



# AI Integration

**The Crucial Role CPA's Play in  
Assisting Small to Mid-Sized  
Companies**

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# AI Integration: The Crucial Role CPAs Play in Assisting Small to Mid-Sized Companies

The rapid adoption of artificial intelligence (AI) in small and medium-sized businesses (SMBs) is revolutionizing operations across industries. However, with this new technology comes a series of practical and ethical challenges that must be navigated carefully. Certified Public Accountants (CPAs) are well-positioned to help SMBs implement AI responsibly, ensure compliance with regulations, maintain accountability, and build trust with stakeholders.

CPAs have an incredible opportunity to position themselves as solution providers, guiding organizations through AI adoption's ethical and practical challenges. However, this opportunity can only be fully realized if CPAs commit to becoming deeply familiar with AI technologies and the ethical dilemmas that accompany them. AI presents complex issues such as algorithmic bias, data privacy, accountability, and job displacement—areas where businesses urgently need informed guidance.

By expanding their expertise in AI, CPAs can help clients integrate these technologies responsibly and offer valuable insight into mitigating risks and ensuring compliance with evolving regulations. This new frontier requires in-depth learning, but those CPAs who invest in understanding AI will become indispensable to their clients, driving ethical AI implementation and long-term business success.

The biggest challenge for the CPA community is the rapid commitment to AI education necessary to become the trusted advisor for client needs. Large firms have the financial resources and ability to hire skilled AI experts, yet, the need in SMB's opens the door for smaller or regional firms to take the lead with AI implementation for their clients. The truth is, if the CPA does not embrace this new technological environment, they will be left behind leaving the opportunity to someone or firm outside of the profession.

This comprehensive article delves into ten critical ethical issues with AI integration, offering real-world examples and practical strategies for CPAs to support their clients in overcoming these challenges.

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## 1. Job Displacement: Preparing for a Changing Workforce

As businesses adopt AI and automation technologies, job displacement becomes a significant concern, especially in industries where daily manual and repetitive tasks are performed. CPAs can play a crucial role in helping businesses plan for and manage these transitions by providing financial guidance, ensuring that workforce changes are implemented ethically, and advising on the long-term economic impacts.

### Real-World Example:

#### Company: Carrier Corporation

- **Situation:** Carrier, an air conditioning manufacturer, announced plans in 2016 to move production to Mexico, resulting in the loss of around 1,400 jobs at their Indiana plant. While the move wasn't entirely due to AI, automation reduced the need for human labor at the plant, raising concerns about job displacement and its financial and ethical impact on workers.

- **CPA's Role:** Carrier's CPA firm and financial advisors played a crucial role in helping the company balance financial pressures with the ethical implications of job displacement. CPAs assisted Carrier in:

- **Severance planning:** Ensuring that the affected workers were provided with severance packages that were financially sustainable for the company.

- **Retraining programs:** Collaborating with government and educational institutions to create retraining programs for displaced workers, providing new skills aligned with other sectors where automation had less impact.

- **Long-term financial planning:** The CPA firm helped Carrier evaluate the long-term financial implications of moving production, incorporating the costs of job displacement, retraining initiatives, and public relations efforts to mitigate reputational damage.

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- **Result:** Carrier's initial announcement led to a public outcry and intervention from then-President-elect Donald Trump. In the end, Carrier struck a deal to keep some of the jobs in Indiana while still automating parts of its production process. Although some jobs were lost, severance packages, retraining efforts, and long-term planning helped soften the transition.

## **Takeaway for CPAs:**

In situations where job displacement is inevitable due to AI or automation, CPAs can guide businesses through the financial and ethical aspects of the transition. This includes severance planning, reskilling initiatives, and analyzing the long-term financial trade-offs, helping companies manage job losses responsibly and maintain a positive reputation.

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## 2. Privacy and Data Security: Ensuring Confidentiality and Compliance

AI-driven data analytics and processing require vast amounts of personal data, which increases the risk of privacy breaches. Small and medium-sized businesses (SMBs) often lack larger corporations' sophisticated data protection systems, making them vulnerable to compliance failures with regulations like the GDPR and CCPA. CPAs can help SMBs establish robust data governance frameworks, conduct privacy audits, and ensure they comply with data privacy laws, safeguarding their business and customers' sensitive information.

### Real-World Example:

#### Company: Stitch Fix

- **Situation:** Stitch Fix, an online personal styling service that uses AI to personalize clothing recommendations for customers, faced concerns over the handling and privacy of sensitive customer data. The company's AI system collected and analyzed vast amounts of personal data, including body measurements, shopping preferences, and other lifestyle information. As the company expanded its services into Europe, Stitch Fix needed to ensure compliance with the General Data Protection Regulation (GDPR) to avoid hefty fines while maintaining adherence to the California Consumer Privacy Act (CCPA) for its U.S. operations.

- **CPA's Role:** Stitch Fix engaged a CPA firm to help them navigate the complexities of data privacy regulations and ensure compliance across different regions. The CPA firm assisted in several key areas:

- **Data governance framework:** The CPA firm helped Stitch Fix implement a comprehensive data governance framework to ensure that personal customer data was handled ethically and securely. This included setting up procedures for collecting, processing, and storing data to ensure compliance with GDPR and CCPA.

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- **Compliance audits:** The CPA firm conducted thorough audits to identify potential vulnerabilities in Stitch Fix's data handling practices. These audits ensured that the company's AI-driven recommendation system adhered to strict data privacy laws, including obtaining user consent and ensuring the right to delete personal information upon request.
- **Risk mitigation strategies:** CPAs helped Stitch Fix develop a risk mitigation plan that included steps for managing potential data breaches. They advised implementing more robust encryption methods, anonymizing sensitive customer data, and creating an incident response plan in case of a security breach.
- **Financial planning for compliance costs:** The CPA firm also worked with Stitch Fix to budget for the financial costs of maintaining ongoing compliance, including setting aside funds for future audits, potential fines, and investments in new technologies to enhance data security.
- **Result:** Due to the CPA firm's involvement, Stitch Fix successfully expanded its operations into Europe, remaining compliant with GDPR while ensuring ongoing adherence to CCPA in the U.S. The company built trust with its customers by being transparent about how their data was used and protected, positioning itself as a responsible and ethical player in the AI-driven retail market. Furthermore, the proactive risk mitigation strategies allowed Stitch Fix to avoid costly data breaches, saving the company from potential reputational and financial damage.

## Takeaway for CPAs:

CPAs are critical in helping SMBs navigate the legal and ethical challenges of data privacy in an AI-driven world. By establishing robust data governance frameworks, conducting privacy audits, and advising on compliance with regulations like GDPR and CCPA, CPAs can ensure that businesses handle customer data securely and ethically, mitigating risks and building trust with consumers.

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## 3. Algorithmic Bias: Ensuring Fairness and Inclusivity

AI algorithms can unintentionally perpetuate biases, which can lead to unfair outcomes in hiring, lending, and other business processes. Small and medium-sized businesses (SMBs) often have less diverse data sets and are particularly vulnerable to this issue. CPAs can be essential in identifying and addressing algorithmic bias, ensuring that AI systems promote fairness and inclusivity while protecting businesses from legal and reputational risks.

### Real-World Example:

#### Company: HireVue (AI Recruiting Platform)

- **Situation:** HireVue, an AI-driven recruiting platform, used video interviews and machine learning algorithms to assess job candidates. The AI system analyzed speech patterns, facial expressions, and other non-verbal cues to score applicants on various attributes, claiming to provide an unbiased, data-driven way to assess talent. However, it soon faced criticism and scrutiny from advocacy groups and regulators for potentially amplifying racial and gender biases, as the AI model had been trained on historical data that reflected past hiring biases.
- **CPA's Role:** HireVue worked with a CPA firm that audited AI systems for ethical issues, including bias detection and compliance with fair employment laws. The CPA firm assisted in the following areas:
  - **Bias detection and audit:** The CPA firm conducted an in-depth audit of HireVue's AI algorithms to identify any inherent biases. By reviewing the data used to train the AI model, they could pinpoint areas where the algorithm disproportionately disadvantaged certain applicants. This included analyzing how variables like speech patterns or facial features were weighed in the overall scoring process.

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- **Algorithm re-engineering recommendations:** After identifying biased outcomes, the CPA firm worked with HireVue's data science team to suggest changes to the AI model. They recommended removing non-essential factors contributing to biased outcomes and encouraged using more diverse data sets to retrain the AI system.
- **Transparency and reporting:** The CPA firm also advised HireVue to increase transparency around how its AI made hiring decisions. They recommended publishing a clear report that detailed the steps taken to reduce bias and the measures in place to ensure fairness. This included a commitment to continuously monitoring and auditing the AI system to ensure it remained bias-free.
- **Compliance with employment laws:** The CPA firm ensured that HireVue's hiring practices were aligned with anti-discrimination laws, such as the U.S. Equal Employment Opportunity Commission (EEOC) guidelines. They helped the company develop procedures to document hiring decisions, ensuring they could demonstrate compliance if challenged legally.
- **Result:** Following the CPA firm's audit and recommendations, HireVue significantly reduced bias in its AI-driven recruitment platform. The company implemented more diverse data sets to train its algorithms, re-engineered the AI model to focus on job-relevant factors, and established a transparent reporting system to communicate its commitment to fairness. By addressing algorithmic bias, HireVue rebuilt trust with its customers and demonstrated its commitment to ethical AI use. Notably, the company avoided potential legal challenges by ensuring compliance with employment discrimination laws.

## Takeaway for CPAs:

CPAs can help SMBs ensure their AI systems are free from bias by conducting audits of data sets and algorithms, recommending changes to improve fairness, and advising on compliance with anti-discrimination laws. CPAs protect businesses from reputational damage and legal challenges by helping companies address algorithmic bias and ensure that AI systems promote inclusivity.



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## 4. Accountability and Transparency: Building Trust in AI Systems

AI systems can sometimes function as a "black box," where businesses use complex algorithms to make critical decisions without fully understanding how those decisions are made. For small and medium-sized enterprises (SMBs), this lack of transparency can lead to ethical concerns and even legal issues. CPAs can help businesses establish accountability structures, ensure transparency in AI-driven decision-making, and build trust with stakeholders by providing clear explanations and human oversight.

### Real-World Example:

#### Company: EquBot (AI-driven Investment Platform)

- **Situation:** EquBot, an AI-driven investment platform, uses machine learning algorithms to analyze vast amounts of financial data and make real-time investment decisions. While the platform's AI offered the promise of faster and more accurate portfolio management, investors and regulators were concerned about the lack of transparency in how the AI made its decisions. The "black box" nature of the system meant that clients couldn't easily understand why certain investments were made, raising issues around accountability and potential risks if the AI made poor or biased decisions.

- **CPA's Role:** EquBot partnered with a CPA firm to introduce transparency into its AI processes and ensure that human oversight was maintained throughout the decision-making process. The CPA firm helped in the following ways:

- **Defining accountability structures:** The CPA firm worked with EquBot to establish clear accountability structures for AI-driven investment decisions. They identified critical individuals within the company who would oversee the AI system, ensuring that human professionals were involved in validating the AI's recommendations before they were implemented.

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- **Transparency reports:** To address concerns from both investors and regulators, the CPA firm helped EquBot create detailed transparency reports. These reports outlined the key variables the AI system used to make investment decisions and explained the rationale behind those decisions in plain language that clients could understand. This reporting helped bridge the gap between the complex AI algorithms and the investors who relied on the system.

- **Implementing a governance framework:** The CPA firm assisted EquBot in developing an AI governance framework that required continuous monitoring of the AI's performance. This framework ensured that the company's human decision-makers regularly reviewed any changes in market conditions or shifts in the algorithm's outputs to prevent reliance on the AI system alone.

- **Compliance with regulatory requirements:** CPAs worked with EquBot to ensure the platform complied with financial regulations, such as the U.S. Securities and Exchange Commission (SEC) guidelines. They documented the AI's decision-making processes to ensure that EquBot could provide clear, evidence-based explanations for its investment choices if any questions or disputes arose from clients or regulators.

- **Result:** With the CPA firm's support, EquBot successfully implemented transparency and accountability measures that helped build trust with its investors and clients. By establishing human oversight, providing detailed transparency reports, and complying with regulatory standards, EquBot could scale its operations while maintaining client confidence. Investors felt more secure knowing their portfolios were managed with AI efficiency and human expertise, reducing the risks associated with AI-driven financial decisions.

## Takeaway for CPAs:

CPAs can help businesses using AI establish clear accountability frameworks, ensuring human professionals oversee AI decisions. By developing transparency reports and governance structures, CPAs enable businesses to explain how AI systems make decisions, fostering trust among stakeholders and ensuring compliance with regulatory requirements.

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## 5. Maintaining Professional Judgment: AI as a Tool, Not a Decision-Maker

While AI can provide valuable insights, it is critical for small and medium-sized businesses (SMBs) to ensure that human professionals maintain oversight and final decision-making authority. Over-reliance on AI can lead to errors, ethical issues, and poor outcomes, especially when AI-generated outputs are not critically reviewed. CPAs play an essential role in helping businesses integrate AI in a way that supports, rather than replaces, professional judgment.

### Real-World Example:

#### Company: Financial Engines (Robo-Advisor Platform)

- **Situation:** Financial Engines, a robo-advisory firm, uses AI algorithms to provide personalized investment recommendations for clients. The platform's AI-driven model analyzed various financial metrics and market data to offer portfolio advice tailored to individual clients' needs. However, the automated nature of the service raised concerns about the lack of human oversight in the decision-making process. Clients worried that the recommendations generated by the AI could be too mechanical and lack the nuanced judgment that human advisors could provide, especially during market volatility or unusual personal financial situations.

- **CPA's Role:** Financial Engines engaged a CPA firm to ensure that human oversight and professional judgment were integrated into their AI-driven investment advisory services. The CPA firm contributed in the following ways:

- **Human oversight policies:** The CPA firm helped Financial Engines establish policies requiring human advisors to review AI-generated recommendations before they were presented to clients. These policies ensured that professionals could override AI decisions based on their knowledge of the client's personal financial goals or any extraordinary circumstances not fully captured by the AI.

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- **Training on AI tools:** CPAs collaborated with Financial Engines to develop training programs for their financial advisors, teaching them how to interpret AI outputs critically. The training focused on understanding the limitations of AI models and how to use AI to support, rather than replace, their financial expertise.
- **Balancing AI and human judgment:** CPAs worked with Financial Engines to establish a framework for balancing AI's data-driven recommendations with human advisors' qualitative judgment. This framework emphasized the importance of integrating AI outputs with broader financial planning strategies and understanding market trends that AI may not fully account for.
- **Audit and monitoring:** The CPA firm regularly audits the AI system's recommendations, ensuring that the AI's advice is aligned with industry standards and best practices in financial planning. They also implemented a continuous feedback loop where advisors could flag any inconsistencies or issues with the AI's recommendations for further refinement.
- **Result:** Due to these initiatives, Financial Engines enhanced its platform by combining AI's data processing power with the human touch of professional judgment. This hybrid model allowed clients to benefit from personalized, data-driven investment strategies while maintaining confidence that human professionals were overseeing and validating the recommendations. The CPA firm's involvement ensured that Financial Engines could scale its services without compromising the quality of financial advice provided, particularly in cases where human discretion was necessary.

## **Takeaway for CPAs:**

CPAs can guide SMBs in developing frameworks that ensure AI complements human decision-making rather than replacing it. By establishing oversight policies, providing training on interpreting AI outputs, and conducting audits of AI systems, CPAs help businesses maintain professional judgment and ensure that data and human expertise inform critical decisions.

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## 6. Ethical Use of AI Capabilities: Safeguarding Moral Boundaries

If used irresponsibly, AI's power and capabilities present enormous business opportunities and significant ethical risks. Small and medium-sized businesses (SMBs), often eager to adopt cutting-edge technology, may overlook the ethical implications of AI-driven processes, such as using AI to manipulate customer behavior or exploit vulnerable groups. CPAs can help ensure that AI is used within moral and ethical boundaries, advising businesses on responsible AI implementation that aligns with their values and legal requirements.

### Real-World Example:

#### Company: Zynga (Mobile Gaming Company)

- **Situation:** Zynga, a mobile gaming company known for popular titles such as \*FarmVille\* and \*Words with Friends\*, utilized AI-driven algorithms to optimize in-game purchases and advertisements targeted at its users. While this strategy significantly boosted revenue, it also raised ethical concerns, particularly around targeting vulnerable individuals, such as minors or users with addiction tendencies, by encouraging them to make excessive in-game purchases. These concerns were amplified when reports surfaced that certain in-game designs were intentionally structured to promote addictive behaviors, leading to potential exploitation.
- **CPA's Role:** A CPA firm with expertise in business ethics and AI was engaged to help Zynga address these concerns and realign its AI-driven strategies with ethical business practices. The firm assisted in the following ways:
  - **Developing ethical AI guidelines:** The CPA firm worked with Zynga to create a comprehensive set of ethical guidelines for AI use in its gaming platform. These guidelines included policies on limiting in-game advertising to minors, ensuring transparency in how AI targeted players, and setting ethical boundaries for monetization strategies to avoid exploitative tactics.

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- **Establishing an internal ethics committee:** The CPA firm recommended that Zynga establish an internal AI ethics committee to review and approve all AI-driven monetization strategies before implementation. This committee, composed of company leaders and external advisors, ensured that Zynga's AI practices aligned with legal standards and corporate values.

- **Regular audits of AI practices:** The CPA firm conducted regular audits of Zynga's AI algorithms to ensure they adhered to the newly established ethical guidelines. These audits included reviewing the AI's data inputs, its tracked behavioral patterns, and how it segmented users for in-game purchases.

- **Public transparency and communication:** The CPA firm helped Zynga develop a communication strategy to inform users and stakeholders about the steps to ensure ethical AI use. This included publishing transparency reports outlining how Zynga's AI algorithms were used and what measures were in place to protect vulnerable users.

- **Result:** By working with the CPA firm, Zynga adjusted its AI-driven strategies to prioritize ethical considerations while maintaining revenue streams. Implementing ethical AI guidelines and establishing an internal ethics committee allowed Zynga to address the concerns of stakeholders, including advocacy groups and regulators. The company also benefited from improved customer trust, as users appreciated Zynga's steps to ensure AI-driven marketing tactics were not unfairly exploiting them.

## Takeaway for CPAs:

CPAs can help SMBs establish ethical boundaries for AI use by developing guidelines, setting up internal ethics committees, and conducting regular audits of AI-driven processes. CPAs play a key role in safeguarding businesses from unethical practices and protecting vulnerable stakeholders by ensuring transparency and accountability in how AI is used.

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## 7. Data Privacy Regulations: Navigating Complex Legal Landscapes

AI-driven systems often rely on vast amounts of personal data, placing small and medium-sized businesses (SMBs) at significant risk if they fail to comply with stringent data privacy regulations like the General Data Protection Regulation (GDPR) in Europe or the California Consumer Privacy Act (CCPA) in the U.S. Ensuring compliance can be complex, particularly for SMBs operating in multiple regions with different regulations. CPAs can guide these businesses in navigating legal requirements, implementing proper data governance frameworks, and minimizing the risks of data breaches.

### Real-World Example:

#### Company: Drizly (Alcohol Delivery Startup)

- **Situation:** In 2020, Drizly, a rapidly growing alcohol delivery service, experienced a data breach that exposed the personal information of around 2.5 million customers, including emails, delivery addresses, and some financial data. The breach raised serious concerns about the company's compliance with data privacy regulations, particularly under GDPR and CCPA, and triggered scrutiny from regulators and consumers alike. The breach also highlighted the vulnerability of SMBs to cyberattacks and the potential legal and financial consequences of failing to protect sensitive customer data.

- **CPA's Role:** Drizly engaged a CPA firm with data privacy and compliance expertise to help mitigate the breach's fallout and strengthen its data governance practices. The CPA firm contributed in the following areas:

- **Data privacy audit:** The CPA firm conducted a comprehensive audit of Drizly's data collection, storage, and processing practices to identify vulnerabilities that had contributed to the breach. They examined how data was handled across the company's AI-driven systems and whether its privacy practices complied with GDPR and CCPA.

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- **Compliance with GDPR and CCPA:** The CPA firm helped Drizly realign its operations with GDPR and CCPA regulations, focusing on how personal data was collected, secured, and shared. This included advising Drizly on the proper consent mechanisms for collecting user data, ensuring customers could request deletion of their personal information (a critical GDPR right), and strengthening encryption protocols for financial information.

- **Risk mitigation strategies:** To prevent future data breaches, the CPA firm assisted Drizly in implementing more robust data security measures, such as regular vulnerability assessments, penetration testing, and real-time monitoring for potential data breaches. They also helped establish a data breach response plan, ensuring that Drizly could quickly act to contain and report future violations if they occurred.

- **Regulatory communication and fines management:** The CPA firm helped Drizly manage communication with regulators and handle potential fines. By proactively engaging with regulatory bodies and demonstrating the steps taken to prevent future breaches, Drizly minimized the legal impact of the breach and positioned itself as a company committed to customer privacy.

- **Result:** With the guidance of the CPA firm, Drizly strengthened its data privacy practices and brought its operations into full compliance with GDPR and CCPA. The company rebuilt trust with its customer base by being transparent about the breach and the steps to address it. Additionally, Drizly avoided more severe regulatory penalties by proactively working with authorities to improve its privacy framework and demonstrating its commitment to safeguarding customer data.

## Takeaway for CPAs:

CPAs can play a vital role in helping businesses like Drizly navigate complex data privacy regulations by conducting audits, advising on compliance with laws such as GDPR and CCPA, and implementing robust data security practices. Doing so helps businesses minimize the risk of costly data breaches and protect sensitive customer information.



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## 8. Intellectual Property Concerns: Protecting Innovation

AI innovations often come with intellectual property (IP) challenges, particularly when SMBs develop proprietary algorithms or use AI to generate content. SMBs risk losing control over their innovations or facing legal disputes if their intellectual property isn't adequately protected. CPAs can help businesses navigate these IP challenges by advising on patent protection, licensing agreements, and ownership issues related to AI-generated content.

### Real-World Example:

#### Company: Ginkgo Bioworks (Biotechnology Startup)

- **Situation:** Ginkgo Bioworks, a startup specializing in synthetic biology, uses AI to design and create custom organisms for various industries, including pharmaceuticals and agriculture. With significant investments in research and development (R&D), Ginkgo faced the challenge of protecting its proprietary AI algorithms and intellectual property, mainly as it collaborated with third parties. In these partnerships, questions of IP ownership, licensing, and the protection of trade secrets became increasingly complex, especially as more AI-driven innovations were developed.

- **CPA's Role:** Ginkgo Bioworks worked with a CPA firm specializing in intellectual property and AI innovation. The CPA firm helped Ginkgo safeguard its IP by taking the following steps:

- **Patent strategy development:** The CPA firm advised Ginkgo to develop a comprehensive patent strategy to protect its proprietary AI algorithms. They worked closely with Ginkgo's legal team to ensure that patents were filed for key innovations, ensuring the company retained exclusive rights to its AI-driven processes. They also helped Ginkgo identify which aspects of its AI and biological innovations could be patented versus those that should remain trade secrets.

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- **Licensing agreements and IP ownership:** Ginkgo often collaborated on joint projects with other organizations, including academic institutions and corporate partners. The CPA firm assisted in structuring these partnerships by advising on IP ownership and licensing terms. They ensured that Ginkgo retained control over its core AI technologies, while clearly outlining the terms for shared intellectual property that resulted from collaborations.

- **Valuing AI-driven IP:** The CPA firm also provided expertise in valuing Ginkgo's AI-related intellectual property, ensuring that these intangible assets were accurately reflected on the company's financial statements. This valuation was essential not only for internal decision-making but also for negotiations with potential investors and partners.

- **IP risk management:** To mitigate the risk of intellectual property theft or disputes, the CPA firm helped Ginkgo implement robust IP protection practices, including securing digital assets, ensuring confidentiality agreements were in place with employees and partners, and regularly reviewing patent filings to stay competitive in a rapidly evolving field.

- **Result:** Thanks to the CPA firm's expertise, Ginkgo Bioworks was able to secure patents for its proprietary AI algorithms and safeguard its innovations during collaborative projects. By structuring strong IP agreements and protecting trade secrets, Ginkgo maintained control over its core technologies, which were critical to its competitive advantage. Additionally, the accurate valuation of AI-driven intellectual property helped the company attract further investment and partnerships, bolstering its growth and market position.

## Takeaway for CPAs:

CPAs can help SMBs protect their AI-driven intellectual property by advising on patent strategies, structuring licensing agreements, and valuing intangible assets. By ensuring that businesses retain control over their innovations and mitigate the risk of IP disputes, CPAs safeguard SMBs' competitive advantage and long-term growth.

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## 9. Accuracy and Reliability: Ensuring Consistent Performance

AI systems are only as reliable as the data they are trained on and the algorithms used to interpret that data. Inaccurate or inconsistent AI outputs can lead to costly mistakes for small and medium-sized businesses (SMBs), particularly in industries where precision is critical. CPAs can help companies implement processes to regularly test and validate the accuracy of AI models, ensuring that the systems produce reliable results over time.

### Real-World Example:

#### Company: Lemonade Insurance (AI-Powered Insurance Provider)

- **Situation:** Lemonade, an AI-powered insurance company, uses algorithms to process claims and provide instant decisions. The company's AI-driven claims process promised speed and efficiency, but after receiving complaints from customers about inconsistencies and errors in claims approvals, Lemonade realized that the AI system was occasionally producing inaccurate results. These inaccuracies frustrated customers and exposed the company to potential legal and reputational risks.

- **CPA's Role:** Lemonade engaged a CPA firm with expertise in auditing AI systems to ensure that its claims processing algorithm produced consistent and accurate outcomes. The CPA firm provided value in the following ways:

- **Data integrity audits:** The CPA firm conducted a comprehensive audit of the data used to train Lemonade's AI system. They identified instances where incorrect or incomplete data inputs led to inaccurate claims decisions. The firm also reviewed the quality and relevance of the data, ensuring that the AI system had access to the most accurate and up-to-date information.

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- **Algorithm performance monitoring:** The CPA firm established a continuous monitoring process to track the performance of Lemonade's AI algorithm in real time. By creating benchmarks for accuracy and consistency, the firm ensured that any deviations or anomalies in the AI system's output were detected early and corrected before they could impact customers.
- **Framework for periodic validation:** To ensure that Lemonade's AI system remained accurate over time, the CPA firm developed a framework for periodic algorithm validation. This included retraining the AI model as new data became available and conducting regular tests to confirm that the system met the desired accuracy standards.
- **Reporting and transparency:** The CPA firm advised Lemonade on implementing a transparent reporting mechanism to communicate to customers and regulators how the AI system processed claims and how accuracy was maintained. This transparency was critical in rebuilding trust with customers who had experienced issues with the claims process.
- **Result:** By partnering with the CPA firm, Lemonade significantly improved the accuracy and reliability of its AI-driven claims processing system. The company reduced the number of errors in claims approvals, leading to higher customer satisfaction and fewer disputes. Furthermore, by establishing a continuous monitoring and validation framework, Lemonade ensured its AI system remained consistent and reliable as it scaled. The transparency provided through reporting also helped Lemonade regain trust with its customer base and avoid potential regulatory challenges.

## Takeaway for CPAs:

CPAs can help businesses ensure the accuracy and reliability of their AI systems by auditing data inputs, monitoring algorithm performance, and establishing frameworks for periodic validation. CPAs help SMBs avoid costly mistakes and maintain customer trust by ensuring that AI outputs are consistent and dependable.

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## 10. Upholding Professional Standards: Maintaining Integrity in a Digital Era

As AI becomes more prevalent, businesses must ensure it doesn't compromise the professional standards and ethical guidelines critical to their industry. Small and medium-sized enterprises (SMBs) can sometimes overlook these aspects as they prioritize growth and efficiency. CPAs play a key role in helping businesses ensure that their AI systems uphold the highest professional and ethical standards, integrating them into existing business practices without sacrificing Integrity.

### Real-World Example:

#### Company: Clearview AI (Facial Recognition Startup)

- **Situation:** Clearview AI, a company that developed facial recognition technology, was embroiled in controversy after it was revealed that their AI systems scraped billions of images from the internet without user consent. The lack of transparency and failure to obtain proper consent raised severe ethical concerns about privacy, data usage, and adherence to professional standards. Regulators and civil rights organizations accused Clearview of violating privacy laws and moral norms by leveraging AI to erode public trust.
- **CPA's Role:** After public scrutiny intensified, Clearview AI engaged a CPA firm with expertise in ethics and compliance to help address these concerns and realign the company's practices with industry standards. The CPA firm contributed in several ways:
  - **Developing ethical AI policies:** The CPA firm worked with Clearview to establish a comprehensive set of ethical guidelines governing the use of AI and data. This included policies on obtaining proper user consent for image collection, limiting the use of AI to permissible legal and ethical purposes, and adhering to professional privacy standards.

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- **Compliance with legal and ethical standards:** CPAs ensured that Clearview's practices aligned with existing privacy regulations, such as the GDPR and the California Consumer Privacy Act (CCPA), while helping the company prepare for upcoming legislation. The firm advised Clearview on instituting procedures to ensure that future data collection adhered to global privacy laws and avoided further ethical lapses.

- **Auditing AI systems for ethical compliance:** The CPA firm audited Clearview's AI algorithms and data sources, ensuring that any images collected without proper consent were removed from the database. They implemented processes to monitor future data collection and ensure all AI usage complied with legal and ethical requirements.

- **Training and education on ethical AI use:** The CPA firm introduced training programs for Clearview's staff to ensure they understood the ethical implications of using AI and were aware of the legal risks associated with unethical practices. These programs reinforced the importance of maintaining high moral standards, even as the company pushed forward with AI innovation.

- **Result:** With the help of the CPA firm, Clearview AI implemented a robust set of ethical standards and improved its compliance with privacy regulations. The company established clearer boundaries for its AI technology and took steps to rebuild trust with regulators and the public. While the company faced legal challenges, the improvements in governance, transparency, and ethical standards helped mitigate further reputational damage and positioned Clearview for more responsible AI use.

## **Takeaway for CPAs:**

CPAs can help businesses integrate AI while upholding the highest ethical and professional standards. By developing ethical guidelines, ensuring compliance with laws and auditing systems, and providing training, CPAs help protect businesses from legal risks and ethical pitfalls while maintaining the integrity of their operations.

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## **Conclusion: CPAs as Ethical Guides for SMBs in the Age of AI**

As AI technology becomes more accessible to small and medium-sized businesses, it also presents many ethical challenges. CPAs are uniquely positioned to help these businesses navigate the complexities of AI integration while upholding professional and ethical standards.

From safeguarding privacy and preventing bias to ensuring compliance with regulations and maintaining professional judgment, CPAs are critical partners in helping SMBs use AI responsibly. CPAs can help their clients stay competitive and innovative without compromising their ethical responsibilities by providing strategic guidance, ethical audits, and regulatory compliance advice.

By focusing on real-world examples and applying these strategies, CPAs can provide SMBs with the tools they need to build a sustainable, trustworthy future with AI at its core.

# **Chuck Gallagher**

## **AI Consultant, Author and Speaker**

**Chuck Gallagher is a distinguished consultant, speaker and author known for his expertise in business ethics and artificial intelligence (AI). With a career marked by a commitment to ethical leadership, Chuck has become a sought-after voice in the intersection of ethics and emerging technologies. His profound understanding of ethical decision-making, shaped by extensive experience in the corporate sector, informs his insightful and practical approach to ethical behavior.**

**As an author of six impactful books, Chuck delves into the ethical dimensions of leadership and technology, challenging readers to rethink their approach to ethical behavior, AI and its societal impacts. His writings serve as catalysts for change, providing profound insights and practical guidance.**

**In his speaking engagements, Chuck captivates audiences with compelling narratives and actionable strategies, making complex ethical issues accessible and engaging.**

**As a consultant, he helps organizations navigate the ethical landscape, ensuring that technological advancements align with ethical standards.**

**Chuck Gallagher's contributions to the fields of business ethics and AI are characterized by his ability to demystify complex ethical implications, making him a leading thought leader in this critical conversation.**