



# MSBO BUSINESS MANAGER/CPA ETHICS PRESENTATION

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# ETHICS IN THE SCHOOL BUSINESS OFFICE

- **INTRODUCTION**
- **FRAUD FACTS**
- **ETHICS DEFINITIONS**
- **ETHICAL STANDARDS, GUIDELINES, EXPECTATIONS**
- **EXAMPLE**
- **QUESTIONS AND ANSWERS**

**(AND, HOPEFULLY, SOME HUMOR ALONG THE WAY)**

# ETHICS IN THE SCHOOL BUSINESS OFFICE



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"Hey, we're government accountants.  
These numbers aren't supposed to add up."

# ETHICS IN THE SCHOOL BUSINESS OFFICE

- **DEFINITION OF ETHICS**

- ETHICS REFERS TO PRINCIPLES THAT DEFINE BEHAVIOR AS RIGHT, GOOD AND PROPER.
- ETHICS REFERS TO WELL BASED STANDARDS OF RIGHT AND WRONG THAT PRESCRIBE WHAT HUMANS OUGHT TO DO.
- ETHICS ARE CONTINUOUS EFFORTS OF STRIVING TO ENSURE THAT WE, AND THE INSTITUTIONS WE REPRESENT, LIVE UP TO THE STANDARDS THAT ARE REASONABLY AND SOLIDLY BASED.

# ETHICS

- ETHICS DOES NOT EQUAL FRAUDULENT BEHAVIOR PER SE
- ETHICS ARE RIGHT AND WRONG BEHAVIORS
- GOVERNMENT OFFICIALS ARE ESPECIALLY SCRUTINIZED GIVEN THE PUBLIC VENUES IN WHICH YOU OPERATE

# ETHICS IN THE SCHOOL BUSINESS OFFICE

- **SIX ETHICAL VALUES RELEVANT TO PUBLIC SERVICE**
  - TRUSTWORTHINESS
  - RESPONSIBILITY
  - RESPECT
  - COMPASSION
  - FAIRNESS
  - CITIZENSHIP

# ETHICAL BEHAVIOR

- WHETHER SOMETHING IS ETHICAL IN A GOVERNMENT SETTING IS USUALLY “DETERMINED” BY THE PUBLIC
- SOME COMMON ITEMS DEEMED UNETHICAL INCLUDE:
  - FRAUD
  - IMPROPER USE OF GOVERNMENT PROPERTY
  - BRIBERY
  - INFLUENCE PEDDLING

# ETHICAL BEHAVIOR

- UNETHICAL EXAMPLES CONTINUED....
  - CONFLICTS OF INTEREST
  - SELF-DEALING
  - DIVULGING CONFIDENTIAL INFORMATION
  - IMPROPER CONDUCT POST-EMPLOYMENT (I'LL HELP YOU NOW IF YOU HELP ME LATER.....)



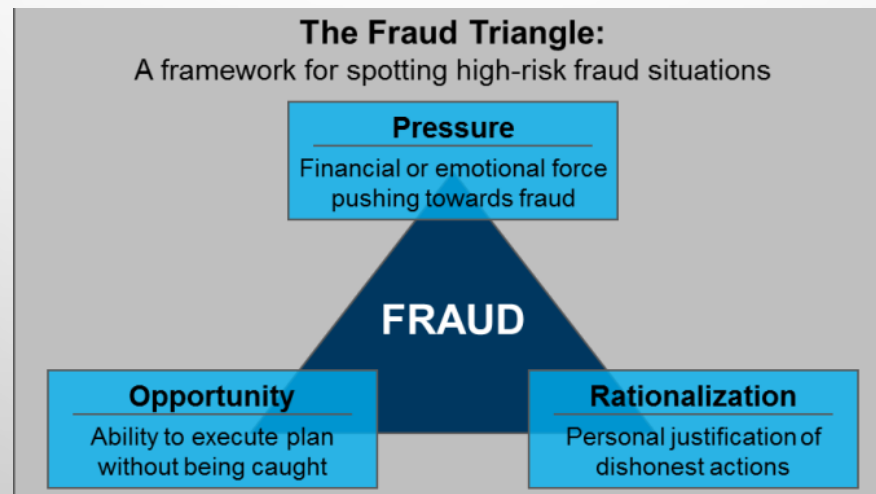
# ETHICS IN SCHOOL FINANCE

- IN MANY INSTANCES, YOU HAVE PUT POLICIES AND PROCEDURES IN PLACE WHICH ADDRESS UNETHICAL BEHAVIOR AND THE DISTRICT'S RESPONSE TO THOSE BEHAVIORS
- BUT WHAT ABOUT FRAUD – WHICH IS THE BIGGEST CONCERN FOR DISTRICTS.....BOTH IN TERMS OF MONETARY LOSS AND FINANCIAL STATEMENT MISSTATEMENT

# ETHICS IN THE SCHOOL BUSINESS OFFICE

- **FRAUD FACTS – WHAT IS THE DATA ABOUT FRAUD?**
  - THE ASSOCIATION OF CERTIFIED FRAUD EXAMINERS ESTIMATED IN 2010 THAT OVER \$2.9 TRILLION IS LOST WORLD-WIDE EACH YEAR TO FRAUD BY INDUSTRY AND GOVERNMENT.
  - OF THE 1,843 FRAUD CASES EXAMINED BY THE ACFE, MUNICIPAL AND SCHOOL DISTRICT FRAUDS COMPRISED 16% OF THE TOTAL, WITH A MEDIAN LOSS OF \$100,000.
  - LESS THAN 8% OF FRAUD PERPETRATORS HAVE PRIOR CONVICTIONS.
  - ORGANIZATIONS WITH LESS THAN 1,000 EMPLOYEES MADE UP 53% OF THE FRAUD CASES.

# ETHICS IN THE SCHOOL BUSINESS OFFICE



# ETHICS IN THE SCHOOL BUSINESS OFFICE

- **WORKING THROUGH ETHICAL DILEMMAS**
  - **STOP AND THINK**
  - **CLARIFY YOUR GOALS**
  - **DETERMINE THE FACTS PRO AND CON**
  - **DEVELOP OPTIONS**
  - **CONSIDER CONSEQUENCES**
  - **CHOOSE WHAT BEST REFLECTS YOUR RESPONSIBILITY TO SERVE THE PUBLIC AS A WHOLE**

# ETHICS IN THE SCHOOL BUSINESS OFFICE

- **WORKING THROUGH ETHICAL DILEMMAS (CON'T.)**
  - **CHOOSE WHAT DECISION THAT WILL BEST PROMOTE PUBLIC CONFIDENCE IN YOUR LEADERSHIP**
  - **MAKE SURE YOUR CHOICE UPHOLDS YOUR ETHICAL VALUES**

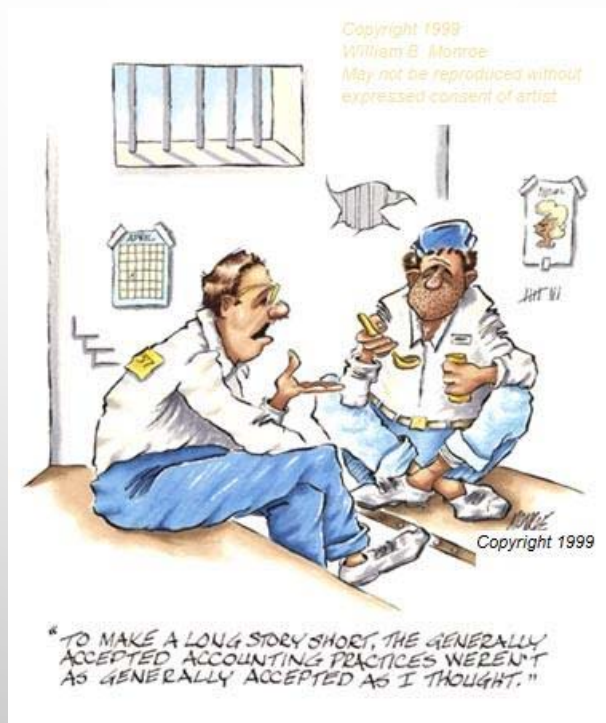
# ETHICS IN THE SCHOOL BUSINESS OFFICE

- **THESE QUESTIONS HELP**
  - **ARE MY ACTIONS LEGAL?**
  - **WILL MY ACTIONS STAND THE TEST OF TIME?**
  - **HOW WILL I FEEL AFTERWARDS?**
  - **HOW WILL IT PLAY OUT IN THE MEDIA?**
  - **WHAT IF MY FAMILY AND FRIENDS FIND OUT?**

# ETHICS IN THE SCHOOL BUSINESS OFFICE

- **CREATE AN ENVIRONMENT IN WHICH EMPLOYEES BELIEVE THAT DISHONEST ACTS WILL BE DETECTED, ARE NOT TOLERATED AND ARE PUNISHED**
  - **HONEST AND TRANSPARENT WORKPLACE**
  - **EXPECT HIGH ETHICAL STANDARDS**
  - **IF FRAUD IS SUSPECTED, DON'T IGNORE IT**
  - **IF FRAUD IS FOUND, DON'T HIDE IT**
  - **IF FRAUD IS PROVEN, PUNISH IT AND CORRECT THE PROBLEM**


# ETHICS IN THE SCHOOL BUSINESS OFFICE







## A CASE BASED ON TRUE EVENTS! BACKGROUND

- DATE, OCTOBER 1, 2015 YOU ARE HIRED TO START AS THE NEW CFO
  - BIGGEST SCHOOL DISTRICT IN MICHIGAN (NAMES ARE NOT REVEALED TO PROTECT THE INNOCENT)
  - DISTRICT HAS BEEN UNDER STATE SUPERVISION SINCE 1999 WITH THE EXCEPTION OF 2006-2008
  - CURRENTLY THERE IS AN EMERGENCY MANAGER IN CHARGE AND SINCE 2009 THERE HAS BEEN A SERIES OF EMERGENCY MANAGERS IN PLACE
  - EMERGENCY MANAGERS ARE APPOINTED BY THE GOVERNOR AND THEY ARE STATE EMPLOYEES THAT REPORT TO THE TREASURY DEPARTMENT
  - THE AUDIT IS NOT COMPLETE YET BUT THE DISTRICT LOST ABOUT \$57M DURING THE AUDITED YEAR AND IT HAS A **CUMULATIVE FUND BALANCE DEFICIT OF OVER \$200M.**
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## BACKGROUND - CONTINUED


- THE DISTRICTS OPERATING DEBT IS ABOUT \$600M, THE DISTRICTS CAPITAL DEBT IS ABOUT \$2B AND THE DISTRICTS MPSERS SHARE OF THE UAAL IS ABOUT \$1.3B FOR PENSION AND POST EMPLOYMENT BENEFITS
- DURING YOUR FIRST WEEK DURING A MEETING WITH THE AUDITORS YOU ARE APPRISED THAT THE DISTRICT HAS NOT PAID THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT (MPSERS) SYSTEM FOR REGULAR PENSION THE LAST 14 MONTHS
- THE DISTRICT DID PAY FOR THE UAAL AND THE EMPLOYEE CONTRIBUTIONS IT COLLECTED TO MPSERS
- UPON FURTHER INVESTIGATION THE DISTRICT HAD A WRITTEN AGREEMENT WITH MPSERS THAT ALLOWED IT **NOT TO HAVE TO PAY** MPSERS UNTIL OCTOBER 2016
- THE DISTRICT OWED ABOUT **\$100M TO MPSERS** BY THAT TIME

## BACKGROUND - CONTINUED

- THE DISTRICT WAS PROJECTED TO **RUN OUT OF CASH** BY THE END OF MARCH 2016 EVEN WITHOUT PAYING MPSERS.
- IT NEEDED AN ADDITIONAL \$50M TO FINISH THE YEAR
- THE DISTRICT DID NOT HAVE THE FUNDS TO PAY MPSERS
- UPON FURTHER INVESTIGATION DURING THE 2014-15 YEAR, THE YEAR THE AUDIT IS BEEN PERFORMED, THE DISTRICT **MADE PAYMENTS OF \$27M IN JULY AND AUGUST 2014.**
- THE AUDITORS LET YOU KNOW THAT THE PAYMENTS **OWED TO MPSERS FOR FEDERAL GRANTS EQUAL \$33M**
- THE DISTRICT CONTINUED TO EXPENSE THE RETIREMENT COSTS AND TO CLAIM REIMBURSEMENT FROM FEDERAL GRANTS




## BACKGROUND - CONTINUED

- THE DISTRICT **HAS NOT BEEN CHARGING UAAL** TO OTHER FUNDS (FOOD SERVICE, SPECIAL EDUCATION AND TO GRANTS)
  - THE GOVERNOR INTRODUCES A PLAN TO ASSIST THE DISTRICT TO MEET ITS FINANCIAL OBLIGATIONS, AND TO IMPROVE ITS EDUCATIONAL OUTCOMES BY SPLITTING THE DISTRICT IN TWO ON OCTOBER 19, 2015 WHICH ACTUALLY BECAME LAW ON **JUNE 21, 2016.**
  - JULY 1, 2016 THE NEW OPERATING DISTRICT WAS ESTABLISHED AND THE OLD DISTRICT WAS REMAINED JUST TO PAY DEBT
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# AUDIENCE PARTICIPATION

- WHAT DO YOU THINK IS KEY ISSUE LEGALLY?
  - WHAT DO YOU THINK ARE THE ISSUES ETHICALLY?
  - WHAT ARE YOUR NEXT STEPS?
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**WHAT TRULY HAPPENED?  
TRUTH IS STRANGER THAN FICTION!**





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