

Accounting Ethics and Forensic Accounting (ACC 271)
Graduate School of Management
University of California at Davis
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Fall 2020

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Overview

You are incredibly fortunate to be a part of the UCD Graduate School of Management. I envy you! The school attracts some of the best and brightest professors and students. The reality, therefore, is the school and I have high expectations of you and your educational process. I will state the obvious which is this is not an undergraduate program; it is a graduate program. When you look around your fellow students, you will not see 150 of you in a lecture class. It will be impossible to hide in any one of the MPAC classes; they are just too small. You are expected to come into class *prepared* and to *participate*.

Course Background

I am not an academic. I have not authored any published academic paper. I am not even a trained educator. I have been practicing as CPA for over 40 years and I am a forensic accountant who has been working with CPA firms for over 30 years as they deal with tough, ethical issues. What I bring to your classroom is a variety of real-life experiences. You will be assigned reading in advance of the class sessions and you will be expected to participate in team exercises, make weekly presentations, take a bunch of quizzes (unannounced for the most part), write a number of relatively short papers, and participate in a team poster presentation.

The really good news is that you will not have to listen only to me – we will have a number of guest lecturers including attorneys who have defended CPA firms, white collar defense lawyers, at least one and probably more FBI agents (several of whom are CPAs) who have prosecuted white collar crimes, a lawyer who became a cooperating witness in a Ponzi scheme prosecution and was wired for several weeks by the FBI, a forensic technology geek, and CPAs who have performed fraud examinations. Why all of the speakers? First, and most important, you will begin to develop an understanding why good people do unethical things and you will develop that understanding by listening and dialoging with those that have seen the “dark side”. Second, even I get tired of listening to myself. Third, it makes the class more interesting!

Although I am semi-retired, I still am a practicing forensic accountant and I have set aside the dates and times for each of these classes. I should alert you, however, I sometimes find my entire calendar changed due to a court proceeding. I normally have enough advance time so that we can make some alternative arrangements – another lecturer or an alternate date. Sorry, you will not get a pass simply because I

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cannot be at the class. You do not get a similar “pass” as I do by missing a class, but, then again, I get to write the rules for this class.

Remain Flexible

I am preparing this Course Syllabus in July 2020 as we are in the middle of the Covid 19 Pandemic which has had an impact on all of our lives, our families, our economy, and our educational processes. I have been told that we will be working with a “hybrid system” - one half of the class will be physically present in the classroom one week with the other half participating online and the following week the participation will be reversed. I am in the process of learning the technology the University will use this upcoming quarter, but all of that could change. Some of the most sought after skills for a successful career according to one recent study is to have the willingness to be flexible, agile, and adaptable to change.

I ask that we all remain flexible and be forgiving as we proceed through this new educational process.

The Journey Begins!

This is a state mandated class for those of you whom elect to pursue the CPA certificate. For all of the others, I promise you will be faced with similar ethical dilemmas. My goal is to provide you the ability to recognize an ethical dilemma (they are not always so self-evident and creep up on you), understand the tools you can use, and to appreciate your own biases when confronted with those sometimes really ugly decisions. You will spend time with those fuzzy things in accounting and business – conflicts of interest, professional judgment, professional skepticism, and due professional care, among others. This is not a class that is based upon debits and credits; this is a class that will make you aware of mistakes that good, solid professionals have made and those instances where professionals have also made the hard decision to do the right thing. This class is based upon the ambiguities you will face in your work and, for that matter, in your day-to-day life.

We will spend time at the beginning of the class on the ethical rules of the profession and, yes, they are somewhat dense, but they serve as the foundation for your professional career and are a significant part of the CPA exam. We will then get to the examination of cases where professionals have knowingly and unknowingly encountered ethical issues and what the implications have been to others and their careers. Their ethical lapses are fundamental and change their entire life.

Imbedded in the cases and ethical dilemmas is the role of the forensic accountant. You can perform a search of the term “forensic accountant” and when you find one, it is never that clear. I like a definition I have used in the past – it is the intersection of law and accounting.

We will explore the world of forensic accounting both from the academic side as well as from a review of case studies. We will gain an understanding of the methodologies employed in the prevention and detection of fraud, interviewing techniques, forensic technology, and fraud schemes. I trust you will not

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look at our fraud scheme discussions as a “how to” class as I will have failed in teaching you accounting ethics.

This is the second year that forensic accounting has become imbedded in the Accounting Ethics class; so, in some respects, we will take the journey together with the expanded curriculum.

Materials

1. Books are available online through Amazon and you should purchase them in advance of class:
 - Ethics 101 by John Maxwell
 - Forensic Accounting and Fraud Examination by Mary-Jo Kranacher, et al.

You may purchase either a paper copy or an electronic copy of the Forensic Accounting and Fraud Examination book – it is your choice. I have compared the cost between the quoted retail price of the books and Amazon and found Amazon to provide the lowest cost alternative, but you are welcome to purchase them from any source.

You do not have to purchase any of the following books yet, but you will select one of them to serve as the basis for one of your papers:

- The Confidence Game by Maria Konnikova
- Why They Do It by Eugene Soltes
- Blind Spots by Max Bazerman

Note – you will be preparing a report on the book you select in the first half of the class. Nothing precludes you from selecting one of the above books and reading it in advance of starting this class, in fact, you will appreciate the head start.

For your own “fun” reading this summer, you might enjoy the following:

- Blood Money by John Carryrou
 - The Ultimate Ponzi Scheme by Chuck Malkus
 - Too Good to be True by Erin Arvedlund
2. You will be assigned several YouTube presentations that are available online:
 - The (Honest) Truth about Dishonesty by Dan Ariely.
 - All the Queen’s Horses – Netflix
 - American Greed – Deepal Wannakuwatte
 - American Greed – Petters
 - Leaders Eat Last – Ted Talk by Simon Sinek
 - Others?

3. Various other papers and readings that I will make available through the UCD web.

Course Notes

I will provide you a copy of the Power Point slides I present in class at the conclusion of each class. If you are like me, I will scan a Power Point presentation if it is given to me in advance and then tune out of the presentation. Painful as it may seem, I want you to focus on the presentation and what is happening in the class. Although I have not been trained as a lawyer, I have always been intrigued with the demands of a law class and the use of the Socratic Method – *there is no place to hide during a good class as my intent is to challenge you and your thought processes.*

Relationship of Text Materials, Readings, and Lecture Notes

As is suitable for a graduate level class, you are responsible for learning the assigned material prior to *coming to class*. You may regret the day you come to class unprepared. I will cover some, but certainly not all of the material in the books and materials. I am your guide, not your source of knowledge. You do the work; I simply lead you through the journey.

We will take more time than allotted during class on certain topics. I have discovered the best way to keep us on track is to clarify the assignments at the conclusion of a class day and publish it on the UCD Web. I will be flexible, and I ask you do the same.

Grading

- | | |
|---|-----|
| • 4 quizzes (take 6, drop 2) | 40% |
| • 4 short papers | 40% |
| • Poster Presentation and Class participation | 20% |

My intent with the quizzes is that they will be based on the materials previously discussed and the current class assignment; they are not intended to be difficult or tricky. The quizzes will be true/false and multiple choice. The papers will be assigned well in advance of their due dates. The Poster Presentations will be a team effort and your presentation will be during our last class of the Quarter.

There are no provisions for extra credit in the class. Given what may be a changing teaching environment, the above matrix may be subject to change. I will keep you apprised of any changes as soon as I can.

A Word about the Code of Academic Conduct

Need I tell you that you must comply with the Code of Academic Conduct (“the Code”) if you are taking an Accounting Ethics class? I have been advised that I should remind you that both you and I will abide by the Code. Not that you need a refresher, but I have attached a copy of the Code for our collective reference.

Course Schedule – subject to change!

Week 1

1. Overview of the Class Discussion
 - Overview of the Class and the Journey
 - Professional Standards
 - Environmental Factors
 - Forensic Accounting
 - Case Studies
 - Core – Professional Standards
 - Current Examples of Ethical Lapses
 - Ethical Overview and Tests
 - Old Accounting History
 - Current Accounting History
 - Regulation of the Profession
 - Professional Standards
 - Organization and Functions of Reporting Entities
 - Role of Governance and the Accountant
 - Core – Environmental Factors
 - Leadership
 - Cognitive Dissonance
 - Cognitive Biases
 - Honest Truth About Dishonesty
 - Seven Signs of Ethical Collapse
 - Evidence and Levels of Evidence
 - Forensic Accounting
 - Interviewing
 - Fraud – Overview
 - Fraud – Cash Receipts
 - Fraud – Cash Disbursements
 - Fraud – Financial Statements

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- Case Studies
 - CBA or SEC Case Studies
 - Wannakuwatte
 - DC Solar
 - City of Dixon
 - Petters
 - Berger/Burrill – perhaps an assignment or an in-class presentation
 - American Eagle Mortgage Funds – perhaps
 - Other Current Cases??
- Overview Class Presentation and Discussion
- Forces Shaping the Current Discussion of Ethics in the Accounting Curriculum
- Regulation of the Profession
- An introduction to the Structure of the Professional Standards
- 2. Reading Assignment
 - Ethics 101 (it is a short book)
 - Forensic Accounting – Chapter 1 – Core Foundation Related to Forensic Accounting
- 3. Guest Lecturer – Anthony Pugliese, CPA/CGMA/CITP – CEO of CalCPA
- 4. No paper planned

Week 2

- 2. Overview of the Class Discussion
 - Introduction to the following cases
 - Wannakuwatte
 - Petters
 - DC Solar
 - City of Dixon
 - Berger/Burrill
 - AICPA Code of Professional Conduct
 - AICPA Professional Standards
 - Audit
 - Tax
 - Consulting Services
 - Forensic and Valuation Services
 - Other Services
 - Applications of Professional Standards
 - Public Accounting
 - Private Industry
 - Circular 230

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- Cognitive Dissonance
- Cognitive Biases
- 3. Reading Assignment (materials to be provided)
 - AICPA Code of Professional Conduct – selected sections
 - IRS Circular 230 – selected sections
 - Forensic Accounting – Chapter 3 – Who Commits Fraud and Why
- 4. Guest Lecturer – Annette Stalker, CPA/CFF, CFE – Chair of the AICPA Forensic and Valuation Services Executive Committee
- 5. No paper planned

Week 3

1. Overview of the Class Discussion
 - Discussion of the Wannakuwatte case study (cont.)
 - Discussion of the Petters case study (cont.)
 - Professional Standards (cont.)
 - Leadership
2. Guest Lecturers – Crystal Coleman, CPA – Inside the Company and
Duncan Will, CPA/CFF/ABV, CFE – Loss Prevention with Camico
3. Paper – California Board of Accountancy Enforcement Actions

Week 4

1. Overview of the Class Discussion
 - Financial Statement Fraud
 - Behavioral Factors
 - The Operating Environment
 - The Abilene Paradox
 - Columbia Disaster
 - Honest Truth about Dishonesty
 - Seven Signs of Ethical Collapse
 - Evidence and Levels of Evidence
 - Wannakuwatte Case Study (cont.)
 - Petters Case Study (cont.)
 - Berger/Burrill – case discussion
2. Reading Assignment (materials to be provided)
 - Petters case materials
 - Abilene Paradox materials
 - Additional Wannakuwatte case materials
 - Forensic Accounting – Chapter 14 – Financial Statement Fraud

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3. Guest Lecturer – Stephanie Perkins, JD – Accountants’ Malpractice Defense Counsel
4. No paper planned

Week 5

1. Overview of the Class Discussion
 - Professional Standards (cont.)
 - Interviewing
 - Fraud Overview
2. Reading Assignment
 - Forensic Accounting – Fraud Overview
 - Forensic Accounting - Interviewing
3. Guest Lecturer – Kevin Baker – Retired FBI Supervising Special Agent
4. Paper – Book Report on one of the following books:
 - The Confidence Game by Maria Konnikova
 - Why They Do It by Eugene Soltes
 - Blind Spots by Max Bazerman

Week 6

1. Overview of the Class Discussion
 - Professional Judgment and Skepticism
 - Review and discussion of the “fuzzy stuff”
 - Independence
 - Integrity and Objectivity
 - Conflicts of Interest
 - Professional Judgment
 - Due Professional Care
 - Professional Skepticism
 - Reasonable Assurance
 - Persuasive v. Convincing Evidence and other forms of evidence
 - Various case discussions
2. Reading Assignment
 - CAQ Publication - Professional Judgment
 - PCAOB – Maintaining and Applying Professional Skepticism in Audits
 - Focus on Professional Skepticism
 - PCAOB Staff Alert – Professional Skepticism
 - Honest Trust About Dishonesty – YouTube video
 - SEC Cases
3. Guest Lecturer – Ron Klein – Observations from a Claims Manager

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4. No paper planned

Week 7

1. Overview of the Class Discussion
 - Fraud – Cash Receipts
 - Fraud – Cash Disbursements
 - Berger case discussion
 - Wannakuwatte
2. Reading Assignment
 - Berger Materials
 - Wannakuwatte Materials
 - American Greed - Wannakuwatte
3. Guest Lecturer – Paul Artley, CPA, CFE, CAMLS – Retired FBI Special Agent
4. No paper planned

Week 8

1. Overview of the Class Discussion
 - City of Dixon
 - Rothstein
2. Reading Assignment
 - City of Dixon Materials
 - Rothstein Materials
 - Forensic Accounting – Chapter 5 - Cybercrime
3. Guest Lecturers – Ian Craig, JD – The Informant
Steve Konecny – the Forensic Tech Geek
4. Paper – DC Solar or Dixon

Week 9

1. Overview of the Class Discussion
 - Petters Case Discussion
 - Everett Case Discussion
2. Reading Assignment
 - Petters Case materials (to be provided)
 - When Good People do Bad Things (to be provided)
 - Forensic Accounting – Chapter 4 – Complex Frauds and Financial Crimes
3. Guest Lecturer – Michael Beckwith – Assistant US Attorney (Pending Confirmation)
4. No paper planned

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Week 10

1. Overview of the Class Discussion
 - Poster Presentation
2. Reading Assignment - None
3. Guest Lecturer – None
4. Poster Presentations

Planned or Potential Guest Lecturers

1. Defense Lawyer – Accounting Malpractice Actions
2. Leading Forensic Accountant
3. Insurance Claims Manager – Accounting Malpractice Actions
4. CPA who handles the claims before they occur
5. White Collar Defense Counsel; prior prosecutor
6. Forensic Technology Expert
7. Former FBI and IRS Criminal Agents
8. Attorney who was wired witness in an FBI investigation
9. Former controller at a Ponzi scheme corporation
10. A CPA who embezzled funds
11. Victim of a Ponzi scheme in person or a witness statement
12. And???

UC DAVIS CODE OF ACADEMIC CONDUCT: HONESTY, FAIRNESS & INTEGRITY

This Code of Academic Conduct exists to support high standards of behavior and to ensure fair evaluation of student learning. Students who violate the Code of Academic Conduct are subject to disciplinary sanctions that include censure, probation, deferred separation, suspension or dismissal from the University of California. Unless specifically authorized by the instructor in writing, misconduct includes, but is not limited to the following:

► **Academic misconduct on exams or other coursework**

- Copying or attempting to copy from another student, allowing another student to copy, or collaborating on an exam
- Displaying or using any unauthorized material such as notes, cheat-sheets, or electronic devices
- Looking at another student's exam
- Not following an instructor's directions
- Talking, texting or communicating during an exam
- Altering assignments or exams for re-grading purposes
- Bringing pre-written answers to an exam
- Having another person take an exam for you, or taking an exam for another student
- Theft of academic work
- Unexcused exit and re-entry during an exam period

► **Plagiarism**

- Taking credit for any work created by another person; work includes, but is not limited to books, articles, experimental methodology or results, compositions, images, lectures, computer programs, internet postings
- Copying any work belonging to another person without indicating that the information is copied and properly citing the source of the work
- Using another person's presentation of ideas without putting such work in your own words or form and/or failing to provide proper citation
- Creating false citations that do not correspond to the information you have used
- Representing your previous work as if it is new work

► **Unauthorized collaboration**

- Working together on evaluated coursework without permission of the instructor
- Working with another student beyond the limits set by the instructor
- Providing or obtaining unauthorized assistance on graded coursework

► **Misuse of an instructor's course materials or the materials of others**

- Posting, purchasing, obtaining, sharing, or copying any course materials of an instructor without the explicit written permission of that instructor
- Unauthorized use of another student's work

► **Lying or fraud**

- Giving false excuses to obtain exceptions for deadlines, to postpone an exam, or for other reasons
- Forging signatures or submitting documents containing false information
- Making false statements regarding attendance at class sessions, requests for late drops, incomplete grades, or other reasons

► **Intimidation or disruption**

- Pressuring an instructor or teaching assistant to regrade work, change a final grade, or obtain an exception such as changing the date of an exam, extending a deadline, or granting an incomplete grade
- Refusing to leave an office when directed to do so
- Physically or verbally intimidating or threatening an instructor, teaching assistant or staff person, including invading personal space, or engaging in any form of harassment
- Repeatedly contacting or following an instructor, teaching assistant or staff person when directed not to do so
- Misusing a classroom electronic forum by posting material unrelated to the course
- Interfering with an instructor's or teaching assistant's ability to teach a class, or interfering with other students' participation in a class

► **Misuse of University properties or resources**

- Purchasing or selling (or attempting to) one's registration in a class

Upholding the UC Davis Code of Academic Conduct

Students, faculty, and University administration all have a role in maintaining an honest and secure learning environment at UC Davis.

► **Students**

The success of our Code of Academic Conduct depends largely on the degree that it is willingly supported by students. Students:

- Are responsible to know what constitutes cheating. Ignorance is not an excuse.
- Are required to do their own work unless otherwise allowed by the instructor.
- Are encouraged to help prevent cheating by reminding others about this Code and holding each other accountable by reporting any form of suspected cheating to the University.
- Shall respect the copyright privileges of works produced by faculty, the University, and other copyright holders.
- Shall not threaten, intimidate or pressure instructors or teaching assistants, or interfere with grading any coursework.
- Shall not disrupt classes or interfere with the teaching or learning environment.

► **Faculty**

Faculty members and instructors are responsible for teaching courses and evaluating student work, and are governed by University of California and UC Davis policies and regulations. Regulation 550 of the Davis Division of the Academic Senate addresses academic misconduct. Faculty and instructors:

- Will provide students with a course outline containing information about the content of the course, amount and kind of work expected, examination and grading procedures, and notice of the Code of Academic Conduct.
- Should monitor examinations to help prevent academic misconduct.
- Shall report all suspected cases of cheating and other misconduct to the Office of Student Support and Judicial Affairs (<http://ossja.ucdavis.edu/>).

► **University Administration**

The University has delegated authority and responsibility to the Office of Student Support and Judicial Affairs (OSSJA) for the adjudication and resolution of academic misconduct cases. OSSJA maintains records of academic misconduct. The University:

- Shall educate faculty and students about the Code of Academic Conduct.
- Shall provide physical settings such as classrooms and labs for examinations that minimize opportunities for academic misconduct.
- Shall assist and train faculty and teaching assistants about how to prevent and address academic misconduct.

► **Submitting Reports and Judicial Procedures**

- The Code of Academic Conduct governs academic conduct at UC Davis.
- Faculty have sole authority, as granted by the Academic Senate, to evaluate a student's academic performance and assign grades. If academic misconduct is admitted or is determined by adjudication to have occurred, instructors may assign a grade penalty no greater than "F" for the course in question. If a report is pending at the end of an academic term, instructors should assign a temporary grade of "Y" for the course until the report is resolved.
- Instructors should submit all reports to the Office of Student Support and Judicial Affairs (<http://ossja.ucdavis.edu>). If an instructor has submitted a report of suspected cheating, a course grade of "Y" should be assigned until the report is resolved.
- A faculty/student panel, convened by OSSJA, shall conduct formal hearings to adjudicate contested cases of academic misconduct, unless the right to a formal hearing has been withdrawn. The right to a formal hearing may be withdrawn because of a prior finding of misconduct.
- Instructors and teaching assistants may direct a student to leave a class immediately if the student's behavior is disruptive.
- Instructors, teaching assistants and staff persons should contact police (752-1230 or 911) if they feel physically threatened.