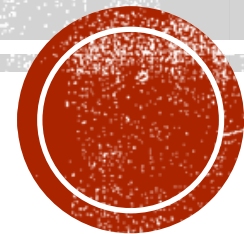
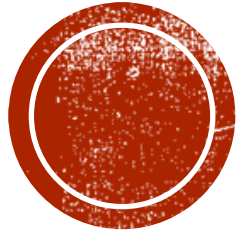


A CPA'S GUIDEBOOK FOR ETHICAL BEHAVIOR

A 2 hr CPE Ethics Course

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PART I: ETHICS, MORALS AND VALUES

ETHICS VS. MORALS

- Merriam-Webster dictionary states that ethics and morals are often regarded as synonyms, but they are actually two different ideas:
- ***Morals*** – a person’s own values in determining what is right and what is wrong.
- ***Ethics*** – moral principles applied to questions of correct behavior within a relatively narrow area of activity.
- Morality is personal while ethics refer to the standards of a community.



IS IT MORE IMPORTANT TO BE MORAL OR ETHICAL?

- Ethics involves rules (both written and unwritten) and circumstance. What is considered ethical depends on the rules employed and the situation.
- Morals are values that are static irrespective of the rules or circumstances.
- In a perfect world, ethics and morals can work in harmony.



DEFINING ETHICS

- Ethics means establishing what is right or wrong in conjunction with parameters or guidelines – e.g., rules, duties, or obligations.
- Involves rules (both written and unwritten) and circumstance.
- Established by what is considered a norm or expectation of a group.



ETHICS - COMMON THEMES

- Rightness or wrongness of actions
- Conduct
- Duty
- Rules



FUNCTIONAL ETHICS VS. MORAL IMPERATIVES

- In a company's code of conduct there are rules which are merely administrative – e.g., requirement that employees turn in expense reports within a set period.
- No moral imperative involved, but is a function that is important to the organization.
- Other ethical rules, such as outlawing kickbacks, has a moral imperative of honesty.
- Issues arise when administrative rules are prioritized over morality.



Case Study: Student suspended after saving life



CASE STUDY: SAVING A CLASSMATE

- In 2016, 15-year-old Anthony Ruelas was in class at a Killeen middle school when a female classmate had an asthma attack.
- Teacher followed protocol, which was to email the nurse and wait for a response.
- Several minutes passed with the girl having increasing trouble breathing and collapsing.
- Teacher told students to remain calm and remain in their seats while continuing to wait for the nurse's response.
- Anthony picked up classmate and carried her to the nurse's office.
- Anthony was later suspended for disobeying the teacher's orders and the medical protocol.



VALUES

- Personal values are the foundation of an individual person's ability to judge between right and wrong.
- Include a deep-rooted system of beliefs that guide a person's decisions.
- Values form a personal, individual foundation that influences a particular person's behavior.
- Since values are personal to that individual, there may be wildly divergent values of what is important within a group of people.



ETHICS, MORALS & VALUES: A CONUNDRUM?

- **Ethics – You shouldn't make material misstatements on financial statements.**
- **Values - Honesty**
- **Morals – Protecting the public is good**



CLEAN HANDS DILEMMA

- Definition - a person's focus is on the fear of harm or damage to themselves – e.g. getting one's hands dirty -- versus doing the right thing for the sake of others.
- The potential consequences of making a mistake and the associated “contamination” is what prevents individuals from acting in situations where some act is required.
- The focus is not doing what is good or right or add something positive – it is more centered on avoiding a negative. As a result, this could lead to big mistakes by not acting.



AVON: GIFTS OR BRIBERY?

- Avon was struggling to grow sales world-wide and saw China as a desirable market.
- After extensively working with Chinese officials, Avon became the first business to be granted a license for direct selling in China in 2006.
- After an investigation, the SEC said that Avon had made \$8m in payments to "gain access to Chinese officials implementing and overseeing direct selling regulations."
- It also made the payments to "avoid fines or negative news articles that could have impacted Avon's clean corporate image."



AVON (CONT'D)

- The gifts include paid travel for Chinese officials within China or to the US or Europe, Louis Vuitton merchandise, Gucci bags, Tiffany pens, and tickets to the China open tennis tournament.
- These payments were falsely recorded as business expenses, reimbursements to third-party vendors, or recorded with "almost no detail at all."
- A 2005 internal audit uncovered the illegal payments, but "ultimately, however, no . . . reforms were instituted at the Chinese subsidiary."



AVON (CONT'D)

- Avon only launched a full internal investigation in 2008 after its chief executive received a letter from a whistleblower.



COUNTERING THE CLEAN HANDS DILEMMA

- Being willing to make an immediate if only partially informed action.
- Knowing that acting without assurance that this is the best option is in many cases much better than not acting at all.
- Admitting that there are many situations that could have multiple possible right actions
- Being confident that very wrong actions are obvious, and that even partially right answers are better than no action.



MORAL ACTIONS: NO-BRAINERS VS. QUESTIONABLE SITUATIONS

- ***Obvious “No-Brainers”*** – situations that are wrong in all instances. Examples: child abuse or taking advantage of an unprotected elderly or frail individual. A.k.a. Sociopathy 101.
- ***Questionable Situations*** – the answer is not immediately clear-cut, but are solvable using objectivity, self-discipline, and reflection. Requires the individual to be free of selfish motives, and to look at the situation rationally.



BARRIERS TO MORAL BEHAVIOR

- ***Bounded Ethicality*** - [Blind spots] that lead good people to engage in ethically questionable behavior that contradicts their own preferred ethics.
- ***Ethical Fading*** – ethics are eliminated from a decision and replaced by avoiding bad publicity or making the deal at any costs.
- ***Cognitive Dissonance*** - adjusting our beliefs to fit our behavior.
- ***Loss Aversion*** - tendency to strongly prefer avoiding losses over acquiring gain, e.g., losing \$20 creates a higher feeling of loss than the satisfaction gained from being given \$20.



WHAT ARE WAYS TO CAN OVERCOME IMPEDIMENTS TO MORAL ACTIONS?

- Employing wisdom.
- Displaying impartiality.
- Developing moral maturity.
- Not being sidetracked with the “Clean Hands” syndrome.



ROLES OF WISDOM AND IMPARTIALITY

- ***Wisdom*** - a kind of knowledge governing what we believe and what is the right thing to do.
- ***Impartiality*** - choosing right from wrong without regard to one's own self-interests or emotions. The individual is trying to do the right thing, not what is best for them.



MORAL MATURITY

“Moral maturity entails making our own well-reasoned moral decisions rather than simply following the dictates of the crowd or going with our selfish desires.”

-- Judith A. Boss, Moral Philosopher



FACTS OF RIALTO UNITED SCHOOL DISTRICT

- Judith Oakes was the sole accountant in Rialto USD's Nutrition Service Department in San Bernadino, CA. She had been in this role for 25 years.
- She was responsible for handling the lunch money for 49 schools.
- In August, 2013, Judith was caught on a recently-repaired camera stuffing \$2,000 into her brassiere while filling up a deposit bag with banded stacks of cash.



RIALTO (CONT'D)

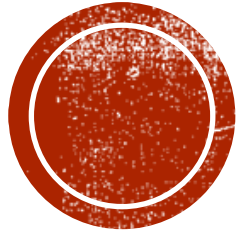
- **After repeating this same act the next day, she was confronted by her supervisor.**
- **It was estimated that she embezzled \$3.1 million over the course of 14 years,**
- **Fraud was perpetuated by putting the cash in her bra outside of the camera's view. She also replaced the staff accountant's original deposit slip with her own less the cash taken.**
- **She would deliver the cash herself to the armored truck with no reconciliation of deposits with actual sales .**



RED FLAGS AT RIALTO

- Oakes and her husband, Jack (a school principal), demonstrated an extravagant lifestyle, which included expensive luxury vehicles, dune buggies, and jet skis.
- Also spent lavishly on entertaining, expensive vacations, designer clothes, a second home, front row seats to the Final Four.
- \$10-12K charged monthly to credit card were paid in full.
- Had an unusually close relationship with Superintendent Harold Cebrun and was therefore perceived to be “untouchable.”





PART II: AICPA CODE OF PROFESSIONAL CONDUCT

“[These] Principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage.”

--ET § 0.300.020.2



CODES OF CONDUCT FOR CPAs

- CPAs are subject to specific codes from state boards of public accountancy, the SEC, the GAO, the Treasury Department, the Internal Revenue Code, common law and other national or international rule-setting bodies.



AICPA CODE OF PROFESSIONAL CONDUCT

- **“ET” or “Code”**
- **Governs a CPA’s ethical and professional conduct.**
- **Should apply the most restrictive provision.**



Case Study: Auditors cheating on qualifying exam



CASE STUDY: CHEATING AUDITORS

- In June, 2022, the SEC found that Ernst & Young's auditors cheated on exams required to obtain and maintain CPA licenses
- It was also found that EY withheld evidence of this misconduct from the SEC's Enforcement Division during the Division's investigation of the matter.
- EY admits the facts underlying the SEC's charges and agreed to pay a \$100 million penalty and undertake extensive remedial measures.



“This action involves breaches of trust by gatekeepers within the gatekeeper entrusted to audit many of our Nation’s public companies. It’s simply outrageous that the very professionals responsible for catching cheating by clients cheated on ethics exams of all things.”

**-- Gurbir S. Grewal, Director
SEC Enforcement Division.**



INTEGRITY

“Integrity requires a member to be, among other things, honest and candid within the constraints of client confidentiality. Service and public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and honest difference of opinion; it cannot accommodate deceit or subordination of principle.”

-- ET § 0.300.40.3



INDEPENDENCE - ET § 0.400.21

Consists of two elements:

1. Independence of mind

2. Independence in appearance



THREATS TO INDEPENDENCE - ET § 1.210.010

“Many different relationships or circumstances . . . can create threats to compliance with the ‘Independence Rule’ [1.200.001]. . . Many threats fall into one or more of the following seven broad categories: adverse interest, advocacy, familiarity, management participation, self-interest, self-review, and undue influence.”



CONFLICTS OF INTEREST - ET §§ 1.110.010/2.110.010

“When a conflict of interest exists, the member should disclose the nature of the conflict to the relevant parties, including to the appropriate levels within the employing organization and obtain their consent to undertake the professional service. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.”



Case Study: \$40m Embezzlement at Yale Med School



CASE STUDY: YALE MED SCHOOL

- Jaime Petrone-Codrington was the Director of Finance and Administration and had the authority to make and authorize purchases up to \$10,000.
- Starting in 2013, she illegally purchased and resold \$40,504,200 of hardware using funds from the Yale School of Medicine.
- She falsified Yale internal forms and electronic communications.
- Yale received an anonymous tip that Petrone-Codrington was "ordering suspiciously high volumes of computer equipment, some of which was placed into her personal vehicle."



YALE (CONT'D)

- Petrone-Codrington used the proceeds for various personal expenses, including expensive cars, real estate and travel.
- She forfeited \$560,421.14 that was seized as well as a litany of expensive cars:
 - 2014 Mercedes-Benz G550
 - 2017 Land Rover Range Rover
 - 2015 Cadillac Escalade Premium
 - 2020 Mercedes Benz Model E450A
 - 2016 Cadillac Escalade
 - 2018 Dodge Charger.
- She also has agreed to hand over 4 properties located in CT and GA.



KNOWING MISREPRESENTATIONS - ET § 1.130.010

Examples:

- CPA makes or directs another to make, materially false and misleading entries in an entity's financial statements or records.
- CPA fails to correct an entity's financial statements or records that are materially false and misleading when he/she has the authority to record the entries.
- CPA signs, or directs another to sign, a document containing materially false and misleading information.



Case Study: Henry Camferdam



RESPONSIBILITY TO THE PUBLIC

“A distinguishing mark of a profession is acceptance of its responsibility to the public. The accounting profession’s public consists of clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of members to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on members.”

-- ET § 0.300.30.2



WHISTLEBLOWING PROVISIONS

- **Dodd-Frank Wall Street Reform and Consumer Protection Act**
- **Provides whistleblower awards if certain criteria are met.**
- **Provides protection within CPA firms for whistleblowers serving public companies.**



OTHER WHISTLEBLOWING PROVISIONS

- Seems to indicate that CPAs who are aware of material misstatements in a public company client are obligated to whistle blow.
- SEC Office of the Whistleblower - <https://www.sec.gov/whistleblower>



BERNIE MADOFF

- Well-known Wall Street Investor who created one of the largest Ponzi schemes in the US.
- Targeted “feeder funds” by offering fund managers exorbitant kickbacks.
- Also stole from individual investors through “affinity fraud,” many through religious connections.
- Made it appear that investing with Madoff was only for a chosen few.



MADOFF (CONT'D)

- Madoff gave the appearance of wealth and conspicuous philanthropy.
- Harry Markopolis reported Madoff several times to the SEC starting in 2000 but was ignored.
- Investors lost more than \$50 billion over the course of over 20 years, possibly since the 1960s.
- Convicted and sentenced to 150 in prison plus ordered to pay \$200 billion in restitution.



MADOFF (CONT'D)

- Brother Peter sentenced to 10 years.
- Madoff died in prison in 2021.
- One son committed suicide on the 2 year anniversary of Bernie's arrest.
- Remaining son died on cancer in 2014.



RESPONSIBILITIES TO CLIENTS OR EMPLOYERS

“The quest for excellence is the essence of due care. Due care requires a member to discharge professional responsibilities with competence and diligence. It imposes the obligation to perform professional services to the best of the member’s ability, with concern for the best interest of those whom the services are performed, and consistent with the profession’s responsibility to the public.”

-- ET § 0.300.060.2



UNPAID FEES - ET § 1.230.010

“Threats to [Independence] would not be at an acceptable level . . . if a covered member has unpaid fees from an attest client for . . . service provided more than one year prior to the date of the current-year report. Accordingly, independence would be impaired. Unpaid fees include fees that are unbilled or a note receivable arising from such fees.”



DISCREDITABLE ACTS – ET § 1.400.001

- **A CPA may be subject to license suspension or revocation for committing an acts discreditable to the profession.**
- **Examples of discreditable acts include:**
 - **Fraud in obtaining a CPA license**
 - **Dishonesty, fraud or gross negligence in the practice of public accountancy.**
 - **Violation of the independence status.**



DISCREDITABLE ACTS (CONT'D)

- Fiscal dishonesty or breach of fiduciary responsibility.
- Final conviction of a felony, deferred adjudication in connection with a criminal prosecution of a felony, including crimes associated with alcohol abuse, controlled substances or physical harm.
- Knowingly participating in the preparation of a false or misleading financial statement or tax return.



DISCREDITABLE ACTS (CONT'D)

- Failure to comply with a final order of any court
- Repeated failure to respond to a client's inquiry within a reasonable time without good cause.
- Threats of bodily harm or retribution to a client.



Case Study: The Vengeful Tax Preparer



STEVEN MARTINEZ

- Worked as and IRS agent until leaving and starting his own shop.
- Starting in 1994, Steven would send clients the “true” return for them to approve, but then file a return for much less AGI.
- Clients would have made tax payments to a “trust” account which was actually Martinez’s own account.
- Martinez would pocket the difference.
- Clients finally found out about it in 2009 and he was facing trial.
- In 2012, Martinez offers the gardener \$100,000 to kill the three witnesses.



DISCRIMINATION & HARASSMENT IN EMPLOYMENT PRACTICES - ET § 1.400.010/2.400.010

“A member would be presumed to have committed an act discreditable to the profession. . . if a final determination, no longer subject to appeal, is made by a court or an administrative agency. . . that a member has violated any antidiscrimination laws . . . including those related to sexual and other forms of harassment.”



FAILURE TO FILE A TAX RETURN OR PAY A TAX LIABILITY – ET § 1.400.030/2.400.030

“A member who fails to . . . (a) the timely filing of the member’s personal tax returns or tax returns of the member’s firm that the member has the authority to timely file or (b) the timely remittance of all payroll and other taxes collected on behalf of others may be considered to have committed an act discreditable to the profession”



NEGLIGENCE IN THE PREPARATION OF FINANCIAL STATEMENTS OR RECORDS - ET § 1.400.040/2.400.040

“A member shall be considered in violation of the ‘Acts Discreditable Rule’ [1.400.001] if the member, by virtue of his or her negligence, does any of the following:

- Makes, or permits or directs another to make, materially false and misleading entries in the financial statements or records. . . .
- Fails to correct an entity’s financial statements that are materially false and misleading when the member has the authority to record an entry.
- Signs, or permits or directs another to sign, a document containing materially false and misleading information. “



ETHICAL CONFLICTS - ET §§ 01.000.020/02.000.020

An ethical conflict arises when a member encounters one or both of the following:

- a. Obstacles to following an appropriate course of action due to internal or external pressures**
- b. Conflicts in applying relevant professional standards or legal standards**



“Success is not final, failure is not fatal, it is the courage to continue that counts.”

-- Sir Winston Churchill



Thank You!



QUESTIONS?



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