Your Cheating Heart
Lessons in Ethics

23rd Annual Fraud Conference
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Today’s speaker

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  - Professor of Accounting, CPA, CIA, CRMA, CGMA
  - Institute of Internal Auditors
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  - Tenn. Society of CPAs
    - Member, Professional Ethics Committee

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Learning objectives

- This is NOT a session on “Tennessee State Specific Ethics.”
- Define professional ethics
- Review several ethical rules and regulations, taught through the context of the AICPA’s Code of Professional Conduct, the IIA’s Code of Ethics, and the ACFE’s Code of Professional Ethics.
- Read and respond to several ethical cases used throughout the presentation. Such cases reinforce, highlight, and provide for additional discussion on important topics.
Your Cheating Heart: Lessons in Ethics

Trust and Economics

“One of the most important lessons we can learn from an examination of economic life is that a nation’s well being as well as its ability to compete, is conditioned by a single, pervasive cultural characteristic: the level of trust inherent in the society.”

– Trust: The Social Virtues and the Creation of Prosperity by Francis Fukuyama

What is ethics?

- One definition
  - Set of moral principles or values recognized by an individual or group of individuals
- Why do people act wrong?
- Is any type of behavior ‘ethical’ as long as it does not violate a law or rule of one’s profession?

Can ethics be taught?

- Socrates
- Kohlberg
- Business school accreditors

Dr. Perry Moore, CPA, CIA
Cheating

- In a Wall Street Journal article, Psychology Professor Steven Davis states that cheating by high school students has increased from about 20% in the 1940's to ___% today.
  - "Students say cheating in high school is for grades; cheating in college is for a career."

Where is ethics supposed to be taught?

- An essay that started off, "My daddy died this year in Iraq..." and in turn won a 6-year old fan a Hannah Montana makeover and airfare and tickets for 4 to a sold-out Miley Cyrus concert in New York

Where is ethics supposed to be taught?

- Mother: "We wrote whatever we could do to win. It said to write an essay. It never said it had to be true. I never said it was true."
  - Contest sponsor said they never imagined they needed to run background checks on the winning entries.
Business vs. personal ethics

- Why is it that some people will act one way on Sunday and another way on Monday?
  - That’s “just business”

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Steps involved in making a decision

1) Define the facts and circumstances
2) Identify the people involved in the situation or affected by the situation
3) Identify and describe the stakeholders’ rights and obligations
4) Specify the major alternative decision actions and their consequences
5) Find someone to talk to about the situation
6) Select the best course of action

What is it about firemen?

- Jeffrey Hughes held for theft of $250,000 from two fire depts.
  - Fraud lasted 7 years
  - Wrote more than 80 checks to cash
- Jon Michael Pace stole $6,500 from volunteer fire department
  - Fraud lasted 2.5 years
  - Used bank debit card
- Michael Ray Jones stole $60,000 from firefighters union
  - Fraud lasted 3 years
  - Involved union’s credit card
- Jon Michael Pace stole $6,500 from volunteer fire department
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- Michael Ray Jones stole $60,000 from firefighters union
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Aired on WSMV April 15, 2016
The Tennessean, Jan. 13, 2017
Aired on WSMV Feb. 7, 2017

Dr. Perry Moore, CPA, CIA
What is it about postal workers?

- Thomas Gunderson stole cash: $5,200
- Fraud lasted 2 months; stole $100 per day

- Ebony Smith stole 6,000 greeting cards
- Fraud lasted 10 months
- Her impounded car had many bags of undelivered mail

- Lavonda Wright stole gift cards from mailed letters
- Fraud lasted 2.5 years

Parking officer stole $89K – in quarters

- What would you do with 356,000 quarters?
- Jeffrey Daday, a parking enforcement officer in Mount Kisco NY
- Committed the crime from January 2009 through May 2014
  - Emptied parking meters and skimmed off some of the proceeds

Alexandria (LA) mayoral employee arrested for misappropriating thousands

- Daniel Williams misappropriated over $3,000 for a ski trip
- A subsequent audit turned up 53 other instances of abuse.
  - Receipts falsely documented the names of people that Williams ‘said’ attended meals he paid for on city business
Former Neola (IA) City Clerk charged with 3 felonies after audit finds more than $230,000 was misspent

- Deb Schierbrock fired after a city check, written to pay for a fire truck, **bounced**
- Findings . . .
  - Unapproved concrete work at sister's house
  - Payments to family's grocery store
  - Failed to bill and collect utility penalties on late bills, including some on personal property

Woman steals more than $60,000 from Tennessee State Museum

- Kathy L. Alexander falsified invoices to direct funds to a personal bank account
- Employee rented a car for months and forwarded the $12,000 bill to the museum
- Employee created fake invoices for historical artifacts; used her son's name as the seller of the artifacts. She had sole authority for such purchases.

Former Oklahoma Beef Council accountant accused of stealing $2.6 million to fund clothing store

- Melissa Day Morton
- Wrote 790 fraudulent checks to herself between 2009 – 2016
- Money used to finance her retail business
Man cashed dead dad’s checks for 30 years

Lee Higgins, The (Westchester County, NY) Journal News

WHITE PLAINS, NY — A man who cashed his dead father’s retirement checks for nearly 30 years and pocketed roughly half a million dollars has been sentenced to a year of home confinement, followed by two years probation.

Peter Spino, 75, of Briarcliff Manor never told the U.S. Dainroad Retirement Board to stop sending retirement payments to his father, who died in 1993, according to federal court records. As a result, the WRB sent about $468,640 to his father’s bank account, from which Spino made regular withdrawals.

Spino, who pleaded guilty in March to a felony count of theft of government funds, was sentenced Aug. 12 to federal court in White Plains by U.S. District Judge Vincent Romano. The judge ordered Spino pay a $40,000 fine on top of full restitution, which he already paid.

Woman claimed her dead mother’s retirement benefits for 18 years

Rebeca Paloukos
Her mother died in 1997, and the US Office of Personnel Management was not notified
Received $297,000+ through a joint checking account
— Lasted from May 1997 through April 2015

Ex-Director, bookkeeper accused of embezzling $260,000 from ambulance district

Vernon County (Nevada, Missouri)
— Tina Werner and James McKenzie
Fraud lasted almost 3 years
Werner electronically transferred money into personal bank accounts of both
Werner used electronic bill payment feature of district’s bank account to pay personal credit cards held by both
Werner used district credit card for McKenzie’s personal utility bills
Falsified payroll records and recorded additional overtime hours
Attempted to conceal the embezzlement by entering false deposits and obtaining an unauthorized line of credit; also destroyed business and financial documents
Former Dickson County bookkeeper charged with theft

- Jamie Wall
- Stole thousands of dollars from 2009 to 2015
- Would **void** payments for fines or court costs, **re-issue** a receipt for a lesser amount, and **pocket** the difference

Former Williamson parks employee indicted on theft charge

- Daniel Lawson
- Stole $7,500 over 2.5 years
- Failed to turn over money collected from patrons as payment for softball registration and out of county fees

GoFundMe couple allegedly spent homeless man's money on shoe collection, pricey vacations

- Kate McClure and Mark D’Amico
- Accused of stealing $400,000 given by 14,000+ individuals to help homeless veteran, Johnny Bobbitt
Tennessee doctor borrowed $300K from a patient, then diagnosed her with dementia

- Dr. Suellen Lee, 79
- When the patient asked for her money back, the doctor diagnosed her with dementia
- Agreed to have her license retired

Democratic staffer resigns, wrote checks to himself from donor-funded account

- Derrick Tibbs
- **Wrote checks to himself** and forged approval signatures
- Subsequently discovered that the amounts stolen are much larger than previously thought

Two nuns steal $500,000+ from Catholic school in California

- Sister Mary Margaret Kreuper and Sister Lana Chang
- Thefts took place over at least 10 years
- Used money on travel and gambling to Las Vegas
BMW dealer controller embezzled $1.1 million

- Vanessa Vence-Small
- Supplemented her $150,000 annual income over 2.5 years
- What did she spend the money on?
  - New Ford Mustang
  - Travel around the globe
  - Cosmetic surgery
- Was not the first time she had been caught

Former PTO president accused of stealing thousands

- LaRon Bridgeforth
- Stole $18,000+ from Cumberland Elementary School’s PTO
- Thefts started in 2014 – initially to fund a family vacation

The CPA and the Ponzi Scheme

- 2 Bank Accounts
- $8 Million in Deposits
- Broker committed Suicide

PONZI SCHEME
The Board’s judgment

- In a formal hearing, the Board unanimously ordered the following:
  - Revocation of the Respondent’s CPA license.
  - Assessment of a $110,000 civil penalty, as well as court costs and the costs of the investigation.

Interesting research

- The HBR Blog Network reports why it might not be a good idea to tackle moral issues in the afternoon
- Two professors found that individuals were “20% to 50% more likely to lie, cheat, or be otherwise dishonest in the afternoon than in the morning.”
  - The professors theorized that “ordinary activities over the course of the day appear to gradually deplete people’s ability to regulate themselves…”

A professional is expected to conduct himself/herself at a higher level than most other members of society.

Most professional groups adopt a code of ethics, to maintain a higher standard of conduct than that called for by the law. In effect, the group’s members are called to exercise self-discipline above and beyond that expected of the public.

How practical is it to ask our clients to evaluate us?
Scenario 2 – the new partner
What should this partner do, if anything?

1: "I should simply do nothing about this. There’s a slight chance that this sloppiness will escape notice. It’s not material anyway."
2: "But I’m going through these work papers right now and can easily correct them. I wouldn’t be changing anything of substance, but just making the form, the appearance of the work papers, align with the substance."
3: "Or maybe I should bring this problem to the attention of the senior partners. I should claim responsibility for the sloppy audit and accept the consequences."
4: "But if I’m going that route, why don’t I bring the problem to the attention of everyone at once – not only the senior partners, but also the buyer and seller. I’ll write a comment on the current status of the work papers and copy this to all parties of the transaction. That might clear the air."

Scenario 6 – intimate conflicts
You’ve seen it. Now what do you do?

1: "Judson should make an appointment with the bank President and explain what he has seen. Judson recognizes that by taking this action he might precipitate his own dismissal."
2: "Judson should do nothing, on the grounds that he really should not have ‘observed’ the loan officer in the way that he did."
3: "Judson should go to the Chairman of the Board and explain the problem. Because the Chairman and the bank President have been good friends, Judson regards this as a risky course."
4: "Judson should deal with this directly and personally. He should approach the senior loan officer, tell her what he saw, and insist that she break off the relationship or resign from her position at the bank, or both."

What are your goals?

- Fame
- Knowledge
- Wealth
- Integrity
- Popularity
Why do people sacrifice their integrity and act unethically?

What’s new?

Things your regulator/certificate issuer might want you to know . . .

Practice in Tennessee

- The Board's jurisdiction is limited to licensed CPAs, PAs and licensed accounting firms. However, unlicensed individuals are not allowed to call themselves CPAs, PAs or accountants.
- Unlicensed individuals and firms should not advertise any public accounting services in any media.

- Thus, every individual practicing public accounting in the State of Tennessee should be practicing through a registered office or firm. This would include individuals practicing as sole proprietors.
Accountancy Licensing Database

- The ALD is a central repository of current licensee and firm information.
- Conceptualized to assist boards of accountancy with their regulatory mission.
- [http://www.cpaverify.org/](http://www.cpaverify.org/)

Professional Conduct

- Doing something you shouldn’t
- Not doing something you should (failure to act)

AICPA Code of Professional Conduct

- Tennessee adopts the AICPA’s *Code of Professional Conduct* when Tennessee rules are silent
Ethical violation?

- Paul, CPA, is a partner in a 12-person office located in a small town.
- Firm has just obtained a new audit client.
- Robert, the new client’s CFO, is a childhood friend of Paul.

- You subsequently learn that Paul and Robert have been best friends since they were 5 years old and frequently vacation together.

Steps of the conceptual framework

1. Identify Threats
2. Evaluate Threats
3. Identify Safeguards
4. Evaluate Safeguards

- Threats Not Acceptable: Level...Stop
- Threats at Acceptable Level: Proceed
- Threats Not Significant: Proceed
- Threats Significant: Proceed
- Threats Not Significant: Proceed
- Threats at Acceptable Level: Proceed
- Threats Not Acceptable: Level...Stop
- Threats at Acceptable Level: Proceed
Ethical violation?

- Gene is the lead engagement partner for PwC on the Walt Disney engagement.
- Gene’s parents are proud of their son, but more proud of their two young granddaughters.
- To honor their son and give their granddaughters something memorable, they purchase one share of Disney stock in each girl’s name, frame the stock certificates, and hang them in the girl’s bedroom.

Ethical violation?

- At a major US publicly traded consumer service business, internal audit identified a newly promoted officer who doctored personal expense receipts and submitted them for business reimbursement.
- The Chief Internal Auditor, a CPA, immediately reported the findings to the CEO, CFO, and General Counsel.

Integrity and objectivity

- In the performance of any professional service, a licensee shall maintain objectivity and integrity.
- Shall be free of any undisclosed conflicts of interest.
- Shall not knowingly misrepresent facts or subordinate his/her judgment to others.
Possession of a CPA certificate is evidence that the possessor had basic accounting competence at the time the certificate was granted.

Licensee shall comply with the following standards:
- Professional competence
- Due professional care
- Planning and supervision
- Sufficient relevant data

Circa ~2000: textbook example of ‘world class’ ethics code

“Employees are charged with conducting their business affairs in accordance with the highest ethical standards. Moral as well as legal obligations will be fulfilled in a manner which will reflect pride on the Company’s name.”
IIA’s Code of Ethics

IIA certificate holders are expected to apply and uphold the following principles:

– Integrity
– Objectivity
– Confidentiality
– Competency

ACFE Code of Professional Conduct

The ACFE is expected to comply with these principles:

– Shall demonstrate a commitment to professionalism and diligence
– Shall not engage in any illegal or unethical conduct, or any activity which would constitute a conflict of interest that has not been disclosed
– Shall exhibit the highest level of integrity and only accept engagements for which this is reasonable expectation that the assignment will be completed with competence

ACFE Code of Professional Conduct (continued)

– Shall comply with willful orders of the courts; will testify truthfully and without bias or prejudice
– Will obtain evidence or other documentation to establish a reasonable basis for any opinion rendered; shall not express an opinion regarding the guilt or innocence of any party
– Shall not reveal confidential information without prior authorization
– Shall reveal all material matters discovered during the course of an examination
– Shall continually strive to increase the competence and effectiveness of services performed under his direction
2017 Complaints against TN CPAs

- Due Professional Care: 16%
- Non-Compliance CPE: 17%
- Fraud/Porosity/Deception: 13%
- Unlicensed Practice: 30%

Recent Tennessee disciplinary actions

- Unlicensed practice / unlicensed firm / provided attest services without a firm permit
  - $1,000 - $5,000 civil penalty
- Failure to comply with CPE audit
  - $1,000 civil penalty and CPE requirement
- Felony conviction
  - Revocation
- Misappropriated a client’s tax refund
  - Revocation

Complaints against CIA’s

- The IIA’s website does not contain any reports of discipline taken against a CIA certificate holder
- An email sent to IIA headquarters stated that such discipline information was not available
Complaints against CFE’s

- The ACFE’s website does not contain any reports of discipline taken against a CFE certificate holder.
- An email sent to ACFE headquarters pointed to several recent articles that had appeared in the news section of Fraud Magazine – Jan/Feb 2017, May/June 2017, and March/April 2018.

Complaints against CFE’s

- Patrick Oki expelled for felony convictions for theft & money laundering.
- Jeffrey Hughes expelled for conviction on theft of property of $250,000 or more.
- Andrew Shank expelled for working with two other parties to improperly share the content of the CFE exam.
- A CFE was issued a private reprimand for conviction of aggravated assault.

Complaints against CFE’s

- Terry Gilbeau and Nicole Bocra were allowed to resign their memberships (in 2016) in lieu of a disciplinary action.
  - They were charged with violating standards pertaining to evidence and competence for 2007 incidents.
- A CFE was issued a private reprimand for claiming CPE for an online self-study course that the member completed with a group, when the CPE rules only permitted the course to be completed and claimed by a single person.
  - Assigned additional CPE hours as well.
Closing comments

Some things to think about . . .

If you have a CPA ethics question:
- Contact the Tennessee State Board
  - Dial (615) 741 – 2550
  - E-mail the Board at accountancy.board@tn.gov
- Contact the AICPA Ethics Hotline
  (any CPA can call, including non-members)
  - Dial (888) 777 – 7077, menu option #6, followed by menu option #1
  - E-mail the hotline at ethics@aicpa.org

If you have an ethics question for other certifications:
- For IIA certifications, contact the Institute of Internal Auditors
  - E-mail: ethics@theiia.org
- For the CFE, contact the ACFE
  - E-mail: memberservices@acfe.com
Journey of a corporate whistleblower

- Cynthia Cooper, former Vice President of Internal Audit @ WorldCom
  - "People don’t wake up and say, ‘I think I’ll become a criminal today.’ Instead, it’s often a slippery slope and we lose our footing one step at a time."
  - What is the difference between an ‘ethical dilemma’ and ‘just doing one’s job’?

Are you following the ‘right’ line?