

An Ounce of Ethics is Worth a Pound of Fraud

Austin – Public Sector
August 5, 2015



Overview

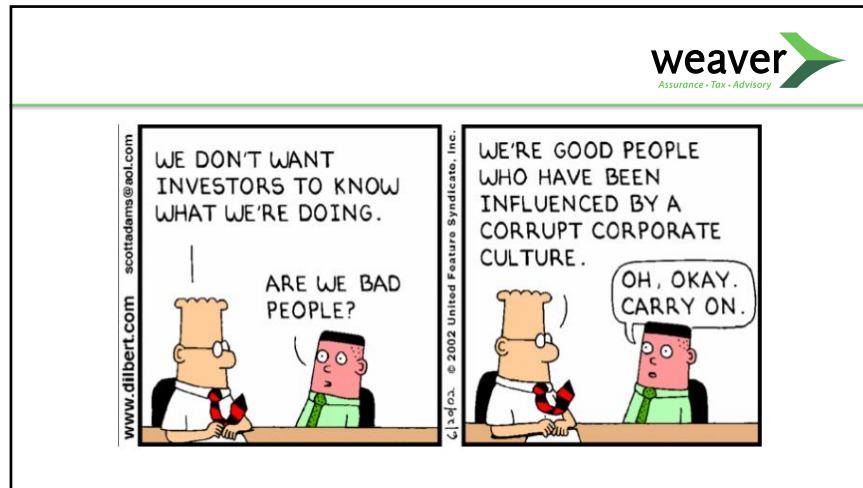
Overview



- Personal ethics versus organizational ethics
- Talking about an “ethical culture”
- Example of an ethical collapse
- How do you create an ethical culture?
- Evolution of compliance & ethics programs
- The People Solution of a compliance and ethics program



ETHICAL CULTURE



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Ethical Culture

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What does it look like?

- TRUST and VALUES
- Trust because you feel free to communicate and respond to situations
- Values are clear, positive and understandable
- Encouragement to act on values
- Act according to values even when no one is looking

Ethical Culture

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- "If you lose dollars for the firm by bad decisions, I will be understanding. If you lose reputation for the firm I will be ruthless"

- Warren Buffet

Ethical Collapse

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The Seven Signs of Ethical Collapse

Understanding What Causes Moral Meltdowns in Organizations



Marianne Jennings, J.D.

The reasons that organizations undergo ethical collapse:

1. Pressure to maintain the numbers
2. Fear and silence
3. Young 'uns and a larger-than-life CEO

Ethical Collapse



4. A weak board
5. Conflicts
6. Innovation like no other
7. Goodness in some areas atones for evil in others



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"We need to improve our image, so from now on we're calling ourselves a 'Not for non-profit.'"




Example of Ethical Collapse

The Case



- *The former superintendent of El Paso ISD created a culture of corruption which resulted in a wide-spread scheme of data-manipulation and accountability avoidance. This scheme spanned over several school years, impacting the education of hundreds of students and the future of many educators and administrators.*


The "Culture"



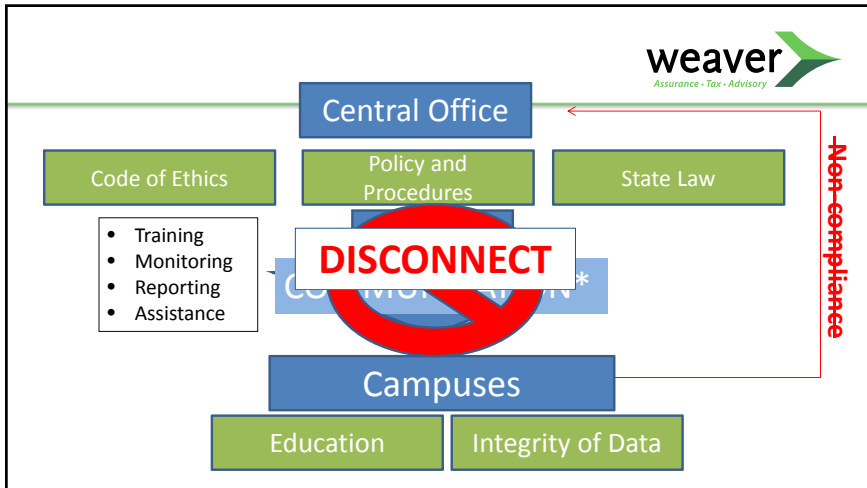
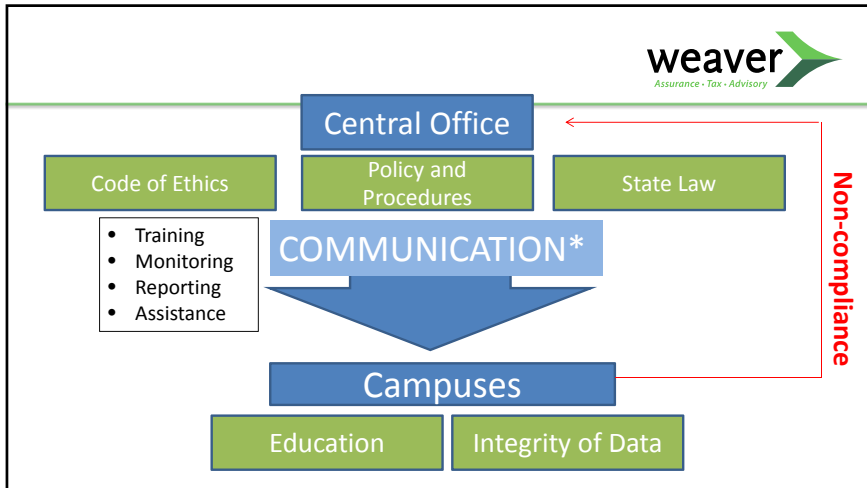
- The District's culture was molded by the criminality of the former superintendent
- The former superintendent created an infrastructure of Campus Directors who facilitated the corruption of the entire district at his direction
- An environment of fear and intimidation coerced employees to engage in unethical and possibly illegal behavior.
- Infrastructure was designed and implemented to perpetuate the culture and achieve its criminal objectives.

"Tone at the Top"

(not a management cliché)



- In this case, the superintendent/board relationship was not a "team of eight" but a team of one
- Inadequate oversight: internal audit was ineffective and reported to the wrong place
- One bad actor at the top will leave behind an infrastructure even after he is gone—and sometimes worse, a power void



Results of This Culture



- *July 28, 2011 - former Superintendent indicted on federal mail fraud, conspiracy, and aiding and abetting charges.*
- *August 1, 2011 - former Superintendent arrested & removed.*
- *August 14, 2012 - TEA notifies District of appointment of a state Conservator and suspends accreditation.*
- *April 9, 2014 - TEA files petition against 11 administrators seeking revocation of their teaching certificates*

Ethical Culture



Key Components:

- Code of Conduct/Statement of Values
- Leadership
- Transparency /Communication
- Commitments
- Accountability
- Treatment of People

Benefits



- Employee commitment
- Bad actors less likely to advance and do more harm
- Good decision making in new and challenging situations
- Reputational success/Public trust

Why It's Important



A survey by global accounting firm KPMG showed that 73% of employees surveyed nationally witnessed misconduct in the prior year. More than half said those incidents could cause a loss of public trust if they were discovered

SOURCE: Investors.oom; June 30, 2015: "Make Policies And Encourage Reporting To Limit Fraud"



Compliance & Ethics Programs

Evolution of Compliance & Ethics



- Corporate world
- Federal Sentencing Guidelines – Chapter 8 (1991; revised in 2004 and 2010)
- Designed to mitigate criminal penalties and fines for organizations
- 7 original elements – additional credits

Compliance & Ethics Program



- Establish a written ethics policy and code of conduct, communicate to ALL employees
- Be vigilant about communicating policies and procedures to employees and third party contractors
- Provide a reporting mechanism
- Hold people accountable

Reporting Mechanism





Who is the average whistleblower?

Most likely reported internally first

- 92% of reporters turn to someone inside the organization when they first report misconduct

Importance of being responsive

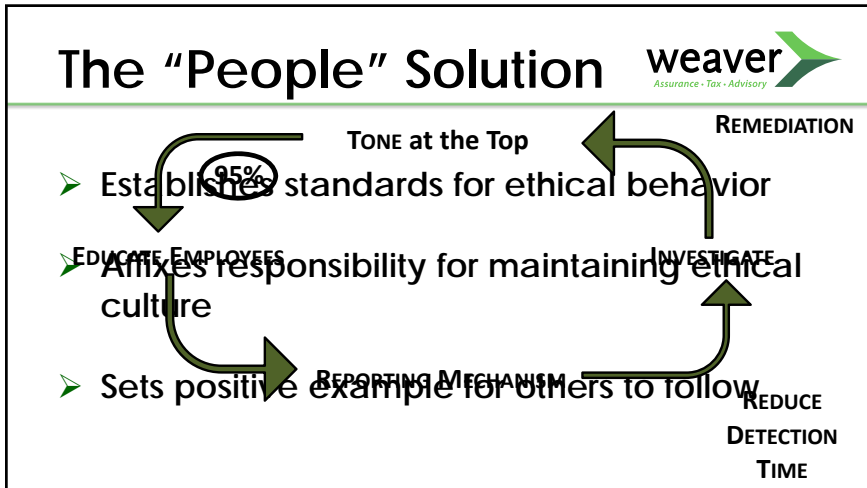
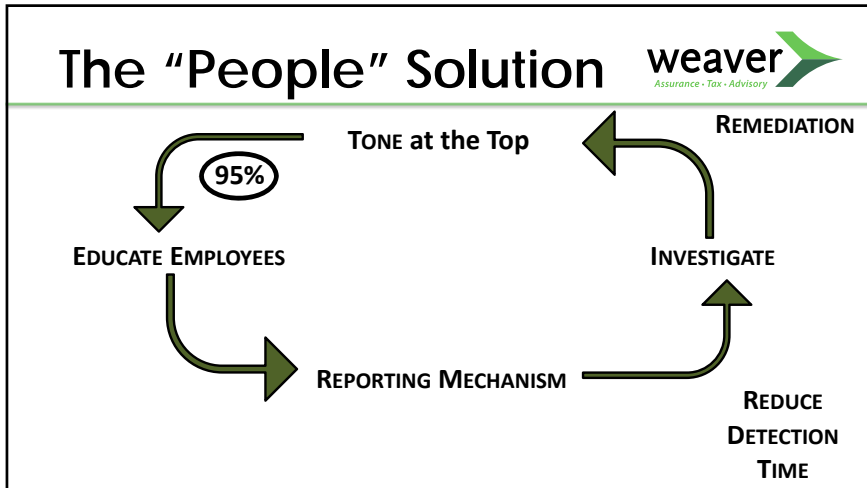
Tone at the Top

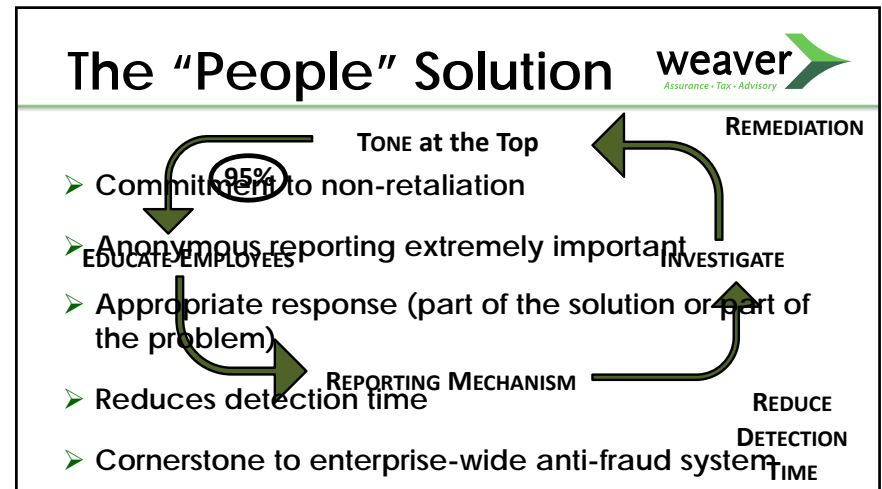
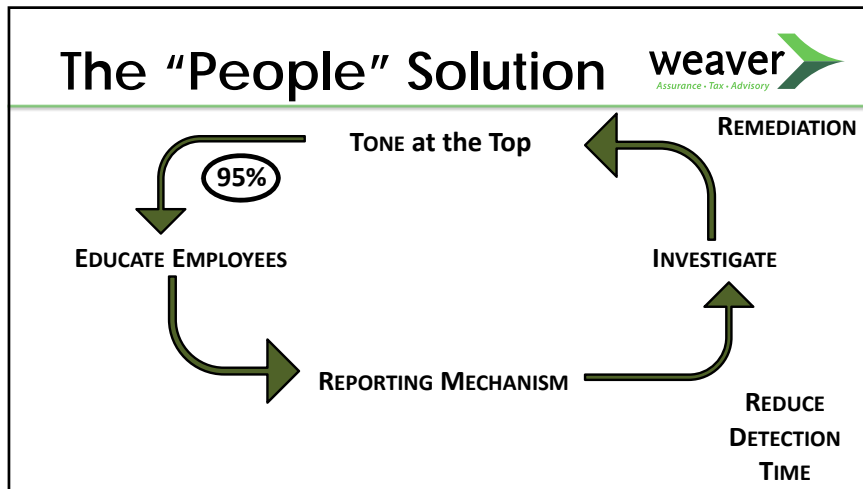
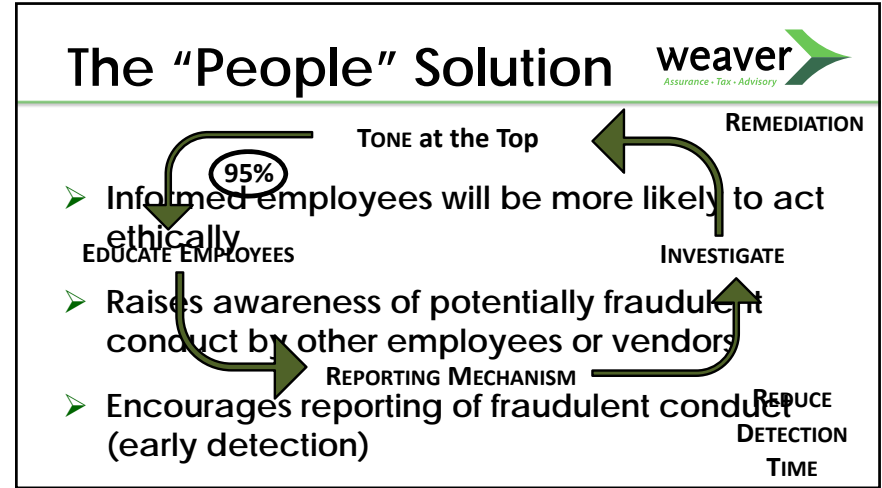
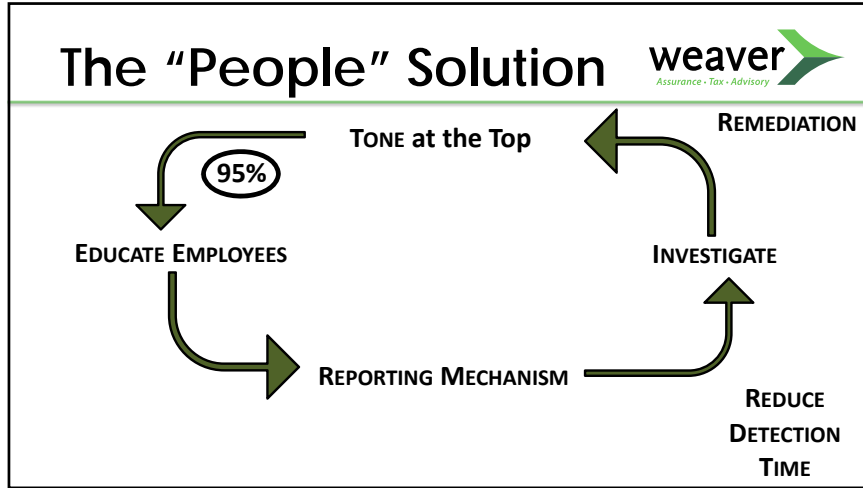



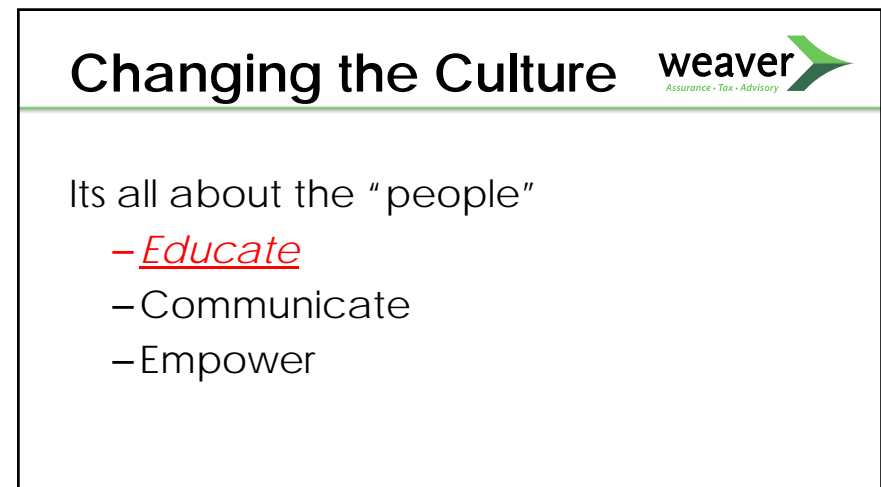
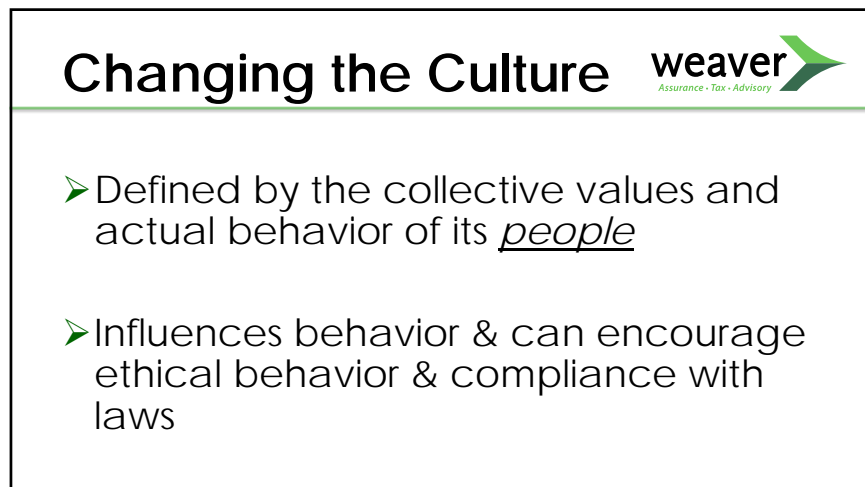
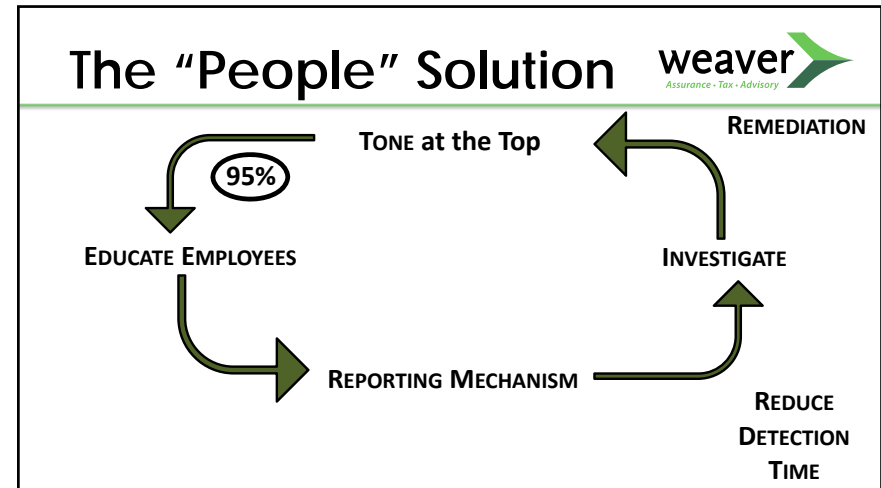
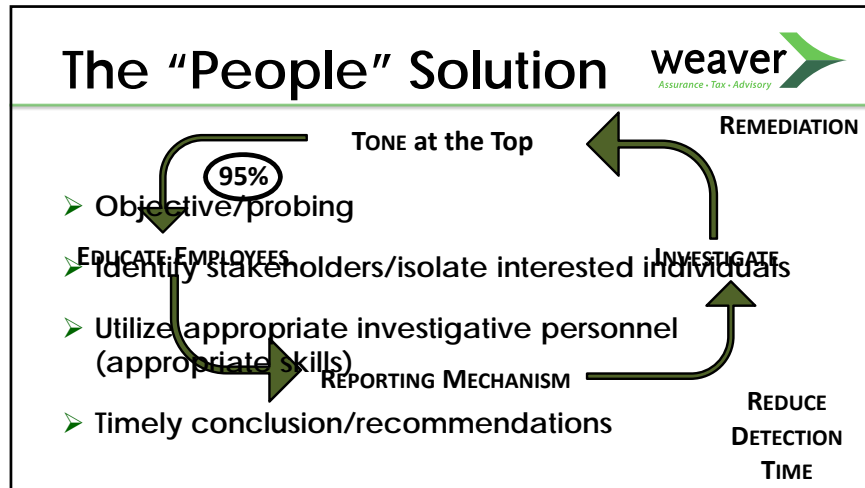
"Let the minutes show that Fenwick brought up the subject of corporate ethics."



The People Solution







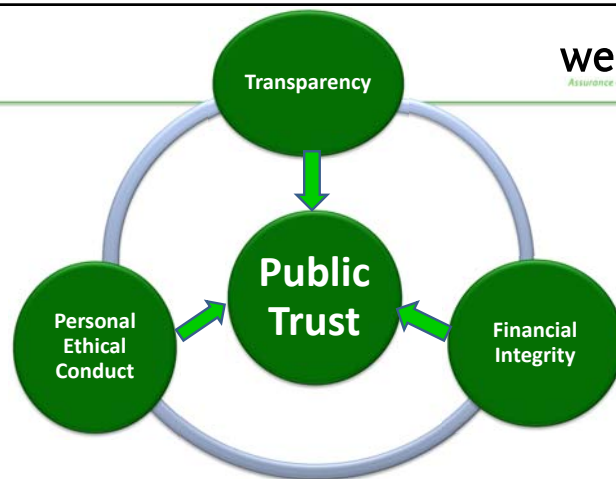
95% Solution



- Your people are the best control system!
 - Encourage
 - Empower
 - Enlist



What are we trying to accomplish?



Questions?

Contact Information



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