



# When Change Isn't So Good: New Management & Misleading Statements

*2023 Carl Menconi Ethics Case  
Competition Winner*

Dawn Schwartz, DBA, CMA, CPA, CFE

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The Association of  
Accountants and  
Financial Professionals  
in Business

# Featured Presenter

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# Agenda

1. Introduction
2. Overview of “When Change Isn’t So Good: A Story of New Management and Misleading Statements”
3. Fraud triangle and elements
4. IMA Statement of Professional Ethical Practice
5. Conclusion
6. Key take away



# Motivation

- Develop a case study that is relatable and difficult to navigate
  - Nonprofit organization for addiction recovery
  - Reader can empathize with the key player
  - COVID-19 pandemic impact
  - Cancer diagnosis, threat of relapse
  - Risk of loss of job and health insurance
- Inspiration from a true scenario
- Desire to increase awareness and attention for board members to question and verify information



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# Overview – Company Background

- Break Free Renewal, Inc. (BFR) – formed in 1995 (*fictitious org*)
- 501(c)(3) organization
- Located in Charleston, WV
- Provides support for addiction recovery
  - Inpatient and outpatient
  - Housing
  - Family support
- Main sources of revenue:
  - Individual and corporate donations
  - Grants
  - Sale of services and products



# Overview – Company Background

- Employees:
  - 38 full-time administrative employees
  - 87 full-time counselors
  - 75 part-time employees
- BFR had history of revenue growth and a large unrestricted cash balance of \$36 million before the COVID-19 pandemic
- Depleted reserves through upgrades and expansion of facilities and programs
- Facing the effects of the pandemic without a large cash reserve to help mitigate the impact



# Overview – Key Players

- Liz Kane, *Budget Manager*
  - Worked at BFR for 20 years
- James Sims, *Executive Director*
  - Managed from 1995-2018
- Sam Phillips, *Executive Director* → *CEO*
  - Began in March 2018
- Alexis Anderson, *CFO*
- Jim Galagher, *Board Member*
  - Has served on the board for almost 10 years



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# Overview – Management Change/New Culture

- **James Simms**
  - Laissez-faire leadership style
  - Friendly, energetic, transparent, family-like
  - Held quarterly meetings with employees
  - Open communication throughout company
- **Sam Phillips**
  - Authoritative leadership style
  - Limited finance and accounting experience
  - Restructured company, brought in two of his previous employees for new positions (CEO and CFO)
  - Only meets with the CIO, CEO, CFO, and directors.
  - No meetings with employees
  - More reserved, secretive, disconnected atmosphere
  - Employees dissatisfied, office quiet, no family feel, many employees have left, signed NDAs, and no longer communicate with current employees



## Poll Question 1:

What impact do you think this change in management and related management style have on the company's fraud risk?

- a. Increase
- b. Decrease
- c. Not sure

# Poll Question 1 Results: (Placeholder)

# Overview of the Case – Changes at BFR

- Liz's duties as budget director
  - Create and manage budget, including projections
  - Monthly review and compliance reports
  - Previously attended all board meetings (with all directors) to present budget information
- Changes
  - Liz is no longer allowed to attend board meetings
  - Budget related reports were changed by the CFO and CEO
    - Previously included operating budget to date, comparison to actual, a detailed analysis of cash, and a historical information report with the previous five years.
    - Detail analysis of cash was removed with only the total cash being reported at the bottom.
    - Historical information was removed
- Liz was uncomfortable with the changes
  - Concerned board would not know how much cash was unrestricted and available for use
  - Frustrated due to lack of communication with upper management and lack of explanation for changes

# Overview – Previous Cash Balance Analysis Report

**Break Free Renewal, Inc.**  
**Cash Balance Analysis**  
**As of February 28, 2018**

	<u>February 2018</u>	<u>February 2017</u>	<u>February 2016</u>	<u>February 2015</u>	<u>February 2014</u>
Unrestricted	\$ 29,884,686	\$ 36,259,423	\$ 31,264,855	\$ 27,569,542	\$ 23,542,684
Restricted					
Permanent	31,500,421	28,654,921	26,512,985	23,412,595	19,562,854
Temporary	<u>29,185,533</u>	<u>25,695,214</u>	<u>22,051,643</u>	<u>19,458,741</u>	<u>18,951,322</u>
Total:	<u><u>\$ 90,570,640</u></u>	<u><u>\$ 90,609,558</u></u>	<u><u>\$ 79,829,483</u></u>	<u><u>\$ 70,440,878</u></u>	<u><u>\$ 62,056,860</u></u>
Projected Revenues					
Over/(Under Expenses)	<u>12,790,122</u>				
Projected Year End Balance:	<u><u>\$ 103,360,762</u></u>				

# Overview – Previous Budget Comparison Schedule

**Break Free Renewal, Inc.**  
**Fiscal Year 2018 Budget**  
**As of February 28, 2018**

	<u>Original Budget</u>	<u>Year to Date Adjustments</u>	<u>Revised Budget</u>	<u>Actual To Date</u>	<u>Remaining Budget</u>	<u>Percent of Budget to Date</u>
<b>Revenue and support:</b>						
Contributions of cash	\$ 7,500,000	\$ 1,700,000	\$ 9,200,000	\$ 1,615,520	\$ 7,584,480	17.56%
In-kind contributions	2,350,000		2,350,000	383,520	1,966,480	16.32%
Program service revenue	16,000,000	275,000	16,275,000	2,379,893	13,895,107	14.62%
Interest and dividends	450,000		450,000	26,000	424,000	5.78%
Other revenue	<u>165,000</u>	<u>(3,150)</u>	<u>161,850</u>	<u>12,500</u>	<u>149,350</u>	<u>7.72%</u>
Total revenues	26,465,000	1,971,850	28,436,850	4,417,433	24,019,417	15.53%
<b>Expenses</b>						
Program expenses						
Total program expenses	9,500,000		9,500,000	1,572,060	7,927,940	16.55%
Supporting expenses						
Management and general	2,100,000	350,000	2,450,000	323,645	2,126,355	13.21%
Fundraising	<u>1,250,000</u>		<u>1,250,000</u>	<u>75,000</u>	<u>1,175,000</u>	<u>6.00%</u>
Total supporting expenses	3,350,000	350,000	3,700,000	398,645	3,301,355	10.77%
Total expenses	<u>12,850,000</u>	<u>350,000</u>	<u>13,200,000</u>	<u>1,970,705</u>	<u>11,229,295</u>	<u>14.93%</u>
Change in net assets	13,615,000	1,621,850	15,236,850	2,446,728	12,790,122	29.85%
Net assets beginning of year	<u>256,845,210</u>		<u>256,845,210</u>			
Net assets, end of year	<u>\$ 270,460,210</u>		<u>\$ 272,082,060</u>			

# Overview – Uncomfortable Adjustments

- In March 2020, Alexis (CFO) emailed Liz projections to use for the board report
  - Revenues → \$2.2 million higher
  - Alexis stated there was no supporting documentation
  - Sam (CEO) sent them to Alexis instructing that Liz make the changes
- Liz was not comfortable with these changes
  - Liz's projections were based on current market conditions (declining revenues and increasing expenses during pandemic)
  - Liz told Alexis she could not make these changes without appropriate support & explained her duties as a CMA
  - Alexis said she understood and asked Liz to send her original report
- Report was changed without Liz's knowledge, nor support
  - Liz downloaded the board meeting materials Monday morning as usual
  - Some amounts on Liz's report were changed

# Cash Balance Analysis – Prepared by Liz

**Break Free Renewal, Inc.**  
**Cash Balance Analysis**  
**As of February 29, 2020**

	<u>February 2020</u>	<u>February 2019</u>	<u>February 2018</u>	<u>February 2017</u>	<u>February 2016</u>
Unrestricted	\$ 3,793,591	\$ 6,229,854	\$ 29,884,686	\$ 36,259,423	\$ 31,264,855
Restricted					
Permanent	32,165,421	31,917,171	31,500,421	28,654,921	26,512,985
Temporary	<u>28,985,632</u>	<u>27,025,681</u>	<u>29,185,533</u>	<u>25,695,214</u>	<u>22,051,643</u>
Total:	<u>\$ 64,944,644</u>	<u>\$ 65,172,706</u>	<u>\$ 90,570,640</u>	<u>\$ 90,609,558</u>	<u>\$ 79,829,483</u>
Projected Revenues Over/(Under Expenses)	<u>2,576,386</u>				
Projected Year End Balance:	<u>\$ 67,521,030</u>				

# Budget Comparison Schedule – Prepared by Liz

<b>Break Free Renewal, Inc.</b>						
<b>Fiscal Year 2020 Budget</b>						
<b>As of February 29, 2020</b>						
	Original Budget	Year to Date Adjustments	Revised Budget	Actual To Date	Remaining Budget	Percent of Budget to Date
<b>Revenue and support:</b>						
Contributions of cash	\$ 7,110,725		\$ 7,110,725	\$ 1,411,906	\$ 5,698,819	19.86%
In-kind contributions	1,833,000		1,833,000	219,960	1,613,040	12.00%
Program service revenue	16,960,000	(20,000)	16,940,000	2,307,228	14,632,772	13.62%
Interest and dividends	81,250		81,250	5,780	75,470	7.11%
Other revenue	98,000	2,500	100,500	9,250	91,250	9.20%
Total revenues	<u>26,082,975</u>	<u>(17,500)</u>	<u>26,065,475</u>	<u>3,954,124</u>	<u>22,111,351</u>	<u>15.17%</u>
<b>Expenses</b>						
Program expenses						
Total program expenses	16,910,000		16,910,000	2,991,210	13,918,790	17.69%
Supporting expenses						
Management and general	4,683,000	12,500	4,695,500	704,325	3,991,175	15.00%
Fundraising	1,750,000		1,750,000	125,000	1,625,000	7.14%
Total supporting expenses	<u>6,433,000</u>	<u>12,500</u>	<u>6,445,500</u>	<u>829,325</u>	<u>5,616,175</u>	<u>12.87%</u>
Total expenses	<u>23,343,000</u>	<u>12,500</u>	<u>23,355,500</u>	<u>3,820,535</u>	<u>19,534,965</u>	<u>16.36%</u>
Change in net assets	2,739,975	(30,000)	2,709,975	133,589	2,576,386	4.93%
Net assets beginning of year	178,282,910		178,282,910			
Net assets, end of year	<u>\$ 181,022,885</u>		<u>\$ 180,992,885</u>			

# Report Distributed to the Board

**Break Free Renewal, Inc.**  
**Fiscal Year 2020 Budget**  
**As of February 29, 2020**

	<u>Original Budget</u>	<u>Year to Date Adjustments</u>	<u>Revised Budget</u>	<u>Actual To Date</u>	<u>Remaining Budget</u>	<u>Percent of Budget to Date</u>
<b>Revenue and support:</b>						
Contributions of cash	\$ 8,310,725		\$ 8,310,725	\$ 1,650,178	\$ 6,660,547	19.86%
In-kind contributions	1,833,000		1,833,000	219,960	1,613,040	12.00%
Program service revenue	17,960,000	(20,000)	17,940,000	2,443,428	15,496,572	13.62%
Interest and dividends	81,250		81,250	5,780	75,470	7.11%
Other revenue	98,000	2,500	100,500	9,250	91,250	9.20%
<b>Total revenues</b>	<b>28,282,975</b>	<b>(17,500)</b>	<b>28,265,475</b>	<b>4,328,596</b>	<b>23,936,879</b>	<b>15.31%</b>
<b>Expenses</b>						
<b>Program expenses</b>						
<b>Total program expenses</b>	<b>16,910,000</b>		<b>16,910,000</b>	<b>2,991,210</b>	<b>13,918,790</b>	<b>17.69%</b>
<b>Supporting expenses</b>						
Management and general	4,683,000	12,500	4,695,500	704,325	3,991,175	15.00%
Fundraising	1,750,000		1,750,000	125,000	1,625,000	7.14%
<b>Total supporting expenses</b>	<b>6,433,000</b>	<b>12,500</b>	<b>6,445,500</b>	<b>829,325</b>	<b>5,616,175</b>	<b>12.87%</b>
<b>Total expenses</b>	<b>23,343,000</b>	<b>12,500</b>	<b>23,355,500</b>	<b>3,820,535</b>	<b>19,534,965</b>	<b>16.36%</b>
Change in net assets	4,939,975	(30,000)	4,909,975	508,061	4,401,914	10.35%
Net assets beginning of year	178,282,910		178,282,910			
<b>Net assets, end of year</b>	<b>\$ 183,222,885</b>		<b>\$ 183,192,885</b>			

Total cash balance as of 2/29/2020: \$ 64,944,644

# Report Distributed to the Board

Break Free Renewal, Inc.  
Fiscal Year 2020 Budget  
As of February 29, 2020

	Original Budget	Year to Date Adjustments	Revised Budget	Actual To Date	Remaining Budget	Percent of Budget to Date
<b>Revenue and support:</b>						
Contributions of cash	\$ 8,310,725		\$ 8,310,725	\$ 1,650,178	\$ 6,660,547	19.86%
In-kind contributions	1,833,000		1,833,000	219,960	1,613,040	12.00%
Program service revenue	17,960,000	(20,000)	17,940,000	2,443,428	15,496,572	13.62%
Interest and dividends	81,250		81,250	5,780	75,470	7.11%
Other revenue	98,000	2,500	100,500	9,250	91,250	9.20%
<b>Total revenues</b>	<b>28,282,975</b>	<b>(17,500)</b>	<b>28,265,475</b>	<b>4,328,596</b>	<b>23,936,879</b>	<b>15.31%</b>
<b>Expenses</b>						
<b>Program expenses</b>						
Total program expenses	16,910,000		16,910,000	2,991,210	13,918,790	17.69%
<b>Supporting expenses</b>						
Management and general	4,683,000	12,500	4,695,500	704,325	3,991,175	15.00%
Fundraising	1,750,000		1,750,000	125,000	1,625,000	7.14%
<b>Total supporting expenses</b>	<b>6,433,000</b>	<b>12,500</b>	<b>6,445,500</b>	<b>829,325</b>	<b>5,616,175</b>	<b>12.87%</b>
<b>Total expenses</b>	<b>23,343,000</b>	<b>12,500</b>	<b>23,355,500</b>	<b>3,820,535</b>	<b>19,534,965</b>	<b>16.36%</b>
Change in net assets	4,939,975	(30,000)	4,909,975	508,061	4,401,914	10.35%
Net assets beginning of year	178,282,910		178,282,910			
Net assets, end of year	<u>\$ 183,222,885</u>		<u>\$ 183,192,885</u>			

Total cash balance as of 2/29/2020: \$ 64,944,644

- Increase in budgeted revenues:
  - Contributions of \$1,200,000
  - Program service charges of \$1,000,000
- Increase in actual to date:
  - Contributions of cash of \$238,272
  - Program service revenue of \$863,800
- Overall impact →
  - Increase to budgeted change in net assets of \$2,200,000
  - Actual to date increase in change in net assets of \$372,472

# Overview – Issue of the Altered Report

- Liz confronted Alexis
  - Alexis informed Liz that the CEO was not required to share his rationale with her
- Liz explained her responsibilities under the *IMA Statement of Ethical Professional Practice*
  - Risk to reputation
  - Risk of losing CMA license
- Alexis told Liz they will add a caveat at the bottom of the report stating the numbers were prepared by management.
  - Statement read: “*Estimates prepared by management*”
  - Will that statement alert board members that there was a change?

# Overview – Growing Dissent and Manipulation

- Liz is concerned about the credibility of the financial information distributed to the board
  - February 2023 report distributed to the board shows revenues \$3.2 million higher and expenses \$1.5 million lower than Liz's projections
  - Still no documentation to support the differences
- Liz is concerned about the survival of BFR
  - Liz's projections as well as actual revenues and expenses are not trending well
  - Cash flow issues
    - Unrestricted cash has decreased to only \$1.5 million
    - Liz projects a budget deficit for 2023 of over \$3 million – lack of cash to cover
- Alexis continually dismissed Liz's concerns

# Cash Balance Analysis – Prepared by Liz

<b>Break Free Renewal, Inc.</b>					
<b>Cash Balance Analysis</b>					
<b>As of February 28, 2023</b>					
	<u>February 2023</u>	<u>February 2022</u>	<u>February 2021</u>	<u>February 2020</u>	<u>February 2019</u>
Unrestricted	\$ 1,557,615	\$ 2,859,631	\$ 3,816,319	\$ 3,793,591	\$ 6,229,854
Restricted					
Permanent	33,604,443	33,181,313	32,531,313	32,165,421	31,917,171
Temporary	27,820,255	30,186,240	29,645,455	28,985,632	27,025,681
<b>Total:</b>	<u>\$ 62,982,313</u>	<u>\$ 66,227,184</u>	<u>\$ 65,993,087</u>	<u>\$ 64,944,644</u>	<u>\$ 65,172,706</u>
Projected Revenues					
Over/(Under Expenses)	<u>(3,218,634)</u>				
Projected Year End Balance:	<u>\$ 59,763,679</u>				

# Budget Comparison Schedule – Prepared by Liz

Break Free Renewal, Inc. Fiscal Year 2023 Budget As of February 28, 2023						
	Original Budget	Year to Date Adjustments	Revised Budget	Actual To Date	Remaining Budget	Percent of Budget to Date
<b>Revenue and support:</b>						
Contributions of cash	\$ 6,584,136		\$ 6,584,136	1,235,158	5,348,978	18.76%
In-kind contributions	1,583,000		1,583,000	284,940	1,298,060	18.00%
Program service revenue	14,936,674	85,000	15,021,674	2,471,516	12,550,158	16.45%
Interest and dividends	81,250		81,250	8,350	72,900	10.28%
Other revenue	98,000	(3,650)	94,350	12,396	81,954	13.14%
Total revenues	<u>23,283,060</u>	<u>81,350</u>	<u>23,364,410</u>	<u>4,012,360</u>	<u>19,352,050</u>	<u>17.17%</u>
<b>Expenses</b>						
Program expenses						
Total program expenses	18,526,610		18,526,610	2,846,614	15,679,996	15.37%
Supporting expenses						
Management and general	5,823,250	12,500	5,835,750	854,937	4,980,813	14.65%
Fundraising	2,109,875		2,109,875	200,000	1,909,875	9.48%
Total supporting expenses	<u>7,933,125</u>	<u>12,500</u>	<u>7,945,625</u>	<u>1,054,937</u>	<u>6,890,688</u>	<u>13.28%</u>
Total expenses	<u>26,459,735</u>	<u>12,500</u>	<u>26,472,235</u>	<u>3,901,551</u>	<u>22,570,684</u>	<u>14.74%</u>
Change in net assets	(3,176,675)	68,850	(3,107,825)	110,809	(3,218,634)	
Net assets beginning of year	<u>178,282,910</u>		<u>178,282,910</u>			
Net assets, end of year	<u>\$ 175,106,235</u>		<u>\$ 175,175,085</u>			

# Report Distributed to the Board

<b>Break Free Renewal, Inc.</b>						
<b>Fiscal Year 2023 Budget</b>						
<b>As of February 28, 2023</b>						
	<b>Original Budget</b>	<b>Year to Date Adjustments</b>	<b>Revised Budget</b>	<b>Actual To Date</b>	<b>Remaining Budget</b>	<b>Percent of Budget to Date</b>
<b>Revenue and support:</b>						
Contributions of cash	\$ 7,584,136		\$ 7,584,136	1,422,754	6,161,382	18.76%
In-kind contributions	1,583,000		1,583,000	284,940	1,298,060	18.00%
Program service revenue	17,136,674	85,000	17,221,674	2,833,482	14,388,192	16.45%
Interest and dividends	81,250		81,250	8,350	72,900	10.28%
Other revenue	98,000	(3,650)	94,350	12,396	81,954	13.14%
Total revenues	<u>26,483,060</u>	<u>81,350</u>	<u>26,564,410</u>	<u>4,561,922</u>	<u>22,002,488</u>	<u>17.17%</u>
<b>Expenses</b>						
Program expenses						
Total program expenses	17,776,610		17,776,610	2,731,376	15,045,234	15.37%
Supporting expenses						
Management and general	5,323,250	12,500	5,335,750	781,687	4,554,063	14.65%
Fundraising	1,859,875		1,859,875	200,000	1,659,875	10.75%
Total supporting expenses	<u>7,183,125</u>	<u>12,500</u>	<u>7,195,625</u>	<u>981,687</u>	<u>6,213,938</u>	<u>13.64%</u>
Total expenses	<u>24,959,735</u>	<u>12,500</u>	<u>24,972,235</u>	<u>3,713,064</u>	<u>21,259,171</u>	<u>14.87%</u>
Change in net assets	1,523,325	68,850	1,592,175	848,858	743,317	
Net assets beginning of year	178,282,910		178,282,910			
Net assets, end of year	<u>\$ 179,806,235</u>		<u>\$ 179,875,085</u>			
Total cash balance as of 2/28/23:	\$ 62,982,313					
<i>Estimates prepared by management</i>						

# Report Distributed to the Board

Break Free Renewal, Inc.  
Fiscal Year 2023 Budget  
As of February 28, 2023

	Original Budget	Year to Date Adjustments	Revised Budget	Actual To Date	Remaining Budget	Percent of Budget to Date
<b>Revenue and support:</b>						
Contributions of cash	\$ 7,584,136		\$ 7,584,136	1,422,754	6,161,382	18.76%
In-kind contributions	1,583,000		1,583,000	284,940	1,298,060	18.00%
Program service revenue	17,136,674	85,000	17,221,674	2,833,482	14,388,192	16.45%
Interest and dividends	81,250		81,250	8,350	72,900	10.28%
Other revenue	98,000	(3,650)	94,350	12,396	81,954	13.14%
Total revenues	26,483,060	81,350	26,564,410	4,561,922	22,002,488	17.17%
<b>Expenses</b>						
Program expenses						
Total program expenses	17,776,610		17,776,610	2,731,376	15,045,234	15.37%
Supporting expenses						
Management and general	5,323,250	12,500	5,335,750	781,687	4,554,063	14.65%
Fundraising	1,859,875		1,859,875	200,000	1,659,875	10.75%
Total supporting expenses	7,183,125	12,500	7,195,625	981,687	6,213,938	13.64%
Total expenses	24,959,735	12,500	24,972,235	3,713,064	21,259,171	14.87%
Change in net assets	1,523,325	68,850	1,592,175	848,858	743,317	
Net assets beginning of year	178,282,910		178,282,910			
Net assets, end of year	\$ 179,806,235		\$ 179,875,085			

Total cash balance as of 2/28/23: \$ 62,982,313

Estimates prepared by management

- Increase in budgeted revenues:
  - Contributions of \$1,000,000
  - Program service charges of \$2,200,000
- Decrease in budgeted expenses:
  - Program expenses of: \$750,000
  - Fundraising expenses of: \$250,000
- Changes in actual to date:
  - Increase contributions of cash of \$187,596 and program service revenue of \$361,966
  - Decrease program expenses of \$115,238 and fundraising expenses of \$253,000
- Overall impact →
  - Increase to budgeted change in net assets of \$4,700,000
  - Actual to date increase in change in net assets of \$738,049

# Overview – Growing Dissent and Manipulation

- Liz concerned about the outlook for BFR
  - Feels like the altered reports are false, but wants to believe that Sam has information that is just not being shared with her
  - Liz's projections, actual revenues and expenses are not trending positive for the organization
  - Cash flow issues
    - If Liz's projections are correct, then BFR will not be able to pay all its obligations
- Liz is contemplating leaving BFR
  - Does not want to leave her dedicated employees
  - Wants to help correct issues and support the organization
    - Fearful of repercussions if she speaks up because people who questioned and/or spoke up against the CEO had been terminated
  - If Liz no longer has her job, she will also lose her health insurance
    - Three months cancer-free
    - Worry of a relapse and affordability of insurance and treatment

# Overview –Turning Point – Decision Time

- Jim, board member, approached Liz in her office with questions and concerns
  - Brought most recent reports distributed to the board
  - Asked how BFR performance was doing so well amid the declining market/pandemic
  - Asked why they were not given historical comparative data and the cash breakout
  - Inquired about the caveat at the bottom of the report --- “wasn’t the report always prepared by management?”
- Jim said he would be back tomorrow morning at 10:00
  - Liz is distraught
    - Fearful the reports may have been altered due to the failure to meet projections and that the historical information and cash details may have been removed to avoid the board making the connection.

# Overview – Turning Point – Decision Time

- Liz is concerned about what to do:
  - Meet with Jim and tell him everything
    - Liz's chance to notify the board
    - If she is wrong, she could lose her job
    - Are the changes even considered illegal if they aren't supported – they are only going to the board.
  - Don't meet with Jim
    - If Sam has altered the reported numbers without a reason, then the company is in trouble, and someone needs to step in
  - Tell her boss and let them decide how to proceed
  - Resign from company

## Poll Question 2:

Do you think the changes to the reports are considered fraud?

- a. Yes
- b. No
- c. Not sure

## Poll Question 2 Results: (Placeholder)

# Teaching the Case

# Responsibilities of the Board of Directors

- Three main legal duties:
  - Duty of care
    - Act in the best interest of the NPO
  - Duty of loyalty
    - Loyalty to the nonprofit when making decisions affecting the nonprofit
    - Put the interests of the nonprofit above any personal interests
  - Duty of obedience
    - Complies with applicable laws and regulations
    - Acts in accordance with its own policies
    - Carries out its mission appropriately.

*(Council of Nonprofit Organizations, 2023)*



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# Management Responsibilities

- Management and internal controls
  - Manage org in the best interest of stakeholders
  - Tone at the top
  - Safeguard the organization's assets and future
- Financial management and reporting
  - Budgeting
  - Monthly reporting to the Board of Directors
  - Annual reporting to the IRS (Form 990)
  - Annual reporting to other external stakeholders (audited financial statements, annual program reports, annual reports)
- Provide board of directors with accurate information
  - Reliable for decision making and planning



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# What is Fraud?

- Four general elements:
  - Material false statement
  - Knowledge that the statement was false (scienter)
  - Reliance of the victim on the false statement
  - Damages resulting from the victim's reliance on the false statement

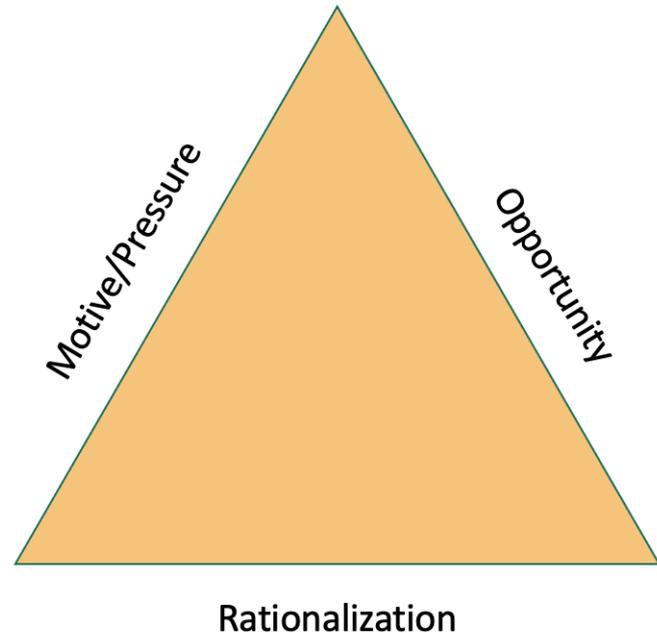
*(Crumbley, et al., 2017)*



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# Fraud Triangle

- Theory of how fraud occurs
- Developed by criminologist Donald R. Cressey in the 1970s
- Three things are typically present for fraud to occur:
  1. Motive or pressure
  2. Opportunity
  3. Rationalization



# Fraud Triangle

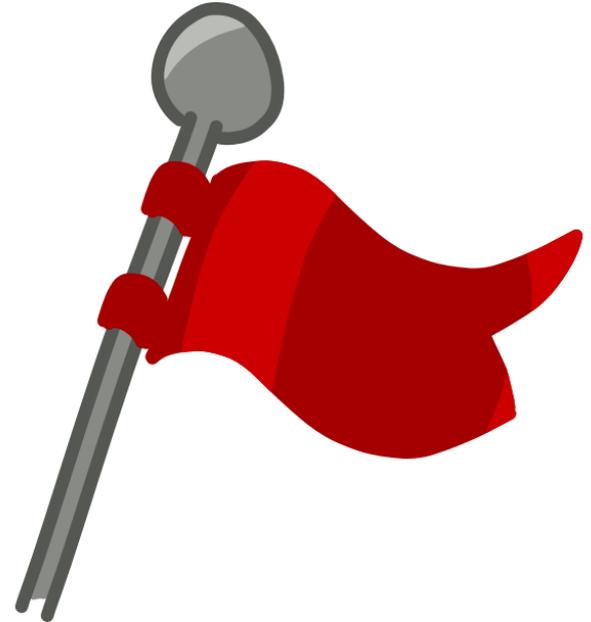
- Motive/Pressure
  - Declining performance
  - Job security
  - Compensation structure
- Opportunity
  - New management
  - Processes are fully controlled
  - Management override of internal controls
- Rationalization
  - Internal reporting vs. external reporting
  - Performance will increase



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# Red Flags

- Culture changes
  - Lack of communication
  - Fear
  - Secrecy
- Dismissal of concerns
- Altered reports with no supporting documentation



# IMA Statement of Ethical Professional Practice

- Four overarching ethical principles:
  - Honesty
  - Fairness
  - Objectivity
  - Responsibility
- Four standards:
  - Competence
  - Confidentiality
  - Integrity
  - Credibility

## Poll Question 3:

Is Liz already in violation of the *IMA Statement of Ethical Professional Practice*?

- a. Yes
- b. No
- c. Not sure

## Poll Question 3 Results: (Placeholder)



Provide decision support information and recommendations that are accurate, clear, concise, and timely. Recognize and help manage risk.

*- IMA Statement of Ethical Professional Practice, 2022*

- Is Liz in compliance with this component of the **competence standard**?
- Do you think the board will recognize that the caveat at the bottom of the statements means Liz is no longer providing the information?
- Does that caveat release Liz from liability?



Keep information confidential except when disclosure is authorized or legally required.

*- IMA Statement of Ethical Professional Practice, 2022*

- If Liz speaks to the board member, will she violate this component of the **confidentiality standard**?
- If Liz reports this potential misreporting to the board or outside of the organization, will she be in violation of the confidentiality standard?

“ Abstain from engaging in or supporting any activity that might discredit the profession.

“ Contribute to a positive ethical culture and place integrity of the profession above personal interests.

- IMA Statement of Ethical Professional Practice, 2022

- Is Liz in compliance with these components of the **integrity standard**?

“ Provide all relevant information that could reasonably be expected to influence an intended user’s understanding of the reports, analyses, or recommendations.

“ Report any delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law.

- IMA Statement of Ethical Professional Practice, 2022

- Has Liz violated any of these components of the **credibility standard**?

# Potential Impact of Misleading Statements

- Board will not know the true financial position of the organization
- Compromise the future and ongoing operations
- Clients and families may lose services



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# What Should Liz Do?

1. Liz is obligated to do something
2. Protect stakeholders of BFR
3. Uphold her obligation as a CMA
4. Reputation



## Poll Question 4:

What do you think Liz should do?

- a. Meet with the board member, Jim, and tell him everything
- b. Refuse to talk to Jim and direct him to the CFO and CEO
- c. Notify the CFO and CEO about the meeting with Jim and see how they want to proceed.
- d. Resign from the company
- e. Something else

## Poll Question 4 Results: (Placeholder)

# Case Wrap-Up

- Variety of answers
- Difficult decision
  - Potential impact
  - Budgeted information
  - Board reporting
- Organization's code of ethics policy
- Organization's reporting line
- Whistleblower rights and protections
- [IMA Business Ethics Hotline](#)
  - In the U.S. or Canada, members can call: (800) 245-1383.



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“

The right way is not always the popular and easy way. Standing for right when it is unpopular is a true test of moral character.”

- *Margaret Chase Smith*

# Questions and Answers



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# Thank you!



The Association of  
Accountants and  
Financial Professionals  
in Business