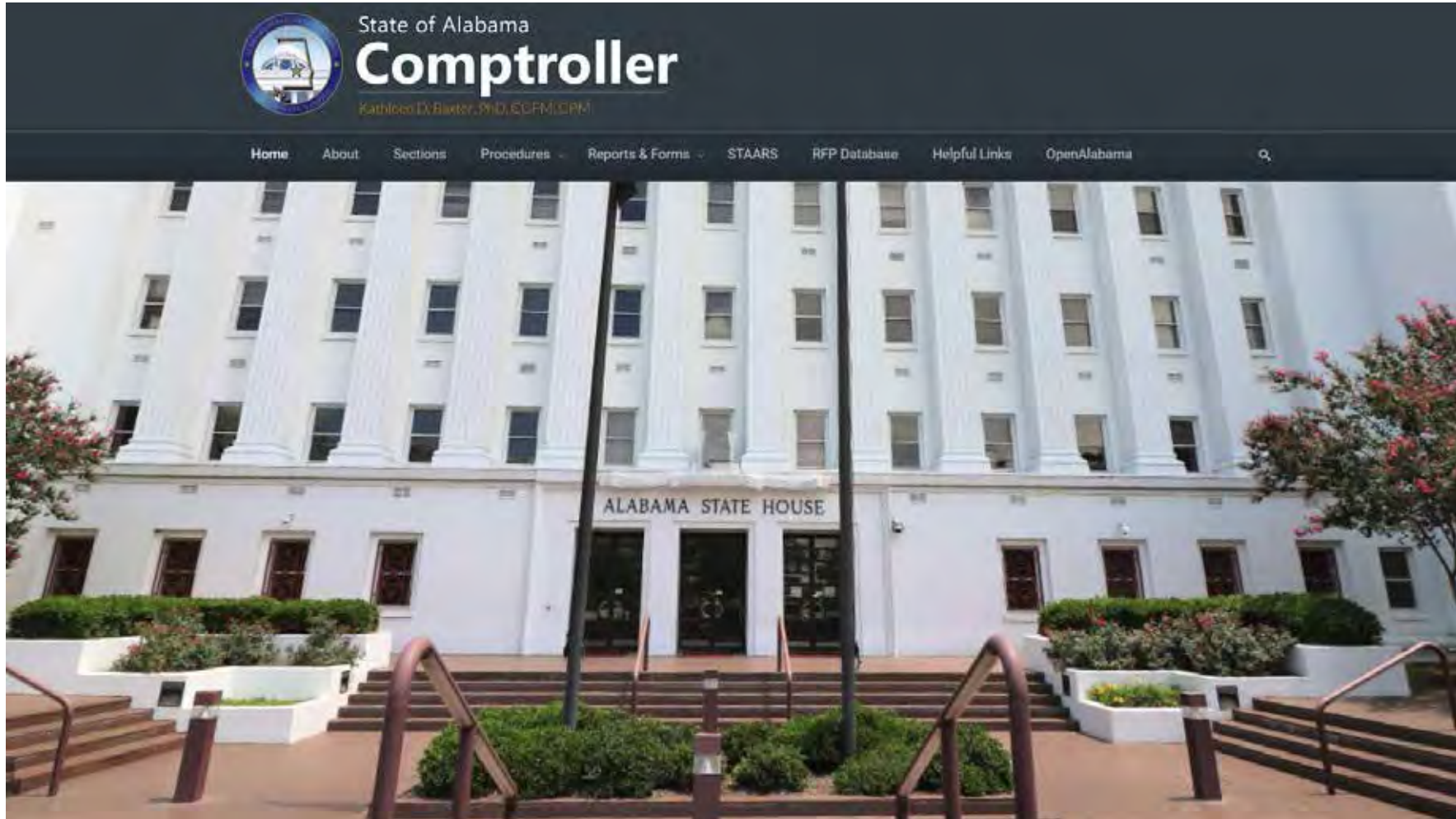
Presented on: May 18, 2018

# More Efficiency in Processes:

## Secrets to get things through the Comptroller's Office

- I. Know the Website
- II. Know The Source
- III. Know the Credits
- IV. Know the Tax
- V. Know the Fees
- VI. Know the Office

# Know the Website



# Know the Website Online Forms

The screenshot shows the State of Alabama Comptroller website. The header includes the state seal and the name 'State of Alabama Comptroller' with the name 'Kathleen G. Burke PhD, CPA, CFPE, CMA' below it. A navigation menu contains links for Home, About, Sections, Procedures, Reports & Forms, STAARS, RFP Database, Helpful Links, and OpenAlabama. A search icon is also present. The 'Reports & Forms' menu is open, showing options for CAFR, Monthly Reports, CAS/AFNS/GHRS, and Online Forms. The 'Online Forms' section is highlighted, with a sub-header 'Click an option below for each section's related form'. Below this are five icons representing different categories: Travel / Other Forms (car icon), Payroll (dollar sign icon), Manual Agencies (handshake icon), County Information (classical building icon), and Miscellaneous (box icon). The 'Travel Forms' section lists 'Pre-approval Forms' and 'Expense Reimbursement Forms' with specific form numbers and titles. The 'Professional Services Contracts' section lists various reports and flowcharts.

State of Alabama  
**Comptroller**  
Kathleen G. Burke PhD, CPA, CFPE, CMA

Home About Sections Procedures **Reports & Forms** STAARS RFP Database Helpful Links OpenAlabama

**Online Forms**

Click an option below for each section's related form

CAFR  
Monthly Reports  
CAS/AFNS/GHRS  
**Online Forms**

Travel / Other Forms

Payroll

Manual Agencies

County Information

Miscellaneous

### Travel Forms

Pre-approval Forms

- FRMS-6E In State Actual Preapproval
- FRMS-5 Out of State Manual Preapproval
- Out of State Travel Automated
- FRMS-4 Advance and Prepaid Travel Form
- FRMS-8 Recruitment Travel Expense

Expense Reimbursement Forms

- FRMS-6 In State Travel Per Diem Expense Form
- FRMS-4E Out of State Travel Actual Expense Form

### Professional Services Contracts

- Flow Chart PSC1
- Flow Chart PSC2
- Certificate of Compliance
- FRMS-50 Contract Cover Sheet
- Contract Review Report
- Legal Services Review Report

# Know the Website Travel Forms

## Travel Forms

### Pre-approval Forms

- FRMS-6E In State Actual Preapproval
- FRMS-5 Out of State Manual Preapproval
- Out of State Travel Automated
- FRMS-4 Advance and Prepaid Travel Form
- FRMS-8 Recruitment Travel Expense

### Expense Reimbursement Forms

- FRMS-6 In State Travel Per Diem Expense Form (CY18)
- FRMS-6 In State Travel Per Diem Expense Form (CY17)
- FRMS-6D In State Travel Actual Expense Form (CY18)
- FRMS-6D In State Travel Actual Expense Form (CY17)
- FRMS-6A Out of State Manual Expense Form (CY18)
- FRMS-6A Out of State Manual Expense Form (CY17)
- Out of State Travel Automated Expense Form

## Payroll

- 2018 Payday Schedule
- 2018 Minimum Work Hours to Accrue Leave
- 2018 Work Hours
- 2018 Semi-Monthly Timesheet FLSA Exempt
- 2018 Semi-Monthly Timesheet FLSA Non-Exempt
- 2018 Travel Calendar (rvsd 5-8-18)
- 2017 Payday Schedule
- 2017 Minimum Work Hours to Accrue Leave
- 2017 Work Hours
- 2017 Semi-Monthly Timesheet FLSA Exempt (rvsd 6-16-17)
- 2017 Semi-Monthly Timesheet FLSA Non-Exempt (rvsd 6-16-17)
- 2017 Travel calendar (rvsd 6-21-17)
- Direct Deposit Form
- CPM Control Employees 2017

## Professional Services Contracts

- Flow Chart PSC1
- Flow Chart PSC2
- Certificate of Compliance
- FRMS-50 Contract Cover Sheet
- Contract Review Report
- Legal Services Review Report

- Salary Overpayment Refunds
- Supplemental Incorrect Hours
- Supplemental ESMT Errors
- Authorization for Electronic Approvals
- Direct Deposit Request
- One Time Payment
- One Time Deduction
- Payroll Warrant EFT Cancellation
- Request for Duplicate W-2
- Elective Deferral Worksheet
- Insurance Payroll Deduction Companies

### Payroll Debit Card Forms and Instructions

- Memo – Employees Not on Direct Deposit
- Enrollment Form
- Card Features



# Know the Website

## In State Actual and Out of State Manual Form

Out-of-State-Manual-Expense-rwd2018 (3) - Excel

File Home Insert Draw Page Layout Formulas Data Review View ACROBAT Tell me what you want to do

Normal Page Break Page Custom Gridlines Headings Zoom 100% Zoom In Selection New Arrange Freeze Split Hide Unhide Switch Windows Macros

Alabama

**STATE OF ALABAMA**  
Statement of Official Out of State Travel

Mileage Rate: \$0.545

Executive

Department/Agency Code Number Division Funds

Name of Traveler Social Security Number Official Station or Base

Address of Traveler (including street, city, state, and zip code) Purpose of Travel

I hereby certify that the miles accrued in the amount of \_\_\_\_\_ in excess, due, and unpaid.

APPROVED: \_\_\_\_\_ Signature of Payee  
Departmental Sworn to and subscribed before me this \_\_\_\_\_ day of \_\_\_\_\_  
Notary Public

**RECAPITULATION OF EXPENSES**

Travel Expense:	Amount	Emergency and Necessary Expenses Incurred in Connection with Travel	Amount
Commercial Transportation (incl. rental mileage) (0402)		Total other expenses such as postage, telephone, airport or misc. parking tolls, conference registration, etc.	
Mileage, private car (0401)			
Meals and lodging (0403)			
<b>SUBTOTAL TRAVEL EXPENSES</b>		<b>GRAND TOTAL TRAVEL EXPENSES</b>	

**ITEMIZED STATEMENT OF NECESSARY TRAVELING EXPENSES INCURRED FOR PERIOD** TO

Date mm/dd/yy	Places of Travel		Hour of Depart/Return	Private Car Miles / Fare Description	Commercial Fare Amount	SUBSISTENCE			Total Meals	Lodging	Total Meals & Lodging	Necessary Expenses - Conference		
	From City/State	To City/State				Breakfast	Lunch	Supper				Detail	Amount	
30														
31														
32														
33														
34														
35														
36														
37														
38														
39														
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41														
42														
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44														

Sheet1 Sheet2 Sheet3

# Know the Website Memos



The screenshot shows the website for the State of Alabama Comptroller, Kathleen C. Baker, PhD, CPA, CFM, CPM. The page is titled "Memos" and features a navigation menu with options like Home, About, Sections, Procedures, Reports & Forms, STAARS, RFP Database, Helpful Links, and OpenAlabama. A dropdown menu is open under "Procedures", listing "Fiscal Policy & Procedures", "Comptroller Announcements", "Chart of Accounts", "Memos", and "Mileage Rates". The "Memos" section is divided into "General Memos" and "County Memos", each with a list of links for various years from 2002 to 2018.

State of Alabama  
**Comptroller**  
Kathleen C. Baker, PhD, CPA, CFM, CPM

Home About Sections Procedures Reports & Forms STAARS RFP Database Helpful Links OpenAlabama

## Memos

Fiscal Policy & Procedures  
Comptroller Announcements  
Chart of Accounts  
**Memos**  
Mileage Rates

### General Memos

- [Memos - 2018](#)
- [Memos - 2017](#)
- [Memos - 2016](#)
- [Memos - 2015](#)
- [Memos - 2014](#)
- [Memos - 2013](#)
- [Memos - 2012](#)
- [Memos - 2011](#)
- [Memos - 2010](#)
- [Memos - 2009](#)
- [Memos - 2008](#)
- [Memos - 2007](#)
- [Memos - 2006](#)
- [Memos - 2005](#)
- [Memos - 2004](#)
- [Memos - 2003](#)
- [Memos - 2002](#)

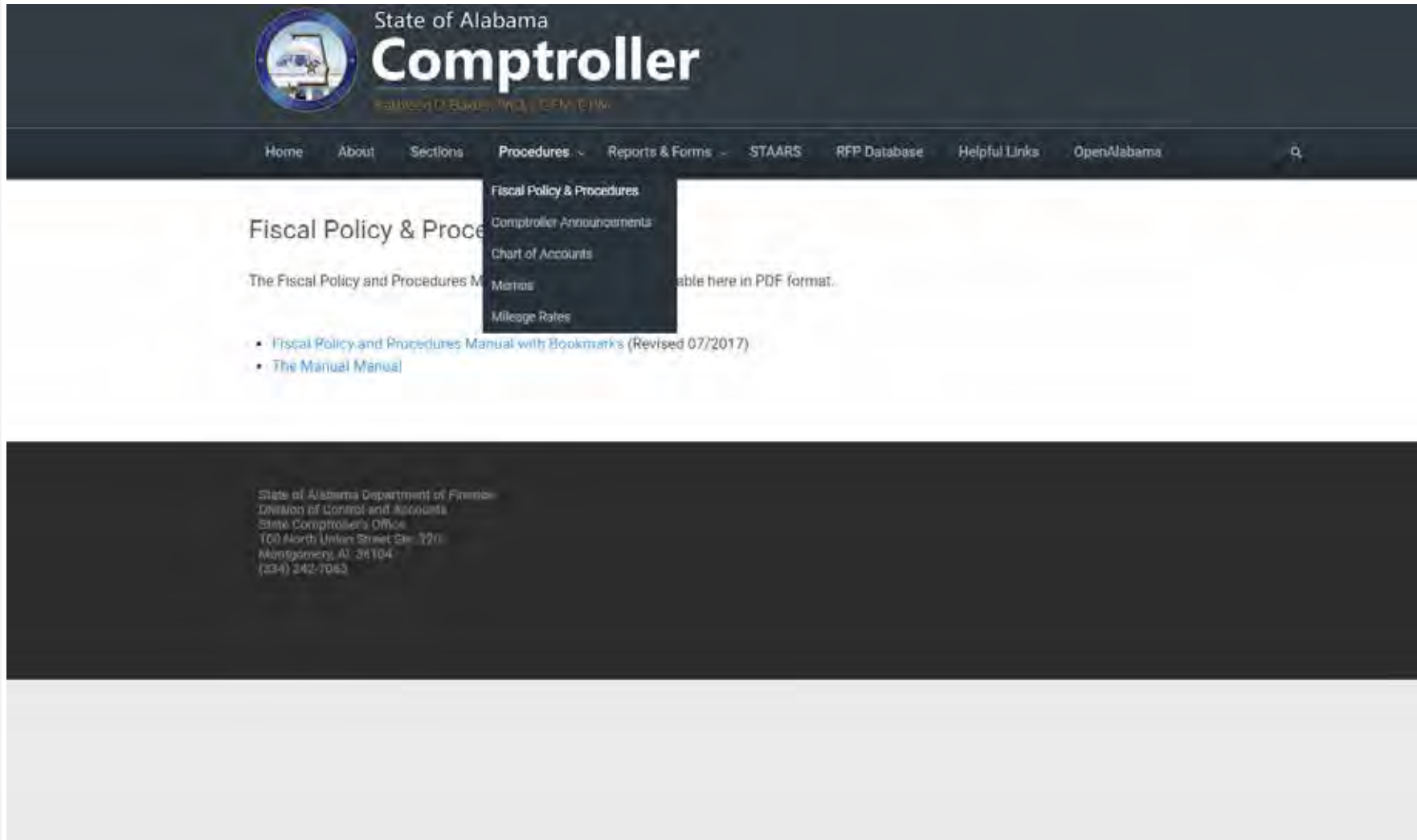
### County Memos

- [County Memos - 2018](#)
- [County Memos - 2017](#)
- [County Memos - 2016](#)
- [County Memos - 2015](#)
- [County Memos - 2014](#)
- [County Memos - 2013](#)
- [County Memos - 2012](#)
- [County Memos - 2009](#)
- [County Memos - 2005](#)

State of Alabama Department of Finance  
Division of Control and Accounts  
State Comptroller's Office  
100 North Union Street Ste. 230  
Montgomery, AL 36104  
(205) 267-2011

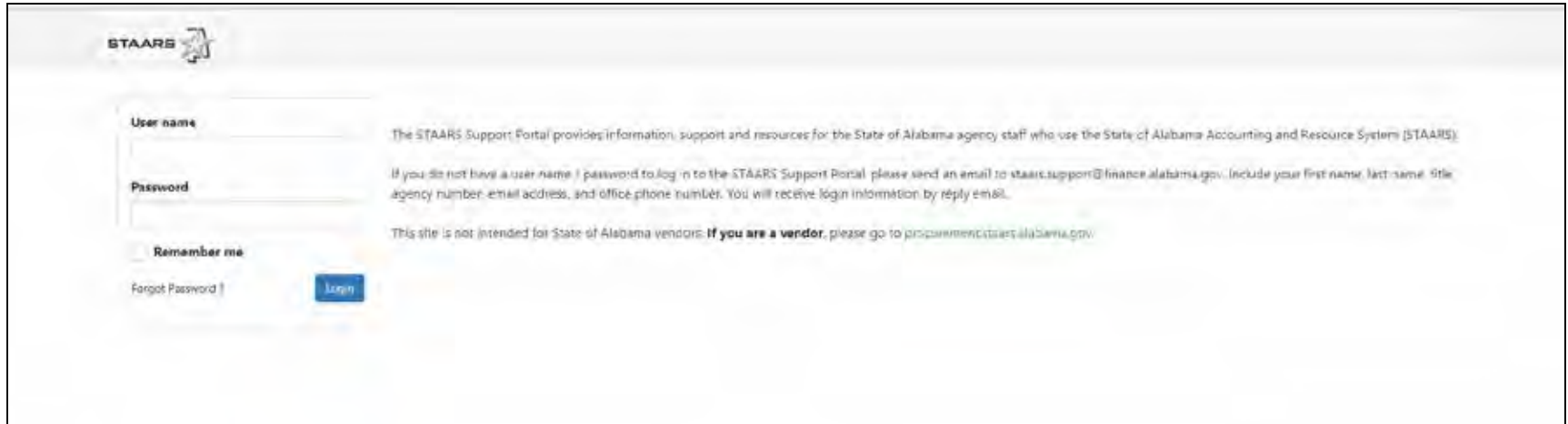
# Know the Website

## Fiscal Policy and Procedures



The screenshot shows the website for the State of Alabama Comptroller. The header includes the state seal and the text "State of Alabama Comptroller" with the name "Richard D. Baker, CPA, CFM, CFPP" below it. A navigation menu contains links for Home, About, Sections, Procedures (which is active and has a dropdown menu), Reports & Forms, STAARS, RFP Database, Helpful Links, and OpenAlabama. The dropdown menu lists: Fiscal Policy & Procedures, Comptroller Announcements, Chart of Accounts, Merit, and Mileage Rates. The main content area is titled "Fiscal Policy & Procedures" and contains the text "The Fiscal Policy and Procedures Manual is available here in PDF format." followed by a bulleted list of links: "Fiscal Policy and Procedures Manual with Bookmarks (Revised 07/2017)" and "The Manual Manual". The footer provides contact information for the State of Alabama Department of Finance, Division of Control and Accounts, State Comptroller's Office, located at 100 North Union Street, Ste. 120, Montgomery, AL 36104, with the phone number (204) 242-7043.

# Know the Website STAARS Support Portal



The screenshot shows the STAARS Support Portal login interface. At the top left is the STAARS logo. Below it are two input fields: "User name" and "Password". To the right of these fields is a block of text: "The STAARS Support Portal provides information, support and resources for the State of Alabama agency staff who use the State of Alabama Accounting and Resource System (STAARS). If you do not have a user name / password to log in to the STAARS Support Portal, please send an email to [staars.support@finance.alabama.gov](mailto:staars.support@finance.alabama.gov). Include your first name, last name, title, agency number, email address, and office phone number. You will receive login information by reply email. This site is not intended for State of Alabama vendors. **If you are a vendor**, please go to [procurementstaars.alabama.gov](http://procurementstaars.alabama.gov)." Below the input fields are a "Remember me" checkbox, a "Forgot Password ?" link, and a blue "Login" button.

**STAARS**

**User name**

**Password**

Remember me

[Forgot Password ?](#)

[Login](#)

The STAARS Support Portal provides information, support and resources for the State of Alabama agency staff who use the State of Alabama Accounting and Resource System (STAARS). If you do not have a user name / password to log in to the STAARS Support Portal, please send an email to [staars.support@finance.alabama.gov](mailto:staars.support@finance.alabama.gov). Include your first name, last name, title, agency number, email address, and office phone number. You will receive login information by reply email. This site is not intended for State of Alabama vendors. **If you are a vendor**, please go to [procurementstaars.alabama.gov](http://procurementstaars.alabama.gov).

# Questions

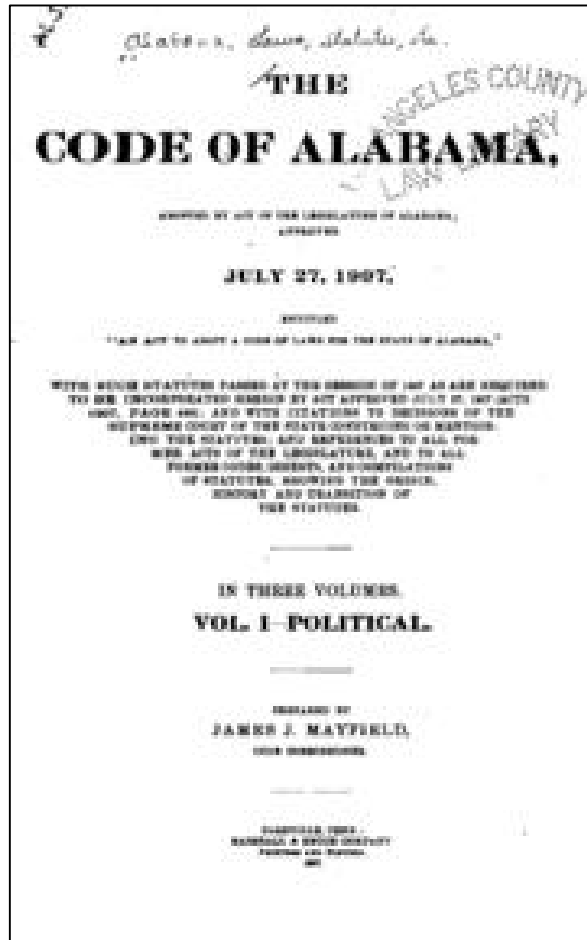


# Know the Source



- The Code of Alabama
- State Division of Purchasing
- Office of Leasing Management
- Fiscal Management
- Agency Distribution

# Know the Source: The Code of Alabama



- Legal authority that governs state business
- Each agency has their own section of law
- Your agency section is where you will find “Code Authority” that is requested by our office
- <http://alisondb.legislature.state.al.us/alison/codeofalabama/1975/coatoc.htm>

# Know the Source:

## State Division of Purchasing



- Ensures that the proper and legal purchasing process is followed
- The purchasing policies that must be followed are located in Chapter 4 of the Fiscal Policies and Procedures or on Purchasing's website
- [purchasing.alabama.gov](http://purchasing.alabama.gov)

# Know the Source:

## Office of Leasing Management



- Formerly known as Office of Space Management
- Oversees Executive Branch leases of real estate and manages a variety of building projects
- [finance.alabama.gov/pages/SpaceM.aspx](http://finance.alabama.gov/pages/SpaceM.aspx)

# Know the Source: Fiscal Management



- The section of the Comptroller's Office that handles all of the Professional Service Contracts
- Any service that requires a professional level of education fall in this category
- Policies can be found in Chapter 5 of the Fiscal Policy and Procedures

# Know the Source: Agency Distribution



- The section of the Comptroller's Office that ensures warrants are cut to the proper vendor and distributed to the appropriate agency
- Maintains vendor database

# Questions



# Know the Credits



**Credit Memo**

- Credits can only be made against invoices if there is sufficient support for the credit and the credit relates to the current fiscal year
- Individual credit memos must be keyed directly into STAARS as a separate line item on the GAX or PRC

# Questions



# Know the Tax



Per the Department of Revenue, “in order for a sale of tangible personal property to be exempt from sales tax, the State governmental agency must issue a purchase order or a departmental requisition number, and the purchase must be paid for directly by the State agency with a state warrant. An employee of an exempt governmental agency must pay sales tax on any purchases made even though he/she may later be reimbursed by a governmental entity.

# Questions



# Know the Fees



# Questions



# Know the Office

## Comptroller's Accounts Payable



- Lindsay Bryant, Supervisor
- Robyn Coppock
- Taylor Freeman
- Samantha Grant
- Karen Wilson
- Courtney Ballenger
- Ethan Miller
- Rena Stinson
- Shari Coleman
- Beth Rowlen
- Shawantha Thomas
- Abigail Brown

# Know the Office

## 5 Easily Preventable Green Slips

1. Make sure vendor name/address match invoice
2. Make sure dollar amount matches
3. Make sure Single Payment Box is checked
4. Make sure to use invoice date provided on vendor invoice
5. Make sure to use invoice number provided on invoice

STATE OF ALABAMA  
DEPARTMENT OF FINANCE  
DIVISION OF CONTROL AND ACCOUNTS  
VOUCHER CORRECTION NOTICE

FRMS-23  
Rev. 01/2000

Date \_\_\_\_\_

To: \_\_\_\_\_

Batch No: \_\_\_\_\_ Voucher Number: \_\_\_\_\_

This Voucher is being returned for the following reason:

General	Travel	Accounting
<input type="checkbox"/> Voucher Amount	<input type="checkbox"/> Mileage	<input type="checkbox"/> Object Code
<input type="checkbox"/> Invoice Amount	<input type="checkbox"/> Per Diem	<input type="checkbox"/> Expense Budget
<input type="checkbox"/> Document Total	<input type="checkbox"/> Base	<input type="checkbox"/> Appropriation/Allotment
<input type="checkbox"/> Duplicate Voucher No.	<input type="checkbox"/> Time	<input type="checkbox"/> Accounting Period Closed
<input type="checkbox"/> Duplicate Invoice No.	<input type="checkbox"/> Date	<input type="checkbox"/> Amt. exceeds PO/Contract
<input type="checkbox"/> Invalid Vendor	<input type="checkbox"/> Remove SSN	<input type="checkbox"/> Ref PO/Contract on PV
<input type="checkbox"/> Vendor on Hold	<input type="checkbox"/> Meal Receipts	<input type="checkbox"/> Cash Balance
<input type="checkbox"/> Vendor Name/Number	<input type="checkbox"/> Travel Authorization	<input type="checkbox"/> Not in CAS
<input type="checkbox"/> Source Mgmt Lease #	<input type="checkbox"/> Dept. Approval	<input type="checkbox"/> Board of Adjustments
<input type="checkbox"/> Signature <input type="checkbox"/> PV <input type="checkbox"/> MTR	<input type="checkbox"/> Assemble voucher(s)	<input type="checkbox"/> Authority to Purchase

Other \_\_\_\_\_

Approved By: \_\_\_\_\_ Pre-Audit \_\_\_\_\_

THIS NOTICE MUST BE RETURNED WITH CORRECTED VOUCHER

# Questions



# Know the Upcoming Changes



# Questions





## **AGA Presentation**

*Condition of the State General  
Fund and Education Trust Fund  
(FY2019)*



*Clinton P. Carter*  
**State Finance Director**

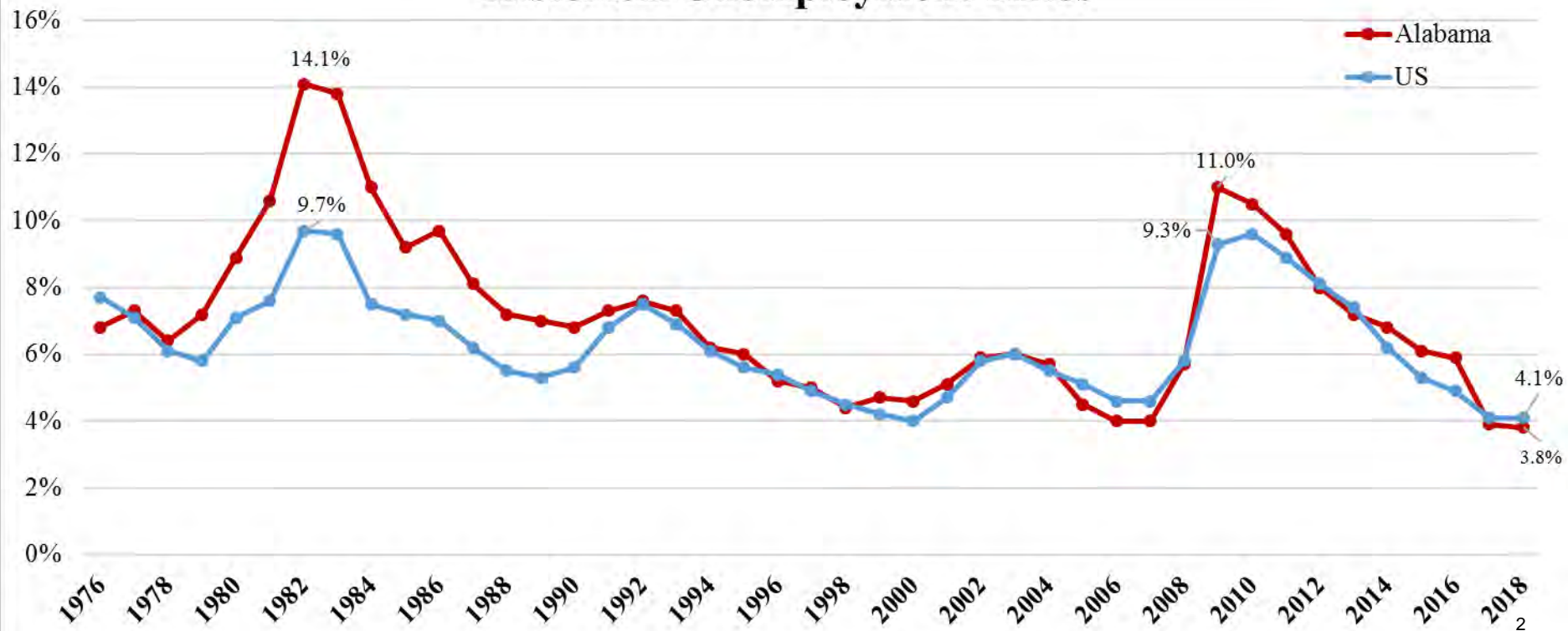
**STATE OF ALABAMA**  
*clinton.carter@finance.alabama.gov*

# Unemployment Rate

§ Alabama's Unemployment Rate in April fell to 3.8% (lowest rate in state history), now well below the U.S. average of 4.1%

- ⊘ Historically, Alabama's unemployment rate has lagged the U.S. by ~1.0%
- ⊘ "Full-employment" considered to be 5.2%

## Historical Unemployment Rates



# Alabama's Unemployment Rate

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## § Statewide Unemployment:

**April 2018 – 3.8%**  
(seasonally adjusted)

Ø Alabama's Population – 4,884,115

Ø Civilian Labor Force – 2,169,867

§ ~45% of total population

Ø Unemployed – 83,208

§ Lowest unemployed in history

Ø Unemployment Rate

§ January 2017 – 6.4%

§ April 2018 – 3.8%

## § Alabama vs. Rest of the U.S.

Ø Historically, 1.0% above the U.S.

§ +0.9% average over previous 40  
years (1977-2016)

Ø Alabama – 3.8%

Ø U.S. Average – 4.1%

# Unemployment – Southeastern State Comparison

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§ Over the past 2 years, Alabama has begun to outpace the rest of the Southeast and now trails only Tennessee for the lowest unemployment rate

- Ø Unemployment has dropped from the highs of 2009 (~11.0%)
- Ø 3.8% rate (April) significantly below the Southeastern avg of 4.1%

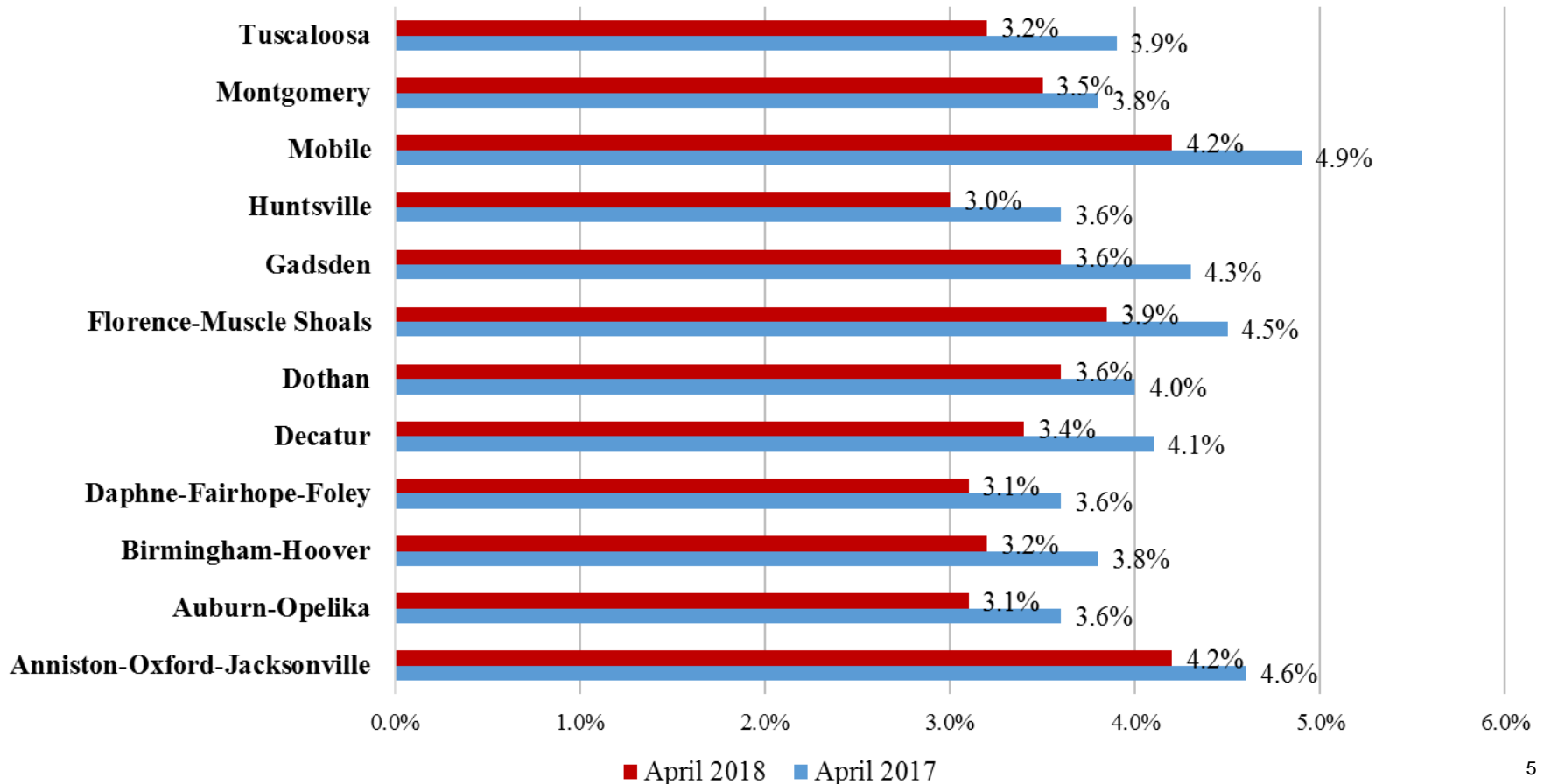
**December 2015**  
Alabama – 6.2%  
Southeast Avg – 5.6%

**April 2018**  
Alabama – 3.8%  
Southeast Avg – 4.1%

# Alabama's Unemployment Rate – Then and Now

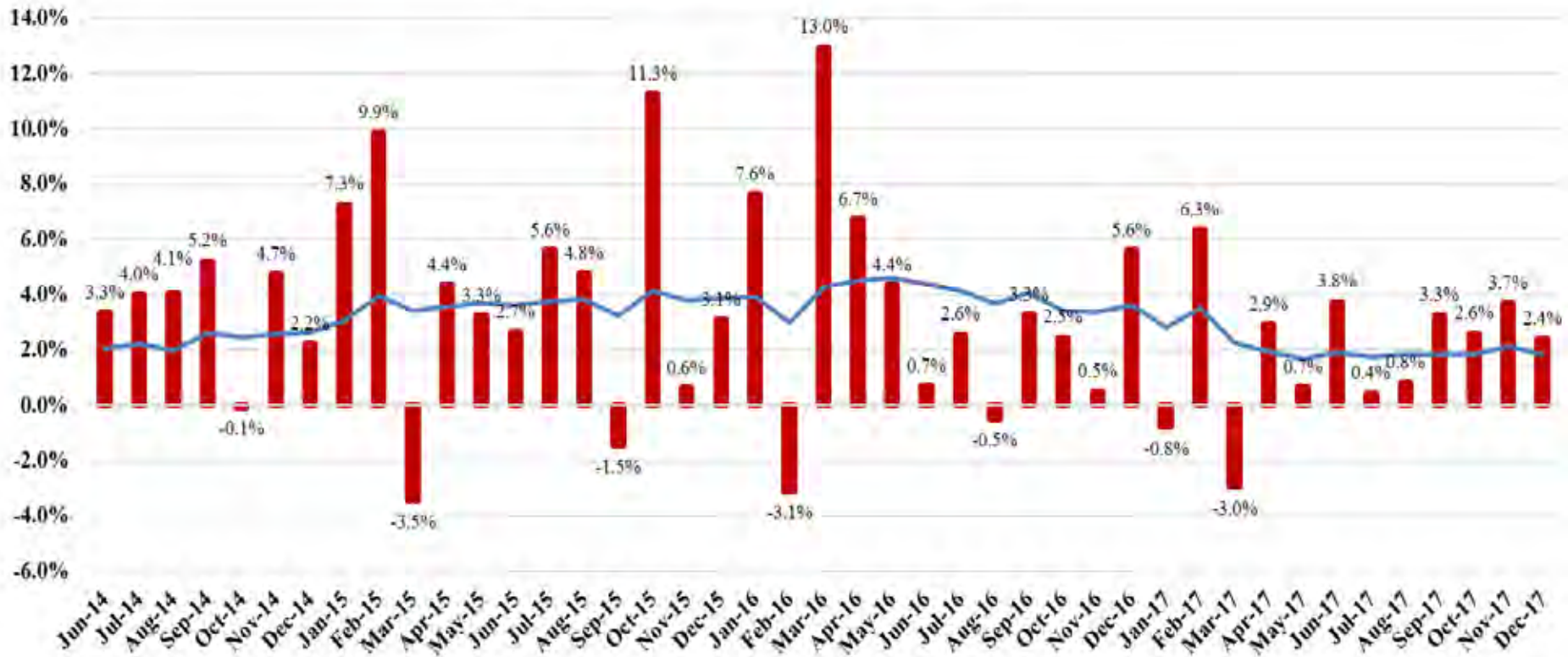
§ Huntsville (3.0%), Auburn-Opelika (3.1%), the Birmingham Metro (3.2%) and the Daphne-Fairhope area continue to set the pace for the rest of the State...

**Alabama Unemployment Rates by Metro Area**



# Sales Tax Collections

**Gross Sales Tax**  
(Monthly % Change Over Prior Year)

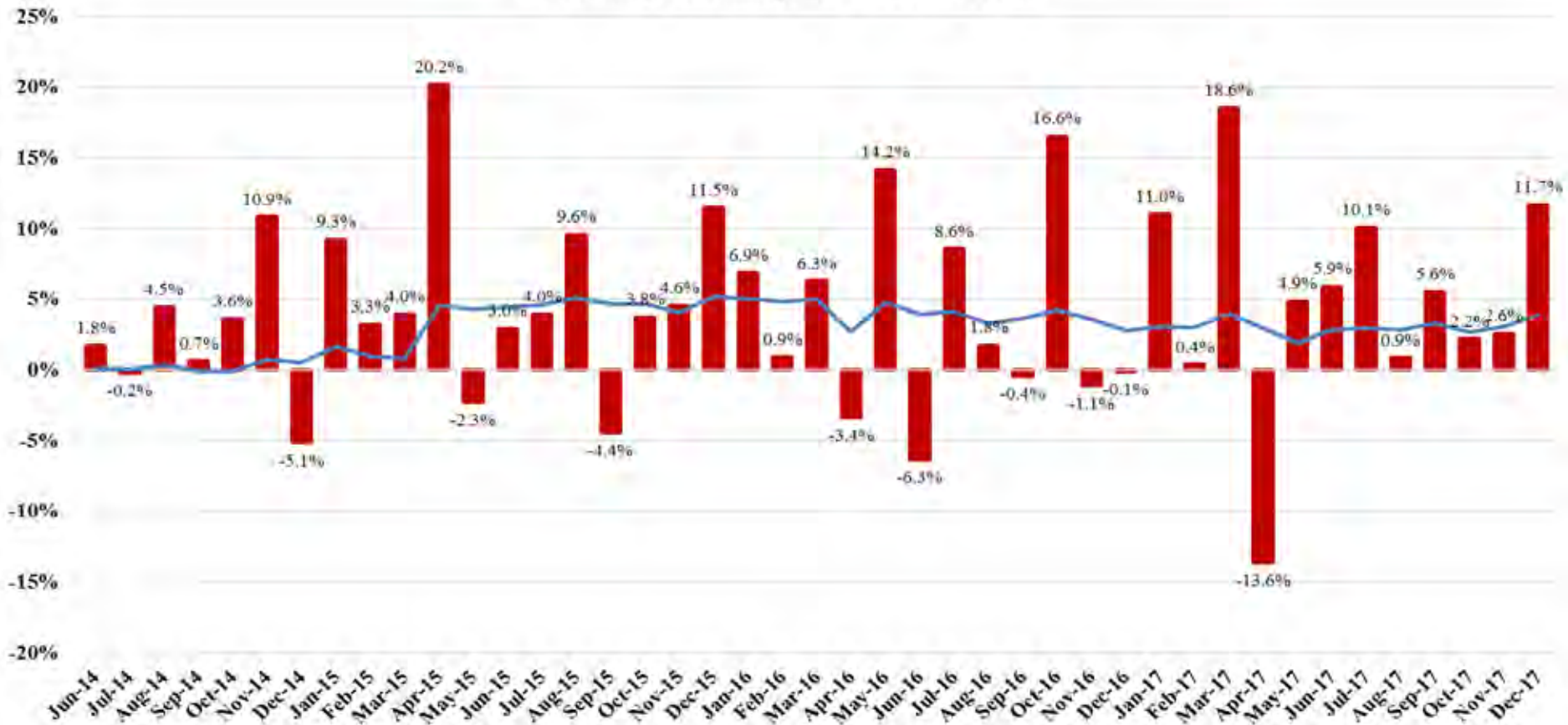


§ Excludes Online - Year-over-year comparison, 9 consecutive months of y-o-y increases in sales tax collections (positive during 20 of the last 24 months)

Ø Growth of the rolling 12-month average (1.85%) has slowed, but still positive

# Individual Income Tax Collections

**Gross Individual Income Tax**  
*(Monthly % Change Over Prior Year)*



§ Year-over-year comparison, largely mirrors statewide employment figures

Ø Dec '17 up 11.7%, rolling 12-month average (3.93%) is trending upward

# Alabama's Housing Prices

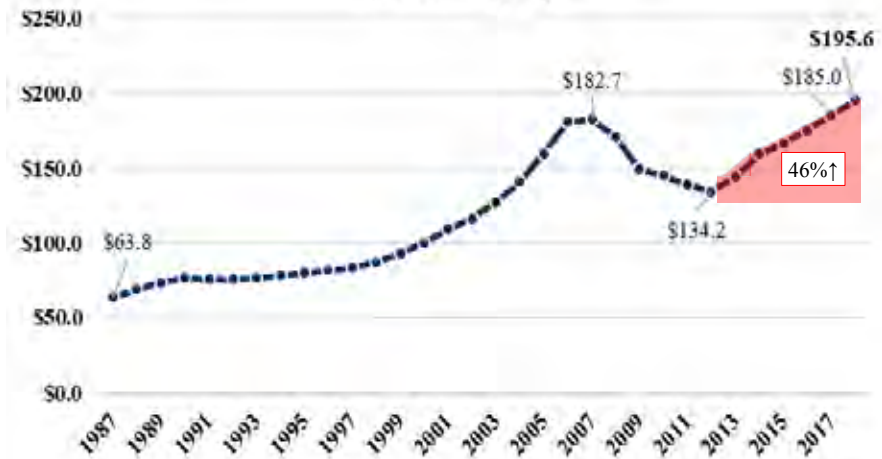
§ Nationally, home prices have returned, near record highs (up 46% from 2012)

- Ø Case-Shiller Home Price Index for October 2017 broke the all-time high set during 2006
- Ø October average home price nationwide was up 6.1% (year-over-year)

§ Statewide, housing recovery underway, although slower than the rest of the U.S.

- Ø After 5 consecutive years of price decline (2009-2013), the last 4 years of appreciation has erased prior losses
- Ø Through Q4 '17, average home values have increased +3.4% during 2017

Case-Shiller National Home Price Index  
(1987 - 2017)



State of Alabama - Average Home Value  
(Yearly % Change Over Prior Year)



# Interest Rates

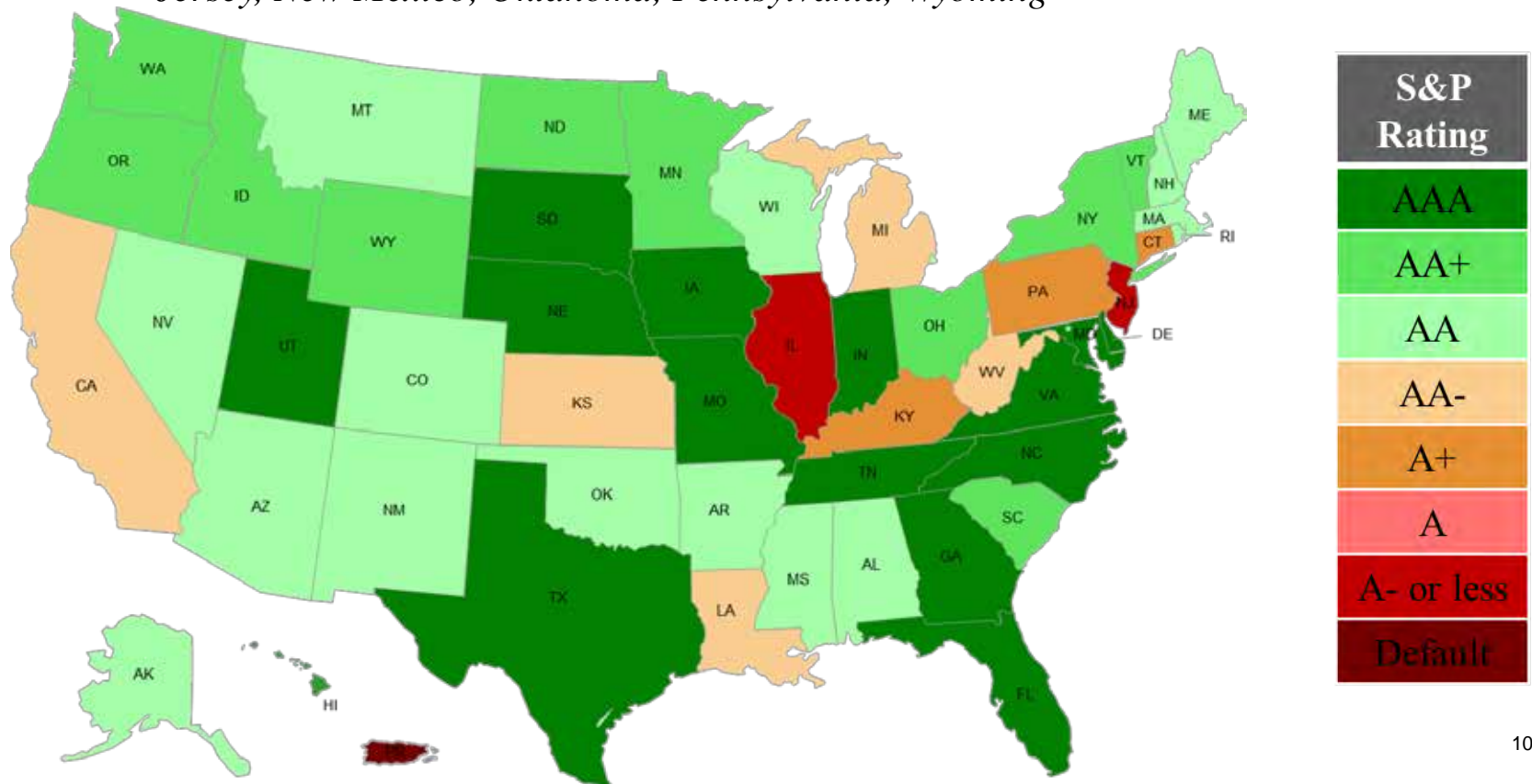


§ Even with the recent uptick in rates (post-Election), long-terms rates remain near all-time lows (10-yr. Treasury at 3.09% on May 17<sup>th</sup>)

⊗ State Credit Rating (AA/Aa1) typically prices 100-200bps above the 10-yr Treasury<sup>9</sup>

# State Credit Ratings

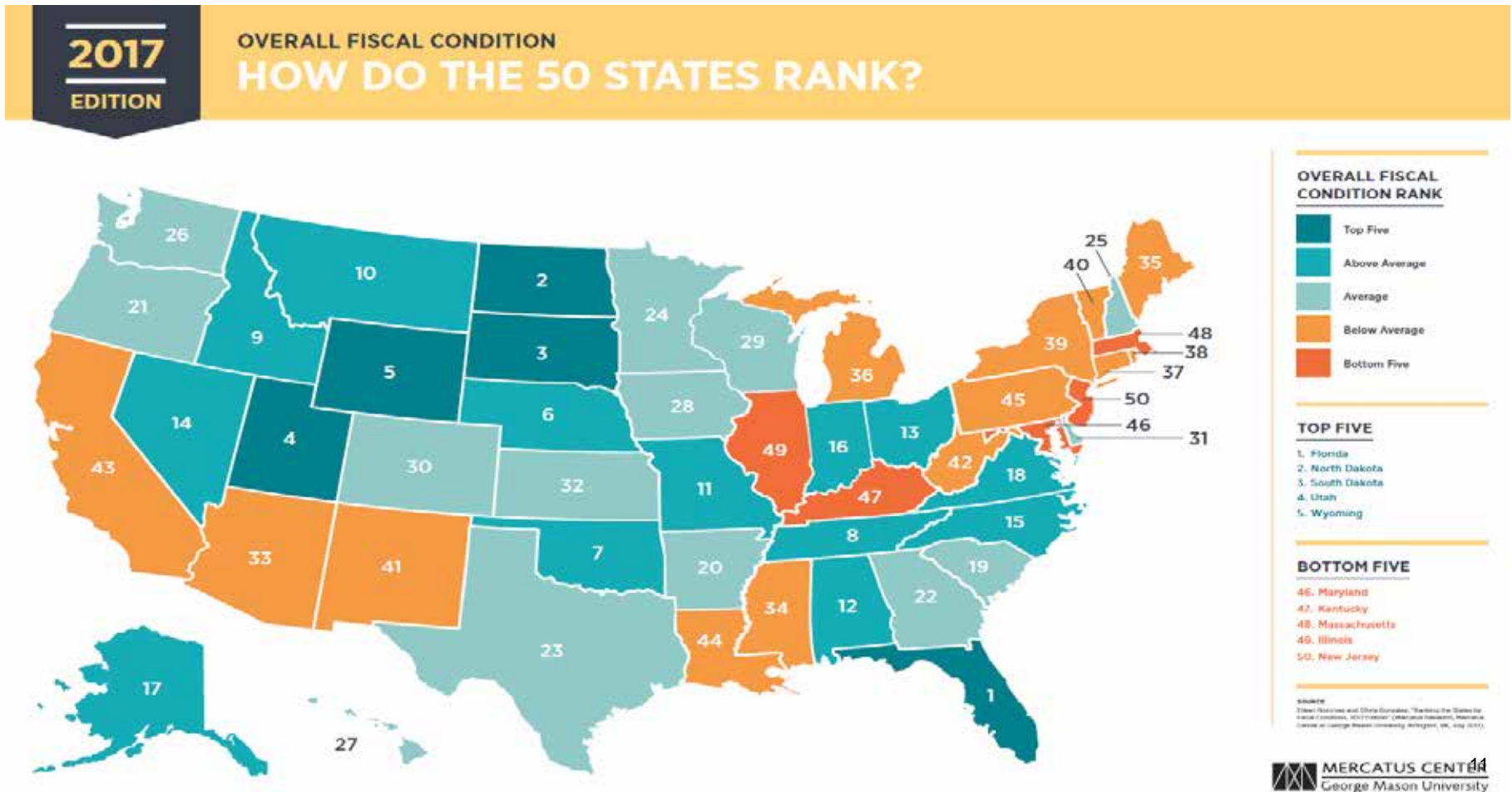
- § Alabama maintains credit ratings of AA / Aa1 / AA+ (S&P, Moody's, Fitch)
- ∅ Alabama (Stable Outlook) – no changes to rating since 3/9/76
  - ∅ During 2017, there have been 10 downgrades nationwide, 0 upgrades (S&P)
    - ∅ *2017 Downgrades: Alaska, Connecticut, Illinois, Louisiana, Massachusetts, New Jersey, New Mexico, Oklahoma, Pennsylvania, Wyoming*



# State Fiscal Health

§ Alabama moved up 3 spots to 12<sup>th</sup> for Overall Fiscal Health

Ø Study by George Mason University – *Short and Long-Term Debt, Cash Solvency, Budget Solvency, Pension & Healthcare Solvency, Trust Fund Solvency*



# Total State Debt Outstanding

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## § **General Obligation Bonds**

§ Various Economic Development Bonds (2005-2016) **\$604.5 million** (\$977 million authorized)

## § **Revenue Bonds**

### *Primary Government:*

**\$4.202 Billion**

§ Public School & College Authority (K-12, Higher Ed)

§ State Port Authority

§ Economic Settlement (BP)

§ Federal Aid Highway Finance Authority (GARVEE)

§ Incentives Finance Authority (TVA)

§ Public Healthcare Authority

§ Building Renovation Finance Authority (Montgomery Offices)

§ 21<sup>st</sup> Century Authority (tobacco)

§ Mental Health Authority

§ Revolving Loan Fund Authority

**Total State Indebtedness**

**\$4.806 Billion (as of 9/30/17)**

# Debt Outstanding – Rank vs. Other States?

§ Where does Alabama's \$4.1 Billion debt rank vs. other states?

§ Data as of FY16

Ø **Debt Per Resident**

§ 21<sup>st</sup> lowest

§ \$845 per resident

Ø **As a % of State GDP**

§ 23<sup>rd</sup> Lowest

§ 2.0% of total GDP

Ø **Total Debt Outstanding**

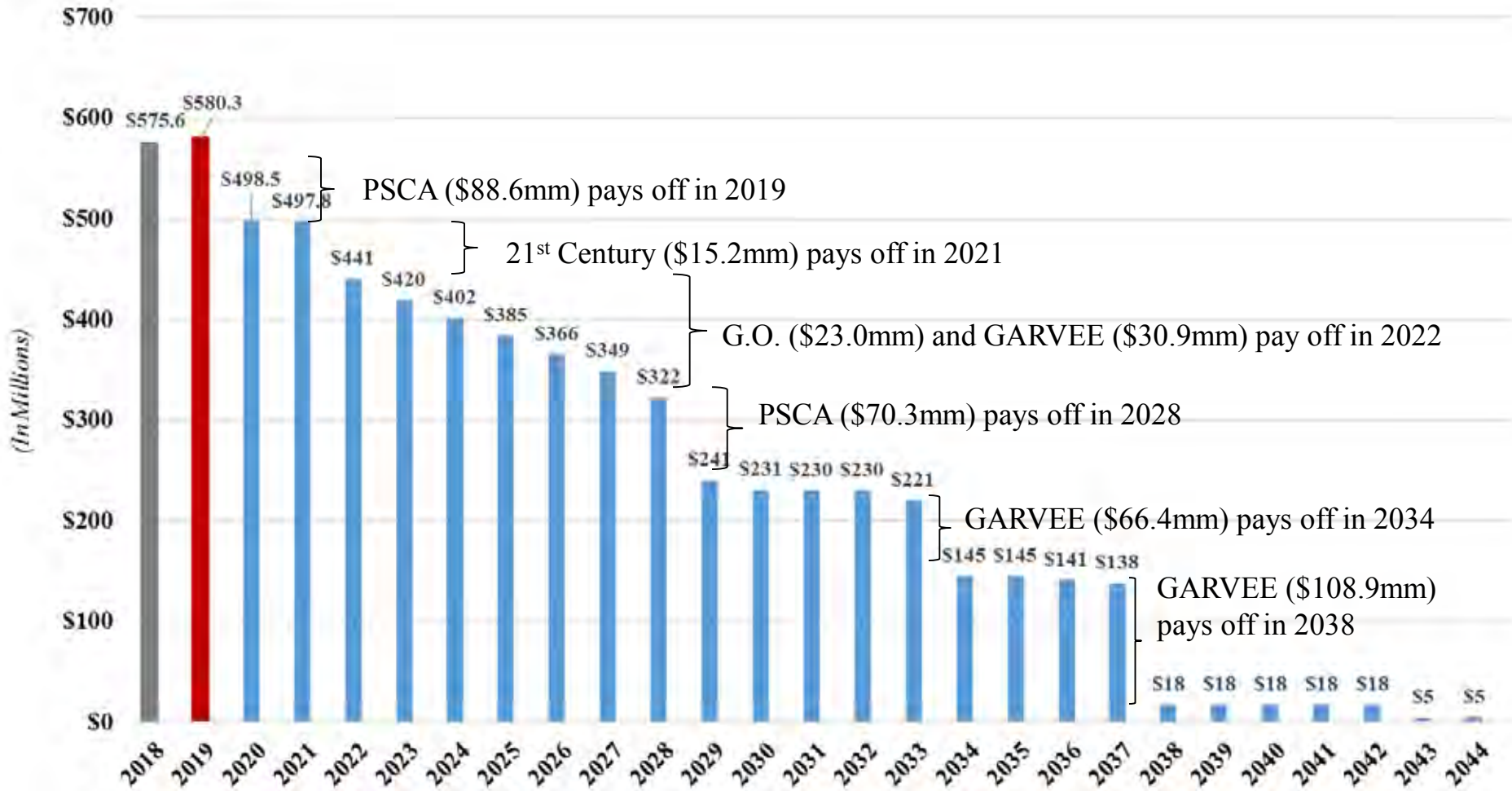
§ 25<sup>th</sup> (out of 50)

§ \$4.102 Billion

§ Pay down ~\$375 million in principal annually

State Debt Outstanding - Alphabetical								
State	Population 2016	State GDP (\$ millions)	Net Debt (\$ thousands)	Rank	Per Resident	Rank	% of GDP	Rank
<b>Alabama</b>	<b>4,863,300</b>	<b>\$205,625</b>	<b>\$4,102,453</b>	<b>25</b>	<b>\$845</b>	<b>21</b>	<b>2.0%</b>	<b>23</b>
Alaska	739,795	\$50,404	\$1,254,600	11	\$1,691	35	2.5%	31
Arizona	6,931,071	\$305,849	\$4,823,805	27	\$696	19	1.6%	20
Arkansas	2,988,248	\$121,383	\$1,757,229	14	\$588	15	1.4%	18
California	39,250,017	\$2,622,731	\$86,998,000	50	\$2,217	42	3.3%	38
Colorado	5,540,545	\$322,644	\$1,954,579	16	\$353	7	0.6%	7
Connecticut	3,576,452	\$259,918	\$23,265,534	45	\$6,505	50	9.0%	50
Delaware	952,065	\$71,453	\$2,421,656	20	\$2,544	44	3.4%	40
Florida	20,612,439	\$926,049	\$19,814,300	44	\$961	24	2.1%	26
Georgia	10,310,371	\$531,302	\$10,228,974	37	\$992	26	1.9%	22
Hawaii	1,428,557	\$84,671	\$7,168,256	31	\$5,018	48	8.5%	49
Idaho	1,683,140	\$68,377	\$712,929	7	\$424	10	1.0%	11
Illinois *	12,802,539	\$796,012	\$32,147,551	46	\$2,511	43	4.0%	42
Indiana	6,633,053	\$347,249	\$2,056,661	17	\$310	5	0.6%	6
Iowa	3,134,693	\$185,183	\$714,873	8	\$424	10	0.4%	4
Kansas	2,907,289	\$150,576	\$4,579,718	26	\$1,575	33	3.0%	34
Kentucky	4,436,974	\$196,681	\$9,126,299	35	\$2,057	39	4.6%	45
Louisiana	4,681,666	\$236,999	\$7,559,921	33	\$1,615	34	3.2%	35
Maine	1,331,479	\$59,295	\$1,183,607	9	\$889	22	2.0%	24
Maryland	6,016,447	\$382,437	\$12,764,867	41	\$2,122	40	3.3%	39
Massachusetts	6,811,779	\$505,776	\$40,756,031	48	\$5,983	49	8.1%	48
Michigan	9,928,300	\$490,238	\$6,839,600	30	\$689	18	1.4%	17
Minnesota	5,519,952	\$339,096	\$8,171,607	34	\$1,480	31	2.4%	29
Mississippi	2,988,726	\$108,495	\$5,519,778	28	\$1,847	38	5.1%	46
Missouri	6,093,000	\$299,113	\$3,528,926	24	\$579	13	1.2%	13
Montana	1,042,520	\$46,227	\$216,082	4	\$207	4	0.5%	5
Nebraska	1,907,116	\$117,446	\$34,780	2	\$18	1	0.0%	1
Nevada	2,940,058	\$146,278	\$1,726,789	13	\$587	14	1.2%	14
New Hampshire	1,334,795	\$77,208	\$1,197,280	10	\$897	23	1.6%	19
New Jersey	8,944,469	\$575,331	\$39,246,548	47	\$4,388	47	6.8%	47
New Mexico	2,081,015	\$93,594	\$2,563,850	22	\$1,232	29	2.7%	33
New York	19,745,289	\$1,500,055	\$60,619,669	49	\$3,070	46	4.0%	43
North Carolina	10,146,788	\$521,621	\$6,681,880	29	\$659	17	1.3%	15
North Dakota	757,952	\$53,453	\$114,247	3	\$151	3	0.2%	3
Ohio	11,614,373	\$626,622	\$12,624,591	40	\$1,087	28	2.0%	25
Oklahoma	3,923,561	\$181,278	\$1,432,084	12	\$365	8	0.8%	10
Oregon	4,093,465	\$228,886	\$7,540,513	32	\$1,842	37	3.3%	37
Pennsylvania	12,784,227	\$719,834	\$17,087,111	42	\$1,337	30	2.4%	28
Rhode Island	1,056,426	\$57,529	\$2,250,938	19	\$2,131	41	3.9%	41
South Carolina	4,961,119	\$209,859	\$2,796,210	23	\$564	12	1.3%	16
South Dakota	865,454	\$48,354	\$555,012	5	\$641	16	1.1%	12
Tennessee	6,651,194	\$331,868	\$2,144,741	18	\$322	6	0.6%	8
Texas	27,862,596	\$1,599,283	\$10,681,942	38	\$383	9	0.7%	9
Utah	3,051,217	\$157,671	\$2,513,135	21	\$824	20	1.6%	21
Vermont	624,594	\$31,091	\$666,935	6	\$1,068	27	2.1%	27
Virginia	8,411,808	\$492,932	\$12,500,577	39	\$1,486	32	2.5%	32
Washington	7,288,000	\$476,770	\$19,804,130	43	\$2,717	45	4.2%	44
West Virginia	1,831,102	\$72,861	\$1,810,703	15	\$989	25	2.5%	30
Wisconsin	5,778,708	\$313,088	\$10,051,056	36	\$1,739	36	3.2%	36
Wyoming	585,501	\$38,328	\$24,259	1	\$41	2	0.1%	2
<b>All State Average</b>	<b>6,448,905</b>	<b>\$367,700</b>	<b>\$10,326,736</b>		<b>\$1,473</b>		<b>2.5%</b>	

# Total Annual Debt Service (All Sources)



- § After FY19 budget, annual debt service drops significantly as principal is reduced
- Ø \$340 million annual savings in 10 years (\$580.3mm FY19 vs. \$240.7mm in FY29)

# ETF Rainy Day Account

§ Original ETF Rainy Day Transfer was required to be repaid within 6 years

§ Balance Paid in Full

Ø Rolling Reserve Act allowed for the full repayment in FY2015

## Education Trust Fund (ETF)

	Borrowing	Repayment	Balance Due	Notes
FY 2009	(\$437,390,828)		(\$437,390,828)	ETF Rainy Day Transfer (6-yr)
FY 2010			(\$437,390,828)	
FY 2011			(\$437,390,828)	
FY 2012		\$14,412,984	(\$422,977,844)	ETF Repayment (Rolling Reserve)
FY 2013			(\$422,977,844)	
FY 2014		\$349,555,638	(\$73,422,206)	ETF Repayment (Rolling Reserve)
FY 2015		\$73,422,206	\$0	ETF Repayment (Rolling Reserve)
FY 2016				
FY 2017				

**TOTAL**                    **(\$437,390,828)**    **\$437,390,828**

**\$0** < Balance Remaining

# GF Rainy Day Account & Trust Fund Loan

§ GF Rainy Day loan (\$161.6 million) was fully repaid on December 15, 2016

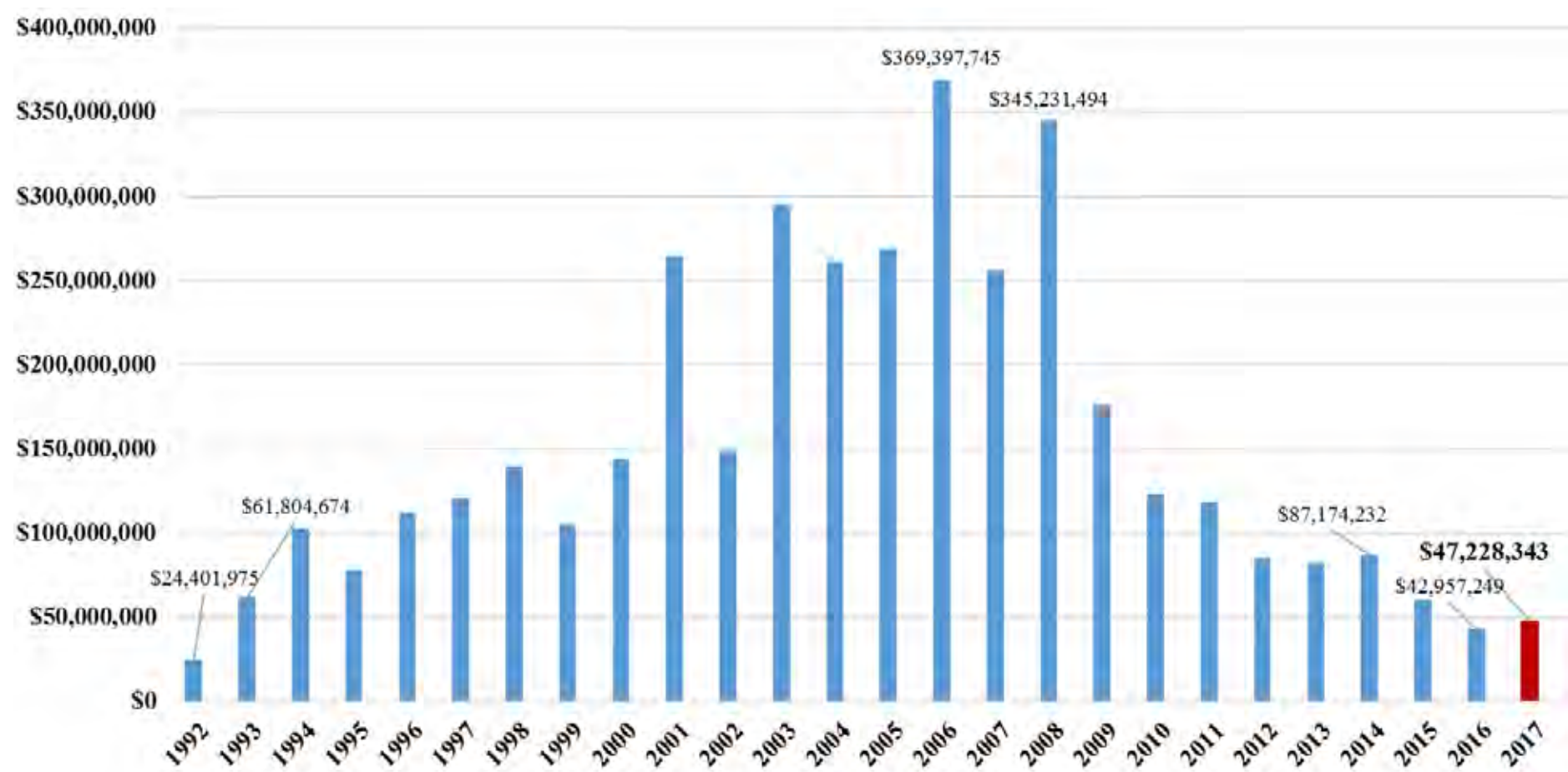
- Ø Original GF Rainy Day Transfer was required to be repaid within 10 years (by FY2020)

§ AL Trust Fund loan (\$437.4 million) has been partially repaid

- Ø \$184.0 million still outstanding (\$253.4 million repaid)
- Ø \$13.5 million annual payments beginning in FY2020

General Fund (GF)				
	Borrowing	Repayment	Balance Due	Notes
FY 2009				
FY 2010	(\$161,565,874)		(\$161,565,874)	GF Rainy Day Transfer (10-yr)
FY 2011			(\$161,565,874)	
FY 2012			(\$161,565,874)	
FY 2013	(\$145,796,943)		(\$307,362,817)	GF Alabama Trust Fund Transfer
FY 2014	(\$145,796,943)	\$5,000,000	(\$448,159,759)	GF Alabama Trust Fund Transfer
FY 2015	(\$145,796,943)	\$10,000,000	(\$583,956,702)	GF Alabama Trust Fund Transfer
FY 2016			(\$583,956,702)	
FY 2017		\$400,000,000	(\$183,956,702)	
FY 2018			(\$183,956,702)	<< Balance Remaining
FY 2019			(\$183,956,702)	
FY 2020		\$13,500,000	(\$170,456,702)	
FY 2021		\$13,500,000	(\$156,956,702)	
FY 2022		\$13,500,000	(\$143,456,702)	
FY 2023		\$13,500,000	(\$129,956,702)	
FY 2024		\$13,500,000	(\$116,456,702)	
FY 2025		\$13,500,000	(\$102,956,702)	
FY 2026		\$13,500,000	(\$89,456,702)	
FY 2027		\$13,500,000	(\$75,956,702)	
FY 2028		\$13,500,000	(\$62,456,702)	
FY 2029		\$13,500,000	(\$48,956,702)	
FY 2030		\$13,500,000	(\$35,456,702)	
FY 2031		\$13,500,000	(\$21,956,702)	
FY 2032		\$13,500,000	(\$8,456,702)	
FY 2033		\$8,456,703	\$0	
<b>TOTAL</b>	<b>(\$598,956,703)</b>	<b>\$598,956,703</b>	<b>\$0</b>	

# Alabama Trust Fund Offshore Royalty Receipts

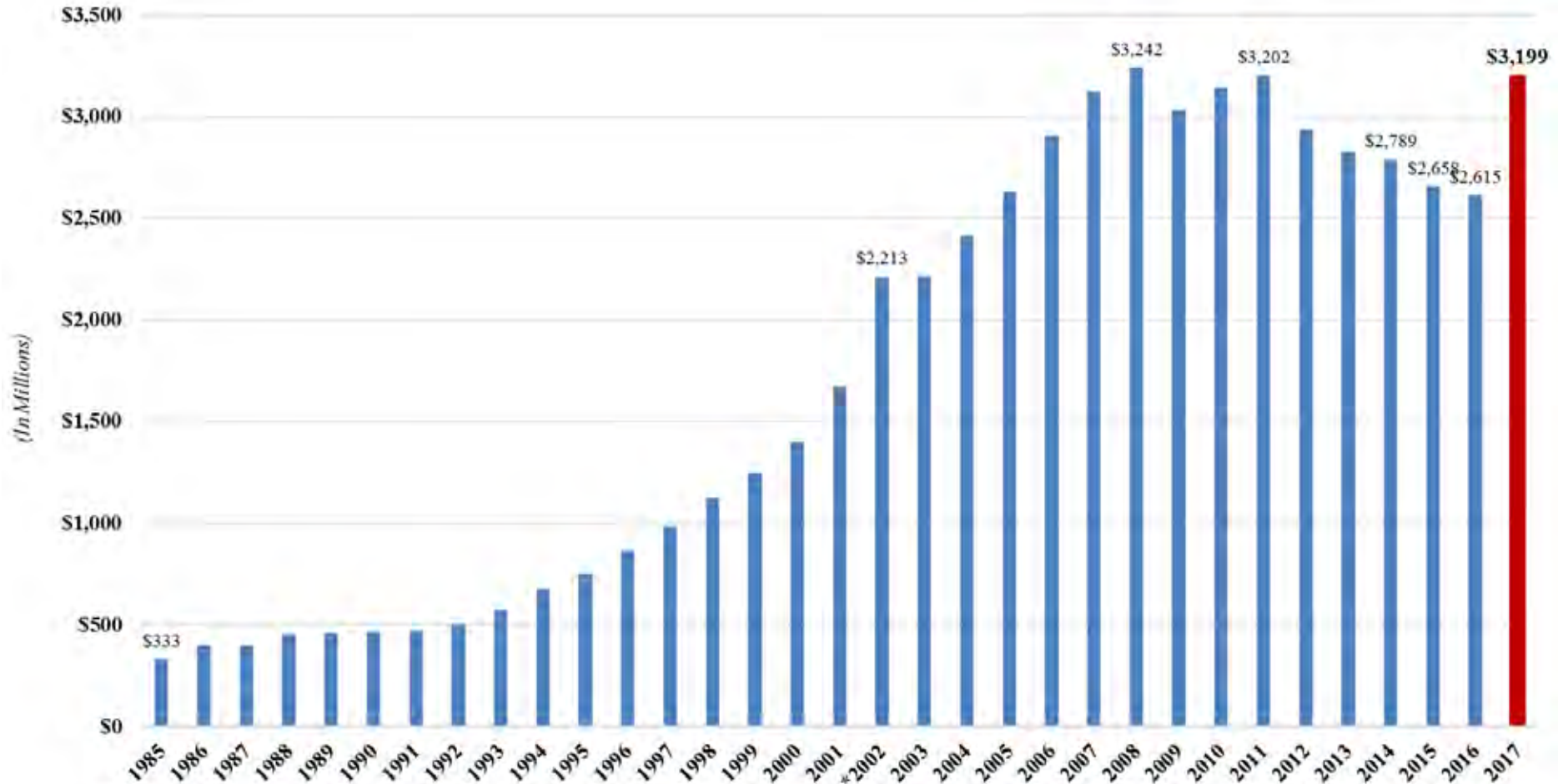


§ Given offshore presence, AL Trust Fund corpus largely dependent on oil prices

Ø WTI oil closed at \$71.48/barrel on 5/17/18 (vs. all-time high \$147.27 on 7/11/08)

Ø Introduction of hydraulic fracturing, >fuel efficiency, shorter commuting distances 17

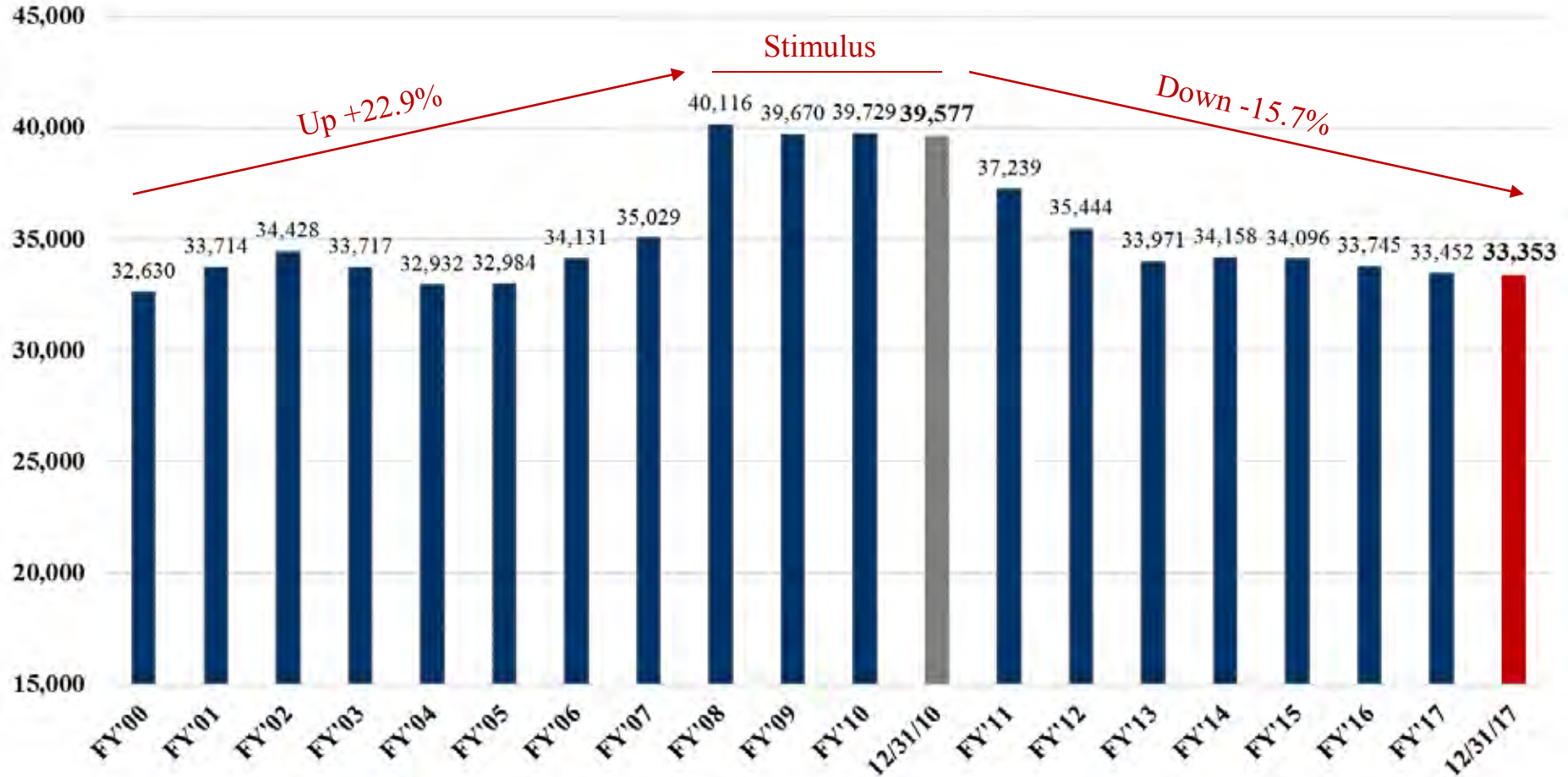
# Alabama Trust Fund Corpus



\*The Alabama Heritage Trust Fund was transferred into the Alabama Trust Fund on 12/6/01.

- § Rainy Day Loan Fund repayment (BP Proceeds) in FY17 added \$400.0 million
- Ø 15.45% Total Annual Return in 2017 (8.85% average annual return since 2009)

# Alabama State Employees



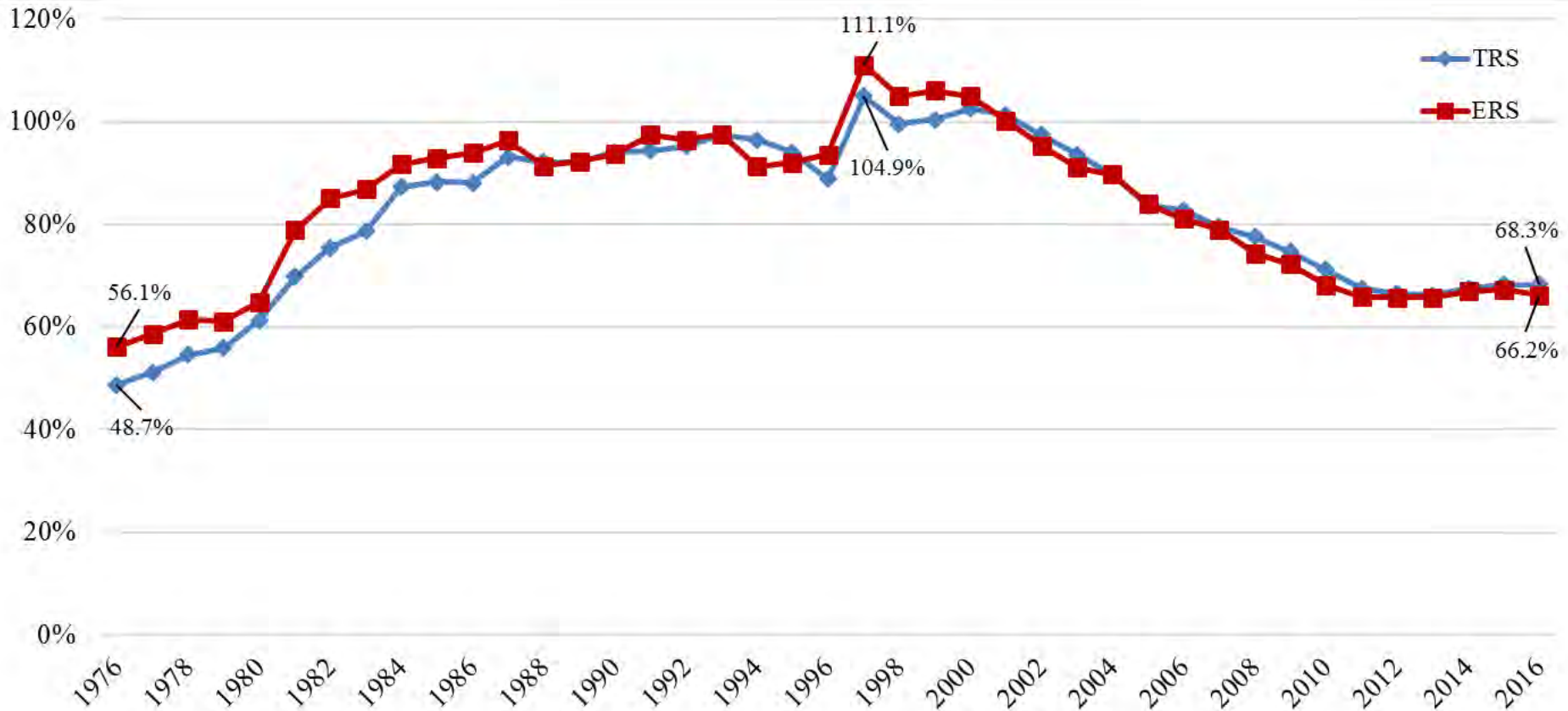
§ -15.3% reduction in the workforce since Dec. 31, 2010 = \$123.1 million savings

Ø State employees as of Dec. 31, 2010 – 39,577; as of December 31, 2017 – 33,353

Ø Since 2000, State Employees up 2.2% vs. State Population up 9.4%

# RSA Funding

- § \$16.3 Billion Unfunded liability (67.7% blended funded ratio) as of 9/30/16
- Ø \$50.5 Billion total liability (present value) less \$34.1 Billion total current assets
- Ø Funded Ratios: TRS (68.3%), ERS (66.2%), JRF (62.6%)



# RSA Funding Example – TRS Employee

§ **Employee Contribution (TRS):**

- § Tier 1 – 7.5%
- § Tier 2 – 6.0%

**State Employer Contribution (TRS) - % of Payroll**

CONTRIBUTIONS FOR FISCAL YEAR ENDING	September 30, 2019	September 30, 2018
<b>Tier I (first hired prior to January 1, 2013)</b>		
Employer contribution rate		
Normal	2.20%	2.43%
Unfunded actuarial accrued liability	9.85	9.45
Death benefit	0.02	0.02
Term life	0.01	0.01
Administration	0.33	0.33
<b>Total</b>	<b>12.41%</b>	12.24%
<b>Tier II (first hired on or after January 1, 2013)</b>		
Employer contribution rate		
Normal	1.14%	1.20%
Unfunded actuarial accrued liability	9.85	9.45
Death benefit	0.02	0.02
Term life	0.01	0.01
Administration	0.33	0.33
<b>Total</b>	<b>11.35%</b>	11.01%

§ **Employer Portion (TRS):**

- § Tier 1 – 12.41%
- § Tier 2 – 11.35%

§ **Total Contribution (TRS):**

- § Tier 1 – 19.91%
- § Tier 2 – 17.35%

§ **Components of the Employer Portion:**

- § Normal Rate – together with the employer contribution equals the true cost of the pension (stand-alone)
- § Unfunded Actuarial Accrued Liability (UAAL) – repayment of any funding shortfall (usually 30 years)
- § Death Benefit – special pre-retirement death benefit
- § Term Life – life insurance benefit
- § Administration – RSA administrative expenses born by the fund

# RSA Funding Example – All Employees

§ **Employer Portion (TRS):**

§ Tier 1 – 12.41%

§ Tier 2 – 11.35%

§ **Portion Attributable to Unfunded Liability:**

§ 9.85% of Employer Portion / 12.41% Total Contribution

§ 9.85% / 12.41% = 79.4% of total employer contribution

§ **\$1.03 Billion – FY19 Contribution to RSA**

§ TRS – \$808 million x 79.4% = \$ 641 million

§ ERS – \$202 million x 92.1% = \$ 186 million

§ JRF – \$19 million x 63.9% = \$ 12 million

**\$ 839 million**

§ In FY19, of the \$1.03 Billion contribution to RSA, ~\$839 million (82%) will be attributed to the Unfunded Liability

§ Medicaid (\$757 million total GF budget)

§ Corrections (\$413 million)

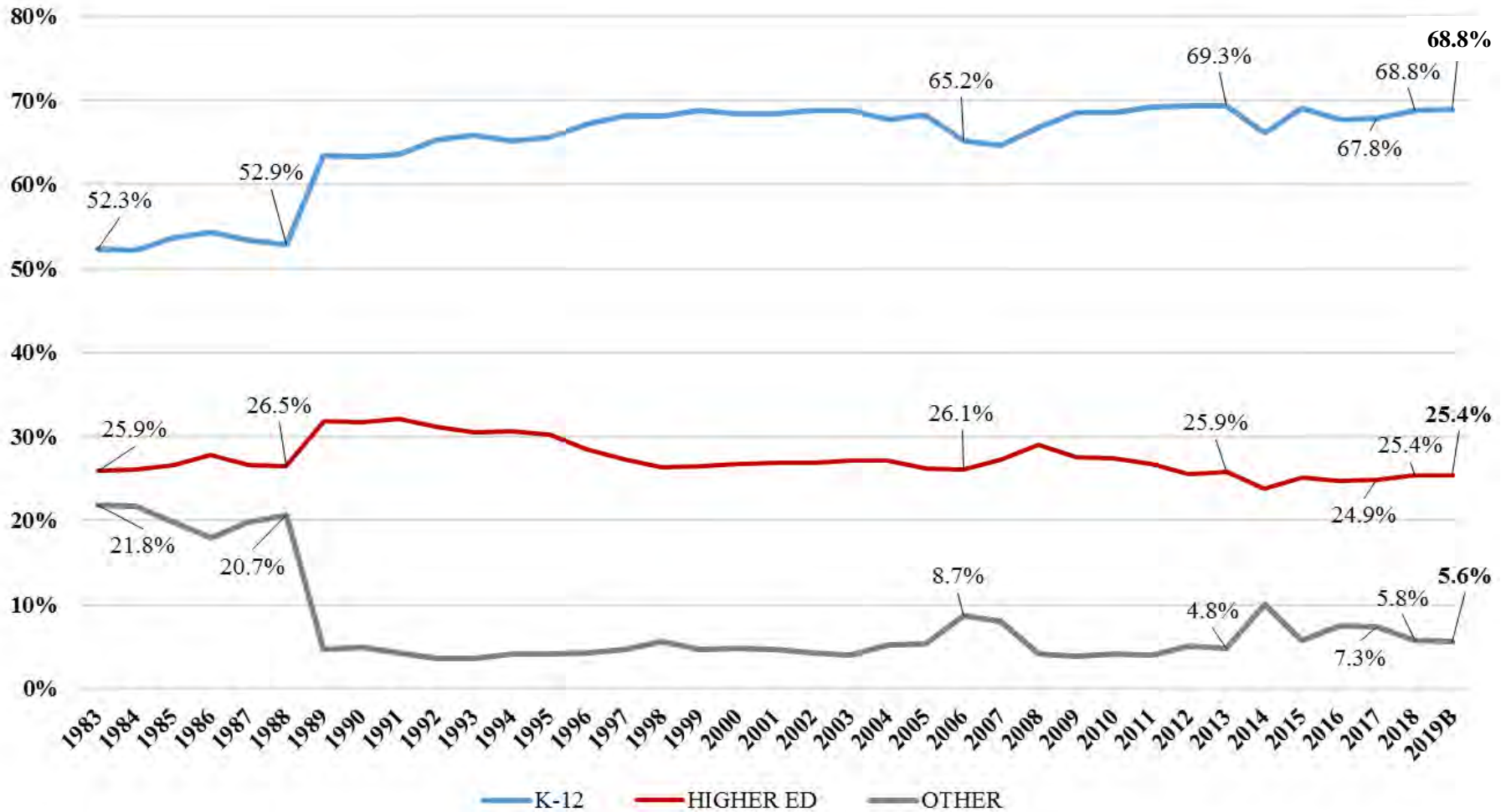
## State Employer Contributions

by Fund (2000 – 2019E)

State of Alabama - Historical Contributions to RSA					
(\$ millions)	TRS	ERS	JRF	Total	% Change
2019E	\$807.8	\$201.7	\$18.6	\$1,028.1	2.2%
2018E	\$795.8	\$191.9	\$18.0	\$1,005.7	1.1%
2017	\$779.8	\$197.2	\$17.4	\$994.4	3.3%
2016	\$745.5	\$199.4	\$17.4	\$962.3	3.0%
2015	\$734.0	\$184.9	\$15.1	\$934.0	3.2%
2014	\$725.6	\$163.6	\$15.7	\$904.9	16.1%
2013	\$624.6	\$141.1	\$13.8	\$779.5	0.5%
2012	\$629.1	\$136.1	\$10.7	\$775.9	-20.4%
2011	\$776.7	\$187.3	\$10.9	\$974.9	0.3%
2010	\$769.5	\$191.4	\$10.8	\$971.7	2.0%
2009	\$749.9	\$192.5	\$10.3	\$952.7	7.7%
2008	\$714.1	\$160.6	\$9.9	\$884.6	35.3%
2007	\$529.2	\$115.2	\$9.3	\$653.7	25.1%
2006	\$422.8	\$91.0	\$8.9	\$522.7	24.7%
2005	\$341.4	\$68.7	\$8.9	\$419.0	15.0%
2004	\$303.3	\$52.2	\$9.0	\$364.5	24.2%
2003	\$236.4	\$48.5	\$8.6	\$293.5	-7.8%
2002	\$264.1	\$46.0	\$8.2	\$318.3	-4.8%
2001	\$277.7	\$49.1	\$7.5	\$334.3	6.2%
2000	\$265.9	\$43.4	\$5.6	\$314.9	44.6%

Source: RSA, figures for 2018 and 2019 are estimates provided by RSA

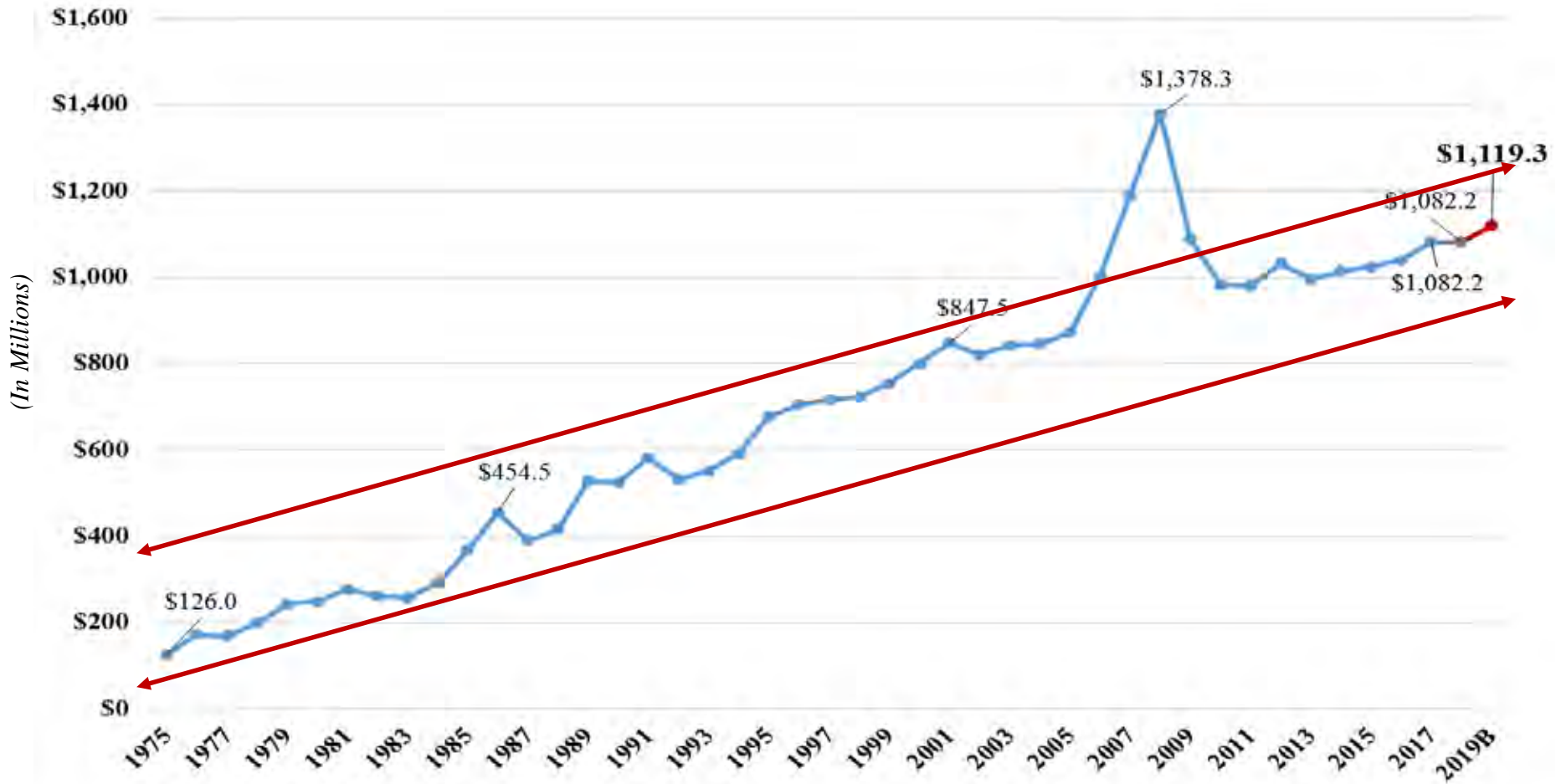
# ETF Budget Split – K-12 and Higher Ed



§ K-12 up in FY19B to 69.0% (all-time high was 69.3% in FY13)

Ø Higher Ed also up slightly to 25.43% (vs. 25.39% in FY18), decrease in PACT funding

# University Appropriations (1975-2019B)

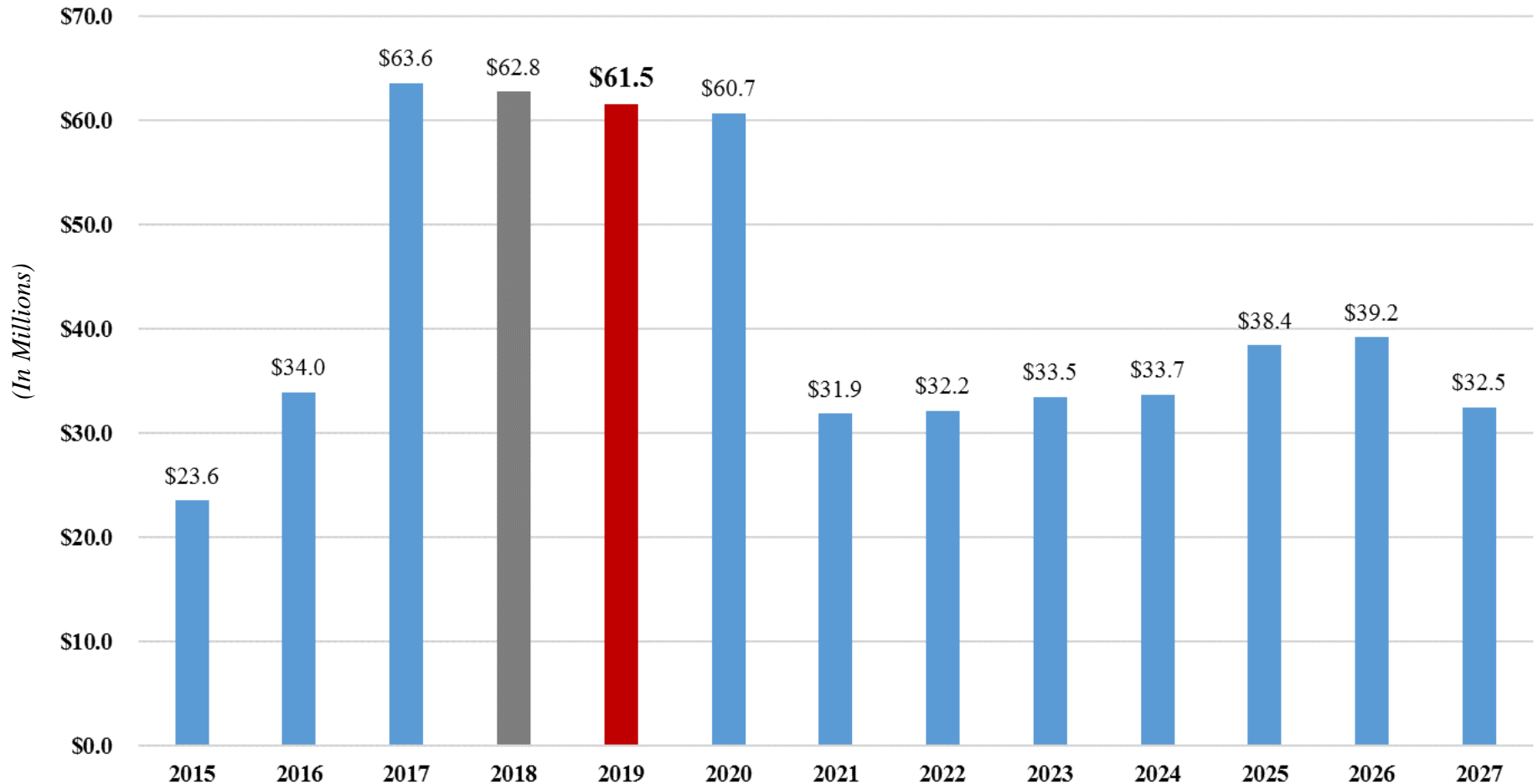


§ 2019B University Budget – \$1.12 Billion – 3<sup>rd</sup> highest, 3.4% increase over FY18

Ø Since 1975, average increase of 5.7%... Since 2000, average increase has been 2.4%

Ø After high point in 2008, subsequent proration of -18.0% in 2009 and -9.5% in 2010

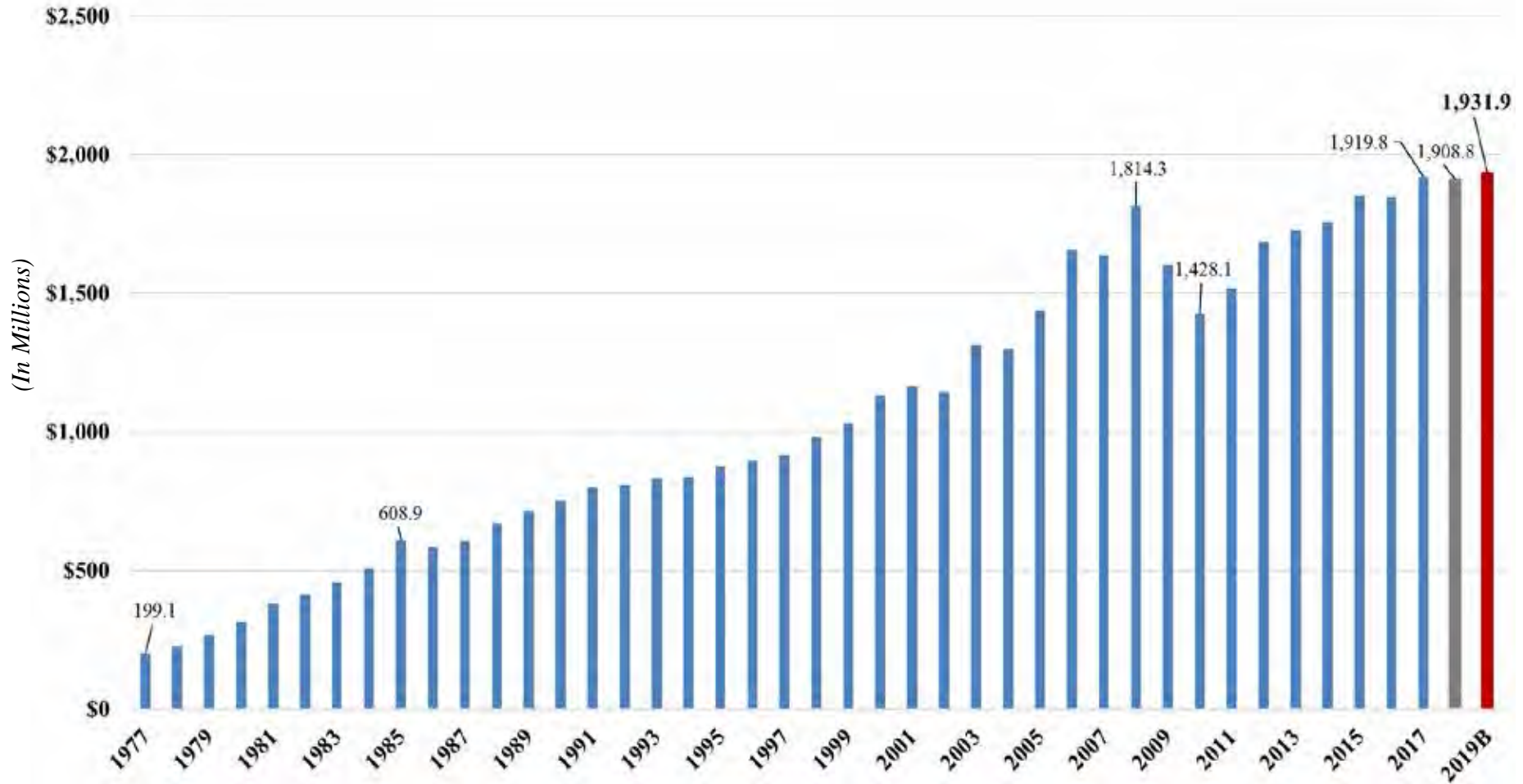
# ETF – PACT Repayment



§ PACT settlement pays future tuition and mandatory fees at the Fall 2010 rate

Ø 2021 decline is the result of the final class from the settlement

# General Fund Revenue

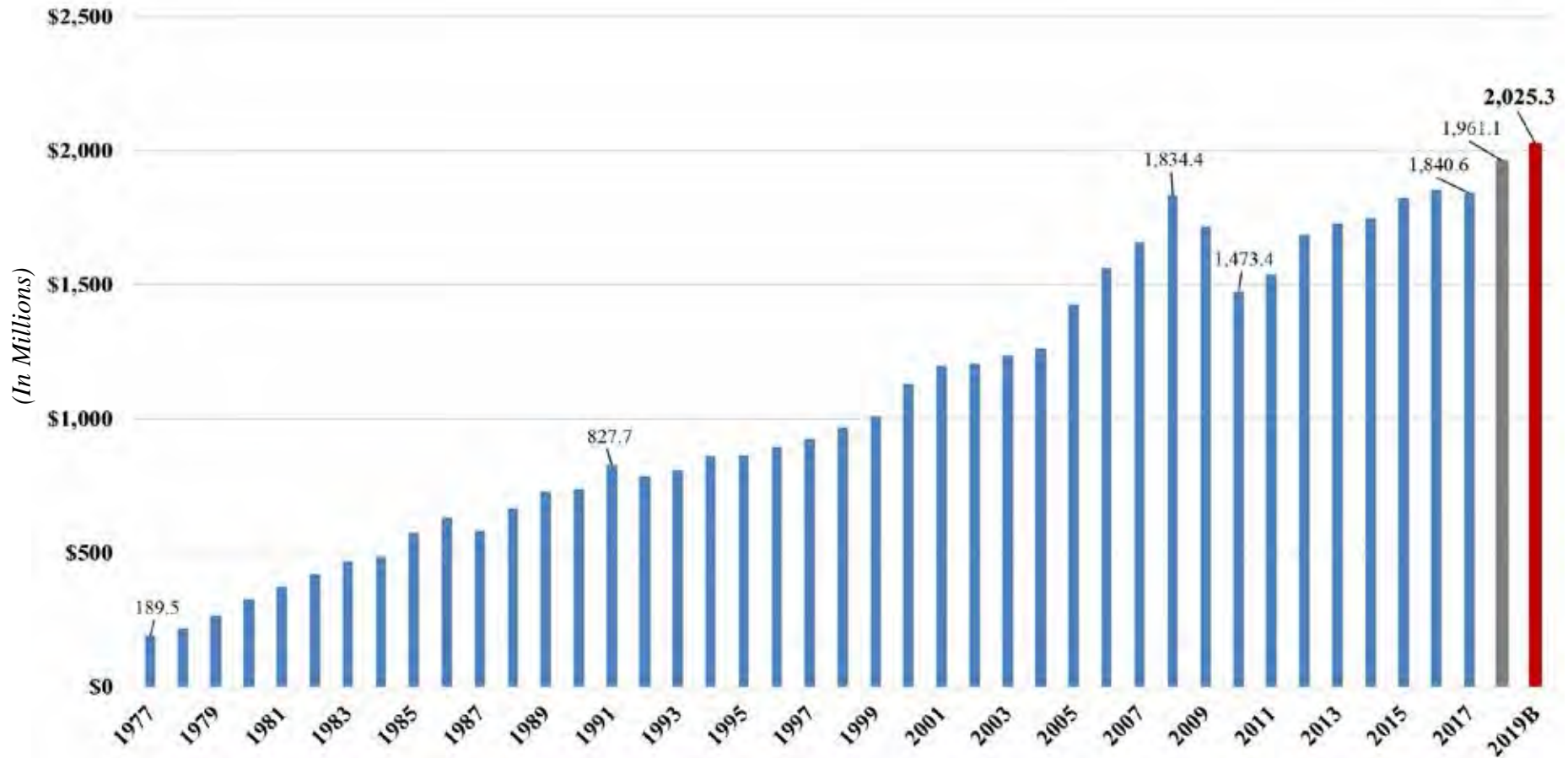


§ 2019B GF Revenue – \$1.932 Billion – Largest GF Revenue in State history

Ø FY19B revenue is up modestly (1.2%) from FY18

§ AL Trust Fund income up \$8mm, ~\$50 million included from SSUT/Remote Sellers' Use Tax

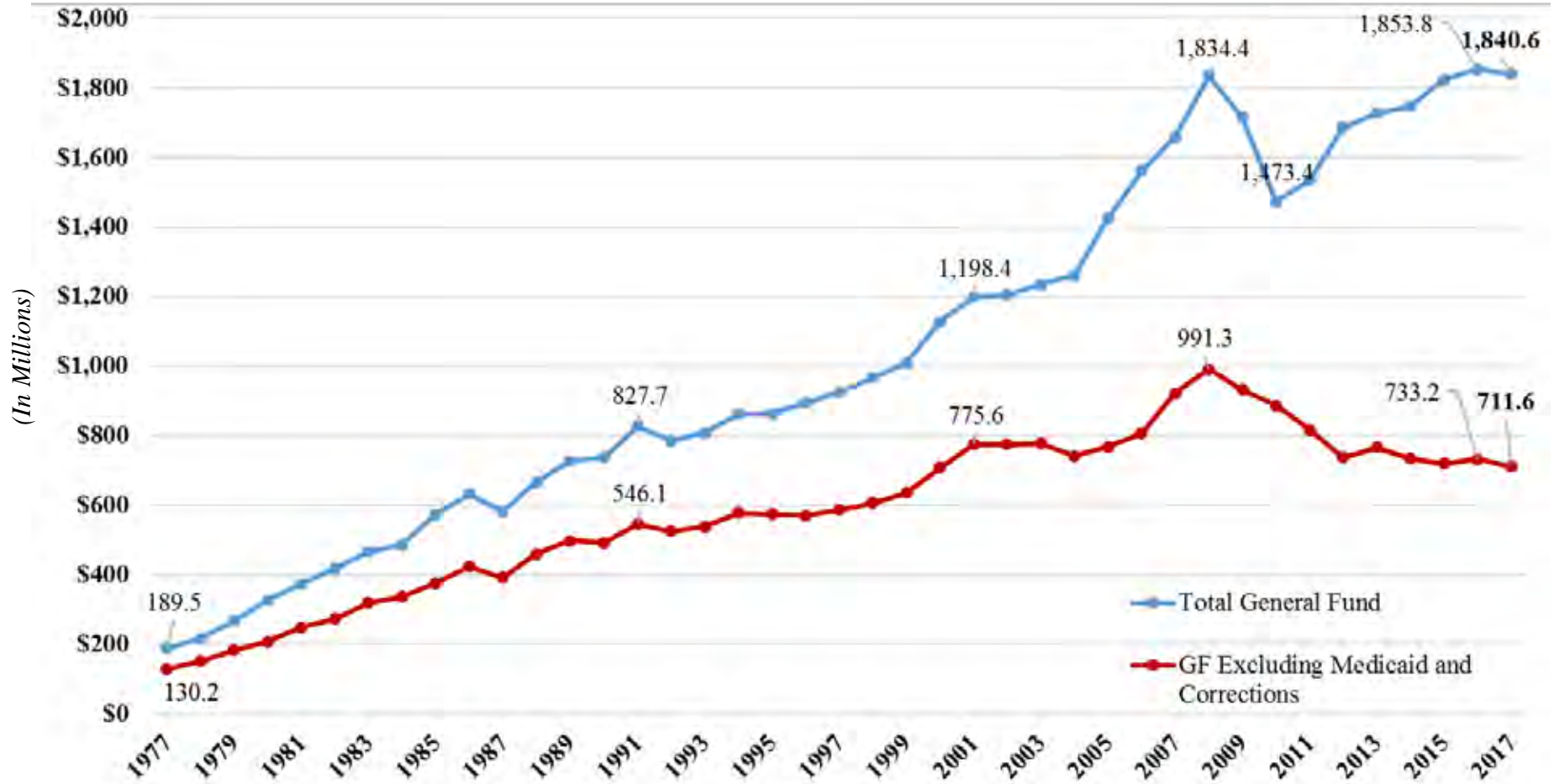
# General Fund Expenditures



§ 2019B GF Expenditures – \$2.03 Billion – Largest GF budget in State history

- Strong commitments toward Medicaid, Corrections, Mental Health, ALEA, DHR and prepays 10% of the AL Trust Fund loan, COLA for State Employees
- Looming '19 & '20 large items – CHIP federal matching funds, Medicaid, Corrections hiring

# General Fund less Medicaid and Corrections

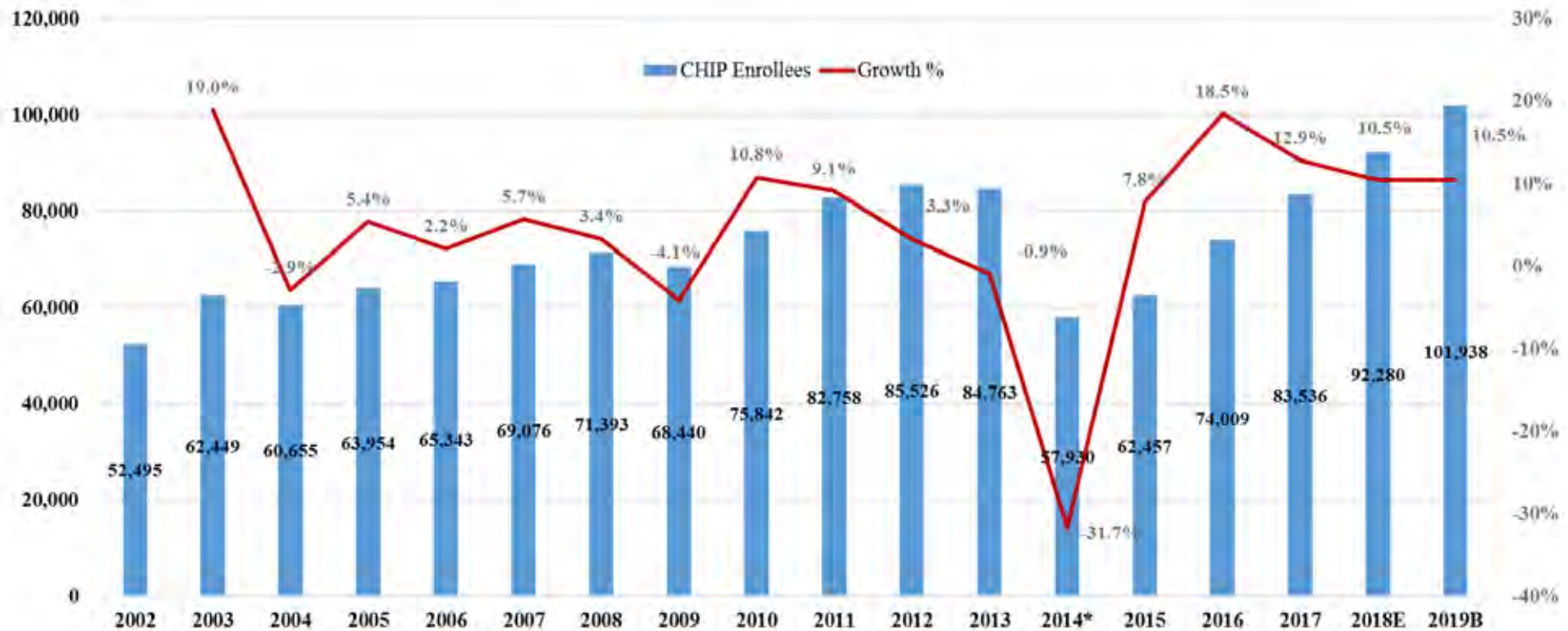


§ 2017 GF excluding Medicaid & Corrections – \$711.6 million

Ø -28.2% below highs of FY08 (average decline of -2.8% annually)

Ø 2009-10 decline related to ARRA stimulus funds (offset to state GF contribution)

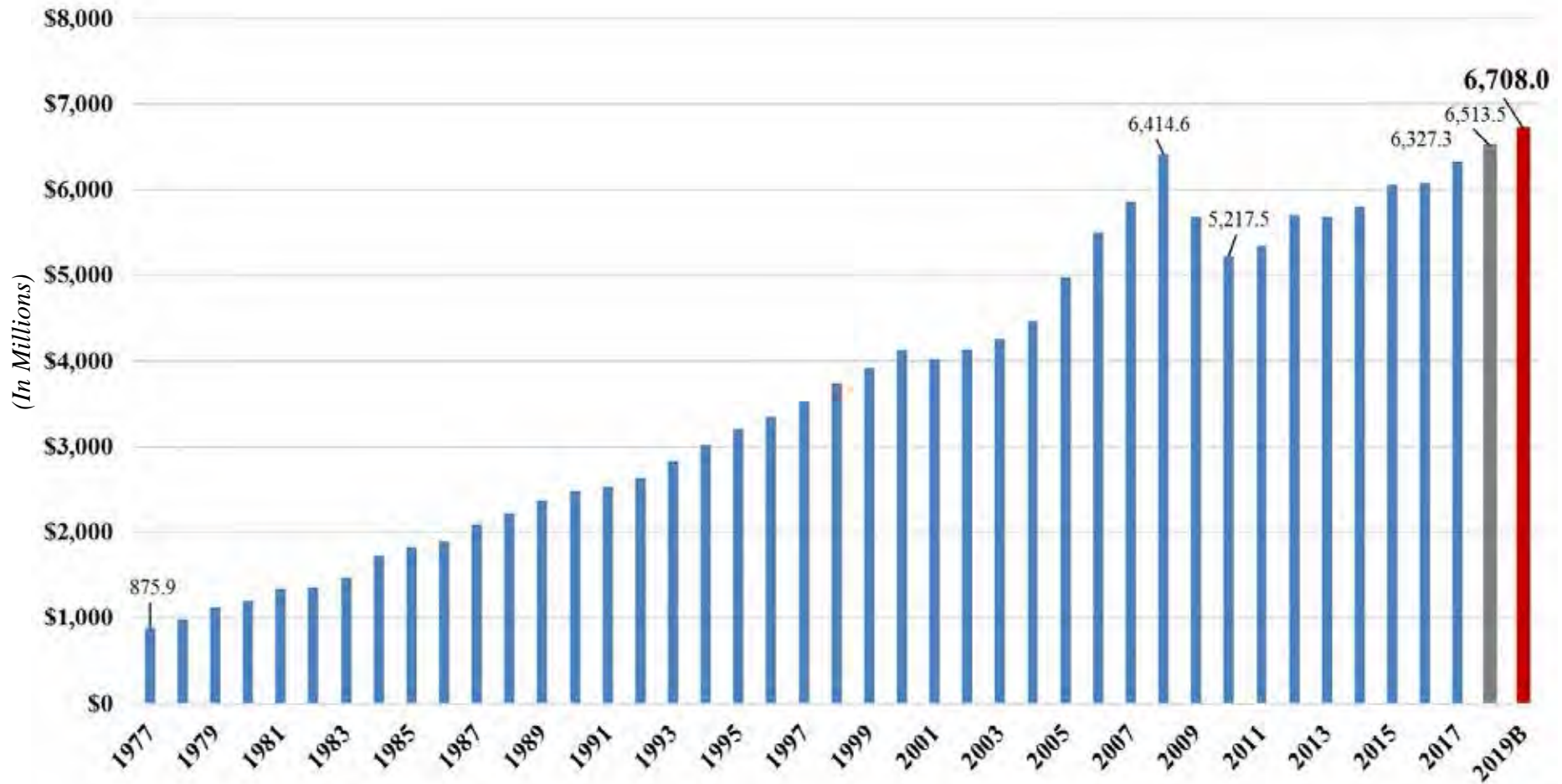
# CHIP Enrollment



\* FY14 - Public Health transitioned ~25,000 to Medicaid

- § Current Federal Medical Assistance Percentage (FMAP) is 100% / 0% - ACA
  - Ø Qualifications: ALLKids – 146%-317% of FPL, M-CHIP – 100%-145% of FPL
- § Congressional proposal would potentially revert to historical 80% / 20% match, with most likely scenario being a phase-in over two years (starting in FY20)
  - Ø Proposed FY19B assumes the continuation of 100% / 0% Federal matching

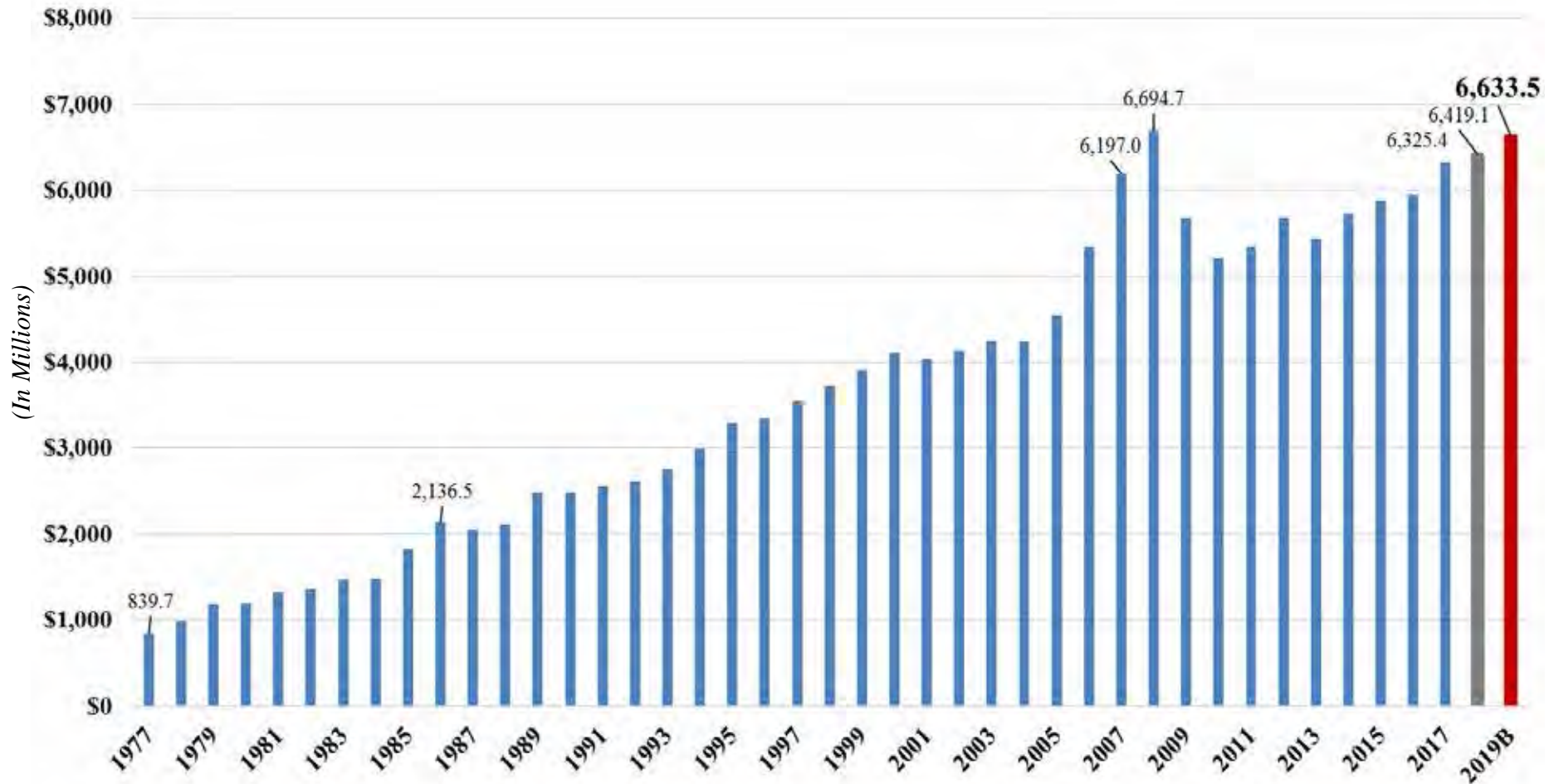
# ETF Revenue



§ 2019B ETF Revenue – \$6.708 Billion – Largest Ed. Revenue in State history

- FY19B revenue is up 3.0%, primarily driven by sales tax (up 2.0%) and income taxes (up 3.5%)
- Rolling Reserve Act will limit total spending to \$6.633 Billion (\$76 million to reserves)

# ETF Expenditures



§ 2019B ETF Expenditures – \$6.63 Billion – 2<sup>nd</sup> largest Ed budget in State history

- ⊗ Just \$61.7 million (-0.9%) from the all-time highwater mark of \$6.695 Billion in 2008
- ⊗ '08 followed by proration of -11.0% in '09 and -9.5% in '10; borrowed \$1.0bn Rainy Day loan funds<sup>1</sup>

# 2019 General Fund Budget – Enacted

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## § General Fund (GF):

- Ø \$2.020 Billion – Total General Fund (up 2.0% over PY)
- Ø **\$13.755 Billion** – Total Earmarked Funds
- Ø *\$15.775 Billion – Total GF Budget (All Sources)*

## § Increases

- Ø 3.0% COLA for Teachers/Support (*fully funds SEIB & RSA*) \$14.4 million
- Ø One-time bonus for retirees (*\$1 pms, paid in June '18*) \$6.5 million
- Ø Medicaid (*fully funds request*) \$53.9 million
- Ø Corrections (*salary enhancements, new officer positions*) \$80.0 million
- Ø Mental Health (*ADAP Commitment/Forensics lawsuit*) \$9.0 million
- Ø DHR (*SNAP software, ADAP settlement*) \$3.1 million
- Ø District Attorneys (*ABC mark-up*) \$6.0 million
- Ø ALEA (*new patrol cars, trooper positions*) \$3.2 million
- Ø Alabama Trust Fund (*debt repayment*) \$13.5 million

# 2019 Education Budget – Enacted

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## § Education Trust Fund (ETF):

Ø \$6.708 Billion – Total Available Revenue

**\$6.633 Billion** – ETF Appropriation Cap (up \$214mm or 3.4% over PY)

*\$76.0 million – Reserves (\$66mm to BSF(1%), \$10mm to A&T Fund)*

## § K-12 \$4,562.4 Billion (68.8%)

Ø 2.5% COLA for Teachers/Support (*fully funds PEEHIP & RSA*) \$97.6 million

Ø One-time bonus for retirees (*\$1 pms, paid in June '18*) \$24.7 million

Ø Foundation Program (*3,194 fewer students*) (\$17.6 million)

Ø Classroom Instructional Support (*32.4% increase*) \$24.4 million

Ø Reduce class sizes for Grades 4-6 (*21.43 divisor down to 21.03*) \$13.6 million

Ø Buses & Transportation \$8.7 million

Ø Reading Initiative \$4.0 million

Ø Alabama School of Cyber & Engineering \$1.5 million

Ø National Board for Professional Teaching Standards \$1.0 million

Ø Teacher Professional Development \$750,000

# 2019 Education Budget – Enacted (cont'd.)

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Ø	Strong Start/Strong Finish	\$500,000
Ø	School-Based Mental Health Programs	\$500,000
Ø	Math & Science Teacher Scholarships	\$400,000
Ø	Middle & High School Robotics Grant Program	\$350,000
Ø	English Language Learners (formerly ESL)	\$300,000
Ø	Jobs for Alabama's Graduates Scholarships	\$250,000
Ø	Advanced Placement (AP)	\$200,000
§	Higher Education	\$1,690.3 Billion (25.5%)
Ø	Various % O&M Increase	\$42.0 million
§	Other Education	\$380.8 million (5.7%)
Ø	Pre-K	\$18.5 million
Ø	Mental Health – Severe emotional disturbances, autism spectrum	\$4.5 million
Ø	Youth Services – Juvenile Justice	\$750,000
Ø	PACT Payment	(\$1.4 million)
	<b>TOTAL</b>	<b>\$6.633 Billion</b>



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# Questions?

[www.finance.Alabama.gov](http://www.finance.Alabama.gov)

# ANTI-FRAUD CONTROLS: Applying the P-D-C Model for Controls

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# AGENDA



- INTRODUCTION TO P-D-C MODEL
- DEVELOPING PREVENTIVE ANTI-FRAUD CONTROLS
- DEVELOPING DETECTIVE ANTI-FRAUD CONTROLS
- DEVELOPING CORRECTIVE ANTI-FRAUD CONTROLS
- CONCLUSIONS

# P-D-C Model of Controls

- P-D-C MODEL
  - Used in security, accounting, operations ... and fraud
  - **PREVENT** the “bad thing” from happening
  - **DETECT** the “bad thing” if and when it happens
  - **CORRECT** the “bad thing’s” effects  
(sometimes known as **RESPONSE**; e.g., IRP)

# P-D-C Model of Controls

- P – Preventive Controls
  - Designed to reduce the frequency of occurrence (or reduce the level of risk) of the undesirable event(s)
  - Force compliance with prescribed actions and procedures by screening OUT aberrant events or transactions (i.e. indicators, “red flags”)
  - Obviously, controls that PREVENT undesirable events are more cost effective than those designed to DETECT or CORRECT them
  - Fraud prevention controls: *How do we PREVENT a fraud from happening in the first place?*

# P-D-C Model of Controls

- P – Preventive Controls
  - What is the MOST EFFECTIVE preventive control?
  - What are some SPECIFIC things an entity can do to implement this control?
  - Would preventive controls differ between asset misappropriation, corruption and financial statement frauds?
  - Is the undesirable event “fraud” in general or one or more specific frauds?
    - What would you recommend as a PRE-REQUISITE to effective fraud prevention?

# Fraud Prevention Checklist (ACFE)

1. Is ongoing anti-fraud training provided to all employees of the organization?
2. Is an effective fraud reporting mechanism in place?
3. To increase employees' perception of detection, are the following proactive measures taken and publicized to employees?
4. Is the management climate/tone at the top of honesty and integrity?
5. Are fraud risk assessments performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud?

# Fraud Prevention Checklist (ACFE)

6. Are strong anti-fraud controls in place and operating effectively, including the following?

- q Proper separation of duties
- q Use of authorizations
- q Physical safeguards
- q Job rotations
- q Mandatory vacations

# Fraud Prevention – P.o.D.

- Experts and empirical evidence suggest that the most powerful thing to PREVENT a fraud is the **PERCEPTION OF DETECTION**
  - The perception that if a fraud occurs, the fraudster will get caught
  - The perception that if a fraud occurs, the “penalty” /repercussion will be MORE than the person is willing to pay, MORE than the value of committing the fraud
- It is a PERCEPTION and not necessarily a reality
- To develop EFFECTIVE PREVENTIVE controls for fraud, management / auditors SHOULD consider P.o.D.

# Fraud Prevention – P.o.D.

- Evaluate and strengthen internal controls (i.e., designed to detect/prevent frauds)
- Surveillance
- System that makes it relatively easy to report anonymous tips
- Regular audits
- Surprise audits
- Periodic fraud audits/Fraud audit department/Dedicated fraud auditors
- Invigilation
- Background checks on key personnel
- Prosecution of fraudsters as often as possible
- Enforcement of fraud and/or ethics policies
- Catch one!

# P-D-C Model of Controls

- D – Detective Controls
  - Designed to detect the occurrence of an undesirable event, as early as possible
  - Reveal specific (or types of) errors or anomalies by comparing actual occurrences to pre-established standards
  - When a departure from standard is recognized, some type of notification is sent to an appropriate party
    - Error reports
    - Email notice
    - Actual alarm of some kind
    - Type of notification and timeliness depends on level of risk associated with this type of undesirable event or specific undesirable event

# P-D-C Model of Controls

- D – Detective Controls
  - What controls would be effective in detecting a fraud?
  - Need to assess missing detective controls
  - What are some SPECIFIC things an entity can do to implement this control?
  - Will detective controls differ between asset misappropriation, corruption and financial statement frauds?

# Detective Controls

- Fraud auditing is different, in some ways very different, from financial auditing
  - Mindset vs. methodology (procedures)
  - Substance of transaction vs. audit trail (focus)
  - Exceptions and anomalies (red flags) vs. GAAP
  - Examination of population vs. reliance on samples
  - No materiality vs. constraint of materiality
  - Technical standards for fraud vs. those for financial audit
- Therefore, financial audits, conducted in accordance with technical standards, are not likely to detect most frauds

# Detective Controls

- Frauds are more often caused by absence of controls than weak controls
- Frauds are discovered more often by reactive methods than proactive ones
- Fraud detection can be improved by:
  - Concentrated improvements in control (i.e., especially designed to detect fraud)
  - Anti-fraud techniques (surprise audits etc.)

**FIG. 86 How is occupational fraud initially detected in the United States?**

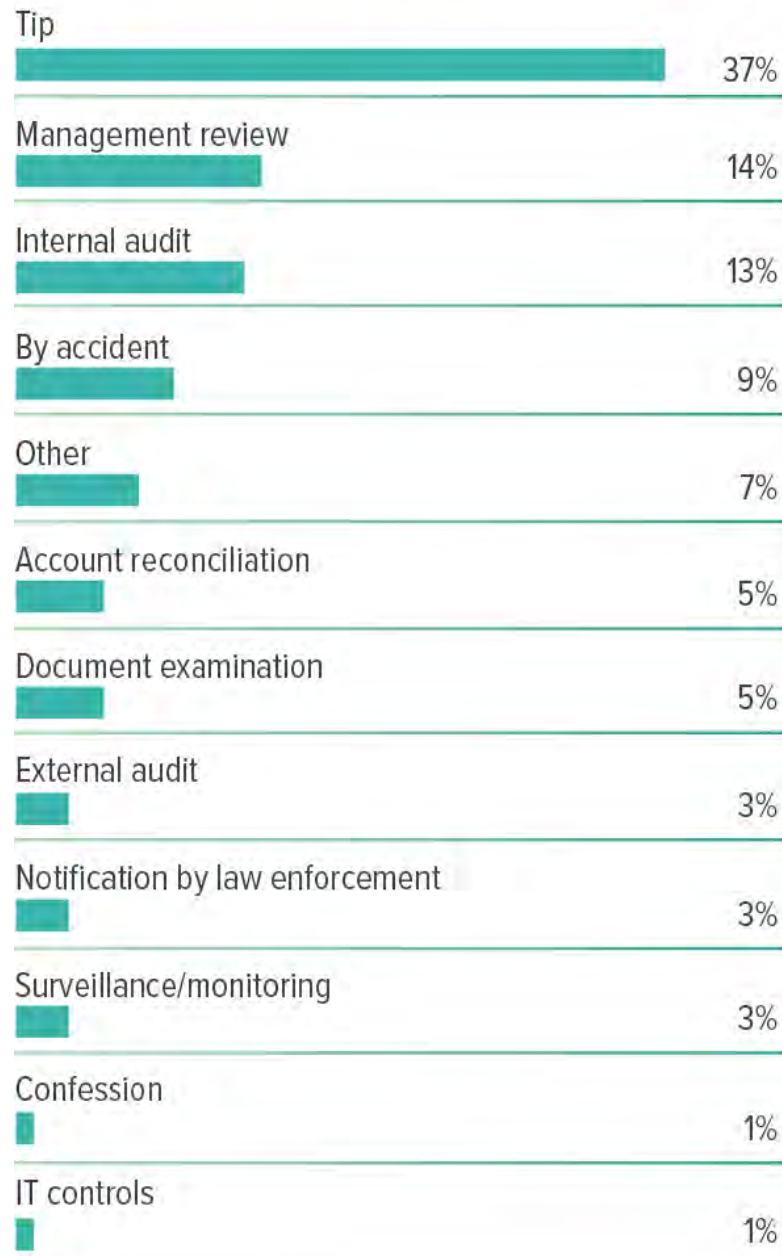
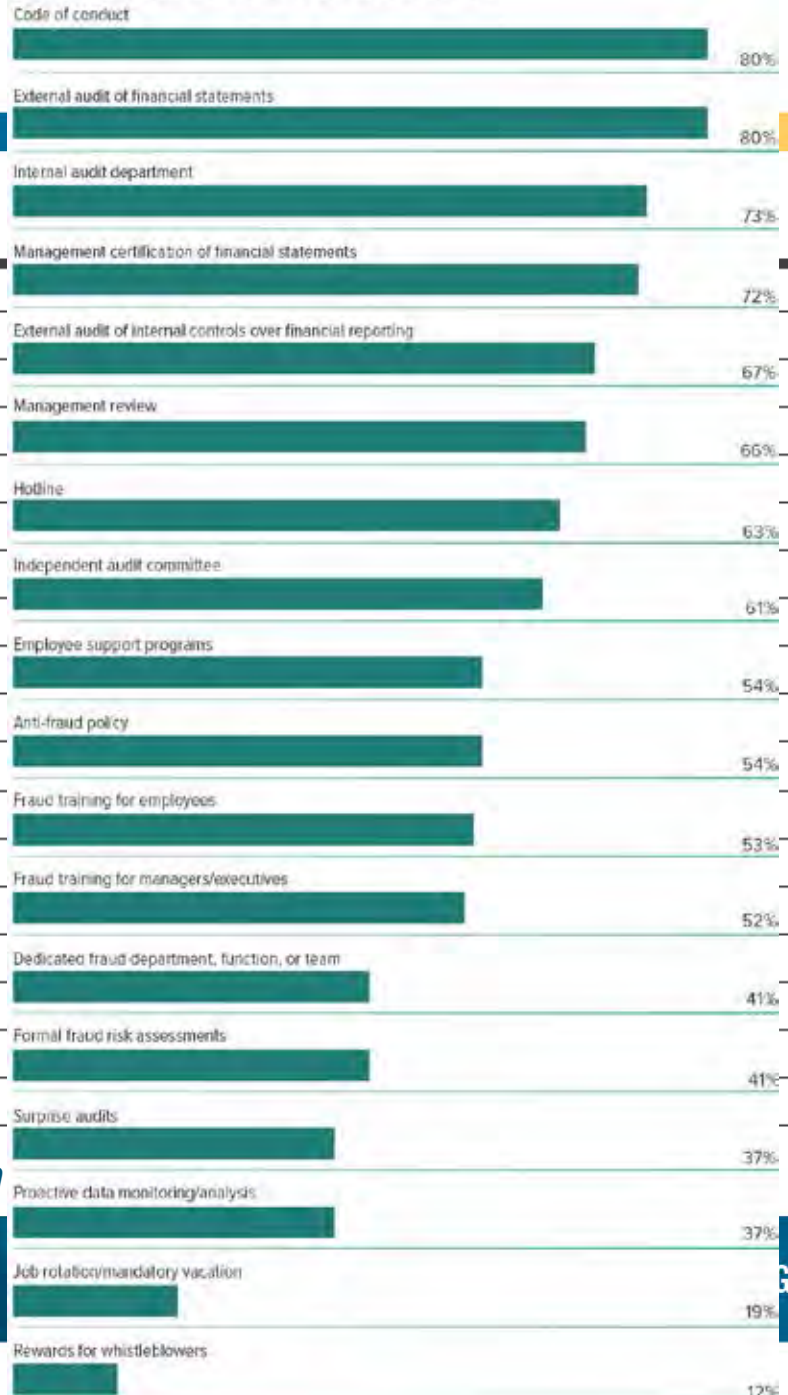


FIG. 17 What anti-fraud controls are most common?

Control

Code of conduct
Proactive data monitoring/analysis
Surprise audits
External audit of internal controls over financial reporting
Management review
Hotline
Anti-fraud policy
Internal audit department
Management certification of financial statements
Fraud training for employees
Formal fraud risk assessments
Employee support programs
Fraud training for managers/executives
Dedicated fraud department, function, or team
External audit of financial statements
Job rotation/mandatory vacation
Independent audit committee
Rewards for whistleblowers



Percent reduction

56%
52%
51%
50%
50%
47%
46%
43%
41%
38%
38%
35%
33%
29%
23%
20%
12%

ACFE Report to the Na

# P-D-C Model of Controls

- C – Corrective Controls (a.k.a Response to Fraud)
  - Designed to reverse the effects of the adverse event, undesirable event
    - That is, to restore the “system” to where it was
    - That is, to “fix” the problem
  - May take more than a single course of action to “correct” the event. In the case of fraud...
    - Need a course of action (or actions) to recover lost funds
    - Need a course of action to respond to the fraudster adequately and appropriately
    - Need a course of action to develop preventive controls to keep this fraud from happening again
    - May need a PR/Media action plan to mitigate image loss

# P-D-C Model of Controls - Corrective

- C – Corrective Controls
  - Could be:
    - An automated control
    - Human intervention control, especially “downstream”
    - A hybrid/combination of the two
  - Fraud correction controls: What controls should we have in place, or design and implement, that should a fraud occur, we would be able to correct the fraud and its effects?

# P-D-C Model of Controls - Corrective

- Appropriate degree of business insurance
- Pre-determine what circumstances are necessary before prosecution will be sought, and stick to it
- Pre-determine PR and whether or not it will be made public, and if so, exactly how it will be handled. Under what circumstances will we NOT go public?
- Determine to do what will INCREASE the perception of detection

# P-D-C Model of Controls

- Which items on the list are anti-fraud detective controls?
- Which items on the list are anti-fraud preventive controls?
- Which items on the list are anti-fraud corrective controls?
- “Triangulation” of disbursements
- Verify vendor before adding to authorized list
- Internal Audit
- Tips and Complaints/Hotline
- External Audit
- Surprise Audits
- Internal controls
- Management review
- Business insurance
- Fraud Policy/signed

# P-D-C Model of Controls

- Some apply to frauds in GENERAL
  - Example, Tips and Complaints System
- Some apply to frauds in GROUPS of schemes
  - Example, vetting vendors for vendor schemes
- Some apply to a specific SCHEME
  - PO Box as physical address – Shell Vendor

# P-D-C Model of Controls - Synergism

- Some controls are purely preventive, detective or corrective
- Some overlap (e.g., Surprise Audits is both detective and preventive. Why?)
- Challenge is to develop those that overlap effectively for the types of fraud that are likely to emerge in your organization
- Especially look for detective controls that if done properly will INCREASE the PoD (BOGO)

# P-D-C Model of Controls - Synergism

- General detective method
- #1 in EVERY survey since 1996
- Is anonymous tips strictly a detective control?
  - What happens if entity takes the anonymous tips system serious, follows up diligent and judiciously, and employees KNOW this fact?
  - Does this approach RAISE the P.O.D. to potential fraudster, and is therefore possibly a PREVENTIVE control as well?

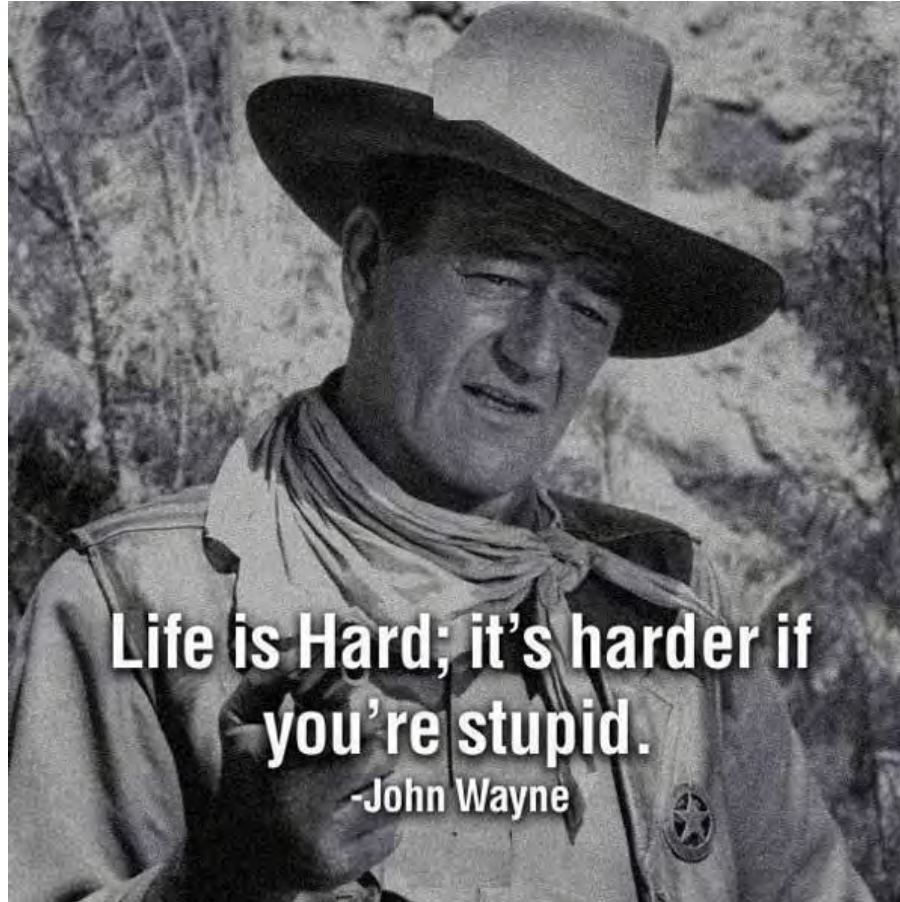
# P-D-C Model of Controls - Synergism

- Can be applied to a variety of specific frauds
- Used effectively in banking industry and other cash intense businesses for surprise cash audits of cashiers, tellers, etc.
- More effective than regular internal audits in preventing fraud
  - One reason is the fraudster has no warning or time to shut down a fraud to conceal it from the auditors

# P-D-C Model of Controls - Conclusion

- Choose effective PREVENTIVE, DETECTIVE & CORRECTIVE controls
- AND ... when choosing, pick those that are multifaceted in application
- EXAMPLES
  - Surprise Audit, #3 Effective – Is it a PREVENTIVE control?
  - Anonymous Tips/Hotline, #6 Effective, #1 Actual Detection – Is it a PREVENTIVE control?
  - Management Review, #5 Effective – Is it a CORRECTIVE control?

# LESSONS LEARNED



Thank  
you





Jerry L. Fielding - Chair  
Sylacauga



Frank C. "Butch" Ellis, Jr. - Vice Chair  
Columbiana



John Plunk, Esquire  
Athens



Charles Price  
Montgomery



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# Alabama Ethics Law Chapter 25 of Title 36

The Alabama Ethics Law can be found, in its entirety, in Chapter 25 of Title 36 in the Code of Alabama. As a public official or public employee it is critical that you know the law.

## 36-25-27 Penalties; enforcement; jurisdiction, venue, judicial review; limitations period.

Except as otherwise provided, any person subject to this chapter of the law who intentionally violates any provision of this chapter of the law other than those for which a separate penalty is provided for in this section shall, upon conviction, be guilty of a Class B felony. Upon conviction of a Class B felony, an individual is subject to a sentence ranging between two and twenty years and a fine of up to \$30,000.

Any person subject to this chapter of the law who violates any provision of this chapter of the law other than those for which a separate penalty is provided for in this section shall, upon conviction, be guilty of a Class A misdemeanor.



Any person subject to this chapter of the law who knowingly violates any disclosure requirement of this chapter shall, upon conviction, be guilty of a Class A misdemeanor.

Any person who knowingly makes or transmits a false report or complaint pursuant to this chapter of the law shall, upon conviction, be guilty of a Class A misdemeanor and shall be liable for the actual legal expenses incurred by the respondent against whom the false report or complaint was filed.

thing

quantities.

- DERIVATIVES **lavishly** adv. **lavish**

- ORIGIN ME (as n. denoting prof  
'deluge of rain', from *laver* 'to

**law** ● n. 1 a rule or system of r  
try or community as regulati  
bers and enforced by the imp  
rules as a subject of study o  
profession ► statute law and  
... regarded as having bind



Any felony prosecution brought under the ethics law must be commenced within four years after the commission of the offense.

Any misdemeanor prosecution brought under the ethics law must be commenced within two years after the commission of the offense.



# What do you know about the Alabama Ethics Law?

As a public official or public employee it is critical that you know the law. There are a number of terms that are important to know and will help you in your overall understanding of the law. Those terms can be found in Section 36-25-1 in the Code of Alabama.

Any gift, benefit, favor, service, gratuity, tickets or passes to an entertainment, social or sporting event, unsecured loan, other than those loans and forbearances made in the ordinary course of business, reward, promise of future employment, or honoraria or other item of monetary value. Which term best describes this definition?

- A) Lobbying
- B) De minimis
- C) Thing of value



Any gift, benefit, favor, service, gratuity, tickets or passes to an entertainment, social or sporting event, unsecured loan, other than those loans and forbearances made in the ordinary course of business, reward, promise of future employment, or honoraria or other item of monetary value. Which term best describes this definition?



- A) Lobbying
- B) De minimis
- C) Thing of value

You've selected the correct answer.

**De minimis** is a value twenty-five dollars (\$25) or less per occasion and an aggregate of fifty dollars (\$50) or less in a calendar year from any single provider.

**Lobbying** is the practice of promoting, opposing, or in any manner influencing or attempting to influence the introduction, defeat, or enactment of legislation before any legislative body.

A gathering, dinner, reception, or other event of mutual interest to a number of parties at which it is reasonably expected that more than 12 individuals will attend and that individuals with a diversity of views or interest will be present. Which term best describes this definition?

- A) Educational function
- B) Widely attended event
- C) Business with which the person is associated



A gathering, dinner, reception, or other event of mutual interest to a number of parties at which it is reasonably expected that more than 12 individuals will attend and that individuals with a diversity of views or interest will be present. Which term best describes this definition?



- A) Educational function
- B) Widely attended event
- C) Business with which the person is associated

You've selected the correct answer.

**An educational function** is a meeting, event, or activity held within the State of Alabama, which is organized around a formal program or agenda of educational or informational speeches, debates, etc.

**Business with which the person is associated** is any business of which the person or a member of his or her family is an officer, owner, partner, board of director member, employee, or holder of more than five percent of the fair market value of the business.

Any person employed at the state, county, or municipal level of government or their instrumentalities, including governmental corporations and authorities, but excluding employees of hospitals or other health care corporations including contract employees of those hospitals or other health care corporations, who is paid in whole or in part from state, county, or municipal funds. Which term best describes this definition?

- A) Public employee
- B) Public official
- C) Lobbyist



Any person employed at the state, county, or municipal level of government or their instrumentalities, including governmental corporations and authorities, but excluding employees of hospitals or other health care corporations including contract employees of those hospitals or other health care corporations, who is paid in whole or in part from state, county, or municipal funds. Which term best describes this definition?

- A) Public employee
- B) Public official
- C) Lobbyist



You've selected the correct answer.

**A public official** is any person elected to public office, whether or not that person has taken office, by the vote of the people at state, county, or municipal level of government or their instrumentalities.

**A lobbyist** is a person who receives compensation from another person, group, or entity to lobby.

A financial disclosure form made available by the commission which shall be completed and filed with the commission prior to April 30 of each year covering the preceding calendar year by certain public officials and public employees. Which term best describes this definition?

- A) Economic development function
- B) Thing of value
- C) Statement of economic interests



A financial disclosure form made available by the commission which shall be completed and filed with the commission prior to April 30 of each year covering the preceding calendar year by certain public officials and public employees. Which term best describes this definition?



- A) Economic development function
- B) Thing of value
- C) Statement of economic interests

You've selected the correct answer.

**A thing of value** is any gift, benefit, favor, service, gratuity, tickets or passes to an entertainment, social or sporting event, promise of future employment, or other item of monetary value, etc.

**Economic development function** is any function reasonably and directly related to the advancement of a specific, good-faith economic development or trade promotion project or objective.

Any action, inaction, or decision by a public official or public employee in the discharge of his or her official duties which would materially affect his or her financial interest or those of his or her family members or any business with which the person is associated in a manner different from the manner it affects the other members of the class to which he or she belongs. Which term best describes this definition?



- A) Educational function
- B) Conflict of interest
- C) Thing of value

Any action, inaction, or decision by a public official or public employee in the discharge of his or her official duties which would materially affect his or her financial interest or those of his or her family members or any business with which the person is associated in a manner different from the manner it affects the other members of the class to which he or she belongs. Which term best describes this definition?



- A) Educational function
- B) Conflict of interest
- C) Thing of value

You've selected the correct answer.

**An educational function** is a meeting, event, or activity held within the State of Alabama, which is organized around a formal program or agenda of educational or informational speeches, debates, etc.

**A thing of value** is any gift, benefit, favor, service, gratuity, tickets or passes to an entertainment, social or sporting event, promise of future employment, or other item of monetary value, etc.

### 36-25-5 Use of official position or office for personal gain.

A public official or employee is prohibited from using public property for personal use. Although not an exhaustive list, this includes cars, credit cards, phones, email, equipment, copiers, fax machines, postal machines or official time.

No public official or public employee shall use or cause to be used his or her official position or office to obtain personal gain for himself or herself, or family member of the public employee or family member of the public official, or any business with which the person is associated unless the use and gain are otherwise specifically authorized by law.



Personal gain is achieved when the public official, public employee, or a family member thereof receives, obtains, exerts control over, or otherwise converts to personal use the object constituting such personal gain.

Also, a member of a legislative body may not vote for any legislation in which he or she knows or should have known that he or she has a conflict of interest.



Additionally, the ethics law specifically prohibits the use of your official position or office to obtain personal gain for yourself, or a family member, or any business with which you are associated.



A public employee has a part-time multi-level marketing company whereby she sells products and receives income. After completing all of her work responsibilities at the Alabama Department of Issuance, she spends the last two hours of her work day creating a flyer and invoices for her company using the agency's computer and printer. A coworker sees the flyers on the printer and files a complaint about the use of the agency's equipment for personal gain.



In this scenario, a public employee is planning a 5-day trip to the beach with their family. Would it be acceptable to use a state vehicle for transportation on this trip?

- A) Yes
- B) No



In this scenario, a public employee is planning a 5-day trip to the beach with their family. Would it be acceptable to use a state vehicle for transportation on this trip?

- A) Yes
- B) No



You've selected the correct answer. This is strictly prohibited as it relates to the Alabama Code of Ethics Section 36-25-5.

Can a public official ask official personnel to run errands, such as picking up tickets from the box office or dropping off dry cleaning while running official errands for the office?

- A) Yes
- B) No



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- A) Yes
- B) No



You've selected the correct answer. This is strictly prohibited as it relates to the Alabama Code of Ethics Section 36-25-5.

Is it acceptable for a public official or employee to teach or adjunct for a school or institution?

- A) Yes
- B) No



Is it acceptable for a public official or employee to teach or adjunct for a school or institution?



- A) Yes
- B) No

You've selected the correct answer. The answer is yes, but the public official cannot use official time for private or personal work, AND the public official cannot teach a class for an institution that he or she teaches as part of their public position responsibilities.

A city council member is also a landlord of a 24-unit multi-family apartment complex. Next month's city council meeting includes a vote on property adjacent to his apartment complex. Should he vote?

- A) Yes
- B) No



A city council member is also a landlord of a 24-unit multi-family apartment complex. Next month's city council meeting includes a vote on property adjacent to his apartment complex. Should he vote?

- A) Yes
- B) No



You've selected the correct answer. He should abstain from voting on any item that may benefit him or his interest pursuant to the Alabama Code of Ethics Section 36-25-5 (a) and Section 36-25-9 (c).

A lobbyist wants to give a financial gift to the daughter of a mayor from a neighboring city so that she and her high school band can travel to New York City to perform in the Macy's Thanksgiving Day Parade. The lobbyist and the mayor have been close friends since college. May the lobbyist give the financial gift provided certain criteria are met?

- A) Yes
- B) No



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- A) Yes
- B) No

This is the correct answer. Assuming there exists no evidence of attempts to corruptly influence official action. This exception is extremely fact sensitive, but this example appears to meet the criteria outlined in Alabama Code of Ethics Section 36-25-1 (34) (b)(3), which states that anything given by a friend of the recipient under circumstances which make it clear that it is motivated by a friendship and not given because of the recipient's official position. Relevant factors include whether the friendship preexisted the recipient's status as a public employee, public official, or candidate and whether gifts have been previously exchanged between them. Again, because this scenario is very fact-specific it is up to you to prove that this section applies to your specific facts. We recommend you proceed very carefully under this exception.

Pickacity, Alabama is seeking to replace the roof on the City Hall building and five adjacent buildings. The mayor's son owns a roofing company and has offered to replace the roof at a discount. Can the mayor engage his son's roofing company?



- A) Yes
- B) No

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- A) Yes
- B) No

You've selected the correct answer. The Mayor must remove himself from the process of selecting bids and the City would be advised to comply with the State Bid Laws to ensure the roof project is awarded to the lowest responsible bidder.

The Alabama Legislature is presented with the upcoming budget for teacher salaries. A legislator's wife is a teacher and will benefit from the proposed salary increase if passed by the legislature. Ethically, can this legislator vote on this piece of legislation?

- A) Yes
- B) No



The Alabama Legislature is presented with the upcoming budget for teacher salaries. A legislator's wife is a teacher and will benefit from the proposed salary increase if passed by the legislature. Ethically, can this legislator vote on this piece of legislation?

- A) Yes
- B) No



You've selected the correct answer. Under this scenario, the group of teachers would include every teacher in the State of Alabama and would not affect the legislator's wife any differently than others.

### 36-25-5.1 Limitation on actions of lobbyists, subordinates of lobbyists, and principals.



No lobbyist, subordinate of a lobbyist, or principal shall offer or provide a thing of value to a public employee or public official or to a family member of the public employee or family member of the public official; and no public employee or public official or family member of the public employee or family member of the public official shall solicit or receive a thing of value from a lobbyist, subordinate of a lobbyist, or principal.

Notwithstanding the foregoing, a lobbyist, or principal may offer or provide and a public official, public employee, or candidate may solicit or receive items of de minimis value.



A lobbyist does not provide a thing of value, for purposes of this section, merely by arranging, facilitating, or coordinating with his or her principal that is providing and paying for those items.

Acceptable events can include providing hospitality, meals, and other food and beverages provided to a public official or public employee, and the spouse of the public official or public employee, as an integral part of an educational function, economic development function, work session, or widely attended event, such as a luncheon, banquet, or reception hosted by a civic club, chamber of commerce, charitable or educational organization, or trade or professional association.



Any function or activity pre-certified by the Director of the Ethics Commission as a function that meets any of the above criteria is acceptable. In order to seek pre-certification of an event, requests must be submitted to the Alabama Ethics Commission at least 10 days prior to an event. Requests should always include information detailing the purpose, date, location, who is invited, what is being provided, and other important details.

36-25-7 Offering, soliciting, or receiving anything for purpose of influencing official action; money solicited or received in addition to that received in official capacity.

A person shall not offer or give to a public official, employee, or a member of the household a thing of value or anything for the purpose of corruptly influencing official action. The public official, employee, or a member of the household shall not solicit anything for the purpose of corruptly influencing official action, regardless of whether or not the thing solicited or received is a thing of value.

For purposes of this section, to act corruptly means to act voluntarily, deliberately, and dishonestly to either accomplish an unlawful end or result or to use an unlawful method or means to accomplish an otherwise lawful end or result.



Quid pro quo. Quid pro quo means "something for something" in Latin and conveys an exchange of money, goods, services, benefits, or favors where one transfer is contingent upon the other. This action is strictly prohibited by the Alabama Ethics Law.



When is it acceptable for a person to offer a public official a thing of value?



- A) When the thing of value is given quid pro quo
- B) When the person offering the thing of value is not a public official
- C) When offering the thing of value could help influence needed political action
- D) None of the above

When is it acceptable for a person to offer a public official a thing of value?



- A) When the thing of value is given quid pro quo
- B) When the person offering the thing of value is not a public official
- C) When offering the thing of value could help influence needed political action
- D) None of the above

This answer is correct. A person shall not offer or give to a public official, employee, or a member of the household a thing of value or anything for the purpose of corruptly influencing official action.

### 36-25-8 Use or disclosure of confidential information for private financial gain.

No public official, public employee, former public official or former public employee, for a period consistent with the statute of limitations as contained in this chapter of the law, shall use or disclose confidential information gained in the course of or by reason of his or her position or employment in any way that could result in financial gain other than his or her regular salary as such public official or public employee for himself or herself, a family member of the public employee or family member of the public official, or for any other person or business.



A public official has become aware that an international manufacturing firm is locating in Alabama, although it has not yet been publicly announced. This public official owns thousands of acres of land in one of the identified locations. Which statement best describes how the public official should proceed?



- A) The public official is permitted to notify other landowners of the potential opportunity to sell their land.
- B) There are no laws that govern the sale of land by a public official to a private business.
- C) The public official is permitted to guide the manufacturing firm to purchase the land.
- D) The public official cannot disclose this information to other landowners, nor encourage the manufacturing firm to purchase his/her land.

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- B) There are no laws that govern the sale of land by a public official to a private business.
- C) The public official is permitted to guide the manufacturing firm to purchase the land.
- D) The public official cannot disclose this information to other landowners, nor encourage the manufacturing firm to purchase his/her land.

You've selected the correct answer. The public official cannot disclose this information to other landowners, nor encourage the manufacturing firm to purchase his/her land.

**36-25-9 Service on regulatory boards and commissions regulating business with which a person is associated; members who have financial interest in matters prohibited from voting.**

Unless expressly provided otherwise by law, no person shall serve as a member or employee of a state, county, or municipal regulatory board or commission or other body that regulates any business with which he is associated.

Nothing herein shall prohibit real estate brokers, agents, developers, appraisers, mortgage bankers, or other persons in the real estate field, or other state-licensed professionals, from serving on any planning boards or commissions, housing authorities, zoning board, board of adjustment, code enforcement board, industrial board, utilities board, state board, or commission.



No member of any county or municipal agency, board, or commission shall vote or participate in any matter in which the member or family member of the member has any financial gain or interest.



It is generally NOT permissible to serve as a member of a state, county, or municipal regulatory board:



- A) When the board regulates a business with which you are associated
- B) When the board regulates a business with which you are not associated
- C) It is always permissible by law
- D) It is never permissible by law

It is generally NOT permissible to serve as a member of a state, county, or municipal regulatory board:



- A) When the board regulates a business with which you are associated
- B) When the board regulates a business with which you are not associated
- C) It is always permissible by law
- D) It is never permissible by law

This answer is correct. Unless expressly provided otherwise by law, no person shall serve as a member or employee of a state, county, or municipal regulatory board or commission or other body that regulates any business with which he or she is associated.

36-25-11 Public officials or employees entering into contracts which are to be paid out of government funds.

Unless exempt pursuant to Alabama competitive bid laws or otherwise permitted by law, no public official or public employee, or a member of the household of the public employee or the public official, and no business with which the person is associated shall enter into any contract to provide goods or services which is to be paid in whole or in part out of state, county, or municipal funds unless the contract has been awarded through a process of competitive bidding and a copy of the contract is filed with the commission.

All such contract awards shall be made as a result of original bid takings, and no awards from negotiations after bidding shall be allowed.



A copy of each contract, regardless of the amount, entered into by a public official, public employee, a member of the household of the public employee or the public official, and any business with which the person is associated shall be filed with the commission within 10 days after the contract has been entered into.

A county commissioner owns a company that provides services to organizations funded by state and local governments. What is the standard action that should be taken?



- A) Personally negotiate the pricing with the client until the contract is finalized
- B) Follow the process of competitive bidding and file a copy of the contract with the commission within 10 days after the contract has been entered into
- C) Follow the process of competitive bidding and file a copy of the contract with the commission within 30 days after the contract has been entered into
- D) Do not proceed in providing the services because it will involve the use of state funds

A county commissioner owns a company that provides services to organizations funded by state and local governments. What is the standard action that should be taken?



- A) Personally negotiate the pricing with the client until the contract is finalized
- B) Follow the process of competitive bidding and file a copy of the contract with the commission within 10 days after the contract has been entered into
- C) Follow the process of competitive bidding and file a copy of the contract with the commission within 30 days after the contract has been entered into
- D) Do not proceed in providing the services because it will involve the use of state funds

This answer is correct. Unless exempt pursuant to Alabama competitive bid laws or otherwise permitted by law, no public official or public employee, or a member of the household of the public employee or the public official, and no business with which the person is associated shall enter into any contract to provide goods or services which is to be paid in whole or in part out of state, county, or municipal funds unless the contract has been awarded through a process of competitive bidding and a copy of the contract is filed with the commission within 10 days after the contract has been entered into.

## 36-25-12 Offering, soliciting, etc., thing of value to or by a member of a regulatory body.



A person shall not offer or give to a member or employee of a governmental agency, board, or commission that regulates a business with which the person is associated, and no member or employee of a regulatory body, shall solicit or accept a thing of value while the member or employee is associated with the regulatory body other than in the ordinary course of business.

A public official serving on a board that regulates a corporation is offered season football tickets as a gift by an influential person from the corporation. Is it acceptable to receive the gift?

- A) Yes
- B) No



A public official serving on a board that regulates a corporation is offered season football tickets as a gift by an influential person from the corporation. Is it acceptable to receive the gift?

- A) Yes
- B) No



This answer is correct. A person shall not offer or give to a member or employee of a governmental agency, board, or commission that regulates a business with which the person is associated, and no member or employee of a regulatory body, shall solicit or accept a thing of value while the member or employee is associated with the regulatory body other than in the ordinary course of business.

## 36-25-13 Actions of former public officials or public employees prohibited for two years after departure.



No public official shall serve for a fee as a lobbyist or otherwise represent clients, including his or her employer before the board, agency, commission, department, or legislative body, of which he or she is a former member for a period of two years after he or she leaves such membership.

No public employee shall serve for a fee as a lobbyist or otherwise represent clients, including his or her employer before the board, agency, commission, or department, of which he or she is a former employee or worked pursuant to an arrangement such as a consulting agreement, agency transfer, loan, or similar agreement for a period of two years after he or she leaves such employment or working arrangement.



Except as specifically set out in the section, no public official, director, assistant director, department or division chief, purchasing or procurement agent having the authority to make purchases, or any person who participates in the negotiation or approval of contracts, grants, or awards or any person who negotiates or approves contracts, grants, or awards shall enter into, solicit, or negotiate a contract, grant, or award with the governmental agency of which the person was a member or employee for a period of two years after he or she leaves the membership or employment of such governmental agency.

For information related to limited exceptions to this restriction, please contact the Alabama Ethics Commission.



No public official or public employee who personally participates in the direct regulation, audit, or investigation of a private business, corporation, partnership, or individual shall within two years of his or her departure from such employment solicit or accept employment with such private business, corporation, partnership, or individual.



No former public official or public employee of the state may, within two years after termination of office or employment, act as attorney for any person other than himself or herself or the state, or aid, counsel, advise, consult or assist in representing any other person, in connection with any judicial proceeding or other matter in which the state is a party or has a direct and substantial interest and in which the former public official or public employee participated personally and substantially as a public official or employee or which was within or under the public official or public employee's official responsibility as an official or employee.

This prohibition shall extend to all judicial proceedings or other matters in which the state is a party or has a direct and substantial interest, whether arising during or subsequent to the public official or public employee's term of office or employment.



The Alabama Ethics Commission strongly urges public officials and public employees to review the ethics laws prior to seeking or accepting employment for the two years following their departure from their public position.

The Commissioner of the Department of Issuance will retire at the end of this month. When is he eligible to accept a position with the private accounting firm his agency regulates?

- A) Two Months
- B) Six Months
- C) Two Years
- D) Seven Years



The Commissioner of the Department of Issuance will retire at the end of this month. When is he eligible to accept a position with the private accounting firm his agency regulates?

- A) Two Months
- B) Six Months
- C) Two Years
- D) Seven Years



This is the correct answer. The Alabama Ethics Commission strongly urges public officials and public employees to review the ethics laws prior to seeking or accepting employment for the two years following their departure from their public position.

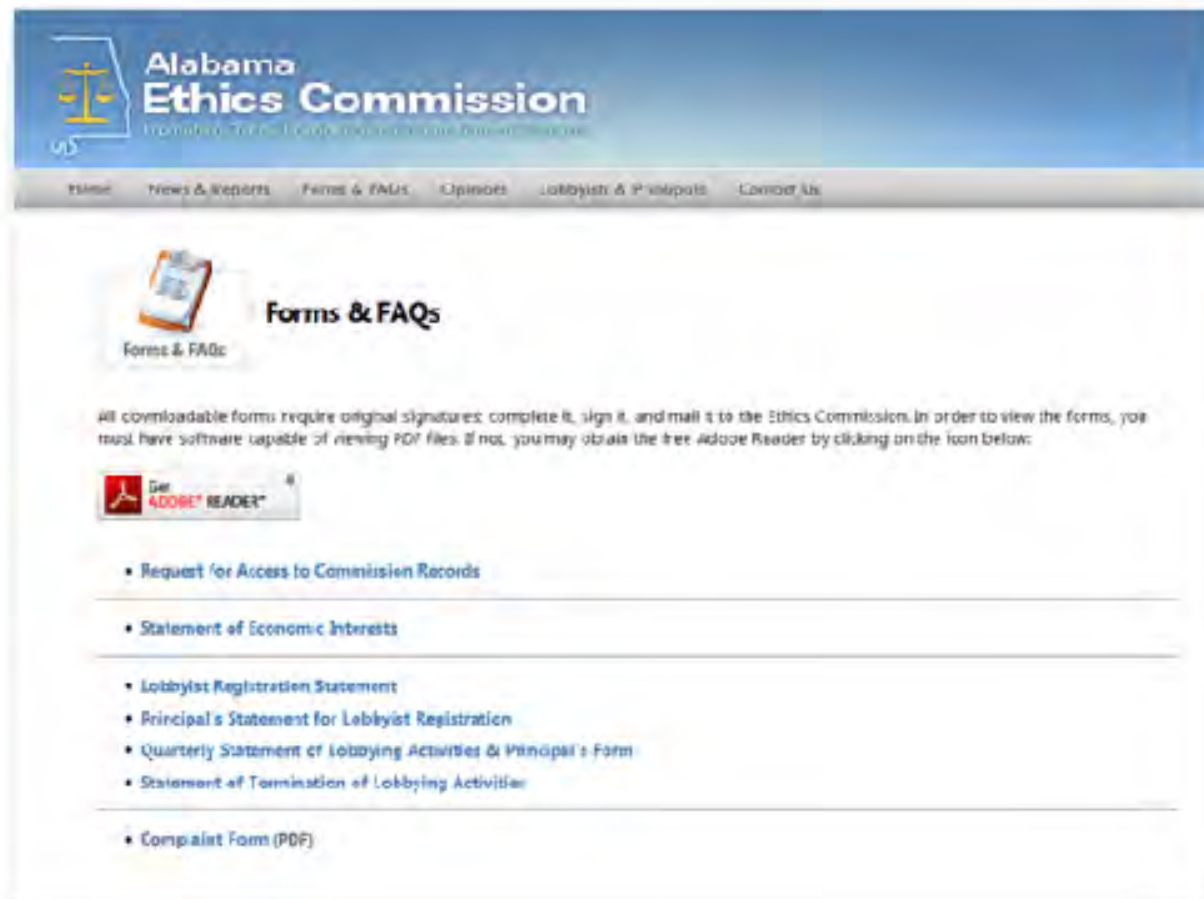
## 36-25-17 Reports of violations; cooperation of agency heads.

Every governmental agency head shall within 10 days file reports with the commission on any matters that come to his or her attention in his or her official capacity which constitute a violation. Governmental agency heads shall cooperate in every possible manner in connection with any investigation or hearing, public or private, which may be conducted by the commission.



The process for filing a complaint can be found on the form available on the Alabama Ethics Commission Website by clicking here:

<http://ethics.alabama.gov/forms2.aspx>




The screenshot shows the Alabama Ethics Commission website. The header features the commission's logo and name, along with a navigation menu. The main content area is titled "Forms & FAQs" and includes a note about downloading forms, a link to Adobe Reader, and a list of available forms.

**Alabama Ethics Commission**  
Promoting the Highest Levels of Integrity and Accountability

Home News & Reports Forms & FAQs Opinions Lobbyist & Principals Contact Us

### Forms & FAQs

All downloadable forms require original signatures; complete it, sign it, and mail it to the Ethics Commission. In order to view the forms, you must have software capable of viewing PDF files. If not, you may obtain the free Adobe Reader by clicking on the icon below:

 **Get ADOBE READER**

- [Request for Access to Commission Records](#)
- [Statement of Economic Interests](#)
- [Lobbyist Registration Statement](#)
- [Principal's Statement for Lobbyist Registration](#)
- [Quarterly Statement of Lobbying Activities & Principal's Form](#)
- [Statement of Termination of Lobbying Activities](#)
- [Complaint Form \(PDF\)](#)

## 36-25-24 Supervisor prohibited from discharging or discriminating against employee where employee reports violation.

A supervisor shall not discharge, demote, transfer, or otherwise discriminate against a public employee regarding such employee's compensation, terms, conditions, or privileges of employment based on the employee's reporting a violation, or what he or she believes in good faith to be a violation, of this chapter of the law or giving truthful statements or truthful testimony concerning an alleged ethics violation.



Nothing in this chapter of the law shall be construed in any manner to prevent or prohibit or otherwise limit a supervisor from disciplining, discharging, transferring, or otherwise affecting the terms and conditions of a public employee's employment so long as the disciplinary action does not result from or is in no other manner connected with the public employee's filing a complaint with the commission, giving truthful statements, and truthfully testifying.

No public employee shall file a complaint or otherwise initiate action against a public official or other public employee without a good faith basis for believing the complaint to be true and accurate.



A supervisor who is alleged to have violated this section shall be subject to civil action in the circuit courts of this state pursuant to the Alabama Rules of Civil Procedure as promulgated by the Alabama Supreme Court.

A public employee who without a good faith belief in the truthfulness and accuracy of a complaint filed against a supervisor, shall be subject to a civil action in the circuit courts in the State of Alabama pursuant to the Alabama Rules of Civil Procedure as promulgated by the Supreme Court.

Additionally, a public employee who without a good faith belief in the truthfulness and accuracy of a complaint as filed against a supervisor shall be subject to appropriate and applicable personnel action.



Nothing in this section shall be construed to allow a public employee to file a complaint to prevent, mitigate, lessen, or otherwise to extinguish existing or anticipated personnel action by a supervisor. A public employee who willfully files such a complaint against a supervisor shall, upon conviction, be guilty of the crime of false reporting.



Let's review a case in which a subordinate files a complaint with the Alabama Ethics Commission. The complaint reports a public employee who is a friend of the subordinate's supervisor. In filing this complaint, the subordinate has whistleblower protection and the supervisor cannot take action against the subordinate for whistleblowing.



Can the supervisor carry out supervisory responsibilities toward this employee during the complaint investigation?

- A) Yes
- B) No

## 36-25-14 Filing of Statement of Economic Interests.

A Statement of Economic Interests shall be completed and filed with the commission no later than April 30 of each year covering the period of the preceding calendar year.



### STATEMENT OF ECONOMIC INTERESTS

For 2015 CALENDAR YEAR - TO BE FILED NO LATER THAN APRIL 30, 2016, EXCEPT FOR CANDIDATES, who must file simultaneously with their qualifying forms as required by Section 36-25-15, Code of Alabama 1975.

[PLEASE READ INSTRUCTIONS BEFORE ATTEMPTING TO COMPLETE FORM.](#)

If sections of this form do not apply to you personally, indicate this by marking or checking "N.A." and proceed to the next section. Once you start working on this form, try to finish it in one sitting. You cannot save your progress to finish for later, and your current session will expire at **5:17/2016 4:51 PM (Central Time)**. If this happens, you must start over.

Page:



Filing Year: **2015**

Next >>

Are you CANDIDATE? <--Please Select--> ▼

FSTHA2700	2,332.85	
FSTHA3300	2,120.72	
FSTHA3500	1,091.32	
FSTHA3700	3,690.15	
FSTHA4500	1,251.54	
FSTHA5300	5,100.35	
FSTHA5500	7,520.00	
FSTHA5700	1,509.50	
FSTHA6500	1,460.76	
FSTHA7500	3,098.92	
FSTHA8300	1,662.97	
FSTHA8500	2,057.00	

The Statement of Economic Interests is required from the following:

All elected public officials at the state, county, or municipal level of government or their instrumentalities.

Any person appointed as a public official and any person employed as a public employee at the state, county, or municipal level of government or their instrumentalities who occupies a position whose base pay is seventy-five thousand dollars (\$75,000) or more annually, as adjusted by the commission by January 31 of each year to reflect changes in the U.S. Department of Labor's Consumer Price Index, or a successor index.



The Statement of Economic Interests is required from the following:

All candidates simultaneously with the date he or she becomes a candidate or the date the candidate files his or her qualifying papers, whichever comes first.

Members of the Alabama Ethics Commission; appointed members of boards and commissions having statewide jurisdiction (but excluding members of solely advisory boards).

All full-time nonmerit employees, other than those employed in maintenance, clerical, secretarial, or other similar positions.

The Statement of Economic Interests is required from:

- Chief clerks and chief managers
- Chief county clerks and chief county managers
- Chief administrators
- Chief county administrators
- Any public official or public employee whose primary duty is to invest public funds
- Chief administrative officers of any political subdivision
- Chief and assistant county building inspectors
- Any county or municipal administrator with power to grant or deny land development permits
- Chief municipal clerks
- Chiefs of police
- Fire chiefs



The Statement of Economic Interests is required from:

- City and county school superintendents and school board members
- City and county school principals or administrators
- Purchasing or procurement agents having the authority to make any purchase
- Directors and assistant directors of state agencies
- Chief financial and accounting directors
- Chief grant coordinators



The Statement of Economic Interests is also required from:

Each employee of the Legislature or of agencies, including temporary committees and commissions established by the Legislature, other than those employed in maintenance, clerical, secretarial, or similar positions.

Each employee of the Judicial Branch of government, including active supernumerary district attorneys and judges, other than those employed in maintenance, clerical, secretarial, or other similar positions.

And, every full-time public employee serving as a supervisor.



It is important to note that a Statement of Economic Interests form is required if you met any of the previously mentioned criteria for each of the calendar years you are employed, even if employment terminates before a year's end. For example, a public employee meeting the criteria for filing who retires from their position in February 2018 would be required to file a Statement of Economic Interests for both the 2017 and 2018 calendar year.

Follow this link to the Statement of Economic Interests form.

<http://ethics.alabama.gov/forms-ecint2.aspx>



The screenshot shows the Alabama Ethics Commission website. The header includes the logo and the text "Alabama Ethics Commission" with the tagline "Promoting Integrity, Accountability and Transparency". A navigation menu contains links for Home, Maps & Bureau, Forms & FAQs, Orders, Exhibits & Postings, and Contact Us. The main content area is titled "Forms & FAQs: Statement of Economic Interests (SEI)". Below this title, there is a list of links: "Entity/SEI List Filter Application Online App" with a "Deadline: June 1, 2018" and a "new" tag. There are two main sections: "Fill Out Online:" and "Downloadable Forms (PDF)". The "Fill Out Online:" section contains links for "Statement of Economic Interests - Online Form" (with a "new" tag) and "Instructions for SEI Online Form (PDF)". The "Downloadable Forms (PDF)" section contains a list of links for various years: "IMPORTANT: Candidate Information (PDF)", "Statement of Economic Interests - Downloadable Form Calendar Year 2015 - Due May 02, 2016 (PDF)", "Statement of Economic Interests - Downloadable Form Calendar Year 2014 - Due April 30, 2015 (PDF)", "Statement of Economic Interests - Downloadable Form Calendar Year 2013 - Due April 30, 2014 (PDF)", and "Line-by-line instructions to complete SEI (PDF)".

36-25-15 Candidates required to file Statements of Economic Interests; official to notify commission of name of candidate; failure to submit statement.



Candidates at every level of government shall file a completed Statement of Economic Interests for the previous calendar year with the State Ethics Commission simultaneously the date such candidate files his or her qualifying papers with the appropriate election official or in the case of an independent candidate, the date the person files his or her petition pursuant to Section 17-9-3.

Nothing in this section shall be deemed to require a second filing of the person's Statement of Economic Interests if a current Statement of Economic Interests is on file with the commission.



Each election official who receives a declaration of candidacy or petition to appear on the ballot for election from a candidate shall, within five days of the receipt, notify the commission of the name of the candidate, as defined in this chapter of the law, and the date on which the person became a candidate.

The commission shall, within five business days of receipt of such notification, notify the election official whether the candidate has complied with the provisions of this section.



Other provisions of the law notwithstanding, if a candidate does not submit a Statement of Economic Interests or when applicable, an amended Statement of Economic Interests in accordance with the requirements of this chapter of the law, the name of the person shall not appear on the ballot and the candidate shall be deemed not qualified as a candidate in that election.

Notwithstanding the foregoing, the commission may, for good cause shown, allow the candidate an additional five days to file such Statement of Economic Interests. If a candidate is deemed not qualified, the appropriate election official shall remove the name of the candidate from the ballot.

It is the responsibility of the public official, public employee, or candidate to follow this procedure.

An incumbent with a **current** form on file is not required to file a second form.



The screenshot shows the Alabama Ethics Commission website. The header features the commission's logo and name, along with a navigation menu. The main content area is titled "Forms & FAQs: Statement of Economic Interests (SEI)". Below this title, there is a list of links, including one for the "katty/SEI List Filer Application Online App" with a deadline of June 1, 2019. Two expandable sections are visible: "Fill Out Online" and "Downloadable Forms (PDF)".

**Alabama Ethics Commission**  
Ensuring Public Employees and Candidates are Accountable

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### Forms & FAQs: Statement of Economic Interests (SEI)

- [katty/SEI List Filer Application Online App - Deadline: June 1, 2019](#) **NEW!**

**Fill Out Online**

- [Statement of Economic Interests - Online Form](#) **NEW!**
- [Instructions for SEI Online Form \(PDF\)](#)

**Downloadable Forms (PDF)**

- **IMPORTANT: Candidate Information (PDF)**
- [Statement of Economic Interests - Downloadable Form Calendar Year 2018 - Due May 31, 2018 \(PDF\)](#)
- [Statement of Economic Interests - Downloadable Form Calendar Year 2014 - Due April 30, 2015 \(PDF\)](#)
- [Statement of Economic Interests - Downloadable Form Calendar Year 2013 - Due April 30, 2014 \(PDF\)](#)
- [Line-by-line Instructions to complete SEI \(PDF\)](#)

As you can see, the failure to comply with Alabama Ethics Law carries significant penalties. You are encouraged to access and reference these laws as often as you would like in order to ensure you are in compliance. Clearly, I have not answered every question that may arise. We invite you to contact our office and we will be happy to answer any questions you have.



**Phone: 334-242-2997**

**Email: [info@ethics.alabama.gov](mailto:info@ethics.alabama.gov)**

**Website: [www.ethics.alabama.gov](http://www.ethics.alabama.gov)**

# Me, Myself and Money: 2018 Financial Decisions for the Dual-Self

Brianne C. Smith, CPA, PFS, ABV

# Two-System Model for Decisions

## Elephant

- Emotional
- Animal instincts
- Doer
- Automatic processes
- Intuitive response
- Weighs immediate outcomes

## Rider

- Rational
- Deliberate/Foresight
- Planner
- Control processes
- Monitors/overrides
- Weighs all outcomes

# The Rider - weaknesses

- Speed – slow and effortful, rely on emotional markers or cues to influence responses
- Endurance – easily exhausted, quickly depleted (ex. availability, default response, limited choices, sales)
- Overconfidence – misperceived limitations and control, ignore weaknesses

# The Elephant - weaknesses

- Focus – considers immediate emotional impact, shared with other mammals
- Tangible imagery – tangible money, social pressure; emotional markers for scenarios; not abstract concepts
- Fear of loss – overvalue pain from loss versus benefit of gain, endowment effect, status quo bias

# Illiquidity

- Mental Accounts
- Credit Freeze
- Investments
  - Primary Residence
  - Other real estate (land, rental property)
  - Closely-held business
  - Retirement Plans

# How much do you need?

**Table 3: Calculation of Assets Needed at Age 65 to Provide Retirement Cash Flow**

Income Pre-retirement	\$20,000	\$40,000	\$60,000	\$80,000	\$100,000	\$120,000
Less Annual Contributions to Savings	\$1,720	\$4,880	\$8,760	\$13,120	\$17,600	\$23,040
Net Income (Gross Less Savings)	\$18,280	\$35,120	\$51,240	\$66,880	\$82,400	\$96,960
Income Post-Retirement (80% Replacement of Net Income)	\$14,624	\$28,096	\$40,992	\$53,504	\$65,920	\$77,568
Sources of Retirement Income						
Estimated Social Security	\$11,242	\$17,798	\$22,177	\$25,252	\$27,343	\$27,343
Pension or Other Income	—	—	—	—	—	—
Annual Cash Flow from Portfolio	\$3,382	\$10,298	\$18,815	\$28,252	\$38,577	\$50,225
Total Annual Income in Retirement	\$14,624	\$28,096	\$40,992	\$53,504	\$65,920	\$77,568
Portfolio Assets Needed to Provide Annual Cash Flow	\$64,946	\$190,647	\$343,847	\$512,821	\$697,144	\$904,063

Source: Ibbotson et al, 2007

# Retirement Savings

**Table 6: Projected Accumulated Wealth by Current Age for Various Income Levels at 80% Net Income Replacement**

Panel A: 50% Probability

Age	Income \$20,000	Income \$40,000	Income \$60,000	Income \$80,000	Income \$100,000	Income \$120,000
35	\$0	\$0	\$0	\$0	\$0	\$0
40	\$9,811	\$27,836	\$49,969	\$74,839	\$100,394	\$131,425
45	\$22,290	\$63,243	\$113,526	\$170,029	\$228,088	\$298,588
50	\$39,117	\$110,984	\$199,226	\$298,384	\$400,271	\$523,991
55	\$59,408	\$168,553	\$302,567	\$453,160	\$607,898	\$795,793
60	\$85,394	\$242,282	\$434,916	\$651,381	\$873,804	\$1,143,889
65	\$118,414	\$335,965	\$603,084	\$903,249	\$1,211,675	\$1,586,193

Source: Ibbotson et al, 2007

# Retirement savings

- Defined Benefit Plan
- 401(k), 403(b), Thrift Savings Plan, 457(b)  
(\$18,500 + catch-up)
- Traditional IRAs (\$5,500 + catch-up)
  - May be deductible
- Roth IRAs (\$5,500 + catch-up)
  - Not deductible/income limits to qualify

# Allocation and Savings Rate

Table 2 Shows the success rates for the various savings rates, savings periods, and withdrawal periods

100% Equity						
	20/20	20/30	30/20	30/30	40/20	40/30
10%	48.29%	44.82%	84.27%	82.65%	93.96%	92.50%
15%	76.45%	73.52%	94.95%	93.43%	98.19%	97.34%
20%	90.21%	87.52%	98.49%	98.19%	99.06%	98.96%
25%	95.75%	95.44%	99.58%	99.43%	99.50%	99.45%
75% Equity/25% Bonds						
	20/20	20/30	30/20	30/30	40/20	40/30
10%	35.38%	31.40%	82.18%	78.75%	94.72%	92.87%
15%	73.86%	69.12%	96.11%	95.16%	98.71%	98.27%
20%	91.14%	88.99%	99.18%	98.89%	99.58%	99.40%
25%	97.60%	97.21%	99.78%	99.68%	99.71%	99.72%

Source: Ervin et al., 2009

# Allocation and Savings Rate

## 50% Equity/50% Bonds

	20/20	20/30	30/20	30/30	40/20	40/30
10%	17.56%	13.07%	72.84%	66.06%	90.49%	88.59%
15%	62.68%	55.51%	94.71%	92.36%	98.33%	97.28%
20%	89.61%	85.95%	98.91%	98.71%	99.48%	99.41%
25%	98.03%	97.15%	99.63%	99.45%	99.71%	99.71%

## 25% Equity/75% Bonds

	20/20	20/30	30/20	30/30	40/20	40/30
10%	4.93%	3.44%	47.10%	39.11%	75.01%	69.33%
15%	40.70%	32.43%	83.69%	78.96%	92.14%	89.95%
20%	78.63%	69.82%	96.01%	93.31%	98.01%	96.65%
25%	93.80%	91.51%	98.03%	97.67%	99.22%	99.12%

## 100% Bonds

	20/20	20/30	30/20	30/30	40/20	40/30
10%	2.32%	2.11%	19.69%	14.82%	43.44%	34.52%
15%	17.88%	12.05%	58.61%	49.07%	73.97%	66.74%
20%	52.72%	42.49%	82.42%	75.70%	87.20%	83.79%
25%	79.51%	73.53%	91.80%	88.22%	92.52%	90.08%

Source: Ervin et al., 2009

# What about Cryptocurrency?

Cryptocurrencies: **1593** • Markets: **10982** • Market Cap: **\$375,441,901,969** • 24h Vol: **\$18,450,165,384** • BTC Dominance: **37.4%**








**CoinMarketCap**

Market Cap ▾

Trade Volume ▾

Trending ▾

Tools ▾

1	 <b>Bitcoin</b>	\$140,350,228,762	\$8,236.80	\$5,705,090,000	17,039,412 BTC
2	 <b>Ethereum</b>	\$68,651,912,620	\$689.98	\$2,280,810,000	99,498,265 ETH
3	 <b>Ripple</b>	\$26,575,775,592	\$0.678127	\$323,696,000	39,189,968,239 XRP *
4	 <b>Bitcoin Cash</b>	\$21,136,809,071	\$1,233.68	\$750,505,000	17,133,138 BCH
5	 <b>EOS</b>	\$11,150,364,567	\$12.93	\$1,582,890,000	862,697,452 EOS *

# Risk Tolerance

- An individual's level of acceptance of uncertainty...
- in achieving a goal when a loss is possible...
- and engaging in activities respective of their acceptance.

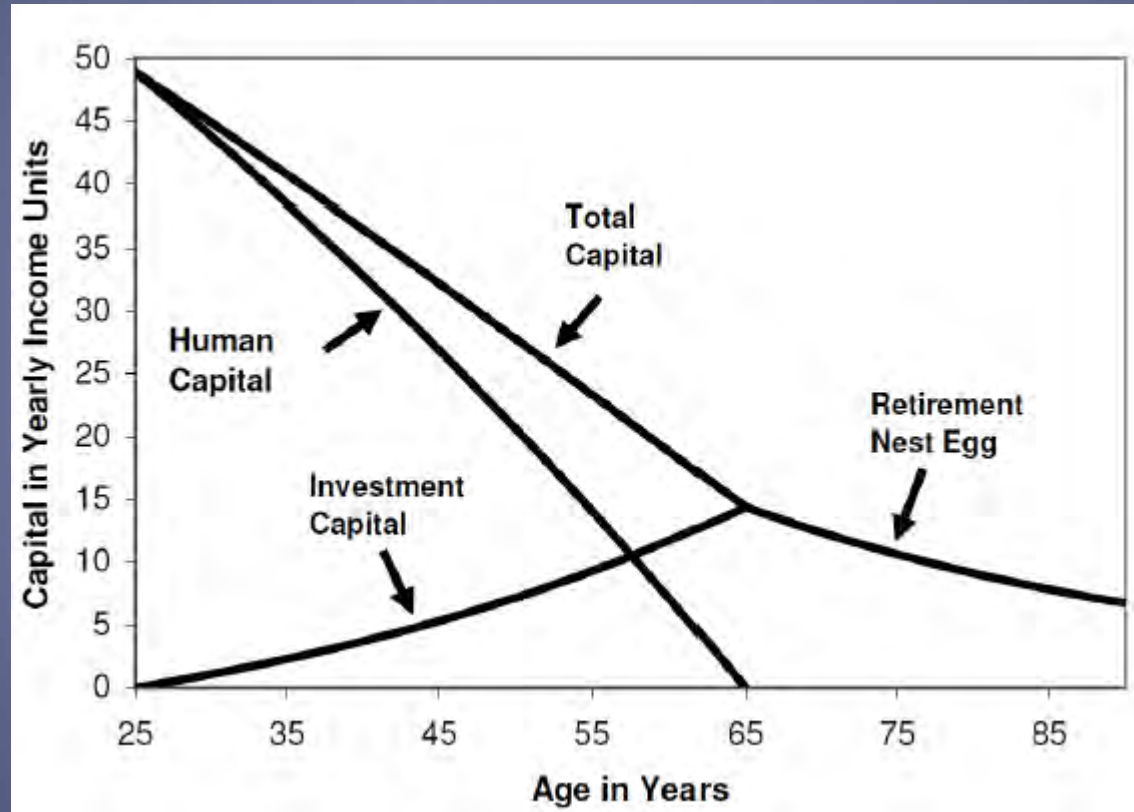
(Grable, 2016)

# More Risk Tolerant

Characteristic	More Risk Tolerant
Gender	Male
Age	Younger
Marital Status	Single
Marital/Gender interaction	Single Male
Net Worth and Income	High
Ethnicity	Non-Hispanic White
Education	Bachelor's or higher
Financial knowledge and satisfaction	High
Employment status	Employed full-time

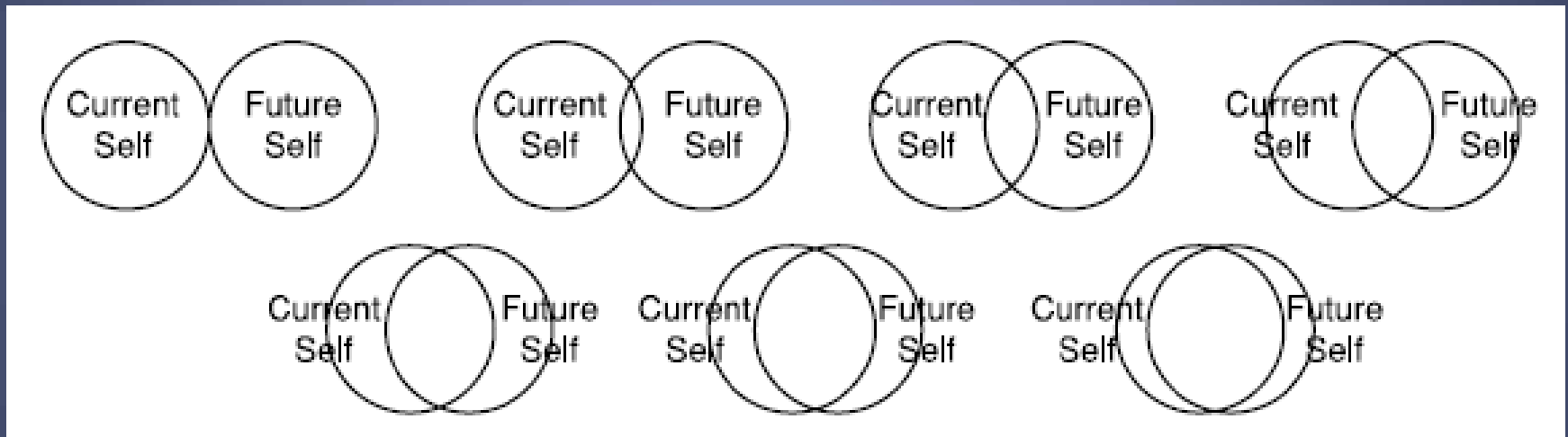
(Grable, 2006)

# Retirement Planning



(Source: Bernstein, 2012)

# Future-Self Continuity



# Future-Self Continuity



Source: (Hershfield, 2011, p. 37)

# Satisfy your Elephant and Rider

- In financial plans
  - Pre-commitment – remove felt losses
  - Reframing – remove felt losses
  - Bad choices – add felt losses

# Illiquidity

- Mental Accounts
- Credit Freeze
- Investments
  - Primary Residence
  - Other real estate (land, rental property)
  - Closely-held business
  - Retirement Plans

# Tax Cuts and Jobs Act

- Sale of principal residence – gain exclusion
- Mortgage interest deduction
  - New mortgage debt up to \$750,000
  - Refinance of old mortgage up to \$1 million, ok
  - Second home interest still deductible, new limits
- State and local taxes \$10,000 limit
- Home equity debt not deductible

# Tax Cuts and Jobs Act

Standard  
Deduction

\$12,000

Single

Current Law		Tax Cuts and Jobs Act	
10%	\$0 - \$9,525	10%	\$0 - \$9,525
15%	\$9,525 - \$38,700	12%	\$9,525 - \$38,700
25%	\$38,700 - \$93,700	22%	\$38,700 - \$82,500
28%	\$93,700 - \$195,450	24%	\$82,500 - \$157,500
33%	\$195,450 - \$424,950	32%	\$157,500 - \$200,000
35%	\$424,950 - \$426,700	35%	\$200,000 - \$500,000
39.6%	\$426,700+	37%	\$500,000

Married

\$24,000

Current Law		Tax Cuts and Jobs Act	
10%	\$0 - \$19,050	10%	\$0 - \$19,050
15%	\$19,050 - \$77,400	12%	\$19,050 - \$77,400
25%	\$77,400 - \$156,150	22%	\$77,400 - \$165,000
28%	\$156,150 - \$237,950	24%	\$165,000 - \$315,000
33%	\$237,950 - \$424,950	32%	\$315,000 - \$400,000
35%	\$424,950 - \$480,050	35%	\$400,000 - \$600,000
39.6%	\$480,050+	37%	\$600,000+

Plus: Repeal of Personal Exemptions

Source: NAR issue brief

# Basic Tax Formula

- Gross Income
- -Adjustments
- Adjusted Gross Income
- -Standard or Itemized Deductions
- -Exemptions
- Taxable Income

# Example

## OLD LAW

\$80,000

- 0

80,000

- 14,000

- 16,000

\$50,000

\$6,548 (15%)

## NEW LAW

\$80,000

- 0

80,000

- 24,000

- 0

\$56,000

\$6,339 (12%)

# Other tax changes

- Alimony
- 20% Business Income Deduction
- Increase in Child Tax Credit
- No deduction for moving expenses (except military)
- No more miscellaneous itemized deductions
- No more charitable deduction for athletic event seating rights
- Individual mandate penalty repealed

# References

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Enterprises International L.L.P

A CUT ABOVE THE REST, AND SECOND TO NONE!



# Managing Change

SHIFT HAPPENS!!

“Any change, even a change for the better is always accompanied by drawbacks and discomforts.”

*Arnold Bennett*  
*Author*



# Change Definition

- To cause to be different or to
- To give a completely different form or appearance
- To transform or radically shift.

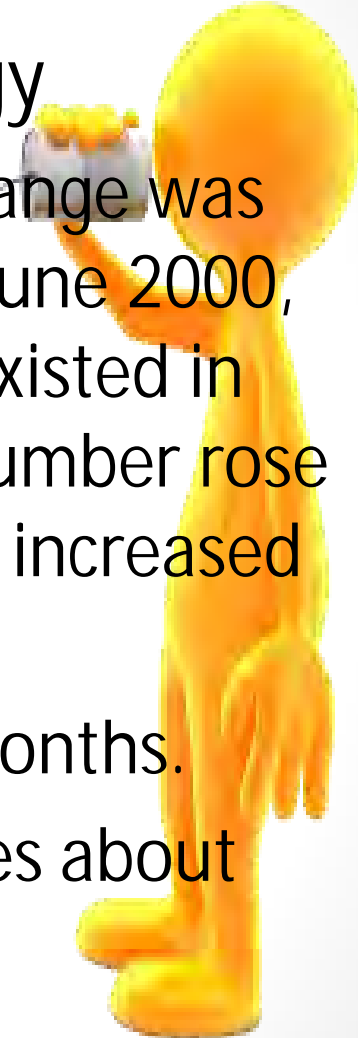
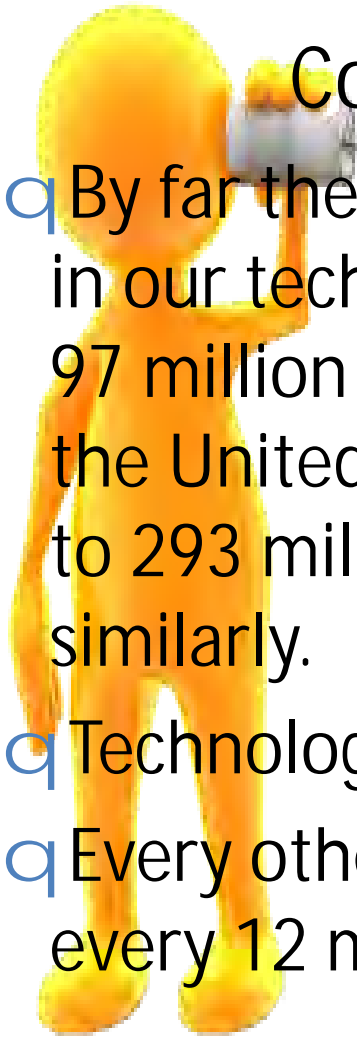
# Four Crucial Changes

- There are four areas of societal norms that have changed dramatically and as a result have critically and crucially affected the norms of today.
- Those critical areas are:
- Communication
- Majorities
- Polarity
- Finances (Money)

# Crucial Changes

## Communication Technology

- q By far the most significant societal change was in our technologies of connection. In June 2000, 97 million mobile phone subscribers existed in the United States; in June 2010, the number rose to 293 million. Today that number has increased similarly.
- q Technology evolves about every six months.
- q Every other form of knowledge evolves about every 12 months.



# Crucial Changes

## The End of Majorities

- q Everywhere in the 2000s, cultural majorities collapsed. Predominantly black neighborhoods became half Hispanic. White rural communities saw dramatic immigration from Asia and Latin America. City centers became internationalized.
- q White Americans were still a bare majority of the population by the end of the decade, but in delivery rooms they were already only a plurality (the largest of many minorities).
- q There may never have been a society in history that was as culturally, religiously, and politically diverse as the United States is today.

# Crucial Changes

## POLARITY

- q We used the technologies of connection and the commitment to place, to sort ourselves into more and more tightly knit subcultures.
- q Republicans became more Republican; Democrats became more Democratic.
- q A president elected on the premise of unity presided over an administration of ever-sharper rhetoric of division and partisan practices.



# Crucial Changes

## MONEY

- q Wealth is ever more disconnected from real assets.
- q Goldman Sachs, ended its century-long system of limited partnership and became a publicly traded company.
- q Hedge funds made billions by trading not shares, but shares of bets on the future price of shares.
- q Because of liquidity, prices of oil, food, housing, and labor spiked, then collapsed, and is now threatening to spike again.
- q Accounting practices have become ever more application specific.



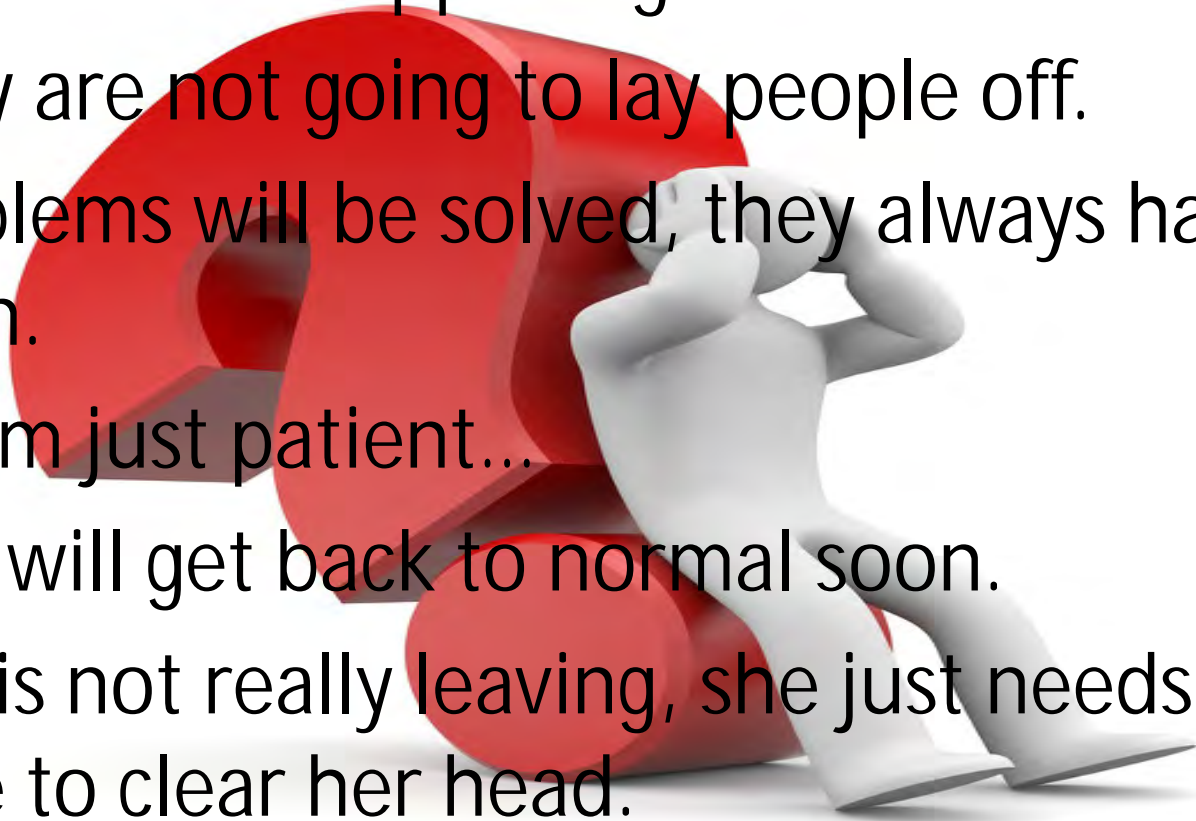
# Four Stages of Change

- q Denial (Disbelief)
- q Resistance (Anger and Blame)
- q Exploration (Reluctant Acceptance)
- q Commitment (Acceptance)



# Denial

- This can't be happening to me
- They are not going to lay people off.
- Problems will be solved, they always have been.
- If I am just patient...
- This will get back to normal soon.
- She is not really leaving, she just needs time to clear her head.



# Denial

- We often fail to accept change and continue to try and do what we have always done in hopes that things will return to the way they were or have always been.



# Denial

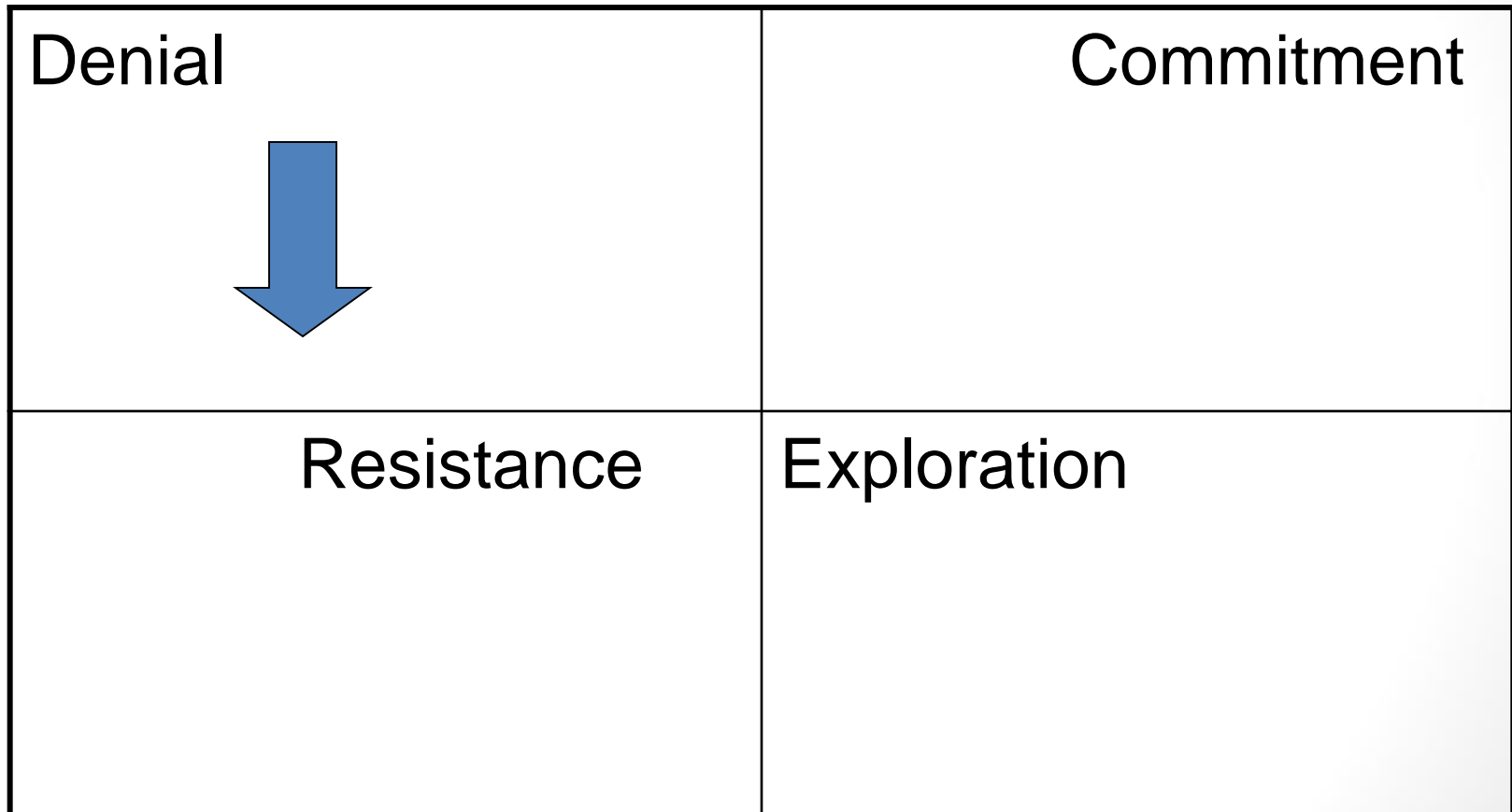
*"Insanity is doing the same thing over and over again expecting different results."*

*Albert Einstein*

# Manage Denial

- q Change will always occur.
- q Expect, anticipate, accept and seek out change.
- q Do everything to minimize the shock.
- q Communicate with others who have endured similar changes.
- q Expect delays, change takes time.

# Four Stages of Change



# Resistance

- Anger
- Blame (They)
- I refuse!
- What we are doing is working fine.
- We have always done it that way.
- Is this how I get treated after all I have done?!!



# Resistance

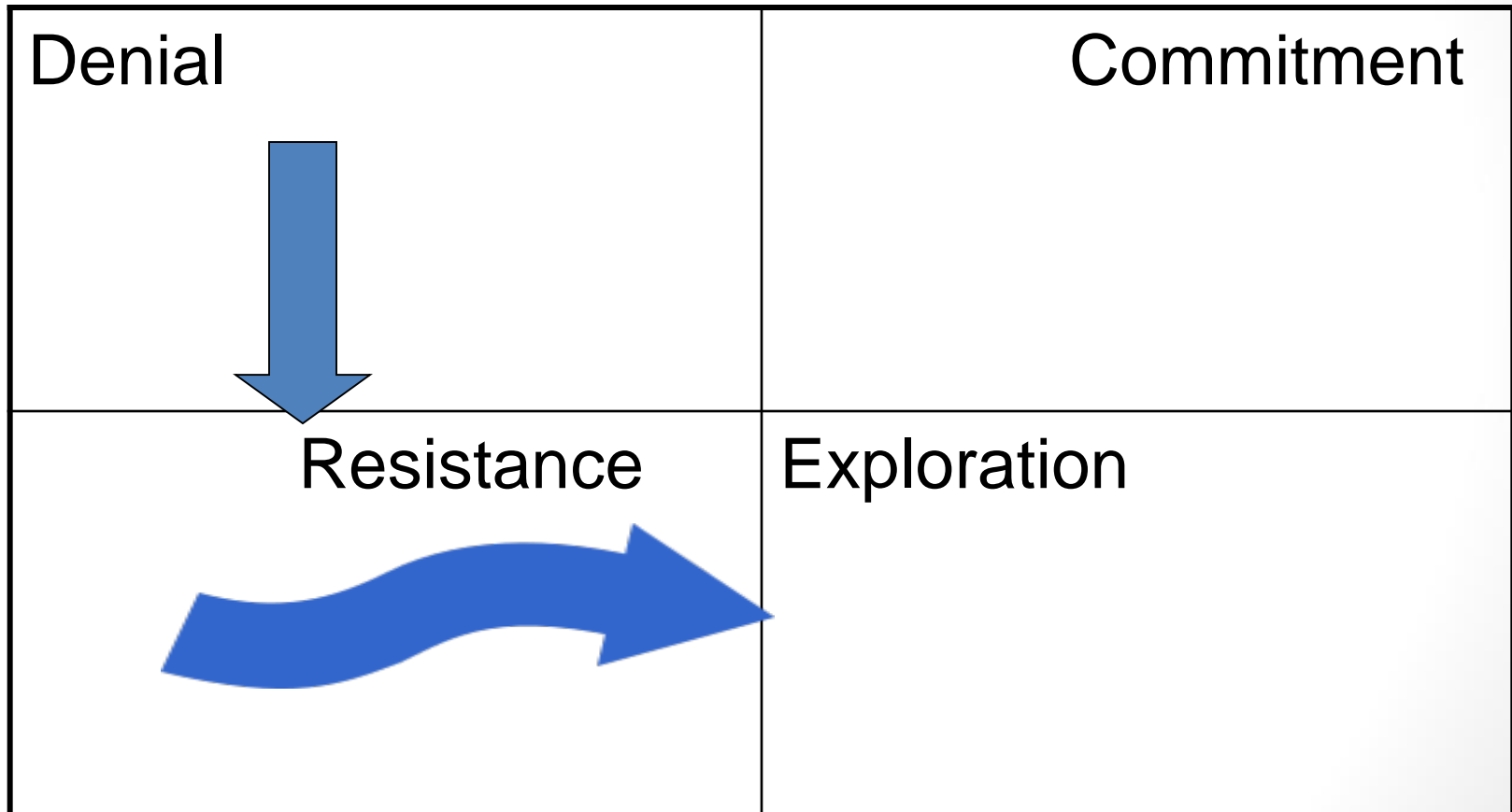
- A greater risk at this stage can be withdrawal and a lack of concentration or focus.
- Good indicators that people are in this stage are; increase in accidents, higher absenteeism, drop off in productivity or quality of work, even corruption or fraud.



# Resistance

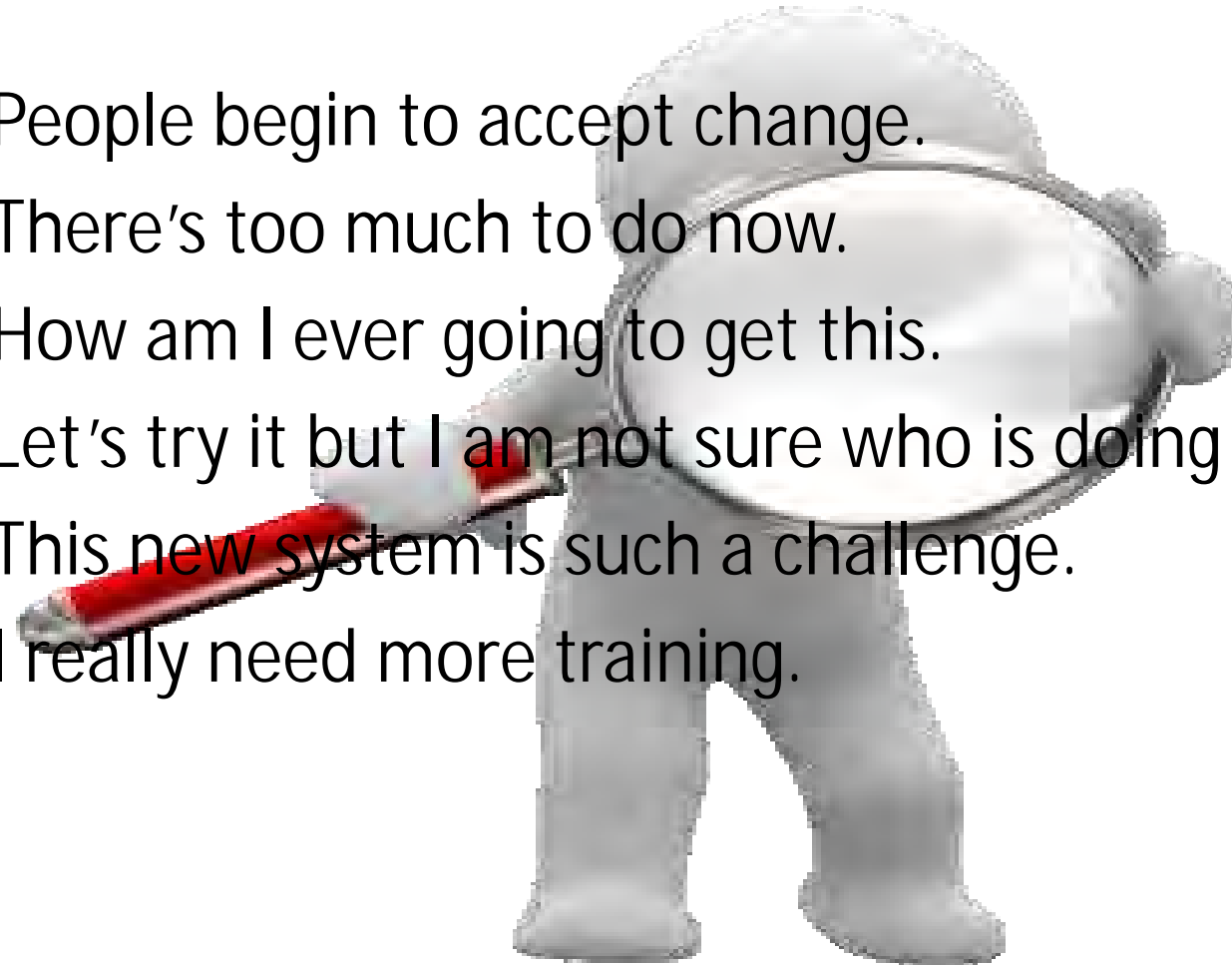
- Listen, people want to be heard.
- Empathize; people want understanding.
- Acknowledge responses and reactions; people want agreement not solutions.
- Don't deny feelings. This makes resistance deeper and last longer

# Four Stages of Change



# Exploration

- People begin to accept change.
- There's too much to do now.
- How am I ever going to get this.
- Let's try it but I am not sure who is doing what.
- This new system is such a challenge.
- I really need more training.



# Exploration

- Recognize change and the acceptance of change no matter how slight.
- Even small or slight acceptance of change equals success.
- Capitalize on the small acceptances and treat them as victories.
- In order for change to be celebrated it has to be recognized.

# Exploration

# ACTIVITY

# Exploration

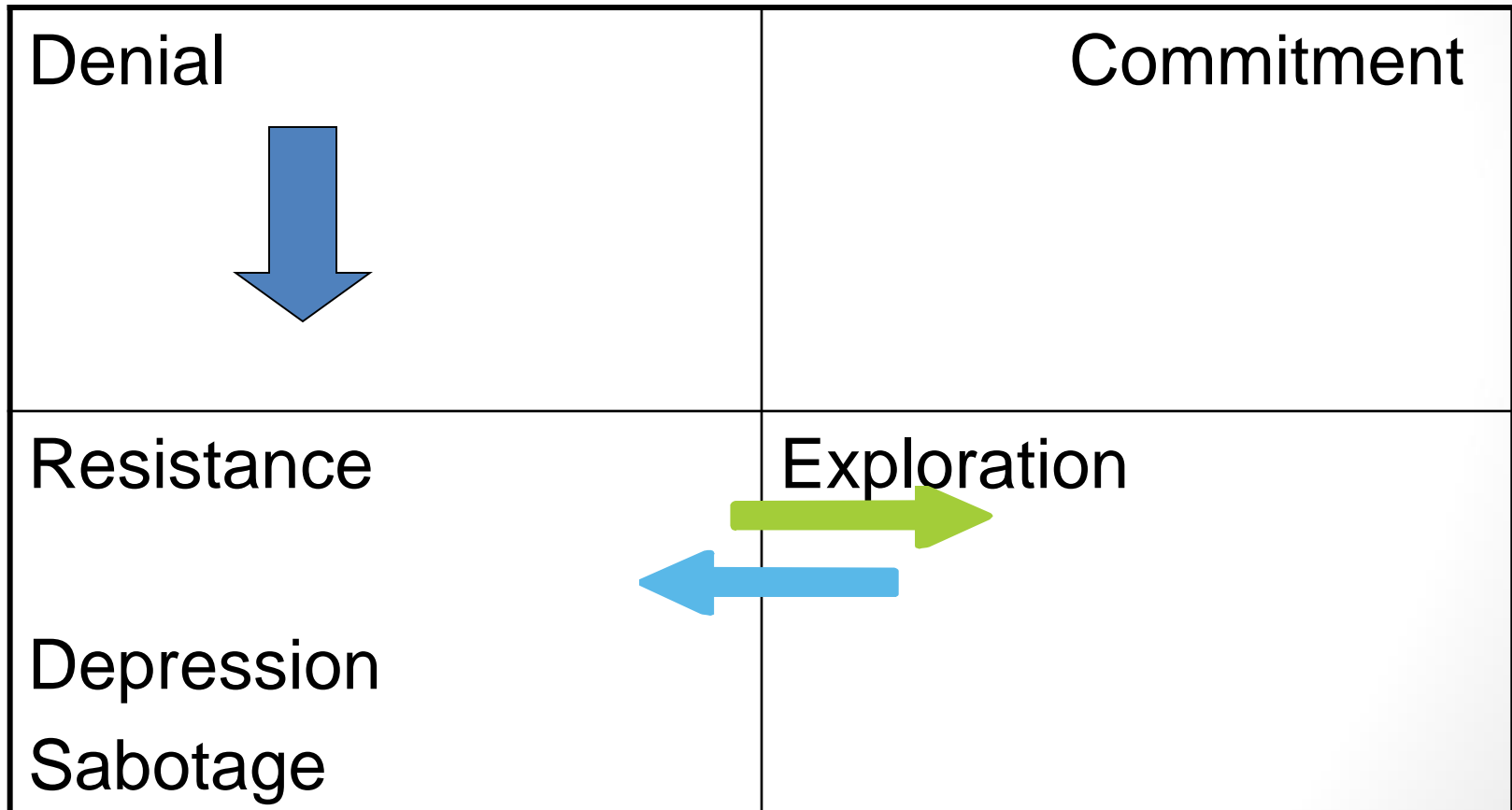
- Provide and embrace practical support and encouragement.
- Provide and seek training.
- Set goals and be active in planning.
- Focus on and celebrate short term wins.
- Amplify positive impacts and acknowledge negative setbacks.

# Exploration

- Be aware that if there is not immediate observable positive results, there is the real likelihood of resorting back to the resistance stage and greater resistance toward a change strategy.



# Four Stages of Change



“All great changes are  
preceded by chaos.”

*Deepak Chopra*

# Commitment

- Focus is on the future.
- References to the past are in contrast to the present.
- Use of inclusive language. (We, us , our)
- People have a clear sense of their roles.
- Proactive thinking and planning.



# Commitment

- Consolidate change (Rules, policies and culture.)
- Reward/Celebrate good responses to the change.
- Be aware of inconsistencies.
- Prepare for and expect future changes.



“All changes, even the most longed for, have their melancholy; for what we leave behind us is a part of ourselves; we must die to one life before we can another enter another.”

*Anatole France*

# Change Musts

- In order to successfully manage change, there are three elements that must be present;

Change must be:

- Realistic “ it has to make sense or be logical”
- Achievable “ time and resource constraints must be available”
- Measurable “you must be able to tell that change is happening”

# Change Strategy

- Recognize change
- Begin with an ending
- Transition is a process
- End with a beginning
- Celebrate.

# Change Strategy

- Recognize change

Realize that no matter what a person does the one thing that is certain is things do and will change. Expect and accept that it will and look forward to the change.

# Change Strategy

- Begin with an ending.

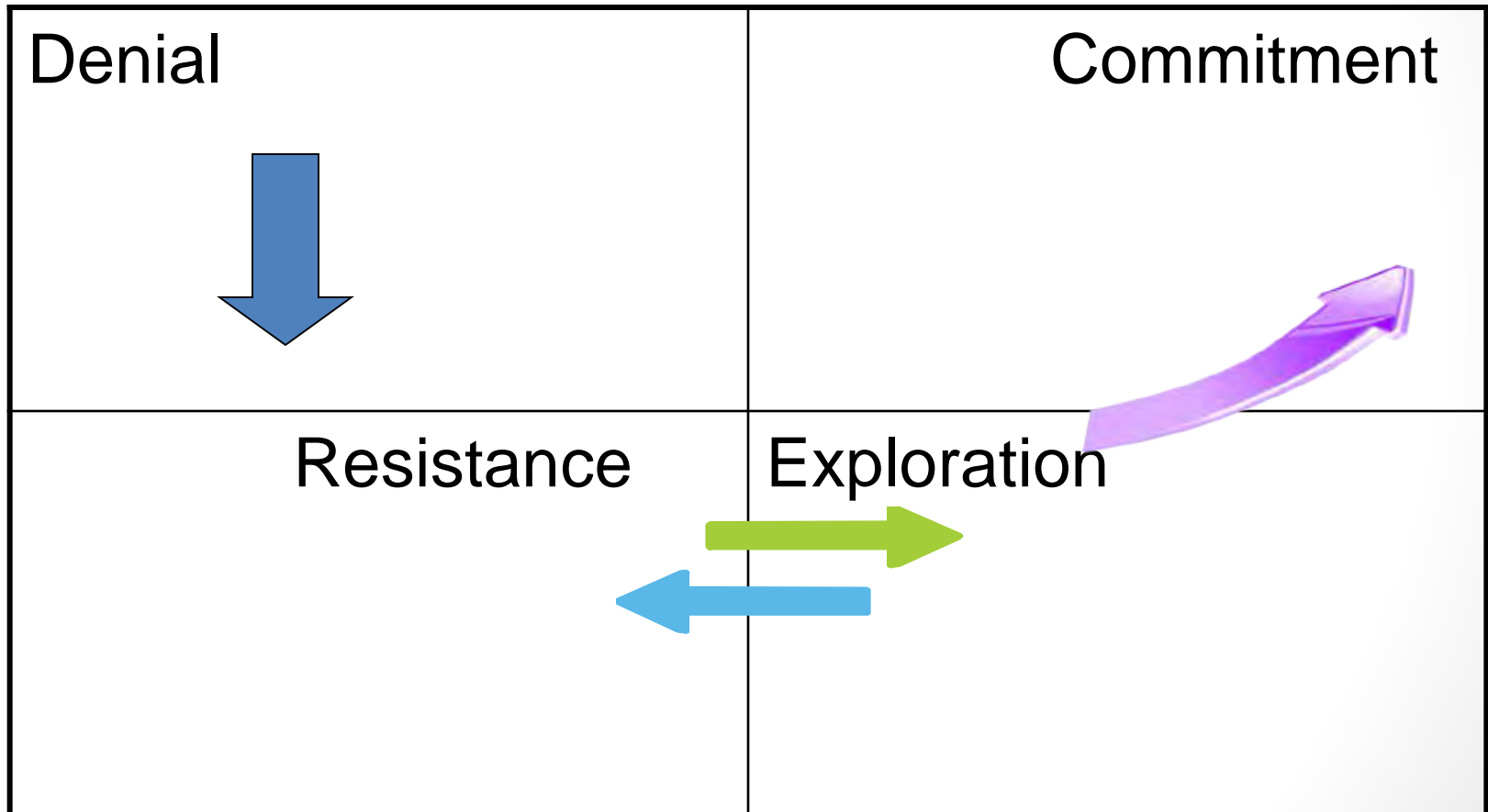
All change, both good and bad, begins with letting go of something. Whether it is a person or a process, nothing new can be implemented successfully without ending the old.

# Change Strategy

- Transition is a process

No one moves directly from Denial to Commitment. Letting go of the old and accepting the new takes time. Remember there has been a Commitment to the old and there has to be “letting go” of practices that are well engrained.

# Four Stages of Change



# Change Strategy

- End with a beginning.

Enjoy the new you/process and be purposeful not to mimic the old. Plan beyond the new beginning and finalize the transition. Look for expect and accept change.

# Change Strategy

- Celebrate.
- This is the time to enjoy your accomplishment, plan boldly for future endeavors and expand .
- Plan and for and even anticipate other change.

- **Over the Horizon Thinking**

*General Al Gray*

*Commandant USMC*

# Change

- “ If you do what you have always done, you get what you have always gotten.”

*Tony Robbins*

# Thank you!

# Titanium

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