

U.S. NATIONAL DEBT AS OF:

December 2024

\$36,073,541,794,035

December 2023

\$33,893,829,794,035

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Could It Happen in Your Business?

Recently I gave a presentation on **Embezzlement for the Detroit chapter of Entrepreneurs' Organization (EO)**, along with other presenters on cyber fraud, bank fraud, and other risks we face as small-business owners. This is a presentation **Brian Bach** and I have done many times over the years for various groups about how **shockingly common fraud & embezzlement occur** all

around us, but in particular, in small, entrepreneurial businesses – just like yours or those of your clients. I updated some of the mini casestudies for this particular talk as there is never a shortage of examples in the news.

The most recent, and certainly the highest profile and likely the largest case ever locally was the Detroit Riverfront Conservancy (DRFC). It's been in the news since the spring when the story broke, and recently the former CFO, William Smith, pleaded guilty to embezzling \$40M over a 12 year period. He now faces up to 20 years in prison. <http://bit.ly/4g70WNG>

This case was extraordinary due to its size, duration and utter failure of oversight from both the independent audit firm and the DRFC board – a large, high profile 'who's who' of Detroit leaders.

How could this possibly happen? Well, that's complicated. . . and yet, it's really not. The oversimplified answer is:

Smith was the only one with access to the organizations checking account. This allowed him to alter bank statements to hide the fraud

The independent audit firm had worked with DRFC for 17 years. Common practice in non-profit organizations is to change auditors every 3-5 years

Obviously there's more to it – but the primary failure was lack of segregation of duties for Smith, and lack of paying attention by everyone else.

As with other high profile frauds such as Enron, WorldCom and Bernie Madoff – people have a tendency to assume *someone else must be paying attention*. In this case, for instance, an outsider might think:



"The Executive Director (or CEO) must be paying attention. . . right?"

"The Independent Audit Firm would catch anything shady"

"Surely the Bank would notice \$40M leaving the accounts and alert someone"

"The 44-person Board of Directors would notice something"

"They have an Audit Committee that oversees compliance issues first-hand"

"The Governance Committee would never allow any one person to have control"

And yet, here we are. Time after time.

And this fraud went on for 12 YEARS.

It's our nature. We want to give people the benefit of the doubt. We want to be friendly with the people we work with – internally or externally. We want to believe that *"no one would do this"* – especially to a non-profit organization. We don't want to be skeptical – especially in a mission-driven organization. We don't want to ask the tough questions and ruffle feathers. We want to believe that *"so and so"* [*insert high-profile, successful, human*] is involved with this organization – and **they** trust what's happening – then everything must be above board. Because they're smarter, more astute, more connected than me. And I don't want to look like a fool in front of all these high-profile people.

Continued on p. 2 -->>



What's Happening? Michigan CFO Travel Photos!



Brian
Visiting
his son
Harrison
in Montana-
Giddy Up!



Todd attended the semi-annual FINACA Conference in Carlsbad, CA



Todd, making
gnocchi in
Asheville, NC
during an EO
Forum retreat!



Continued from p. 1 -->>

If an Executive Director, and independent audit firm, a 44-person board, an audit committee and a governance committee can't find a \$40M fraud that lasted 12 years. . . how are you going to find a \$150,000 embezzlement with none of these "controls", all while you're running in 5 different directions, wearing too many hats, just trying to grow your business?

The simple but difficult answer is **you have to pay attention.**

You must work to segregate financial duties as much as possible. This is much harder in a small business, but at a minimum, don't delegate check signings or ACH approvals. Utilize "positive pay" from your bank to restrict any outgoing funds. And have a 3rd party reconcile your bank statements.

Download our free [Segregation of Duties Worksheet](https://bit.ly/4gpxR07) <https://bit.ly/4gpxR07> to assess the risks in your business (link below).

And, if you do nothing else – contact your commercial insurance agent **and purchase First Party Fidelity Insurance (a.k.a., Employee Dishonesty Insurance)** in a sufficient amount to cover any potential losses.

Small businesses are as much a target as large organizations such as the DRFC; they're probably better targets due to the lack of resources for proper controls. Don't think that this only happens to "other people" – it happens everywhere – from the teacher handling the homecoming fund to the small-business owner, to the [Mayor of the city of Taylor](https://bit.ly/4eXqPP2), <https://bit.ly/4eXqPP2> to the DRFC.

Take a few minutes this week to make sure your business or your clients are protected. We don't want to see you in the news!

For a look at sobering fraud statistics in info-graphic form, check out the Association of Certified Fraud Examiners (ACFE) Report to the Nations 2024: <https://bit.ly/4g2X2oQ>

From our entire team at Michigan CFO Associates, we wish you a **Merry Christmas, Happy Holidays, and a blessed & prosperous 2025!**

Todd Raul



Do You Have a Plan for 2025?

Every year around this time we work with our clients developing a written plan or budget for the next year. This is something we do religiously for every client because we know the value and how it allows everyone in the organization to get on the same page and agree to what success looks like.

So, why is it that only about 1 in 10 businesses have some kind of budget or written plan? When we looked into it, we found there is no simple answer. What we found is a combination of systems, people, data, and expertise that must come together to effectively plan for the future.

So, here are some of the reasons we discovered on why this valuable exercise for financial planning is often not done:

Lack of Expertise: Small business owners often lack formal training or expertise in financial management, leading to poorly constructed budgets and plans.

Limited Resources: Small businesses often operate with tight budgets, making it hard to allocate funds for professional financial services or tools.

Over-Optimism: Entrepreneurs often have high unrealistic expectations for revenue growth that are based on best guesses, not on measured activities. This optimism also results in underestimating expenses and costs.

Unpredictable Cash Flow: Many small businesses struggle with inconsistent income, making it challenging to create and adhere to a realistic budget. Seasonal demand, payment delays from customers, or reliance on a few major clients exacerbates this problem.

Inadequate Tracking and Monitoring: Without proper financial tracking, businesses do not have a clear understanding of their income and expenses. Failing to regularly review and adjust the budget makes it obsolete and useless to management.

Focus on Immediate Needs: Small business owners are fire fighters, often prioritize short-term survival over long-term planning, leading to reactive rather than proactive financial management. Urgent needs for paying bills or buying inventory takes priority over any strategic planning, not stopping to assess the consequences.

Economic and Market Pressures: Changes in market conditions, inflation, or unexpected economic events can strain resources, making it hard to stick to a budget. Small businesses are often less resilient to economic shocks than larger companies.

Underestimation of Costs: Hidden or underestimated costs (e.g., taxes, insurance, or employee benefits) are not taken into account. Lack of data or experience leads to underestimating the true cost of scaling or operating the business.

Dependency on Manual Processes: Small businesses often rely on manual methods for financial tracking, which are prone to errors and hard to understand and analyze. The absence of automation or financial tools can make comparing actual results to a budget cumbersome.

Our experience has shown that, while on the surface budgeting appears challenging, the benefits outweigh the effort in providing valuable financial guidance throughout the year. An annual budget allows businesses to plan and allocate resources effectively. It helps in estimating future revenues and expenses, enabling better financial planning for the upcoming year.



WELCOME, New Clients!



Westminster Tool

Injection Mold Design
& Manufacturing

<https://www.westminstertool.com/>

Spine Specialists of Michigan

Robotic Spine Surgery & Care

<https://www.spinemi.com/>

Allyon

Federal Government &
Healthcare Staffing

<https://www.allyon.com/>

Black Mountain Manufacturing

CNC Machining, Fabrication &
Welding

<https://blackmountainmfg.com/>

Independence Commercial Construction

Commercial Construction &
Renovations

[https://
independencecommercial.com/](https://independencecommercial.com/)

Ostlund

A Service Company

Commercial Plumbing, Elec-
trical & Other Services

<https://ostlundservice.com/>

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The CFOs for Small-Business

*"The best way to spread
Christmas cheer is singing
loud for all to hear."*
– Buddy the Elf



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NEWSLETTER

The CFOs for Small-Business

**Outsourced CFO & Controller
Services Including:**

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Statement Analysis*
- ✔ *Cost & Profit Margin Analysis*
- ✔ *Bank Financing Packages &
Negotiations*
- ✔ *Financial Projections*
- ✔ *Cash Planning & Management*

