

THE BRIDGE OF INTEGRITY

AM I ALL IN?

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IIA Southwest Florida Chapter
Holiday Inn, Alico Road



CREDENTIAL

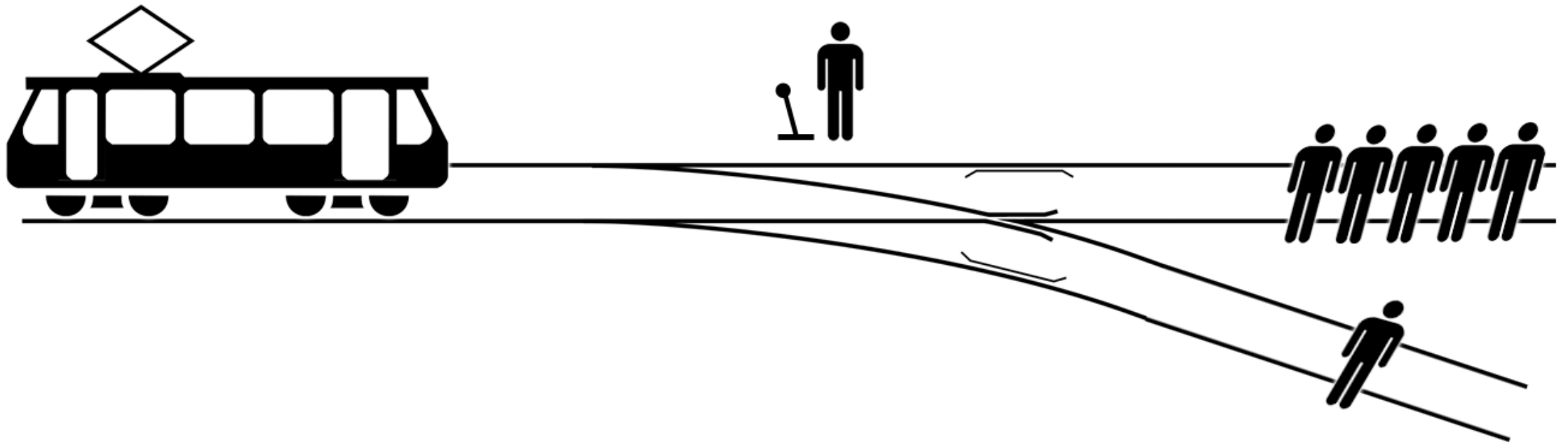


UF MBA

Bounded Awareness



Trolley Dilemma



Fat Man Trolley Dilemma

- ◆ Similar Consequences 1 person dies and 5 people saved
- ◆ Are these people inconsistent if they won't push the fat man off of the bridge?

Charles Dickens

A Tale of Two Cities

THE PERIOD

- ◆ Best of Times/Worst of times – ENRON CRISIS
- ◆ Wisdom/Foolishness-WORLDCOM AND TYCO DEBACLE
- ◆ Epoch of Belief/Incredulity-ARTHUR ANDERSON FAILURE
- ◆ Light/Darkness - HOUSING AND MORTGAGE CRISIS
- ◆ Spring of Hope/Winter of Despair-BERNIE MADOFF PONZI SCHEME
- ◆ Everything Before us/nothing before us- THE CURRENT STANDING OF TODAY'S BUSINESS ECONOMY.



As Professionals We are Called to be Bridges



Are you a true and integral bridge for your clients and team members?

Conflicts of Interest

You are the CEO of a Publically held company. Your Chief Financial Officer was recently found dead at his desk from a heart attack with a copy of the latest audit bill in his hand. You like the audit partner on your audit, he is very capable, yet expensive. You figure it would be cheaper to hire him directly and make him an offer to replace your deceased CFO.

Do you have any problems?



I-35 Bridge 9340 – Structural Integrity Lacking

- 1964 Construction Begins Minneapolis, Minnesota
- Completed 3 years later
- 140,000 drivers per day
- 2001 Civil Engineering Department of the University of Minnesota reported a deficiency with the cross girders at the end of the approach spans
- Wed. August 1, 2007 at 6:05 p.m.
- Central Span suddenly gave way and collapsed into the river
- 81 Feet
- Killing 13 and injuring 100 more

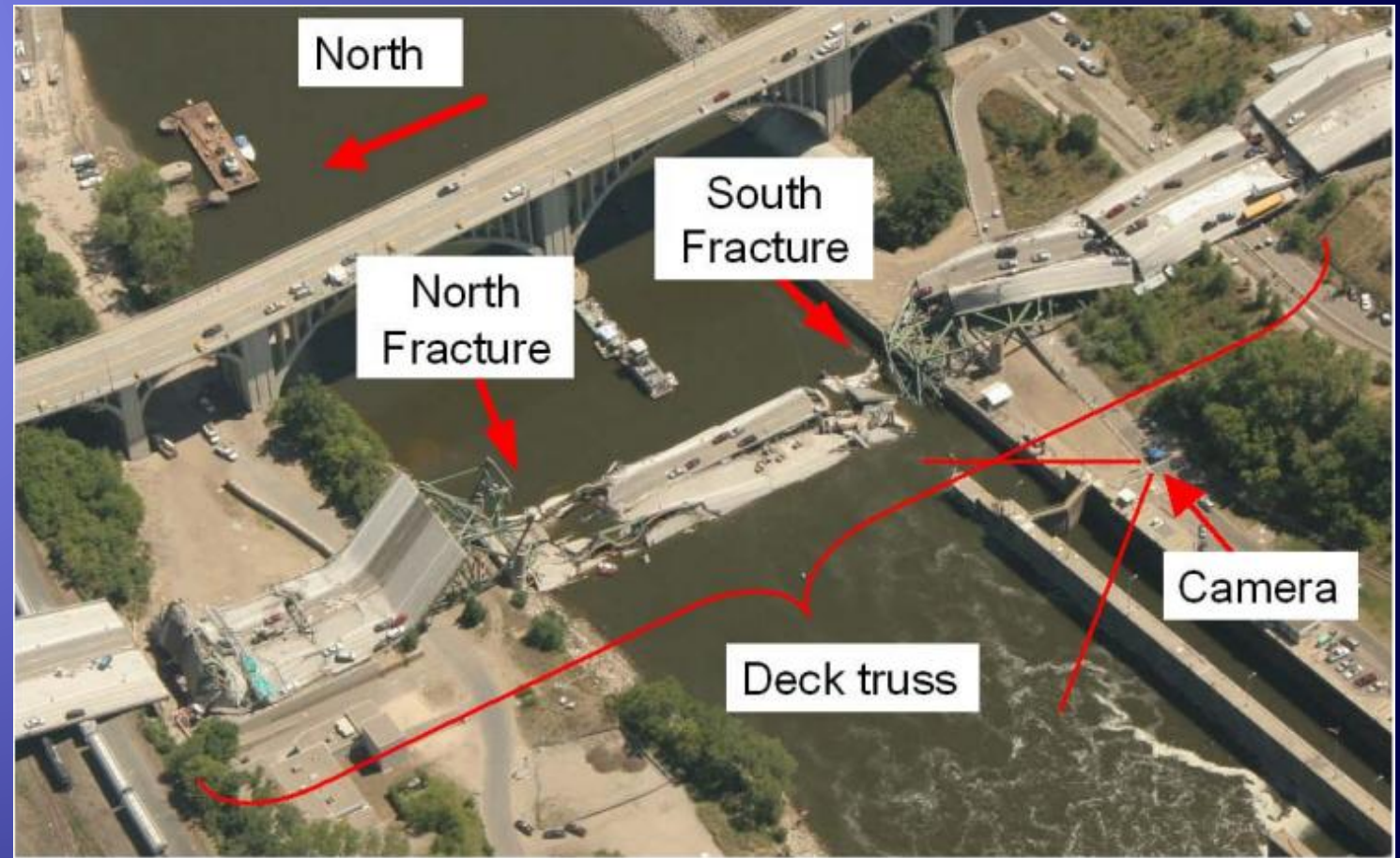
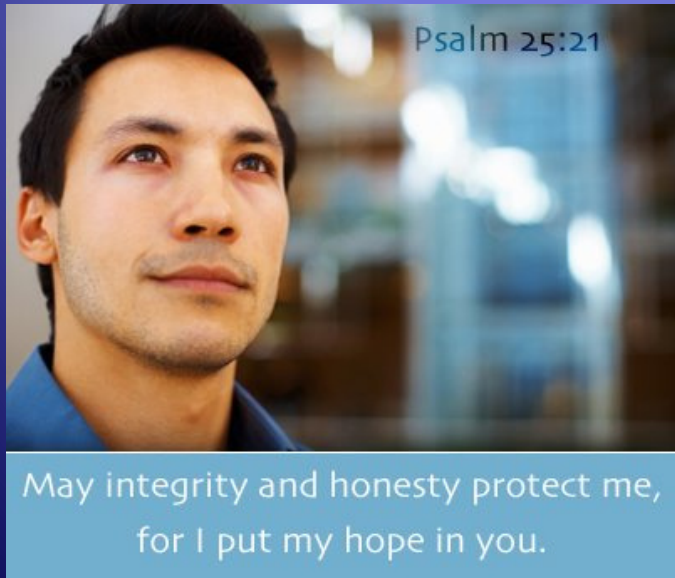


Figure 1. The collapsed deck truss portion of the I-35W bridge.

www.engineeringcivil.com

Definition: INTEGRITY

- Hebrew word for Integrity:
 - Wholeness of Mind
 - Soundness
 - Absence of an Evil Purpose
- An Integral person is one who is upright (Ps 25:21).
- He is a very reliable bridge.



Establishing a Strong Moral Compass

How have you Resolved Moral Dilemmas?

- ◆ Distinguish between values, mission, and vision
- ◆ Vision points to a direction, and mission communicates a higher aspirations an organization may seek
- ◆ Ask: *How could long-term goals be attained if the day-to-day actions that define the organization aren't regularly practiced*
- ◆ Moral Risk/Competency?

The IIA Code of Ethics

Integrity: The integrity of internal auditors establishes TRUST and thus provides the basis for reliance on their judgment.



CASES: An Auditor's Dilemma

Gabriela Molina, an internal auditor for Jim's Jams, stumbles across a misdated invoice. She quickly recalls that she recalls having seen several similar invoices. Concerned, she goes to Ted Bear, the head of purchasing. Ted explains that this is a common practice that has been adopted so that the company may meet its monthly quotas. Gabriela believes that no one is being harmed by the practice but believes that if she does not report the issue that she will be in violation of the code of ethics governing the Institute of Internal Auditors?

Institute of Internal Auditors

Code of Ethics

The term internal auditing:

1. Independent
2. Objective assurance and consulting activity
3. Designed to add value and improve an organization's operations
4. Brings systematic, disciplined approach to evaluate
5. Improve the effectiveness of risk management, and
6. Control governances processes

The purpose of the IIA Code of Ethics is to promote an ethical culture in the profession of Internal Auditing. It is grounded in fact management and stakeholders place a level of trust in the function of internal auditing.

{ CODE of ETHICS... }

// PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for

- **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

// RULES OF CONDUCT

1. **Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. **Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

EXERCISE:

The Procurement Audit

A recent study of CAEs released by the IIA indicated over 40% of CAEs have felt pressure from management in the past, either to not disclose an issue or to cover up the issue. Many also resigned.

THE PROCUREMENT AUDIT

You are the manager in your internal audit department. You have been assigned, along with two senior staff members, to perform an audit of your company's procurement process the audit has been added to the audit plan due to concerns over potential conflict of interest incidents between procurement staff and vendors.

The Procurement/Purchasing Director has a strong and dominate personality. She is known to use intimidation as a technique to ensure outcomes are in her favor.

Your team prepares carefully for the entrance/engagement meeting, ensuring you have the audit objectives well outlined. In addition, you have worked to anticipate any potential concerns that may be expressed during the meeting.

At the engagement meeting, the procurement director and three of his senior staff are in attendance, and so are you and your staff. At the meeting, as you anticipated, procurement staff express strong disagreement for an internal audit. They note that an audit was conducted of their area 12 months ago with no significant findings identified. You and your team outline the audit objectives carefully and explain the addition of the audit was at the request of the audit committee. You further explain that the audit corresponds with a review of the company's conflict of interest process. The internal audit staff ensure the procurement staff that the commination during the audit will be timely and open.

After the engagement meeting, you team begins field work. Within the first week of field work, your CAE is asked to meet with the CEO. During this meeting, the CAE is presented with a tape recording made by one of the procurement staff during the engagement meeting (ignore any eavesdropping law violations). The CEO expresses concerns over several statements on the recording made by the internal auditors. Since the CAE was not part of engagement meeting, he tells the CEO he will speak with the audit team.

The CEO calls a meeting of the audit team and presents the tape recording. The team are initially upset because they were unaware the meeting was recorded. As they listen to the recording, they begin to notice several comments appear to have been edited out of context. As these concerns are expressed, the CAE decides it is important to speak individually to each member of the audit team to get individual and independent input.

The CAE meets with each team member and asked them to specifically identify what they believe was edited and their recollection of the conversation. The CAE finds the auditors' comments and recollections are consistent. With this information, he becomes concerned the internal auditors were being set up, and the recordings had been edited.

1. Considering this information, what steps would you take as the CAE?
2. What advice would you give the staff auditors as the manager?
3. What action would you take as one of the staff auditors?

Exegesis vs. Eisegesis

- ♦ **Exegesis** is the process of drawing out the meaning from a text in accordance with the context and discoverable meaning of its author, **Eisegesis** occurs when the reader imposes his or her interpretation in and onto the text.

Legal and Ethical Issues in Mentoring

1. May an auditor who is mentoring a student, allow the student to observed confidential client consultations?
 2. May a student/mentee observe confidential client communications?
 3. What steps should be taken to protect confidential client information during a mentoring relationship?
1. The student may observe the consultation, provided the audit client first gives informed consent (in writing).
 2. Yes, however signed written agreement to maintain the confidentiality of the client.
 3. Hypothetical inquires are the best means to protect confidentiality, and, if used carefully, do not require client consent.

Case Vignette

A graduate student in her Doctorate of Accountancy program files an ethics complaint with a university ethics committee claiming that her dissertation chair and advisor, Dr. Newhart, abandoned her, leaving her emotionally distressed. It appears the two developed an unusual level of attachment due to frequent socializing and development of a personal relationship that many at the university described as “intense.” The student had several life crises and emotional problems during her training and Dr. Newhart would frequently provide what amounted to “psychotherapy sessions” that were as frequent as three to four times a week. He encouraged her to contact him by phone after hours and often invited her along to events with his family. The student became quite distressed when, on her graduation, Dr. Newhart attempted to terminate the mentorship.



(Bubba the Love Sponge) Clem v Schnitt

Bubba the Love Sponge

1. Conduct of attorney in conspiring to improperly effect arrest of opposing counsel violated the rule of professional conduct; and
2. Permanent disbarment was appropriate sanction for attorneys' misconduct.

- ◆ What is the difference between Character and Reputation?



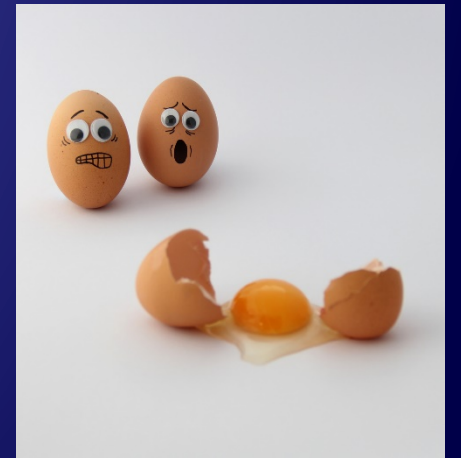
Florida Bar v. Adam Filthaut

Attorney for Adam Filthaut
Duty to protect your license
and do the right thing

Attorney for the Florida Bar
Group Think

Developing a Strategic Plan

- How do you use your strengths to take advantage of opportunities?
- How do you overcome weaknesses preventing you from taking advantages of opportunities?
- How can you strengths reduce the probability of threats?
- What can you do about your weaknesses to make the threats less likely?



Discussion:

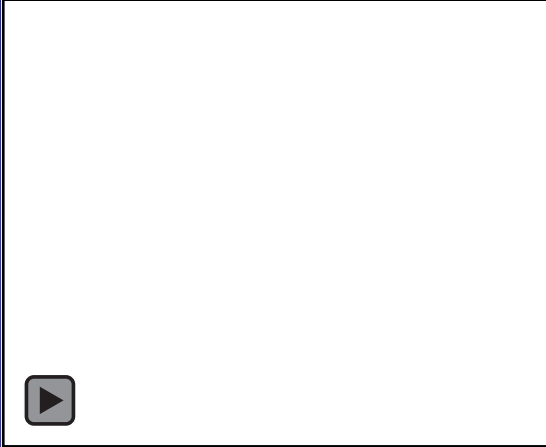
Strengths

Weaknesses

Opportunities

Threats

Reporting Ethical Issues:



IIA Study of 233 Whistleblowers:
90% were later fired or demoted
27% faced lawsuits
26% sought psychiatric or physical care
25% suffered alcohol abuse
17% lost their homes
15% got divorced
10% attempted suicide
8% went bankrupt

ONLY 16% of the people said
they would NOT do it again.

Kevin Shipp, Former CIA Officer
Exposed the CIA in Human Rights violations and other unethical/unconstitutional acts.

Exercise:

Reporting Results of Ethical Evaluations

Auditors must be cognizant of how they communicate ethical observations in the workplace.

ETHICAL COMMUNICATION SCENARIO

Internal audit is in the midst of a review of a business process area. During the review, they become concerned about communications observed between process area management and employees. The communication process is not officially part of the scope of the internal audit; however, the auditors are bothered by the manner in which communication impact the atmosphere of the work area. They observe the manager of the process are frequently going directly to the desk of employees and acting in a very verbally abusive manner. In one instance, they observed the manager yelling very loudly at an employee because a journal entry calculation had been done improperly. The manager used inflammatory language and verbally threatened the person's job if they did not "shape up." The issue occurred when most of the department was present. The employee being verbally abused became so upset they left the office for the day.

In another instance, an employee arrived late to work. The manager was in the work area when the employee arrived. He immediately called the employee out in front of the departmental employees and loudly proclaimed that "being late to work was unacceptable behavior and cause for termination." The manager also declared he didn't care to hear any excuses and expected each employee to contact him personally if they were going to be late.

In this instance, the employee spoke up and mentioned that he had tried several times to call the manager's cell and work phone but received no answer. The employee indicated he left a message on both lines explaining why he was running late. The manager reacted with anger and replied, "***This is a perfect example of inappropriate behavior! I don't care that I didn't answer the phone. That is no excuse. You should have kept calling until you reached me personally.***"

1. What should the Auditors do?
2. Considering this information, what steps would you take as the CAE?

Ethical Culture in the Future

- 28% of employers have fired employees for the misuse of – emails
- 21% have fired employees for misuse of the internet
- 50% of all employers surveyed said they were concerned about their employees browsing social networking sites at work
- Some employees have been terminated due to their comments and posts on social media websites
- Other employers admitted to using social media to conduct background checks on potential hires.

• (Source IIA)

Ethical Questions:

1. How acceptable is it for employees to use social media to speak about their employers? Discussing Concerns?
2. Should employees be allowed to access social media on websites on company time if it is not an integral part of their job responsibilities?
3. Using Smart Phone to access social media

Florida v. Norkin – Public Reprimand for Ethical Misconduct

Loans to Officers and Directors

- ◆ You are on the Board of Directors of a Publically held Utility Company. John Smith, an Executive Officer of the firm, has been with the company for 35 years and has been the primary source of the company's success. He comes to the board and asks them for a \$400,000 loan so that his adult daughter, who is not covered by the employees health care plan, can have a life saving cancer operation.
- ◆ **Should you authorize the loan?**

The Final Word

E – Everyone is Responsible

T – Tone at the Top

H – Honesty is the best policy

I – integrity is a measure of ethics

C – Integrity is measure of ethics

S-Silence is not acceptable

HECK YES
MACS ARE
PRETTY MUCH THE
COOLEST
COMPUTERS
EVER
MADE



Ask an Expert:
Time Permitting

It's Over!
Questions?