

Current Issues in Business Ethics – 2023

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Logistics

- 8:15 AM-11:05 AM – Session
 - 9:35 AM-9:50 AM - Break
- Polling questions throughout the meeting
 - Required for CPE. Chat across your answer if the poll doesn't work
 - CPE issued by Boz's entity, Wellspring CPE, LLC
- The CPE is approved by the Accountancy Board of Ohio and will apply toward the three hours of general PSR (ethics) requirement of: <https://codes.ohio.gov/ohio-administrative-code/rule-4701-15-11>
- Important note: The CPE will NOT qualify as Ohio specific PSR which is intended for those seeking Initial Licensure, Return to Practice, or Disciplinary Compliance, as required under: <https://codes.ohio.gov/ohio-administrative-code/rule-4701-15-09>.
 - CPAs who need Ohio specific PSR should seek a CPE specifically designed and approved for that purpose.
- CPE is NASBA approved but advanced approval not sought in any state (except Ohio)
- Questions are very welcome, submit through chat at any time

Learning Objectives

- Understand attitudes related to ethics
- Understand laws, rules and regulations which apply to accounting and finance professionals
- Understand consequences of violating the laws, rules and regulations
- Understand and learn from current ethical violations
- Understand benefits of ethical leadership

Ethical Attitudes and Perspectives

Introduction to Ethics

- What are ethics?
 - Moral principles
 - Rules of conduct followed by an individual or group

Why be ethical?

- Compliance with rules, regulations, codes
- Stakeholder confidence, trust and loyalty
- Social acceptance / respect of peers
- Personal pride

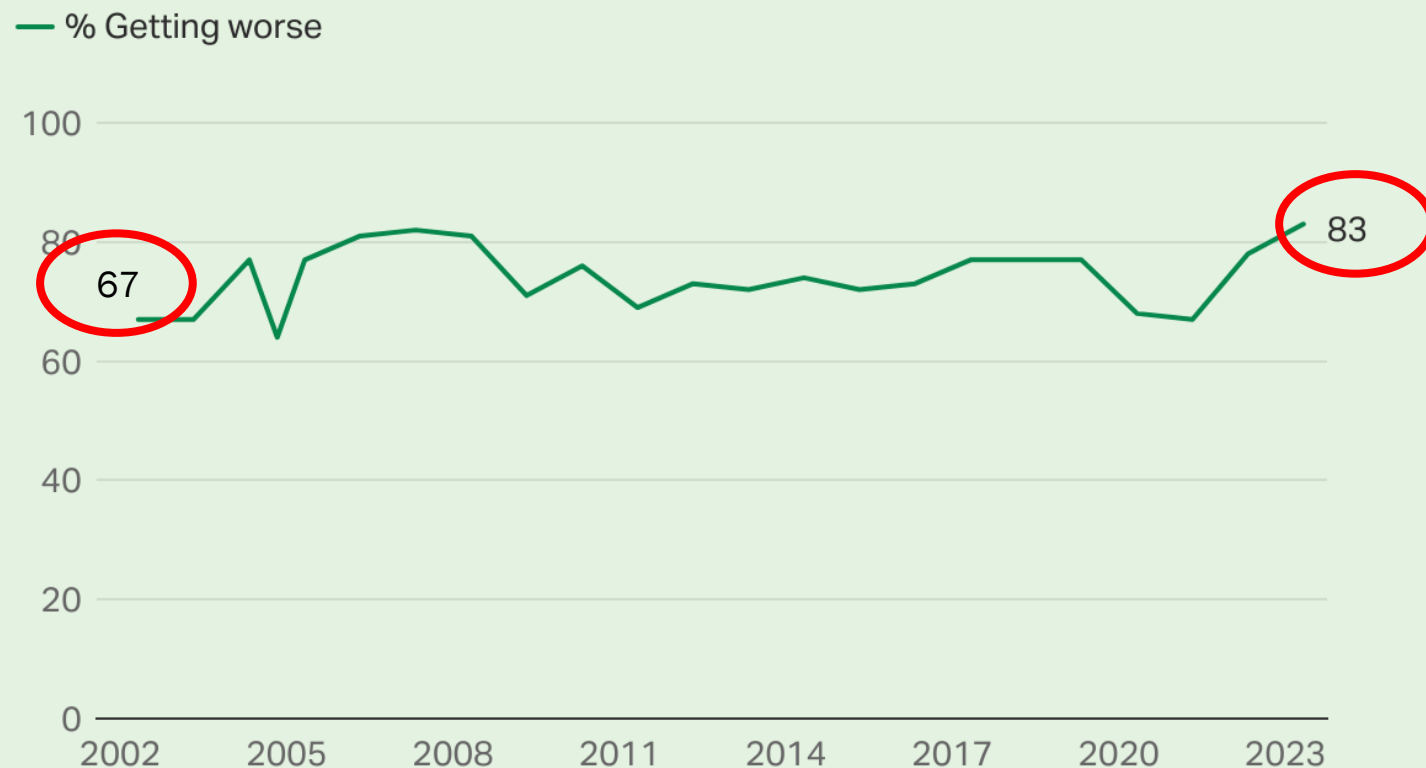
Gallup Survey Each May: How would you rate the overall state of moral values in this country today?

Year	Excellent/Good	Only fair	Poor
2003			
2011			
2023			

Right now, do you think the state of moral values in the country as a whole is getting better or getting worse?

Americans' Outlook for the State of Moral Values in the U.S.

Right now, do you think the state of moral values in the country as a whole is getting better or getting worse?



AICPA and CIMA Survey

- Polled about 1,800 people in the US and UK in December 2022
- Report released in June 2023
- Categorized people into 3 groups
- Business leaders
 - Age 28+, decision making responsibility, larger company size, high-level management
- Future talent
 - Age 20-30, working less than 10 years
- Opinion elite
 - Those who write to politicians, lead civic groups, attend rallies, read publications, participate in online forums and chats

Polling question #1: When asked if it is more important for companies to have ethical business practices than it was 5 years ago, business leaders most commonly said:

- a. Much less important
- b. Somewhat less important
- c. Just as important
- d. Somewhat more important
- e. Much more important

Is it more important for companies to have ethical business practices than it was 5 years ago?

- Much less important
- Somewhat less important
- Just as important
- Somewhat more important
- Much more important

Business Leaders

Future Talent

Qualities in a new hire most commonly rated as “Very important” by business leaders

- Ability to communicate effectively
- Ability to lead
- Ethical
- Job specific technical skills
- Problem-solving skills
- Team player
- Trustworthy
- Willingness to learn/ask questions
- Trustworthy
- Ethical
- Ability to communicate effectively
- Problem-solving skills
- Willingness to learn/ask questions
- Team player
- Job specific technical skills
- Ability to lead

Percent that feel prepared to handle ethical dilemmas

	Business Leaders	Future Talent
• Very prepared	<input type="text"/>	<input type="text"/>
• Somewhat prepared	<input type="text"/>	<input type="text"/>
• Not very (or at all) prepared	<input type="text"/>	<input type="text"/>

Essential Traits to being an ethical person

- Accountability
- Charitable
- Honesty
- Humility
- Kindness
- Nurturing
- Respectable
- Trustworthy
- Trustworthy – 81%
- Honesty – 81%
- Accountability – 62%
- Respectable – 54%
- Kindness – 53%
- Humility – 45%
- Charitable – 31%
- Nurturing – 23%

Most important actions a company should take to foster more ethical behavior?

1. Be accountable for its actions
2. Operate with transparency
3. Follow all laws and regulations
4. Have a code of conduct
5. Respond immediately to violation of code of ethics

Poll #2: Which profession does the public vote as the most honest/ethical? Gallup poll taken every December

- Accounting
- Nursing
- Politics
- Sales
- Teaching

- Nurses were added to the rankings in 1999 and rated the highest every year except one
- Which year was the exception? Which profession won?



Above Average

- Nurses
- Medical doctors
- Telemarketers
- Pharmacists
- Members of Congress
 - Car salespeople
- High school teachers
- Business executives
- Advertising practitioners
 - Police officers
 - Lawyers
 - Journalists
- Labor union leaders
- Real estate agents
 - Accountants
 - Bankers
 - Judges
 - Clergy

Below Average

Gallup Poll (Dec 2022) – rate honesty and ethical standards “high” or “very high”

Nurses	79%		Bankers	26%
Medical doctors	62%		Labor union leaders	24%
Pharmacists	58%		Real estate agents	24%
High school teachers	53%		Journalists	23%
Police officers	50%		Lawyers	21%
Accountants	41%		Advertising practitioners	15%
Judges	39%		Business executives	14%
Clergy	34%		Car salespeople	10%
			Members of Congress	9%
			Telemarketers	6%

Confidential information

Discussion

- You (or a friend) hold shares in a public company and wish to sell some stock
- What are some good principles to follow?
- What would be some clear violations?

Date	Close	Volume
8/12/2021	27.15	86,300
8/11/2021	26.71	184,700
8/10/2021	27.16	158,500
8/9/2021	27.86	174,100
8/6/2021	27.35	277,800
8/5/2021	26.95	202,800

Securities Exchange Act of 1934

- **§ 240.10b-5 Employment of manipulative and deceptive devices.** It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,
 - (a) To employ any device, scheme, or artifice to defraud,

Poll #3: Insider Trading involves trading on the basis of

- A. Any information
- B. Material and non-public information
- C. Material and public information

SEC Rule 10b5-1

- § 240.10b5-1 Trading “on the basis of” material nonpublic information in insider trading cases.
- (a) *General.* The “manipulative and deceptive devices” prohibited by Section 10(b) of the Act (15 U.S.C. 78j) and § 240.10b-5 thereunder include, among other things, the purchase or sale of a security of any issuer, on the basis of material nonpublic information about that security or issuer, in breach of a duty of trust or confidence that is owed directly, indirectly, or derivatively, to the issuer of that security or the shareholders of that issuer, or to any other person who is the source of the material nonpublic information.

Affirmative Defenses

- A purchase or sale is not on the basis of material nonpublic information if the person making the purchase or sale demonstrates that:
- Before becoming aware of the information, the person had
 - Entered into a binding contract to purchase or sell the security
 - Instructed another person to purchase or sell the security for the instructing person's account
 - Adopted a written plan for trading securities
- Most commonly, the plan specified the amount of securities to be purchased or sold and the price at which and the date on which the securities were to be purchased or sold
- The plan was entered into in good faith and not to avoid Insider Trading rules

Cooling off periods after entering into the plan

- 90 days for directors and officers
- 30 days for others
- Directors and officers must represent that:
 - they are not aware of material nonpublic information about the issuer or its securities
 - they are adopting the plan in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5

Terren S. Peizer

- CEO and Chairman of Ontrak, a publicly traded health care company
 - Peaked in January 2021 at nearly \$80 per share. About \$0.50 per share today
- May 2021, learned of a serious risk Ontrak's biggest customer would terminate its contract. Is this material and non-public?
 - Entered into 10b5-1 plan shortly thereafter
 - Began selling shares the next day
- August 13, 2021, Ontrak's chief negotiator confirms contract would likely be terminated. Is this material and non-public?
 - Entered into 10b5-1 plan one hour later
 - Began selling shares the next day

Terren S. Peizer

- August 19, 2021, Ontrak's stock falls 44% when it announces customer terminated contract
- Peizer saved \$12.5M in losses
- March 2023, indicted. Facing up to 45 years in prison
 - Trial scheduled for April 2024

A family affair

- From 2014 – 2021, Marc Perez was an accounting manager for General Finance Corporation, then a publicly traded company
 - At start of his employment, declared in writing that he would not engage in nor provide tips related to insider trading
 - Also told he would have to pre-clear all trades with general counsel
- February 2021, United Rentals indicated an interest in acquiring General Finance
 - Perez learned of this interest through his role as accounting manager
 - Purpose of him learning about the acquisition was so that he could help compile financial information related to the acquisition
- March 2, 2021 United Rentals offered \$19 per share
 - Stock price was \$10.63 per share

Marc Perez

- Perez learns of the offer and buys \$354,000 worth of shares in General Finance
- Over the next 2-3 weeks, transferred money to his mother's brokerage account and also used some of her funds to purchase another \$421,000 of shares
- Around this time, Perez told his brother and sister that he was “all in” on General Finance stock and that they should also purchase some
 - Early April, brother and sister purchase a combined \$277,000 of General Finance stock
- April 15, 2021 – acquisition is announced
 - Stock price increased about 55% to about \$19 per share
- By early May, almost all shares had been sold by Marc and his siblings, with total profits being about \$660,000

Interesting terms used by the SEC

- Marc Perez acted with scienter
 - Intent or knowledge of wrongdoing
- Siblings knew or were “reckless in not knowing” they were trading on non-public information
- Marc Perez, “directly or indirectly, personally benefited from disclosing that material, non-public information to his siblings because giving a gift of trading information is the same as trading by the tipper followed by a gift of proceeds.”

What's next for Perez?

- Disgorgement of profits
 - Civil penalties up to 3x the amount of illegal profits
 - October 2003 pled guilty to criminal charges
 - Prison time up to 20 years
 - Sentencing scheduled for March 2024
 - Age 59...future employment?
-
- **Could General Finance Corporation have prevented this?**

Ethical Fading

Discussion

- You are wrapping up this year's financial statements and very late in the process notice an error in how a reserve was calculated, which increased your organization's net income
- Addressing the issue would cause a delay in issuing the financial statements and highlight a control weakness
- While the amount is not tiny, you also don't that it is material enough to impact users of the financial statements
- You are tempted to simply make sure the reserve is computed properly next year
- Are there any issues with this approach?

CASE
SILVER
2013

Telly
Awards
2013



Polling Question #4: What is the best way to stop ethical fading?

- a. Segregation of duties
- b. Sound hiring practices
- c. Tone at the top
- d. Trainings

What is the best way to stop ethical fading?

- Tone at the top. Ethical leadership
- Unethical ideas can happen...but they can't be implemented
 - Shut them down immediately
 - “That’s not the way we do things here!”

What happens in Vegas

Case Study

- You have a friend who owns a successful small business
- Your friend's skills are in entrepreneurship, marketing, and sales - and their business is growing rapidly
 - Not a numbers person
- Your friend comments how they have a great accounting manager who handles everything from cash collections, disbursements, bank reconciliations, and financial statement preparation
- What concerns might you have? Do you feel an ethical obligation to voice those concerns?

Poll #5: How would you proceed?

- a. I'd mind my own business
- b. I'd feel I have an ethical obligation to speak up and would do so
- c. I wouldn't feel an ethical obligation but would still speak up
- d. I'm not sure



Amanda Dibben

- Hired in 2018 by a landscape and contracting company to serve as an accounting manager
- In October of 2020, a company official asked Dibben to give an employee a \$500 check as a bonus
- Dibben said she needed to “get up and stretch” so she instead wanted to go to the bank
 - Company official told her to “do it quickly.”
- Dibben left the office and came back much later with the \$500 in cash (ten \$50s as the bank was “out of \$100s”).
 - Said she was delayed as she also went to the grocery store

Amanda Dibben

- Company official was suspicious and went to the bank
 - They hadn't seen Dibben
 - The account was overdrawn by nearly \$60,000
 - Used a scanner to scan bigger deposits multiple times, bank was delayed in processing them
- Applied for loans:
 - Involving the company
 - Using a company leader's information

Amanda Dibben

- Officials noticed savings accounts were virtually empty
- When confronted by company officials, she first said: “This is wrong. What do you mean we don’t have any money?”
- Later said, “Honestly guys, I just didn’t have the heart to tell you guys we’re goin’ out of business. I like you guys so much. I just couldn’t bring you the news that we’re – you’re goin’ out of business.”
- Amanda was going arrested at faces 27 counts of theft totaling more than \$400,000

Jennifer Lee

- Treasurer of a Las Vegas start-up company
- Embezzled more than \$225,000
 - August 2022 – February 2023, sent money to herself
- How did she cover it?
 - Forged bank statements
- Owner tried to book a flight and credit card was declined
 - Only \$80 in company account, whereas he expected more than \$200,000
- Currently out on bail

Local Research

2021 Research led by Boz

Work-from-home considerations - Teamwork

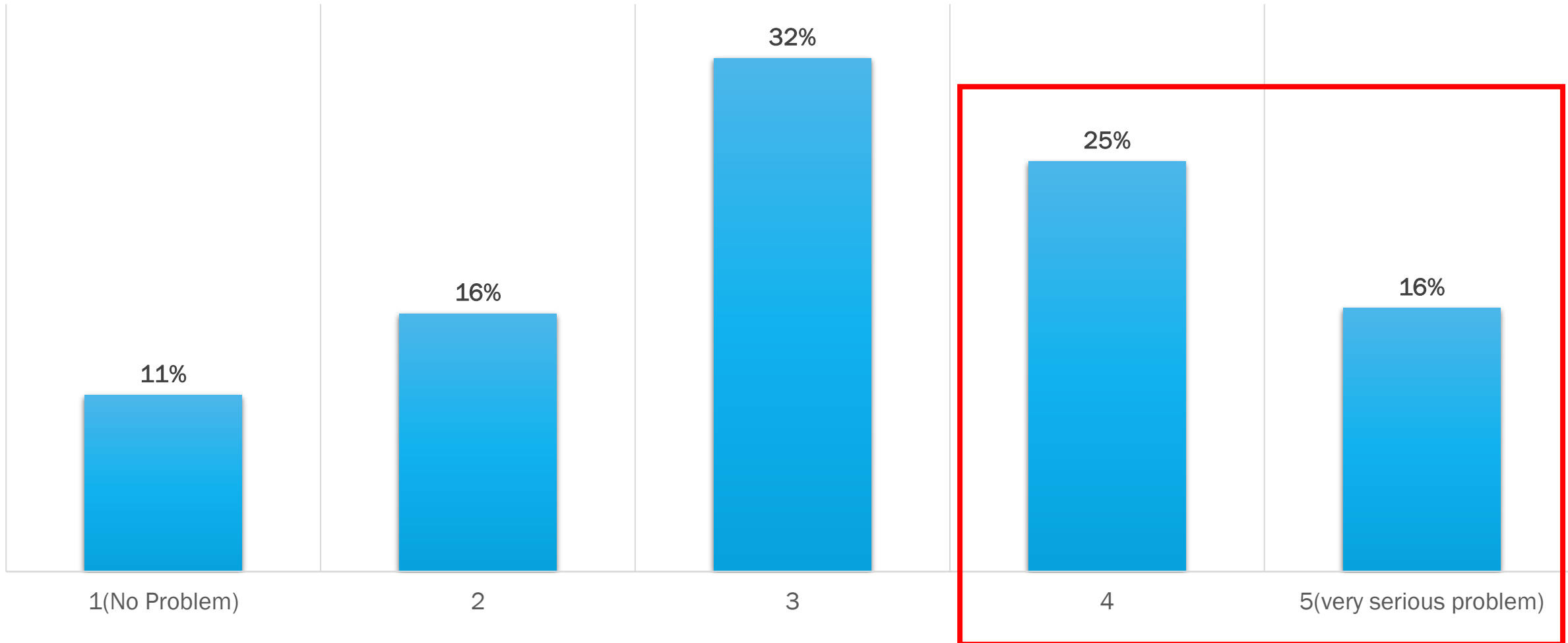
- Nearly 1/3 of people feel that working from home has negatively impacted their relationships with coworkers
- About 18% find it difficult to receive guidance from team members
- 62% are communicating with coworkers less (10% are communicating more)

Work-from-home considerations - Loyalty

- When asked what increases loyalty to their current job/employer
- Compensation was #1 – 58%
- Good bosses/mentors and good colleagues were both just under 51%
- Well above: challenge, engagement, belief in the company’s mission, location, and advancement opportunities

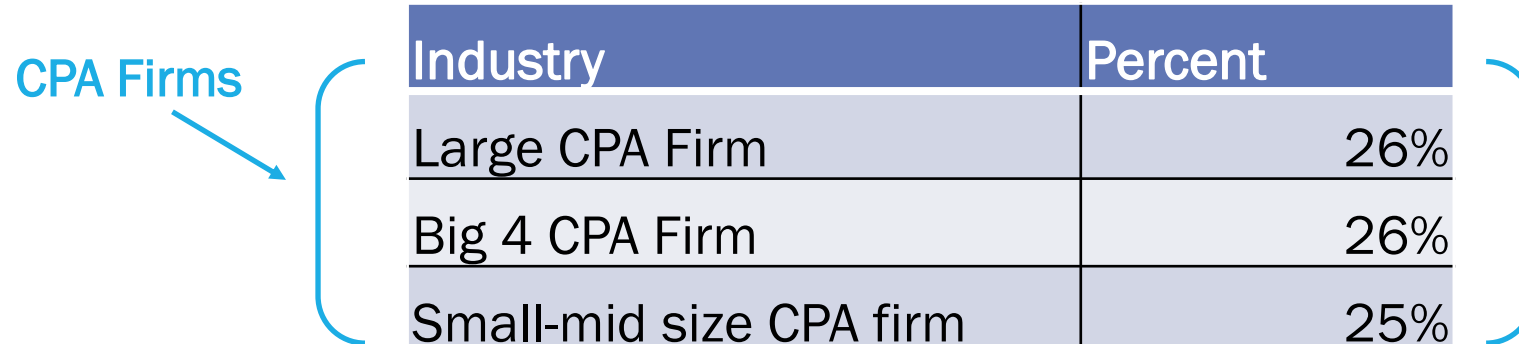
- “Working from home has completely killed our company culture. Everything fun and exciting about my job has been taken away.”

2022 Research led by Boz: How serious is the staff shortage problem at your company?



5 (Serious Staff Shortage) Answers-By Industry

CPA Firms



Industry	Percent
Large CPA Firm	26%
Big 4 CPA Firm	26%
Small-mid size CPA firm	25%
Government, non-profit, or education	17%
Private corporation	12%
Consulting, advisory, or self-employed CPA	8%
Public corporation	7%

Poll #6: What factor has the most influence over what company an employee chooses to work for

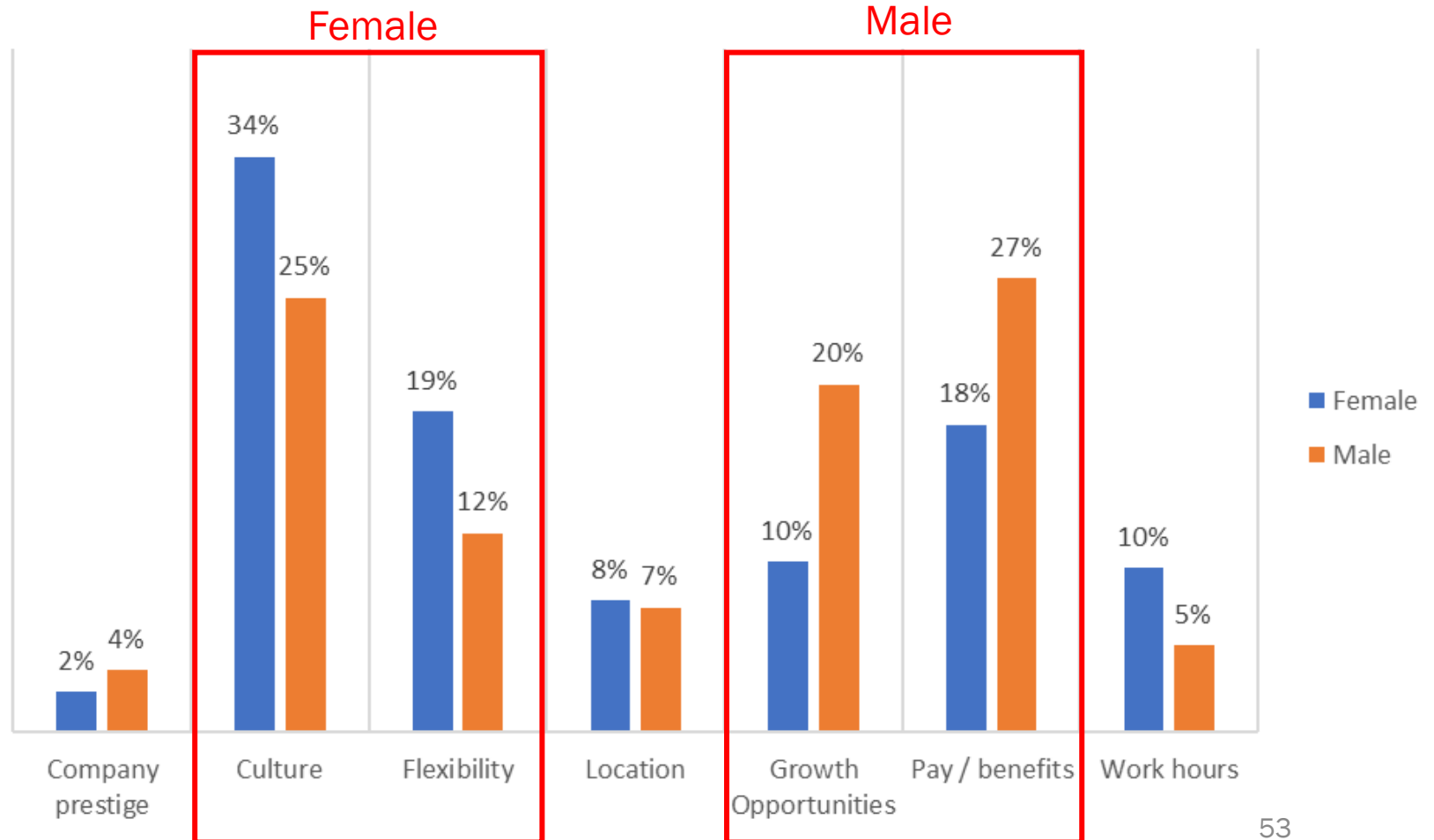
- a. Culture
- b. Flexibility
- c. Growth Opportunities
- d. Pay / benefits

Which factor has the most influence on what company an employee chooses to work for?

OPTIONS:

- Company Prestige
- Culture
- Flexibility
- Growth Opportunities
- Location
- Pay / benefits
- Work hours

Which factor has the most influence on what company an employee chooses to work for? Breakdown by Gender



Research Takeaways

- There are serious staff shortages, particularly in public accounting
- Culture and flexibility are highly valued, particularly by women
- Potential culture issues:
 - Relationships with co-workers and bosses increase loyalty, but...
 - Communication with co-workers has decreased
- Overall, there are fewer people to do the work and many feel culture has been negatively impacted
- What ethical issues could this raise?



Government Relief Fraud

A Developing Case

Department of Justice

Office of Public Affairs

FOR IMMEDIATE RELEASE

Tuesday, September 20, 2022

U.S. Attorney Announces Federal Charges Against 47 Defendants in \$250 Million Feeding Our Future Fraud Scheme

Nonprofit Feeding Our Future and 200+ Meal Sites in Minnesota Perpetrated the Largest COVID-19 Fraud Scheme in the Nation

- Charges of conspiracy, wire fraud, money laundering, and bribery

Background

- US Dept of Agriculture established the Federal Child Nutrition Program
- USDA distributes funds to state governments
- In MN, the MN Dept of Education administers/oversees the program
- Sponsoring organizations submit applications for a site, and the site will provide the meals
 - Sponsoring organizations in charge of monitoring and seeking reimbursement
- USDA provides funds to MN Dept of Education on a per meal basis
- MN Dept of Education gives funds to sponsoring organization which keeps 10-15% as an administrative fee and then reimburses the sites

Aimee Bock

- Founder and executive director of Feeding our Future, a nonprofit sponsoring organization
- Feeding our Future employees recruited individuals/entities to open sites (about 250 sites)
 - Historically sites had been non-profits, but during pandemic, for-profit sites were allowed



Allegations

- Sites fraudulently claimed to be serving meals
- Dozens of shell companies formed to serve as sites or to launder money
- False documentation created/submitted
 - Meal count sheets
 - False invoices for purchasing food
 - Fake attendance rosters
 - www.Listofrandomnames.com
 - Random Number Generator (ages 7 to 17)
- 125 million false meal claims

Allegations

- Feeding My Future received:
 - \$18M of administrative fees
 - Kickbacks from sites
 - Sometimes cash
 - Sometimes consulting fees to shell companies owned by Feeding my Future
- Upon investigation, Bock accused MN Dept of Education of Discrimination and sued the MN DOE when it rejected applications for sites or stopped payment
- Alleged fraud was about \$250M
 - Went from \$3M of federal funds in 2019 to nearly \$200M in 2021
- Used for luxury vehicles, property, and travel

Comments

- Bock pled not guilty.
- Bock's lawyer: "An indictment does not signify guilt or innocence. It's the beginning of the criminal process. I'm surprised that Ms. Bock has been indicted because she did nothing worthy of indictment."
- Government official: "Exploiting a government program intended to feed children at the time of a national crisis is the epitome of greed. As alleged, the defendants charged in this case chose to enrich themselves at the expense of children. Instead of feeding the future, they chose to steal from the future."

Poll #7: Pelican Rapids has a population of 2,500. How many meals were “being served” there per day?

- A. 25
- B. 256
- C. 2,560
- D. 25,600

Recent Updates

- 10 more individuals recently indicted
- Now up to a total of 60 defendants compared to initial 47
- 14 have pled guilty thus far
 - Bock maintaining her innocence and not agreeing a plea deal
- About half have also received funds for adult care



Discussion

- How may frauds like these be prevented or detected?

Industry Focus: Insurance Fraud

The Impact of Insurance Fraud on the US Economy: A report from The Coalition Against Insurance Fraud

- Estimate of total insurance fraud in 2022:

\$308.6 Billion!

- <https://insurancefraud.org/wp-content/uploads/The-Impact-of-Insurance-Fraud-on-the-U.S.-Economy-Report-2022-8.26.2022.pdf>

Estimate of 2022 Insurance Fraud Cost in the US

- Auto Theft • \$7.4B
- Disability • \$7.4B
- Healthcare • \$36.3B
- Life • \$74.7B
- Medicare and Medicaid Fraud • \$68.7B
- Premium Avoidance • \$35.1B
- Property & Casualty • \$45B
- Workers' Compensation • \$34B

Poll #8: What is not a common life insurance fraud?

- a. Faked death
- b. Faked policy
- c. Murder
- d. Unbundling

Common Life Insurance Frauds

- Lying on an application. This involves adjusting, or even withholding valuable information, such as any medical conditions.
- Forgery. A common scheme is when someone other than the policyholder will change a beneficiary.
- Fake policy. Fake agents sell fake policies that do not exist and pocket the money.
- Faked death. In these instances, people try to collect for someone who is still alive or never existed.
- Murder. When a beneficiary plans to kill a policyholder and pocket the payout.
- Pocketing premium. An agent pockets the premium payment instead of forwarding it to the company

Common Healthcare Frauds

- Provider bills for services that were never rendered
 - Patients who are deceased or who were never seen
- Upcoding: submitting a claim for a service more complex and with a higher reimbursement rate than the service that was rendered.
- Unbundling: A provider will bill for each component of a service individually rather than submit a single billing code that covers all services, as required by some insurance companies.
- Fraudulently bill by making false statements about a patient's condition to show medical necessity, including fabricating diagnoses and misrepresenting the patient's true conditions.
- Healthcare fraud can also be committed by the patient: uninsured (or underinsured) impersonates the insured
 - Identity theft
 - Card sharing

Which service providers are considered higher risk?

- Hospitals and physicians, or
- Home health agencies and durable medical equipment providers

- Why?
- More likely to be dealing with more vulnerable recipients
- Recipients less likely to have co-pays and thus less incentive to investigate bills

Health care fraud

- Steven Monaco was a sales representative for a medical diagnostic lab
- Fraud 1:
 - Put a doctor's (Daniel Oswari) medical assistant on the payroll of the lab
 - Oswari referred all lab work to Monaco's lab
 - Monaco got \$36,000 of commissions from the lab
- Fraud 2:
 - New Jersey government paid for expensive prescriptions
 - Monaco and a pharmaceutical sales rep had medical professionals (including Oswari) sign the expensive prescriptions when not needed, often for people they didn't even see
 - Doctors and patients received payments from Monaco
 - Monaco profited \$350,000 (% of insurance reimbursement). Insurance plans lost \$4.6M

Health care fraud (cont.)

- Frauds took place from 2013 – 2016, trial/sentencing not until 2022
- Monaco pled not guilty and went to trial
- Guilty of conspiracy to commit health care fraud and wire fraud, health care fraud, wire fraud, and conspiracy to violate the Anti-Kickback Statute and the Travel Act
- Sentenced to 14 years in prison
- Four others have pled guilty and are awaiting sentencing

Common P&C Frauds

- False or inflated theft repair claim
- False stolen car report (give up fraud)
- Someone not in vehicle at time of accident claims to have been there and injured (jump-in fraud)
- Staged accident
- Intentional damage claim - car
- Falsifying the date or circumstances of an accident to get coverage
- Rate evasion
- False or inflated property damage
- False or inflated burglary or theft report
- Arson
- Intentional damage claim - home

<https://www.attorneygeneral.gov/protect-yourself/insurance-fraud/types-of-insurance-fraud/>

P&C Fraud – Denis Molla

- September 23, 2020 – Molla graffiti's his own garage door with slogans from the opposite political party from that he supports
- Molla then starts his home on fire
- Molla calls law enforcement and blames “three unknown males”
- Files a \$300,000 insurance claim. Receives \$61,000
 - Molla claims the insurance company was “defrauding” him
- Creates a Go-Fund Me and receives \$17,000
- October 2022, pleads guilty to wire fraud
- Sentenced to 30 months in prison



Business risks

Discussion

- As part of doing business, an organization needs to purchase goods/services
- What sort of risks does this create?
- What types of controls can a company put in place to manage these risks?

Shelbee Szeto

- Finance Planning Manager at Hewlett Packard from 2017 – 2021
- Issued corporate credit cards to facilitate purchases for the company
 - Company policy prohibited using these cards for personal expenses
- Shelbee setup fake accounts
 - PayPal, Stripe, and Square
 - Paid fake invoices received from these vendors
- Embezzled \$4.8M in total
 - Spent it predominantly on luxury items

Poll #9: Which was not a luxury item Shelbee had to surrender to the authorities?

- A. Automobile
- B. Bags/purses
- C. Hotel stays
- D. Jewelry
- E. Stuffed animal

Items surrendered:

- Tesla sedan
- Porsche SUV
- Dozens of designer bags and purses
- Over a dozen Rolex watches
- Dozens of jewelry items
- Louis Vuitton teddy bear



Louis VUITTON Pre-owned Louis VUITTON Doudou ...

Brown cotton Louis Vuitton Doudou 2005 teddy bear from Louis Vuitton Pre-Owned featuring a monogram pattern and a hanging leather tag. Please be mindful that this piece has led ...

Bear

\$17,957.00

+\$0.00 est. tax

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Documentation

- HP required documentation
 - Uploaded falsified invoices to HP's internal system
 - Represented to HP that the payments were made to legitimate vendors
- Square asked for documentation
 - Produced a false credit card authorization form
- Bank asked for documentation
 - Claimed she earned \$3.6M through work as a consultant over a 12 month period

Fallout

- March 2022. Pled guilty to:
 - Wire fraud
 - Money laundering
 - Filing a false tax return
- Sentenced to three years in prison

- If you could talk to one person involved in this case, who would it be?

Ethical Leadership

Discussion

- What traits come to your mind when you think of an ethical leader?

Ken Blanchard

- Author, consultant, speaker
- *The One Minute Manager* has sold over 15M copies
- <https://www.youtube.com/watch?v=ctZHSa4Qhd4>

THE RUNAWAY #1 NATIONAL BESTSELLER!
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Kenneth Blanchard, Ph.D.
Spencer Johnson, M.D.





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Servant leadership

- Serve first, lead second
- Most effective leaders are good human beings who care about people
- Listen more than talk

Tips to success

- Self assess at the end of each day – Praise and redirect yourself
- Focus on significance instead of success
 - Significance is tied to generosity, success is tied to money
- Enter your day slowly, and with intent
 - Be intentional. Don't get caught in the rat race

Three key aspects of being a leader

- Set clear goals
 - People need to know what they must try to accomplish
- Praise others
- Provide redirection
 - Point out the issue, ask for their opinion, ask how you can help them get back on track

Poll #10: Which key aspects of being a leader do you most struggle with?

- a. Set clear goals
- b. Praise others
- c. Provide redirection

Reducing the risk of fraud

Discussion

- Why do people commit fraud?

Common Frauds

- Embezzlement
 - Rita Crundwell
- Insider Trading
 - Scott London
- Foreign Bribery
 - Wal-Mart Mexico
- Bribery of Government Officials
 - Ray Nagin
- Falsified Financials Statements
 - Autonomy

Poll #11: Which is not an element of the fraud triangle?

- Consequences
- Opportunities
- Pressures
- Rationalizations

Opportunity



Pressure

Rationalization

Case Study

- You are in charge of a significant amount of purchasing for your organization
- No other employees of your organization are involved in the approval process of which vendors to do business with
- Does this process pose risks? What stakeholders could be affected by your decisions?

Jasiel F. Correia – a rising star

- In 2012, at the age of 19, Jasiel designed an app to connect local businesses with consumers
- Decided to run for office. “I’m a product of Fall River. I’m young, I’m ambitious and I’m a hard worker. I want to see myself and Fall River succeed.”
- Became Mayor of Fall River, Massachusetts, a city with a population of about 100,000, at the age of 23

Jasiel F. Correia – a fallen angel

- Raised \$360,000 from investors and used 2/3 to fund personal lifestyle and to fund his political campaign
- Refused to provide financials to investors, gave false positive updates
- Became Mayor in 2016 (Age of 23), accepted bribes in exchange to non-opposition letters to marijuana vendors
 - Letters required under state law to operate a marijuana business
 - Solely responsible for approving non-opposition letters

Jasiel F. Correia – the fallout

- In 2021, convicted of 21 total counts of wire fraud, four counts of filing false tax returns, four counts of extortion conspiracy and four counts of extortion.
- “Eventually, the real truth will come out,” Mr. Correia said. “I will be vindicated, and my future will be very long and great.”
- Sentenced to 6 years in prison and 3 years supervised release
- April 2022: Reported to prison

18 U.S. Code § 201 - Bribery of public officials and witnesses (selected language)

- Whoever directly or indirectly, corruptly gives, offers or promises anything of value to any public official with intent to influence any official act...
- Whoever being a public official directly or indirectly, corruptly demands, seeks, receives, accepts, or agrees to receive or accept anything of value personally or for any other person or entity, in return for being influenced in the performance of any official act...
- Shall be fined under this title or not more than three times the monetary equivalent of the thing of value, whichever is greater, or imprisoned for not more than fifteen years, or both

Comments from government authorities

- “Jasiel Correia was a corrupt and deceitful politician who could only be stopped by federal prosecution. Now he is a felon and will be a federal inmate.”
- “Jasiel Correia’s conscious decision to fleece investors, extort hundreds of thousands of dollars in bribes, and cheat on his taxes has now cost him his freedom. He has proven to be a pervasive liar who has shown absolutely no remorse or empathy for his victims, and today he has been held accountable. Sadly, his actions have further eroded the public’s trust in government, and deeply hurt the citizens of Fall River.”

How could these have been avoided?

- Oversight, approvals, segregation of duties
- Avoid Pressures
- Avoid Opportunities

Key Takeaways

- Understand the relevant rules
- Discuss your decision with others who don't have a stake in the outcome
 - Assume your decision will be discovered
 - Focus on the long-term
- Keep yourself and others out of situations where violations are more common

- “Have the courage to say no. Have the courage to face the truth. Do the right thing because it is right. These are the magic keys to living your life with integrity.” – W. Clement Stone

Thank you!

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