



# **Recent Corporate Fraud Developments and Ethics Considerations**

**Southern California Tax Professionals, Inc.  
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# **FBI: Major Business E-Mail Scam Blasts 270% Increase Since 2015**

Network World  
8/31/15

Since the FBI's Internet Crime Complaint Center (IC3) began tracking BEC scams in late 2013, it has compiled statistics on more than 7,000 U.S. companies that have been victimized—with total dollar losses exceeding \$740 million. That doesn't include victims outside the U.S. and unreported losses, the FBI stated. According to IC3, since the beginning of 2015 there has been a 270% increase in identified BEC victims.

# Denmark Reveals €800 Million Tax Fraud – the Country’s Biggest

The Guardian  
8/26/15

Denmark’s tax authority said on Wednesday that it had alerted police after foreign companies appeared to have drained more than 800m euros from the system in what would be the country’s biggest tax fraud.

The case involves returns on stock, including dividends, in Danish companies paid to foreign companies.

“The treasury and society have possibly been robbed of very considerable funds ... We have a major investigation ahead of us. I envisage a long hard haul to find out what has happened,” the national prosecutor, Morten Niels Jacobsen, said.

# Priest Pleads Guilty to Fraud in \$575K Church Theft

Detroit Press  
9/01/15

Catholic priest Edward Belczak pleaded guilty to mail fraud in connect with stealing \$573,000 from St. Thomas More Church in Troy, the prosperous parish he led as pastor for nearly 30 years.

Belczak's plea came more than 2 ½ years after Archdiocese of Detroit officials removed him as pastor of St. Thomas More when an audit raised evidence of financial irregularities involving several hundred thousand dollars.

# Finance Director Admits Embezzling \$2 Million from Pegasus School in Huntington Beach

Orange County Register  
9/14/14

Ricardo Nieva was lauded as the “rock” of Huntington Beach’s elite Pegasus School, profiled in the school magazine as a sure-handed finance director who had put the budget on solid ground since his arrival 18 years earlier.

By then, he had been embezzling money from the private school for about seven years.

According to a plea agreement he signed in August, Nieva wrote more than 250 checks to himself between December 2006 and May 2013, for a total of \$2,093,667.84.

# Cancer Charities Called \$187 Million ‘Sham’

Wall Street Journal

5/20/15

The alleged fraud, which would be one of the largest-ever involving a charity, was detailed in a complaint filed by the Federal Trade Commission, all 50 states and the District of Columbia.

It describes four connected groups, all with cancer in their name, as “sham charities,” saying they instead “operated as personal fiefdoms characterized by rampant nepotism, flagrant conflicts of interest, and excessive insider compensation.”



# PCAOB Member Discusses Trends in Internal Control Audits

Audit Analytics  
8/13/15

"More and more companies that have to restate their financials also claimed to have 'clean' – i.e., effective – ICFR opinions immediately prior to disclosing the restatement," Audit Analytics reported yesterday.

"In 2014, 80.4% of restatements were made by companies with effective ICFR. This is up from 74.2% in 2010, and the low of 72.4% in 2012. As a result, there has been a coincident increase in the number of restated ICFR opinions."

According to Audit Analytics, "This suggests that there may be a substantial number of undisclosed material weaknesses in ICFR."

# Are Audits of ICFR Improving?

Journal of Accountancy

8/10/15

PCAOB member Jeanette Franzel, in a speech at the American Accounting Association Annual Meeting, said ICFR audit deficiencies continue to be the most frequent inspection findings. However, the *Journal of Accountancy* reports, she added that the results of the PCAOB's 2014 inspections of audit firms indicate that some improvements have been made in the area of auditing ICFR.

Franzel presented data from Audit Analytics showing that the percentage of adverse ICFR opinions among issuers with ICFR audits rose from 3.4 percent in 2010 to 5.2 percent in 2014. And other data suggest there may be room for improvement in identifying and disclosing material weaknesses. But the data, “together with what I hear from leaders in the profession, makes me optimistic that the audit work in the area of ICFR may be improving, though questions remain about whether auditors appropriately recognize and act on all material weaknesses as required by applicable standards,” Franzel said

# **Toshiba CEO Resigns Over \$1.9 Billion Accounting Scandal**

CNN Money | Wall Street Journal

7/21/15 | 9/7/15

Toshiba's CEO and President Hisao Tanaka resigned over faked profits.

Eight Board members, including Vice Chairman Norio Sasaki, have also resigned their posts as part of a major management reshuffle.

# Doctors and Nurses Busted for \$712 Million Medicare Fraud

CNN Money  
6/21/15

The FBI arrested 46 doctors and nurses across the country in the largest Medicare fraud bust ever.

In total, 243 people were arrested in 17 cities for allegedly billing Medicare for \$712 million worth of patient care that was never given or unnecessary.

The DOJ's Medicare Fraud Strike Force team led the investigations.

# Impact of Auditor and Audit Committee Report Changes on Audit Quality and Costs

Audit Analytics  
8/26/15

A forthcoming study by Audit Analytics found that the amount companies spent on non-audit fees in 2014 hit their lowest level, relative to what they spent on audit-related fees, since 2002.

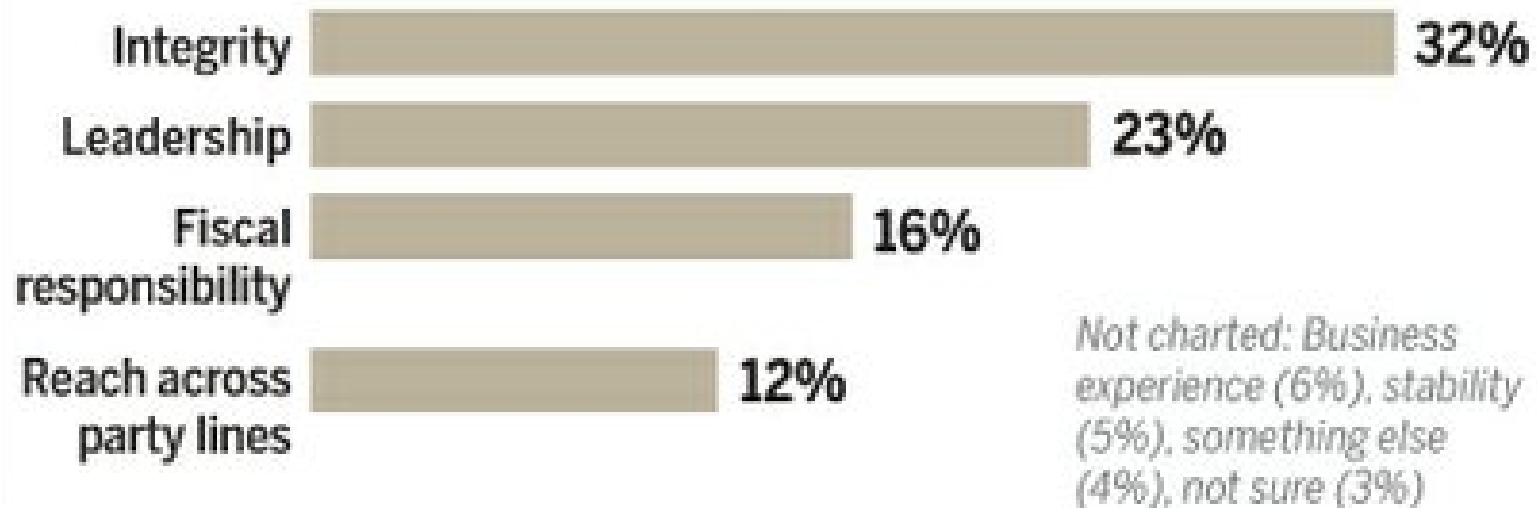
Just over 80 percent of accounting spending among 2,300 U.S. public companies went directly to audit services, the *Wall Street Journal* reports. That approached 91 percent when audit-related fees — such as benefits-plan audits, merger evaluations, and internal-control reviews — are included in that bucket. Prior to passage of the Sarbanes-Oxley Act in 2002, large companies or the most part evenly split what they paid accountants between auditing fees and fees unrelated to auditing.

# Good News!

## Integrity, leadership still top list of most important traits

U-T San Diego, 1/12/14

**Q:** Which of these would be the most important quality for a new mayor to have? (Choose one)



# Professional Services: Accounting for Change

Financial Times

8/27/15

Consulting is back in vogue among the Big Four firms but some fear audit quality is at risk amid potential conflicts of interest.



# 100 YEARS OF CAUSE AND EFFECT

Stock market crash	<b>1929</b>
<b>Securities and Exchange Commission established</b>	<b>1930</b>
Periods of economic stability	<b>1950-1960</b>
Sharp rise in financial fraud, illegal corporate acts, bribes and kickbacks	<b>1970s</b>
<b>Foreign Corrupts Practices Act</b>	<b>1972</b>
Student marketing/Equity funding/ZZZZ Best	<b>1970-1980</b>
AICPA – SEC practice session	<b>1977</b>
The Cohen commission	<b>1977-1978</b>
Era of rapid technology growth	<b>1980s-2000</b>



# 100 YEARS OF CAUSE AND EFFECT, continued

Rapid rise in personal wealth	<b>1980s-1990s</b>
<b>COSO established</b>	<b>1985</b>
Tort reform/class action lawsuit	<b>1996</b>
Enron collapses – Arthur Andersen fails	<b>2001-2002</b>
<b>SOX and PCAOB established</b>	<b>2002</b>
Enron, Worldcom, Adelphia, Peregrine, Quest, HealthSouth, Tyco	<b>2002-2005</b>
Global financial crisis, mortgage meltdown, hedge fund/SAC, GSK, KPMG insider trading	<b>2007-present</b>

# What is the Common Theme?

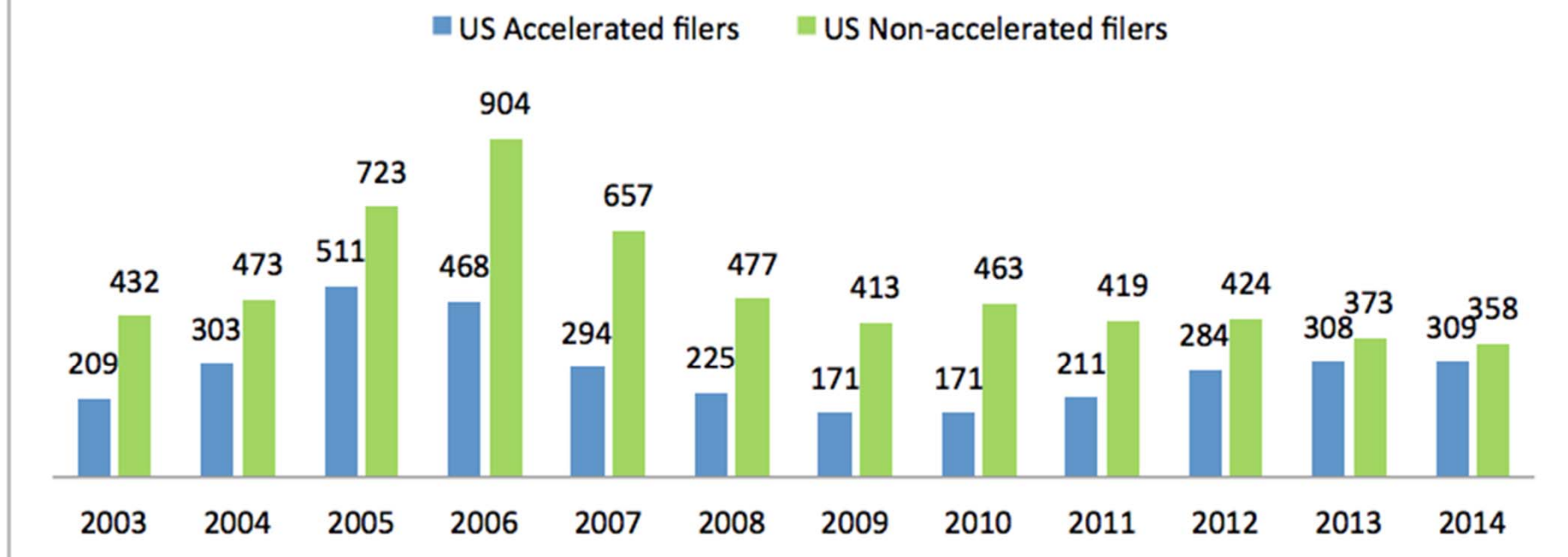
## “Short Answer”

1. Trading “short-term gain” for “long-term value”
2. Ignoring the “Elephant in the Room”
  1. **Subprime mortgages**
  2. **Material** weaknesses
  3. **Excessive** rates on return
  4. **Trillions** of dollars of debt
3. Failure in personal ethics and decision making (code: greed!)



# Are We Making Any Progress?

## Restating Registrant by Accelerated Filer Status



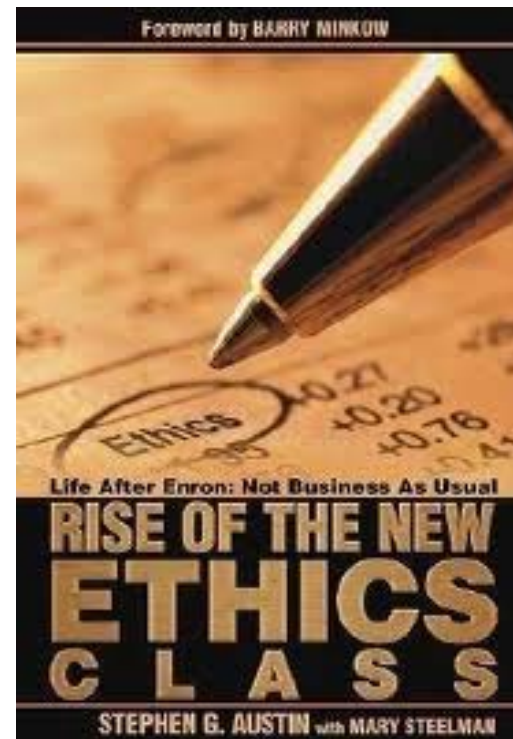
Source: [www.AuditAnalytics.com](http://www.AuditAnalytics.com) 508.476.7007

**Total number of restatements has remained relatively low, however restatements among accelerated filers are not falling.**

# Rise of the New Ethics Class

Chapter 2

Tone at the Top



Discussion Question:

How Do You Set  
“Tone at the Top”  
at your Organization?

# Global Internal Control Considerations



*International Good Practice Guidance*

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## Evaluating and Improving Internal Control in Organizations



# International Federation of Accountants

- **IFAC's mission is to serve the public interest by:**
  - Contributing to the development, adoption, and implementation of high-quality international standards and guidance;
  - Contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants;
  - Promoting the value of professional accountants worldwide; and
  - Speaking out on public interest issues where the accountancy profession's expertise is most relevant

## International Federation of Accountants, continued

- **IFAC is comprised of 167 members and associates in 127 countries and jurisdictions**
  - American Institute of Certified Public Accountants
  - Forum of firms
  - Board
    - Goran Tidstrom, President (Sweden)
    - Warren Allen, Deputy President (New Zealand)
    - Tunisia, Spain, Canada, Netherlands, Brazil, Australia, Indonesia, United States, Uganda, Germany, France, India, United Kingdom, Mexico, Japan, Turkey, China

# PAIB Committee

- **IFAC Serves IFAC member bodies and professional accountants worldwide who work in commerce, industry, financial services, education, and the public and not-for-profit sectors. Its aim is to promote and contribute to the value of professional accountants in business. To achieve this objective, its activities focus on:**
  - Increasing awareness of the important roles professional accountants play in creating, enabling, preserving, and reporting value for organizations and their stakeholders; and
  - Supporting member bodies in enhancing the competence of their members to fulfill those roles. This is achieved by facilitating the communication and sharing of good practices and ideas

## **Practical Guidance on Implementing the Principles**

- What should the scope of internal control be?
- Who should be responsible for internal control?
- How could management's genuine attention on internal control objectives be obtained?
- How should those involved in the internal control system live up to their responsibilities?
- What else, beyond their formal responsibilities, should be expected from the governing body and management with respect to internal control?

## Practical Guidance on Implementing the Principles, continued

- How should internal control be selected, implemented, and operated?
- How can internal control be better ingrained into the DNA of the organization?
- How should internal control be monitored and evaluated?
- How should the organization report on internal control performance?

# Understanding the Foundations for Ethical Behavior

1. Changing hearts and minds vs. “check the box”
2. Establish “Ethics Pillars” in your company
3. Communicate your Ethics Pillars at least four times per year – employees, customers, vendors
4. Financially reward ethical behavior
5. Focus on long-term values
6. Enjoy the rewards of an ethical climate

# How to Culturally Address Our Continuing Ethics Issues

1. The home (childhood)
2. The school (classroom)
3. Religious platform (basis for decision-making)
4. Corporate culture/"Tone at the Top"
5. Repeat the cycle – by generation
6. Breaking the pattern – historical cycles of fraud



Discussion Question:

How Do You Build Ethics  
Into Your Business  
Environment?



Committee of Sponsoring Organizations of the Treadway Commission

Governance and Internal Control



# LEVERAGING COSO ACROSS THE THREE LINES OF DEFENSE

By  
The Institute of Internal Auditors®



**Douglas J. Anderson | Gina Eubanks**

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your professional adviser, and this paper should not be considered a substitute for the services of such advisors, nor should it be used as a basis for any decision or action that may affect your organization.

# Resources

- Ethisphere  
<http://ethisphere.com>
- AICPA's Fraud Resource Center
- Convene  
[www.convenenow.com](http://www.convenenow.com)
- Institute for Global Ethics  
[www.globalethics.org](http://www.globalethics.org)
- The Red Flag Group  
[www.redflaggroup.com](http://www.redflaggroup.com)
- Swenson Advisors, LLP  
[www.SwensonAdvisors.com](http://www.SwensonAdvisors.com)

# HOT 8TH ANNUAL TOPICS SEMINAR



## BIG DATA, BIG DEAL & OTHER HOT TOPICS

### Overview:

Top performing companies are using Big Data and Analytics to enhance their competitive advantage. This year's Hot Topics Seminar will help you understand how your company can benefit from Big Data and the analytical tools you need to leverage that data for your company. The speakers this year come from a variety of credentialed backgrounds with national and international Big Data and Analytics experience. As always, we will update you on key topics with SEC, accounting and risk management topics.

### Additional Big Data, Analytics and SEC Speakers:

Using Big Data and Predictive Analytics for Accounting and Auditing	Steve Austin, CPA, Swenson Advisors, LLP
New Regulations A+: Better than Crowdfunding: Real Public Financing for Growth Companies	John Tishler, Esq. & Rachel Hudson, Esq. Sheppard, Mullin, Richter & Hampton
Big Data in Education	Andy Peterson, Ph.D., Digital Vistas Carolinas
Big Data Myths and Reality: Must your Essential Analytics Leverage Big Data or just Large Data?	Dan Steinberg, Ph.D., Salford-Systems
Risk and Governance in the World of Mobile	Shrini Keskar, Larspur Technology Solutions



### Keynote Speaker:

**Piyush Malik**, *Global Leader*  
 TOPIC: IBM GBS Business Analytics and Strategy

In this Keynote address, IBM's Piyush Malik will share experiences from his clients around the world and give a glimpse of what future holds for us in a Data-Driven world. Piyush Malik leads the Worldwide Big Data Analytics Center of Excellence within IBM's Global Business Analytics & Strategy consulting practice focusing on data-driven business transformation and data science. With 25 years of Management Consulting background, he focuses on emerging technologies and strategic initiatives at IBM and for clients. Piyush has over 20 years of international consulting, practice building, sales, and delivery experience with Fortune 500 clients across multiple industries. He has also been serving on the Board of Directors and Advisors at several non-profits and industry bodies including American Institute of Big Data Professionals (AIBDP), International Association of Information and Data Quality (IAIDQ) and American Society of Engineers of Indian Origin (ASEI). Piyush received an undergraduate degree in electronics engineering and a masters in management from IIT, Delhi.

**For More Info:** [www.swensonadvisors.com/hot-topics.htm](http://www.swensonadvisors.com/hot-topics.htm)

**TUESDAY  
 OCTOBER 6, 2015**

8:00am-8:30am  
 Registration & Networking  
 8:30am-11:30am  
 Light breakfast & program

### LOCATION

Corky McMillin  
 Companies Event Center  
 2875 Dewey Road,  
 San Diego, CA 92106

Parking available in Lot M  
 and surrounding streets

### REGISTRATION

\$50 per person – cash or check  
 To register, please email  
[rsvp@swensonadvisors.com](mailto:rsvp@swensonadvisors.com)  
 or call 619-237-3400 ext. 101

### CLE/CPE CREDIT

Participants can receive up to  
 3 hours of CPE credits or  
 1 hour of CLE credit

### Sponsors:



# Questions?

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**[www.SwensonAdvisors.com](http://www.SwensonAdvisors.com)**