



2026 WICPA SCHOOL DISTRICT AUDIT CONFERENCE

YOUR SOURCE FOR KEY UPDATES & INSIGHTS ON TIMELY ISSUES

HIGHLIGHTED TOPICS:



GASB UPDATE

Review recent GASB updates with insights from the experts



CURRENT ISSUES IN BUSINESS ETHICS

Learn from real-world ethical violations involving accounting and finance professionals



DPI UPDATE

Get the latest updates affecting 2025-2026 audits

WEDNESDAY, MAY 27 | WICPA CPE LIVESTREAM

2026 WICPA SCHOOL DISTRICT AUDIT CONFERENCE

MATERIALS AT A GLANCE

The following materials are from the afternoon sessions of the 2026 WICPA School District Audit Conference held on Wednesday, May 27, including:

- Legal Update: Hot Topics in School District Legal Matters
- Current Issues in Business Ethics

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ONLINE CPE OPPORTUNITIES AT [WICPA.ORG/CPECATALOG](https://www.wicpa.org/cpecatalog)

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2026 WICPA GOLF OUTING

FRIDAY, SEPT. 18 – Ironwood Golf Course, Sussex



4-PERSON SCRAMBLE

\$95 per Golfer
\$380 for Foursome

REGISTRATION INCLUDES

18 Holes of Golf With Cart
Practice Greens & Driving Range
Continental Breakfast & Lunch
Beverage Vouchers
Hole & Event Contests
Entry in Prize Drawings
Awards Reception & Appetizers

SCHEDULE

8:30 a.m.
Check-In & Breakfast

9:00 a.m.
Practice Greens
& Driving Range

10:00 a.m.
Shotgun Start

4:00 p.m.
Awards Reception,
Prize Drawings & Appetizers

HOLE & EVENT PRIZES

\$1,000+ in Drawing Prizes
\$500+ in Individual Prizes
\$500+ in Team Prizes
\$500 Inside the Circle Contest



Scan the QR code or visit wicpa.org/GolfOuting to register.

SAVE THE DATE!

UPCOMING WICPA CONFERENCES & SPECIAL EVENTS



CONFERENCES

WICPA conferences are your source for key updates and insights on timely issues. As a WICPA member, you can save up to \$150 on registration!

School District Audit Conference

Wednesday, May 27
WICPA CPE Livestream Only

Business & Industry Fall Conference

Thursday, Sept. 24
Brookfield Conference Center & WICPA CPE Livestream

Not-for-Profit Accounting Conference

Wednesday, Sept. 16
WICPA Office & WICPA CPE Livestream

Tax Conference

Monday, Nov. 16 - Tuesday, Nov. 17
Brookfield Conference Center & WICPA CPE Livestream

Accounting & Auditing Conference

Tuesday, Nov. 10
WICPA Office & WICPA CPE Livestream

Accounting Technology Conference

Thursday, Dec. 17
WICPA Office & WICPA CPE Livestream

SPECIAL EVENTS

WICPA special events are unique opportunities to connect with fellow members and provide a great way to socialize and have fun!

Member Recognition Banquet & Annual Business Meeting

Friday, May 7, 2027
Brookfield Conference Center

New CPA Banquet

Friday, June 12
Brookfield Conference Center

Golf Outing

Friday, Sept. 18
Ironwood Golf Course

Bowling Night

Thursday, April 29, 2027
New Berlin Ale House

Conveniently attend WICPA conferences from anywhere with an internet connection!

wicpa.org/Livestream

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Registration opens approximately eight weeks prior. For more details about each and to register, visit wicpa.org/conferences and wicpa.org/events.

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Participate in planning a WICPA conference and enjoy:

- ⦿ FREE registration*
(a \$300-\$400 value!)
- ⦿ Exclusive networking
- ⦿ Leadership skill development
- ⦿ Recognition for your WICPA involvement
- ⦿ Informal CPE credit

* To receive free conference registration:

- attend one planning meeting ~ 2 hours
- select topics
- contact speakers
- introduce speakers at conferences

2026 CONFERENCES Accepting Volunteers

SEPT.
24

BUSINESS &
INDUSTRY FALL
CONFERENCE

SEPT.
16

NOT-FOR-PROFIT
ACCOUNTING
CONFERENCE

NOV.
16-17

TAX
CONFERENCE

NOV.
10

ACCOUNTING &
AUDITING
CONFERENCE

For more information or to join, email tammy@wicpa.org.



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- Automatically tracks WICPA formal learning activities
- Add any non-WICPA CPE courses
- Print reports for any reporting period

**To get started, visit
wicpa.org/cpetracker**



11:30 a.m. – 12:30 p.m.

Legal Update: Hot Topics in School District Legal Matters

Laura Pedersen, *Senior Associate Attorney,*
Renning, Lewis & Lacy, S.C.

Legal Update: Hot Topics in School District Legal Matters

WICPA School District Audit Conference

May 27, 2026

ATTORNEY LAURA E. PEDERSEN
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Hot Topics in School District Legal Matters

1. Cybersecurity.
2. Fraud.
3. Educator Misconduct.

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Cybersecurity

- Cybersecurity means measures that are taken to protect computers and systems against attacks or unauthorized access.
- Types of attacks that cybersecurity measures protect against include, but are not limited to:
 - Phishing – deceptive emails purportedly coming from a trusted or legitimate source to obtain sensitive information.
 - Malware – malicious software, including viruses, that infect systems and data.
 - Business Email Compromise (BEC – aka, CEO Impersonation) – impersonation of individuals who have access to a business’s finances that occurs through spoofed or compromised accounts.
 - Ransomware – encryption of software that prevents the user from accessing files, systems, networks, or data until a ransom is paid.

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Cybersecurity (cont.)

- Marshfield School District (2019)
 - Victim of a BEC attack where the actor posed as a vendor of the school district seeking payment from the district’s business office for \$660,000.
 - School district became aware when:
 - The actual vendor sought payment, and
 - Credit union flagged the transaction as suspicious.
 - 22 municipalities in Texas working with the same third-party vendor were subject to similar efforts.

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Cybersecurity (cont.)

- St. Croix Falls School District (2024-2026)
 - In September 2024, a 19-year-old hacker obtained the username and password for a subcontractor of PowerSchool, which provided customer support to school districts who used the PowerSchool SIS system. The subcontractor did not require multifactor authentication at the time.
 - In December 2024, the school district became a victim of that hacker's efforts in what has been identified as the largest breach of children's information in U.S. history.
 - In December 2024, the hacker requested a ransom in the amount of \$2.85 million in Bitcoin, which PowerSchool paid.
 - In March 2025, the school district led other school districts in filing a multi-state federal lawsuit claiming breach of contract, among other claims.
 - In March 2026, after PowerSchool submitted motions to dismiss the claims in the lawsuit, the Southern District of California held that the breach of contract claims could proceed but other claims such as negligence were not actionable.

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Cybersecurity (cont.)

- Denmark School District (2026)
 - In January 2026, the school district was without internet access for 5 school days.
 - The school district has not released the nature of the cyberattack; however, in February 2026, they notified staff that sensitive data had not been compromised.
 - Incransom, the group allegedly responsible, is a ransomware and data extortion threat group that has had nearly 800 victims worldwide since 2023, including school districts in other states and countries.

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Fraud

- Monona Grove School District (2023-2026)
 - Between 2023 to 2025, an administrative assistant allegedly made \$38,000 in fraudulent purchases.
 - The employee resigned in October 2025 prior to an internal investigation.
 - The school district discovered the fraud on December 16, 2025, and began an internal investigation.
 - On February 6, 2026, the school district notified the Monona Police Department.

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Fraud

- School District of Glenwood City (2014-2026)
 - In April 2026, a former superintendent of the school district received a sentence of 8 years in jail, 4 years probation, and ordered to pay \$220,000 in restitution for fraud.
 - An audit conducted in 2024 by a CPA/CFE, revealed that the fraud included:
 - Over \$75,000 in reimbursement for self-approved courses allegedly taken at Viterbo between 2014 and 2023;
 - \$125,000 in stipends meant to offset the cost of graduate courses not attended;
 - Over \$38,000 in performance pay for a position for which he was unlicensed but submitted fraudulent documentation for; and
 - Over \$50,000 in alternative benefits with no contractual basis.
 - Additionally, the superintendent negligently placed funds into portfolios that were not compliant with Wis. Stat. § 66.0603.

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Educator Misconduct

- Wis. Stat. § 115.31 requires that an administrator report to the State Superintendent of Public Instruction the name of any person employed by their school district and licensed by the Department of Instruction (DPI) if the person:
 - Is charged with a crime under Chapter 948 of the Wisconsin Statutes;
 - Is convicted of a crime under Chapter 948 or of 4th degree sexual assault;
 - Is dismissed or nonrenewed for “immoral conduct”; or
 - Resigns and there is reasonable suspicion that the resignation relates to “immoral conduct.”

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Educator Misconduct (cont.)

- “Immoral conduct” means:
 - Conduct that is contrary to commonly accepted moral or ethical standards which endangers health, safety, welfare, or education of any student.
 - Examples: use of school district equipment to download, view, solicit, seek, display, or distribute pornographic materials; assisting any person in obtaining a job with a school district if the individual has reasonable suspicion to believe that the person has committed a sex offense against a minor or student.

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Educator Misconduct (cont.)

- The Cap Times investigated the DPI’s handling of educator misconduct investigations and found the following:
 - Of 461 investigations of teacher misconduct between 2018-2023, DPI found no probable cause in 178 cases, obtained the educator’s voluntary surrender in 161 cases, revoked a license in 66 cases, and entered a settlement with the educator to keep their license in 29 cases. The results of 18 cases were unknown, 8 were still open, and 1 expired.
 - DPI shielded 200 incidents of sexual misconduct or grooming between 2018-2023.
 - The Legislature had not adequately funded DPI for such investigations.
 - The DPI had 2 investigators – 1 full-time and 1 part-time.

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Educator Misconduct (cont.)

- Governor Evers signed 2025 Wis. Act 185 on April 3, 2026, which requires the DPI to publish a “License Revocation Database.” See <https://dpi.wi.gov/licensing/license-revocation-database>.
- Three (3) additional laws worth noting:
 - 2025 Wis. Act 88 – criminalizes grooming if for the purpose of engaging in sexual activity with a child.
 - 2025 Wis. Act 89 – school boards must pass policy regarding appropriate communication between employees/volunteers and students and provide training to employees regarding grooming.
 - 2025 Wis. Act 57 – when a report is received that presents reasonable cause to suspect that a staff member engaged in sexual misconduct with a student, has been convicted of a serious child sex offense, or is a sex offender who intentionally captured a representation of a minor student without parental consent, the school district must notify the parent by 5:00 PM (if received during the school day) or 12:00 PM (the next school day, if report is made after the school day).

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Thank You.

QUESTIONS?

1 – 3 p.m.

Current Issues in Business Ethics

Mary Jepperson, CPA, CFE, Retired Professor of Accounting and Finance, College of Saint Benedict & Saint John's University

WICPA School District Audit Conference

Current Issues in Business Ethics: Case Studies and Current Developments

Mary Jepperson, CPA, CFE mjepperson@albanytel.com
Professor Emerita– College of Saint Benedict/Saint John's University

May 27, 2026

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1

Learning Objectives

- Identify laws and rules which apply to CPAs and the consequences for violating those laws and rules
 - Including a number of AICPA Code of Conduct requirements
- Understand the attitudes of others related to ethics
- Understand motivations to be ethical – and unethical
- Identify and learn from current ethical violations

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Wisconsin's CPE Rules

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Overview of Wisconsin CPE rules

- CPE year is calendar year
- Minimum of 80 hours per two-year compliance period
- Minimum of 20 hours in each individual year
- Maximum of 40 hours from informal learning activities

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Qualifying learning activities

- Key element: activities enhance a participant's professional growth and competence
 - Attending lectures
 - Participating in online webinars and webcasts
 - Completing self-study courses developed by vendors
 - Teaching a course
 - Performing independent research
 - Listening to podcasts
 - Watching videos
 - Reading books and articles
 - Attending meetings

5

Informal learning activities

- To qualify, CPA must document
 - The format of the activity
 - The date(s) on which the learning activity was performed and completed
 - The subject matter of the activity
 - The number of CPE credits claimed for participating in the activity
 - The materials prepared or used by the participant in conjunction with the activity, which may include any of the following:
 - The title and author of a book that was read
 - A copy of an article that was read, or the title of the article and the name of the publication in which the article appeared
 - Minutes from a meeting attended
 - A program outline or handouts from an activity attended
 - A link to reading, video, audio or any other online learning materials or activities
- And use a principles-based approach to determining how many hours to report

6

Other Wisconsin CPE rules

- Minimum of 3 ethics credits every two years
 - All must be from formal CPE activities
- May carry forward up to 40 hours to next compliance period
- And carry back hours earned in the first 12 months of the succeeding compliance period
- Records must be kept for 5 years

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Specialized credits

- Doing any audits governed by GAGAS?
- Yellow Book continuing education governed by the U.S. Government Accountability Office
- Yellow Book requirements
 - 80 hours of CPE every two years; minimum of 20 each year
 - 24 hours every two years must directly relate to government auditing, the government environment, or the specific or unique environment in which the audited entity operates
 - Directly enhance auditor's professional proficiency
- What credits you count towards Yellow Book requirements a matter of professional discretion
- No carryforward or carryback options

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Guidance on GAGAS Requirements for Continuing Professional Education published by the GAO

- Broad array of engagements are subject to Yellow Book CPE requirement
 - Internal and external audit
 - Financial audits, attestation engagements, performance audits
- Exceptions
 - Folks who only perform (vs. plan and direct) engagements
 - And spend less than 20% of their time doing Yellow Book audits
 - But they are only exempt from the 80-hour requirement
 - External consultants and internal specialists
 - Support service staff
 - College interns

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What qualifies for GAGAS CPE?

- **Structured** educational activities or programs
 - Internal training programs (e.g., courses, seminars, and workshops)
 - Education and development programs presented at conferences, conventions, meetings, and seminars and meetings or workshops of professional organizations
 - Training programs presented by other audit organizations, educational organizations, foundations, and associations
 - Web-based seminars and individual-study or eLearning programs
 - Audio conferences
 - University and college courses
 - Audit organization staff meetings when a structured educational program with learning objectives is presented
 - Correspondence courses, individual-study guides, and workbooks
 - Serving as a speaker, panelist, instructor, or discussion leader at programs that qualify for CPE hours
 - Developing or technical review of courses or the course materials for programs that qualify for CPE hours
 - Publishing articles and books that contribute directly to the author's professional proficiency to conduct engagements.

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Specialized credits

- Employee benefit plan-specific continuing education
 - AICPA Employee Benefit Plan Audit Quality Center (EBPAQC)
 - EBPAQC members responsible for signing audit opinions and/or managing ERISA employee benefit plan audits
 - 8 hours of employee benefit plan-specific CPE for every three-year CPE cycle

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CPE to do's

- Keep a running tally of CPE hours
- Include all relevant documentation
 - CPE certificates for formal learning activities
 - Host of information for informal learning activities
- Set a reminder in your calendar, at least every six months, to check your CPE progress

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Wisconsin Department of Safety and Public Services Accounting Examining Board Enforcement Actions

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DSPS activity

- Only three CPAs cited in 2025
 - Two applicants with alcohol and bail jumping issues; CPA renewal request granted pending completion of probation, maintenance of sobriety and no new violations of laws and other steps
 - Applicant suspended for failing to file client-signed tax returns and not responding to multiple DSPS requests for information; CPA credential limited (must provide quarterly monitoring reports)
- And two so far in 2026
 - CPA (licensed as individual and as firm) didn't provide appropriate tax services due to health; suspended
 - CPA reprimanded for signing a review report when not licensed as a firm; reprimanded

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Imagine what would happen to your CPA certificate if this happened:

- A Minnesota CPA issued unqualified audit opinions on Feeding Our Future's 2019 and 2020 financial statements in 2021 and 2022
- In May 2024, the individual's CPA certificate and firm permit were revoked
- State of Minnesota's Board of Accountancy Committee alleges that "the audit report played a role in allowing Feeding Our Future to engage in a fraud resulting in the misappropriation of more than \$250,000,000 in public funds"

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Why? A whole new meaning to an 'unqualified' audit report

- Auditors are supposed to gather evidence through inquiry, physical inspection, observation, confirmations, examination of evidence, analytical procedures, etc.
 - None of that was done
- Also did not
 - Obtain any written representation letters
 - Communicate with those charged with governance
 - Address in the opinion year 1 of a 2-year report, where they only audited the 2nd year
- Admitted he "rubber-stamped" the financial statements that Feeding Our Future gave him

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And the financial statements were not fairly stated in accordance with GAAP

- No depreciation of fixed assets or intangibles
- No disclosures regarding nature and amounts of various donor-imposed restrictions
- Expenditures of restricted funds were reported as expenses directly from restricted net assets
- Rather than showing net assets, the statements disclosed equity

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In his defense:

- "They are looking for someone to blame," he said. "They can do a thousand audits ... I did not invent the information. I reported on ... the information they gave me."
 - February 25, 2022 Star Tribune article

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Another issue

- Same individual was censured and reprimanded in June 2025
 - Fined \$5,000, but fine stayed if he repaid an audit client almost \$18,000
- Started an audit of the Lower Minnesota Watershed District's 2021 and 2022 financial statements
- Certificate and firm permit were suspended in January 2023
- In March 2025, CPA sent an email to the District that they were unable to complete the audit due to
 - A scope limitation

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But now...

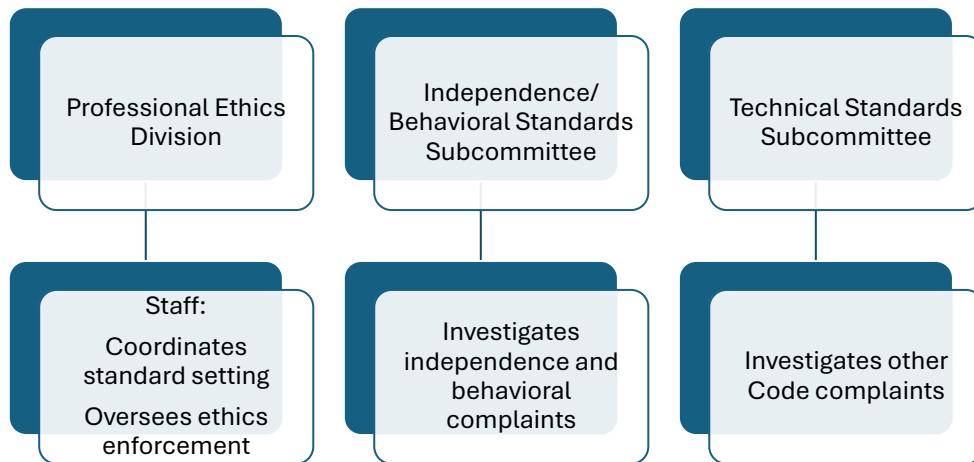
- September 15, 2025 – requested reinstatement
- October 8, 2025 - Individual appeared before the Board of Accountancy to “discuss and answer questions about his current employment, future plans and reinstatement petition.”
- CPA certificate to be reinstated after payment of fine
 - \$100
- Any attest services to be performed under the supervision of a licensed CPA for three years

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AICPA Professional Ethics Executive Committee's Work

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AICPA Professional Ethics Executive Committee



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AICPA Professional Ethics Division

- Another really quiet year
- Releases
 - Engagement team and group audits – ED issued March 2026
 - Alternative practice structures – ED issued December 2025
 - Tax services – 2nd ED issued September 15, 2025
 - Engagements subject to SSAE’s – effective June 15, 2026
 - Cleaned up language regarding period covered by the attest report
 - Simultaneous employment/association with an attest client – effective September 15, 2026
- Artificial intelligence discussions

23

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PEEC Project on Artificial Intelligence

- First on the AICPA’s horizon in 2019
- IAESB has already issued standards on the topic
- Just some of the risks
 - Inaccuracy of AI-produced information
 - Overreliance on AI information
 - Cybersecurity risks
- November 2023 – PEEC created a new task force
 - Initial focus: how members use technology output

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AI ethical concerns

- Confidentiality
- Accuracy and objectivity
- Professional judgment
- Conflict of interest
- Transparency
- Compliance with regulations and accounting/auditing standards
- Ongoing learning and accountability

“AI will probably most likely lead to the end of the world, but in the meantime, there'll be great companies.”

Sam Altman, CEO of OpenAI

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PEEC Project on Artificial Intelligence

- Two phased approach
- Phase 1 – factors members may consider when using technology outputs
- Phase 2 – development of nonauthoritative guidance for AI
 - Professional judgement with a focus on human-in-the-loop
 - Professional judgement with a focus on bias
 - General Standards Rule
 - Confidentiality
 - Independence
 - Additional resources and references

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Recognize attitudes related to ethical issues

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Which profession does the public vote as the most honest/ethical? Gallup poll taken every December

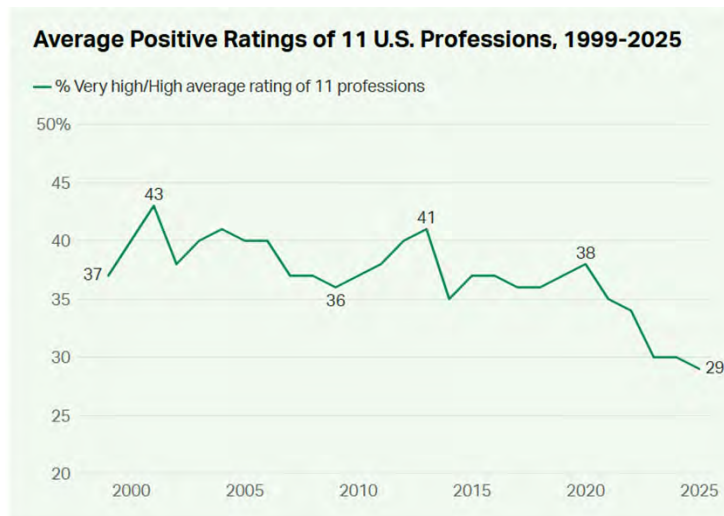
- Nurses were added to the rankings in 1999 and rated the highest every year except one
- Which year was the exception? Which profession won?



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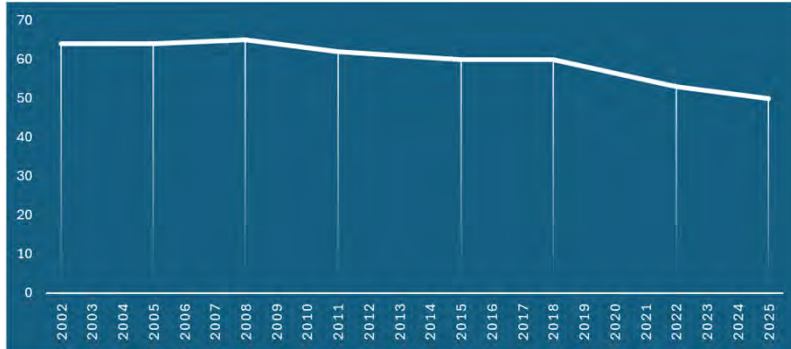
Ethical views of 11 professions consistently measured has declined to historic low



30

Name that profession

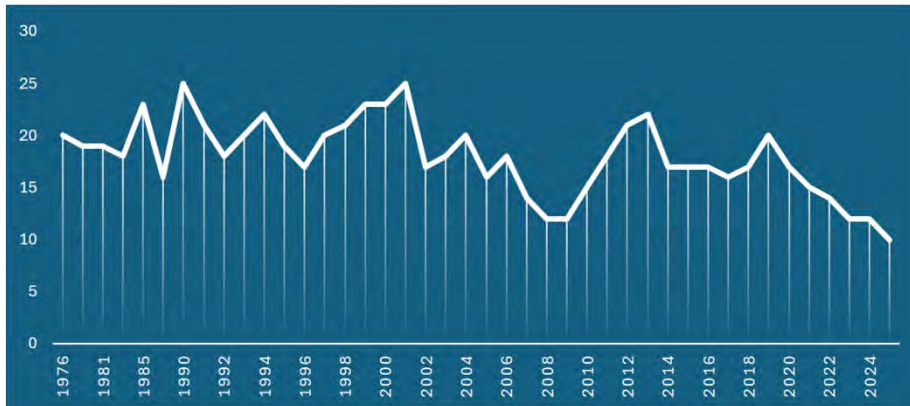
- A. Accountants
- B. Funeral Directors
- C. High School Teachers
- D. Members of Congress



31

Name that profession

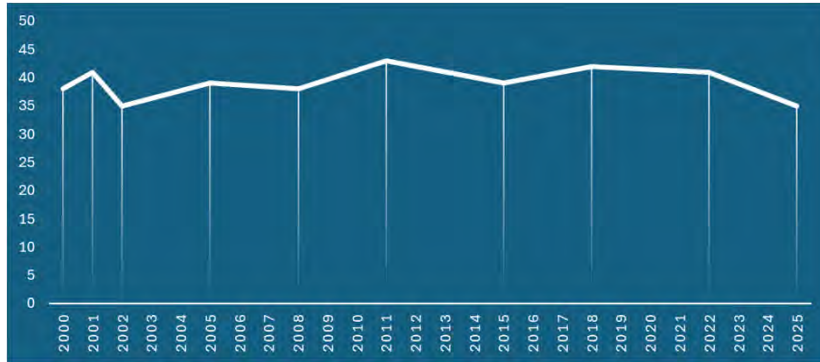
- A. Business Executives
- B. Lawyers
- C. Real Estate Agents
- D. Members of Congress



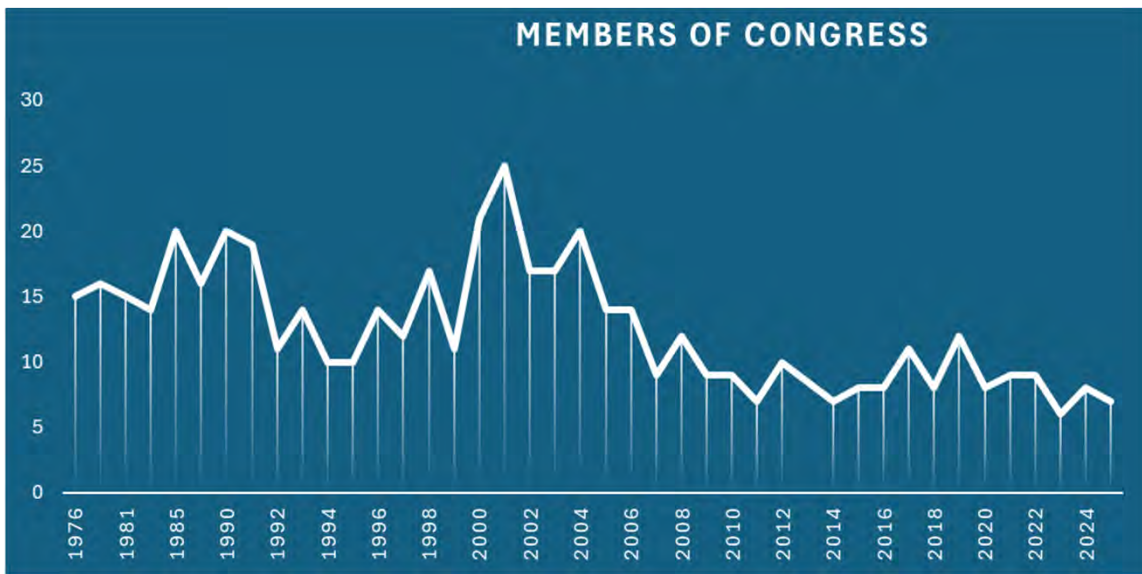
32

Name that profession

- A. Accountants
- B. Clergy
- C. Pharmacists
- D. Members of Congress



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Gallup Poll (Dec 2025) – rate honesty and ethical standards “high” or “very high”

Nurses*	75	Building contractors	21
Medical doctors*	57	Lawyers*	20
Pharmacists*	53	Bankers*	20
High school teachers	50	Real estate agents	17
Police officers*	37	Business executives*	10
Accountants	35	Advertising practitioners*	10
Funeral directors	32	Stockbrokers	9
Journalists	28	Members of Congress*	7
Labor union leaders	27	Car salespeople*	7
Clergy*	27	Telemarketers	5

* One of 11 professions routinely included in Gallop Poll

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Does it pay to be good?

- Are ethical people happier?
- Would being in an ethical environment enable a person to be happier?
- Questions posed by study: *No Man is an Island: A study of the interplay between individual ethics and shared cultural values in influencing happiness*
 - Published in Journal of International Society for the Study of Personality and Individual Differences, March 2026

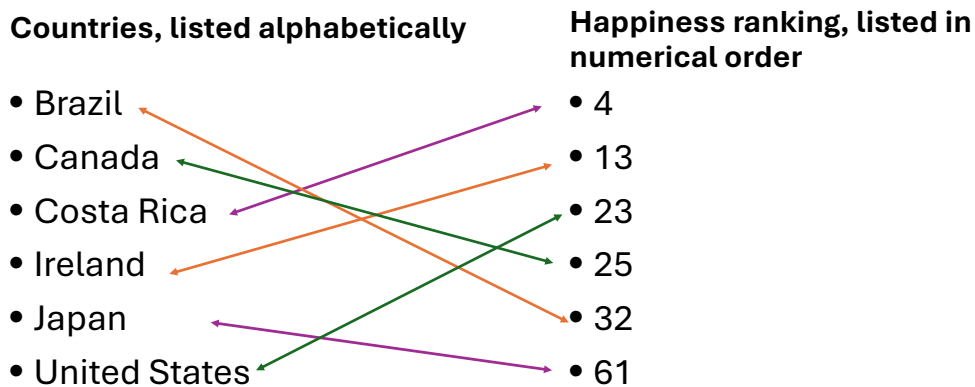
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Gallop Poll of Happiness Rankings

- What country is number 1 in terms of happiness? (for nine consecutive years!)
 - Finland
 - Nordic nations make up five of the happiest six countries in the world
- Changes from 2006-2010 base to 2023-2025 results
 - Twice as many countries had significant gains in happiness vs. significant losses
 - Western industrialized nations?
 - Less happy – 15 had significant losses and 4 had significant gains
 - Youth happiness?
 - For 90% of the world population, youth happiness has increased
 - Only fell in Western Europe, US, Canada, New Zealand, and Australia

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Rank these countries in order of happiness




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Rank	Country	Score	Rank	Country	Score
1	 Finland	7.764	11	 New Zealand	6.995
2	 Iceland	7.540	12	 Mexico	6.972
3	 Denmark	7.539	13	 Ireland	6.928
4	 Costa Rica	7.439	14	 Belgium	6.926
5	 Sweden	7.255	15	 Australia	6.916
6	 Norway	7.242	16	 Kosovo	6.910
7	 Netherlands	7.223	17	 Germany	6.882
8	 Israel	7.187	18	 Slovenia	6.868
9	 Luxembourg	7.063	19	 Austria	6.845
10	 Switzerland	7.018	20	 Czech Republic	6.821

The World Happiness Report is a partnership among Gallup, Oxford's Wellbeing Research Centre, the U.N. Sustainable Development Solutions Network and the WHR's Editorial Board.

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Corruption Perception Index, 2025



- Scale of 0 (highly corrupt) to 100 (very clean)
- 182 countries ranked; average is 42
- A new low
- Two thirds of countries are ranked below 50
- Number 1
 - Denmark – 89
 - But Finland #2 at 88
 - The five Nordic countries in the top six happiest countries were all in the top 10 list of the most clean countries in terms of corruption perception
- Countries at the bottom
 - Somalia (score of 9), South Sudan (9), Venezuela (10)

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How did our countries fare on the corruption perception index

Countries, listed in order of happiness	Corruption perception index
• Costa Rica	• 56
• Ireland	• 76
• United States	• 64
• Canada	• 75
• Brazil	• 35
• Japan	• 71

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Back to the No Man is an Island study

- Honesty and fairness (personal ethics) contribute to well-being
 - So it does pay to be good!
- Used data from World Values Survey (WVS) and the European Values Study (EVS)
- Study analyzed survey results from WVS (358,418) and EVS (178,372)

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Ethical individuals are happier

- Factors significantly associated with happiness
 - Income
 - Ethics/virtuous activity
 - Religiosity
 - Political orientation
- But religiosity is more strongly linked to happiness for those with lower ethical standards
 - Perhaps spiritual fulfillment compensates for lower standards?
 - Those with strong ethical standards have higher absolute levels of happiness
- And political orientation?
 - Right-leaning individuals tend to be happier
 - But left-leaning individuals with higher ethical standards are less unhappy

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What about the ethical environment of the country in which you live?

- Ethical countries
 - Positive association with individual ethics and happiness
 - Boost in happiness from religiosity is smaller
- Unethical countries
 - Strong negative association with individual ethics and happiness
 - The more ethical an individual in these countries, the more unhappy they are

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Implications of ethical environment and happiness correlation

- You can't change your country's ethical environment
- You may have varying degrees of influence on your organization's ethical environment
- You can change you
 - Daily improvement
 - Camaraderie and teamwork
 - Wellness and resilience
 - Real-time measurement
 - Meaning and purpose
- You can change others
 - All of the above
 - Recognition and rewards
 - Choice and autonomy

Suggest IHI Whitepaper: *Framework for Improving Joy in Work* at https://www.ncha.org/wp-content/uploads/2018/06/IHIWhitePaper_FrameworkForImprovingJoyInWork.pdf

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Getting Things Right to the Best of Your Ability

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AICPA Code of Professional Conduct Integrity and Objectivity Rule: Sections 1.100.001 and 2.100.001

- **.01** In the performance of any professional service, a member shall maintain **objectivity and integrity**, shall be **free of conflicts of interest**, and shall **not knowingly misrepresent facts** or **subordinate his or her judgment** to others.
- 0.300.040 Integrity can accommodate the inadvertent error and honest difference of opinion; it cannot accommodate deceit or subordination of principle

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Interpretation 1.200.010 & 2.300.010: Competence

- Entails possession of appropriate technical qualifications
 - Knowledge of the profession's standards
 - Techniques and technical subject matter involved
 - Ability to exercise sound judgment in applying such knowledge.
- A member's agreement to perform professional services implies that the member has the necessary competence to properly complete those services
 - But does not assume a responsibility for infallibility of knowledge or judgment
- A member may already possess the skills; may perform additional research/consultation to gain sufficient competence
- Unable to gain sufficient competence? Should suggest the involvement of a competent person to perform the needed professional service, either independently or as an associate

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Interpretation to this rule - Subordination of judgment: 1.130.020 and 2.120.020

- Potential threats when there is a difference of opinion
 - Self-interest, familiarity, and undue influence
- Threats are at an acceptable level?
 - Still should discuss your conclusions with the person taking the other position
- If that position results in a material misrepresentation of fact or a violation of applicable laws or regulations
 - Threats would not be at an acceptable level
 - Should discuss your concerns with a supervisor
- Difference of opinion still not resolved?
 - Raise concerns with the appropriate higher level(s) of management within the your organization
- Appropriate action was not taken?
 - Do internal policies and procedures have any additional requirements for reporting differences of opinion.
 - Might you be responsible for communicating to third parties
 - Consider consulting with legal counsel regarding
 - Document the situation, facts and the conversations and parties with whom these matters were discussed
- May need to consider the continuing relationship with the member's organization and take appropriate steps to eliminate exposure to subordination of judgment
- May end up resigning (which may still leave you with certain responsibilities)

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A firm with a few SEC issues



- Prager Metis: over 100 partners and principals, more than 600 team members
 - Offices worldwide including New York, New Jersey, California, Florida, Nevada, North Carolina, Virginia, Cayman Islands, London, UK, Chennai, India
 - and the **Metaverse**
- Subject of two SEC Accounting and Auditing Enforcement Releases in November 2024
 - Included indemnification provisions in engagement letters with multiple clients, including public issuers
 - Notified of independence impairment in January 2019, but continued practice for almost two years
 - Required to disgorge almost \$205,000 in fees
 - And pay \$1 million in civil money penalties

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Back in hot water with SEC



- Francis Decker, 61, Prager Metis equity partner
 - Lead audit partner for FTX Trading LTD
- FTX
 - Antigua and Barbuda limited corporation
 - Operated global crypto asset trading platform
 - In most countries of world, but not US
 - Began operations in 2019
 - Founded by Sam Bankman-Fried
 - Filed for Chapter 11 bankruptcy November 11, 2022
- Alameda Research LLC
 - Quantitative trading firm specializing in crypto assets
 - Filed for bankruptcy with FTX
 - Majority owned by Bankman-Fried



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A bit about Sam Bankman-Fried

- Bit of a math wizard; graduated from MIT with a degree in physics
- ‘Poster boy’ for crypto
 - Bernie Madoff of crypto
- 2017 – founded Alameda Research
 - Purpose: trading Bitcoin and other digital currencies
- 2019 – founded FTX, a cryptocurrency derivatives exchange
 - FTT – FTX’s token, or their own cryptocurrency
- Bankman-Fried’s net worth grew to \$26 billion



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FTX's downfall

- November 2022 – a ‘run’ on tokens occurred and could not be redeemed
 - Driven by news that Alameda held more than \$5 billion in FTT
- Bankman-Fried arrested in the Bahamas in December 2022
- Convicted on wire fraud, commodities fraud, securities fraud, money laundering and campaign finance laws
- Sentenced to 25 years in prison; ordered to forfeit \$11 billion
- FTX customers lost about \$8 billion

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Back to Francis Decker...

- Decker met Bankman-Fried in January 2021
- FTX and Bankman-Fried planning an IPO and were eager to sign on an auditor
- February – the engagement (and client acceptance work) began
- The problem?
 - Decker had no experience & insufficient knowledge of auditing a “large, complex crypto asset trading platform”
 - Failed to design and perform an audit that would result in obtaining sufficient appropriate audit evidence
 - Didn’t understand the relationship between Alameda and FTX
 - And that Alameda could borrow virtually unlimited funds from FTX

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Audited financial statement issued

- July 30, 2021: Prager Metis opined on financial statements for 2020 and 2019
- April 2, 2022: Prager Metis opined on 2021 financial statements
- Digging deeper after November collapse of FTX
 - Prager Metis discovered that neither audits’ workpapers were ever finalized in the software system
 - A number of workpapers contained no evidence of Decker’s review
 - Others had unanswered comments
- April 8, 2026
 - SEC denied Decker the privilege of practicing before the Commission
 - May apply for reinstatement in 2 years
- September 2024
 - Prager Metis paid an almost \$2 million penalty to SEC

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Sound judgment in the face of biases

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Need for sound professional judgment

- Derived from your training, skills and experience
- Sufficient? If not, consult
- Have an inquiring mind
- Be open to effects of your conscious or unconscious biases
 - Anchoring bias
 - Availability bias
 - Confirmation bias
 - Groupthink
 - Overconfidence bias

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Anchoring bias

- Relying too much on pre-existing information or the first information you find when making decisions
- Student problem
 - $8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 2 \times 1$
 - Median answer 2,250
 - $1 \times 2 \times 3 \times 4 \times 5 \times 6 \times 7 \times 8$
 - Median answer 512
- Priming
- Heuristics

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Availability bias

- What is easiest to remember shapes your conclusions
- Place too much importance on facts and information we can remember
- Our brains love to work with what is easily available

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Confirmation bias

- The basics: a tendency to search for, interpret, focus on and remember information in a way that *confirms your beliefs*
- Backfire effect
- Congruence bias
- Observer-expectancy effect
- Selective perception

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Groupthink

- Desire to maintain group loyalty becomes more important than making best choices
- Group reaches an apparent agreement – not real consensus
 - Team doesn't want to upset relationships
 - Someone in authority is pushing an agenda
 - People outside the team are reluctant to rock the boat
 - Hard to think and act independently in group settings
- Groups can reach decisions more extreme than any one member of group would have advocated

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Overconfidence bias

- Risk of being too confident in your own abilities than is objectively reasonable
 - 50% of people polled believe they are in the top 10% of ethical individuals
- Relying too much on your own estimations and ideas over facts
 - May take ethical issues too lightly
 - May not gather the right/enough evidence

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Crosby Independent School District
Tradition...With a Future

- How did their problems start?
- 2013: \$86.5 million bond offering for capital projects
- ‘Project enhancements’ swelled the costs
 - Money ran out in 2016
 - But there were still \$12 million of remaining construction commitments
- Solutions?
 - Change the fiscal year end from August 31 to June 30, 2017
 - Issue new bonds to pay the old bills in January 2018

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Audit partner – Shelby

- Experience as a partner
 - Was on the audit engagement since fiscal 2014
 - Promoted to partner July 2017
- Failed to obtain sufficient, appropriate audit evidence
 - Construction expenditures understated by almost \$8 million
 - Participated in a phone call with District and bond counsel
 - Subject – cannot pay for outstanding unpaid construction liabilities without new bonds
 - Search for unrecorded liabilities weak
 - Looked only at checks, not wires or ACH payments
 - Misinterpreted a construction invoice – ‘Previous Certificates for Payment’

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Other areas lacking sound judgment

- Sufficient, appropriate audit evidence
 - Teachers paid on 12-month schedule from September 1 to August 31st
 - Change in year-end meant that there was now a liability for 2/12 of yearly teachers’ salaries – which totaled almost \$4 million
 - Accepted then-CFO’s oral representation that teachers had been paid in full as of June 30th
 - By not looking at subsequent ACH transactions, missed this liability
- Supervision of the audit
- Appropriate professional judgment and professional skepticism
 - Financial difficulties required heightened sense of due professional care

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How did fraud come to light?

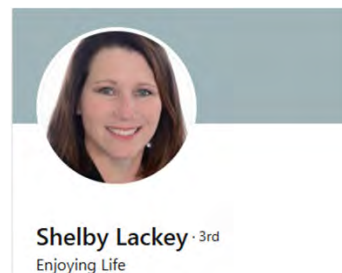
- New CFO came on board
 - Discovered payroll and construction liability errors
 - Confronted Lackey (in midst of 2018 audit)
- Crosby disclosed issues to board and public
- Financial exigency declared; bonds downgraded

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What now?

- Lackey denied ability to service public clients (or clients with publicly issued debt)
- She left firm
 - To become CFO at another school district
- Crosby's old CFO fined \$30,000



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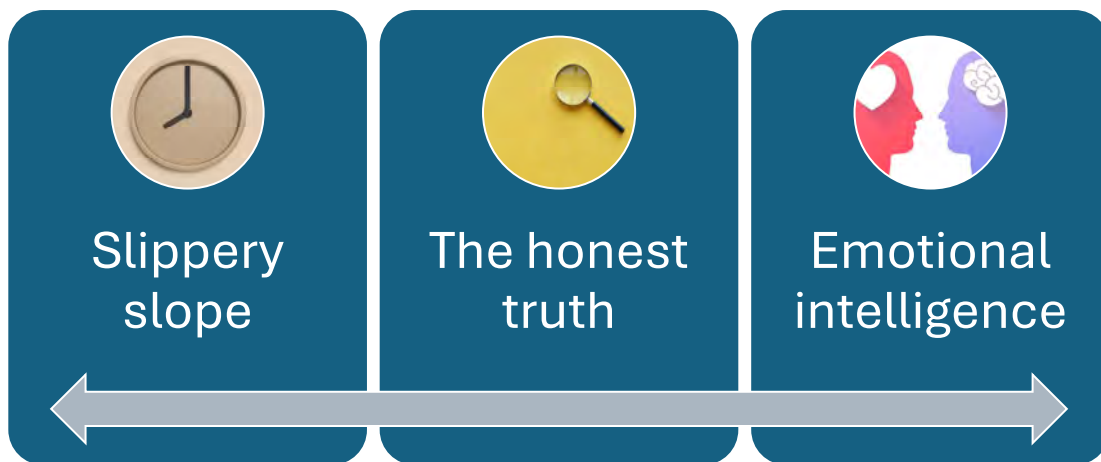
68

How can we minimize the effect of our inherent biases?

- Avoid forming a hypothesis too early
- Ask why a hypothesis may be wrong
- Ask neutral questions
- Play devil's advocate
- Encourage unemotional review of new information
- Consider the backfire effect
- Try to avoid the halo effect

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Some of my favorite research studies on ethical behavior



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Discussion question

- A company revamped the breakroom to remove the large vending machines and put in a fridge and a snack counter.
- They put out an honor box for employees to pay for their snacks and drinks.
- There is a lot of camera surveillance throughout the building, but not in the break room.
- What might the company expect in terms of compliance with the honor system?

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Moral slope gets slipperier as the day goes on

- Self control requires us to expend resources
- What depletes these resources?
 - Time pressure
 - Sleep deprivation
 - Participation in tasks that consume self-regulatory resources
- Does the time of day impact our ability to behave morally?



The Morning Morality Effect: The Influence of Time of Day on Unethical Behavior, Maryam Kouchaki and Isaac Smith

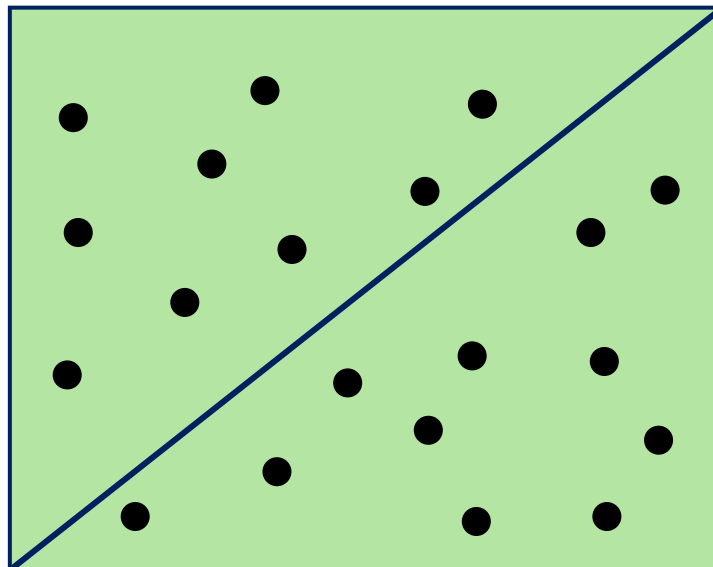
72

Are there more dots on the Left or on the Right?

- You will be paid 5 cents every time the answer is on the right and $\frac{1}{2}$ cent every time the answer is on the left.

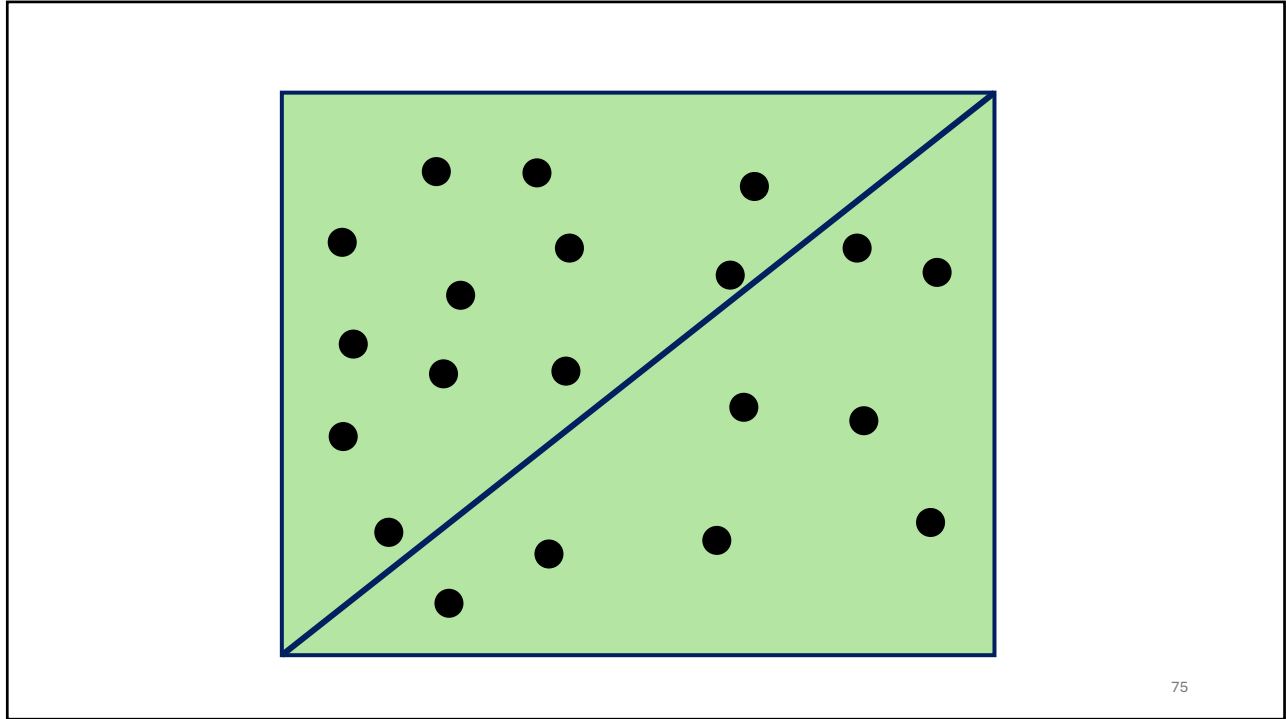
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Do two numbers on the screen add up to 10?

1.12	1.76	9.04
4.27	4.01	6.32
3.33	8.11	5.73

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Results

- People were 20 to 50% more likely to be dishonest in the afternoon
- People with lower levels of moral disengagement
 - Cheated **a lot more** in the afternoon
- People with higher levels of moral disengagement
 - Tended to cheat at fairly uniform levels – morning or afternoon

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Some details about the New Jersey Schools' free lunch scandal

- 83 of the cheaters were either school board members or teachers
- Remaining cheaters were family members of employees
- Underreported income amount??
- And the prize for the craziest excuses:
 - I couldn't get the pay stubs from my husband's locked car.
 - Whoops – I reported my net income rather than my gross income.

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Slippery Slope Implications

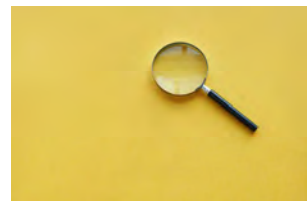
- Self-regulatory resources are depleted throughout the day
 - Even as result of mundane daily tasks
- Try to schedule tasks with moral components
 - Early in day
 - After breaks
 - But not at very end of day
- And those folks who have high levels of moral disengagement?
 - They don't deplete their self regulatory resources: they don't have much to begin with

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The Honest Truth About Dishonesty: How we lie to everyone – especially ourselves

- By Dan Ariely, James B. Professor of Psychology and Behavioral Economics at Duke University
- A retrospective of his favorite research projects



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Honor codes – do they work?

- Experiment at Yale and MIT
 - Half of students signed statement: “I understand this experiment falls under the guidelines of our honor code.”
 - Half did not
 - Those who signed statement?
 - NO cheating
- Same experiment at Princeton, except
 - They have an honor code, provide extensive training
 - Two weeks into the semester
 - Half signed honor code statement
 - Half did not
 - And these cheated at same level as Yale/MIT

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It's hard to do the right thing

- A lucky roll of the dice
 - Paid \$3 to participate
 - You can earn \$4 or \$40, depending on your roll.
 - Oh darn, you earned \$4 – but if you give me the \$3 I just gave you, I'll pretend you landed on the \$40.
 - 90% of students said OK
- The generous vending machine
 - Candy bars - \$0.75
 - But machine always gave back 100% of their money
 - Big sign: If there is anything wrong with this machine, please call the vending company at this number.
 - No one called
 - But no one took more than 4 candy bars!

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Impulsive (emotional) vs. rational (deliberate) responses

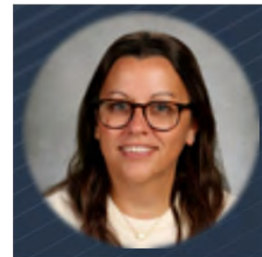
- Wonderful to be rational
- But being depleted leads to impulsive responses
 - Remembering a two-digit number vs. a seven-digit number
 - Cake vs. fruit
- The fate of college students' grandmothers
 - Midterms
 - Grandmothers 10 times more likely to die
 - Finals
 - 19 times more likely to die
 - Students who are failing
 - 50 times more likely to die
 - Intrafamilial dynamics?

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Charges of embezzlement

- Danielle Mittermeyer, former Lincoln School District employee from March 2021 to August 2025
- Pled not guilty in February 2026 to embezzling almost \$200,000 in district funds
- Administrative transition at school district uncovered irregularities; law enforcement called in
- Mittermeyer left this school district in 2025 to move to another
 - Where she is currently on administrative leave
 - That school hired Baker Tilly to audit business office activities

Source: www.news8000.com

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Implications of the truth about lying

- Recognize
 - We are all capable of cheating
 - We are adept at rationalizing why we are NOT dishonest or immoral
 - Prone to catch the 'cheating bug'
 - Once we start acting dishonestly, we keep doing so
- Remember
 - Our fallibility
- Repeat
 - Our honor codes (codes of conduct)
 - Have a serious code
- Recall
 - Situations involving conflicts of interest are not easy
 - Eradicate if we can
 - Disclose – and ask the other party to evaluate
- Remind
 - At points of temptation
- Repent
 - Of our mistakes

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What is emotional intelligence

- Ability to perceive other's emotions
- Active listening skills
- Empathy towards others
- Ability to express your own emotions
- Ability to recognize your emotions
- Strong conflict resolution skills
- Self regulation skills



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Link between emotional intelligence and business ethics

- Unethical business decisions
 - Prioritize personal or organizational gains at the expense of others
- Emotionally intelligent individuals may create more altruistic, cooperative and helpful work environments due to being more attuned to their emotions and those of others
- Two terms to understand
 - OCBs: organizational citizenship behaviors
 - CWBs: counterproductive workplace behaviors
- *Emotional Intelligence and Business Ethics: Feeling Confident in Doing the Right Thing*, Carver and Woodley, Journal of Business Ethics, 2026

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Study basics and questions

- Participants given a series of ethical dilemmas to review and respond (such as whether to recall a product at a substantial cost to the company)
- Their EI was measured using a standard research tool
- What is the role of EI when individuals are confronted with complex ethical business dilemmas?
 - Does EI have a positive effect on ethical business decision making?
 - Is EI positively related to OCBs?
 - Is EI negatively related to CWBs?

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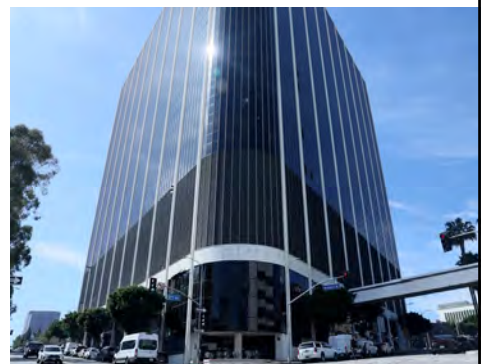
Results

- EI is indeed positively related to ethical decision making
 - Ability to recognize and relate their own emotions as well as ability to recognize the emotions of others contributes to ethical behaviors
- Emotionally intelligent individuals engage in social learning and thus develop social competence and situational awareness
- Self efficacy (confidence in your ability to act) is an important driver in ethical decision making and behaviors
- EI contributes strongly to reducing CWBs and somewhat to increasing OCBs

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Los Angeles Unified School District: Kickback Scheme

- Hong “Grace” Peng, 56, of Pasadena
- Responsibilities included awarding technology contracts
- Teamed up with outside vendor, Innive
- But failed to disclose her interest in this vendor
- Awarded multi-year contracts, spanning 2018 to 2022
 - My Integrated Student Information Student Information System



Source: www.latimes.com

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Charges this spring

- Peng charged with money laundering and having a financial interest in a contract made in her official capacity
- Gautham Sampath, a senior executive at Innive, charged with money laundering, having a financial interest in a contract made in an official capacity, and aiding and abetting a government official in a crime
- Both helped set up shell companies to disguise money transfers
- Questioned contracts with Innive exceed \$22 million
- Peng allegedly received \$3 million in kickbacks
- Peng was terminated in 2022; had been making \$166,000 a year

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How not to carry out a successful fraud

Source: MSN

- Fail to keep silent
 - One of the two coconspirators bragged about the scheme at a professional conference
 - An LAUSB employee overheard
- Memorialize details
 - Feb. 8, 2018 text from Sampath to Peng: “Delete all the whatsapp chats. If anyone sees the text about those internal things it will be a prb.”
 - Feb. 23, 2018 text from Peng to Sampath: “So I kicked out Procurement personnel before we gave the scores.”
 - Undated Peng text to Sampath. A district employee expressed “apprehensions” about so much money going to Innive. “You are so lucky...I am on the selection committee. ...It’s ‘cone of silence’...I broke all law for already lol.”



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Implications of emotional intelligence

- Pick one area at a time and find resources to help you grow
 - Ability to perceive other's emotions
 - Active listening skills
 - Empathy towards others
 - Ability to express your own emotions
 - Ability to recognize your emotions
 - Strong conflict resolution skills
 - Self regulation skills
- Find ways to encourage growth in others in team and other development opportunities at your place of work

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Perception of detection: Honesty box study

- Break room with drinks and snacks
 - Honor box – to pay for items chosen
- Researchers placed different posters in room each week

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Honesty Box Study

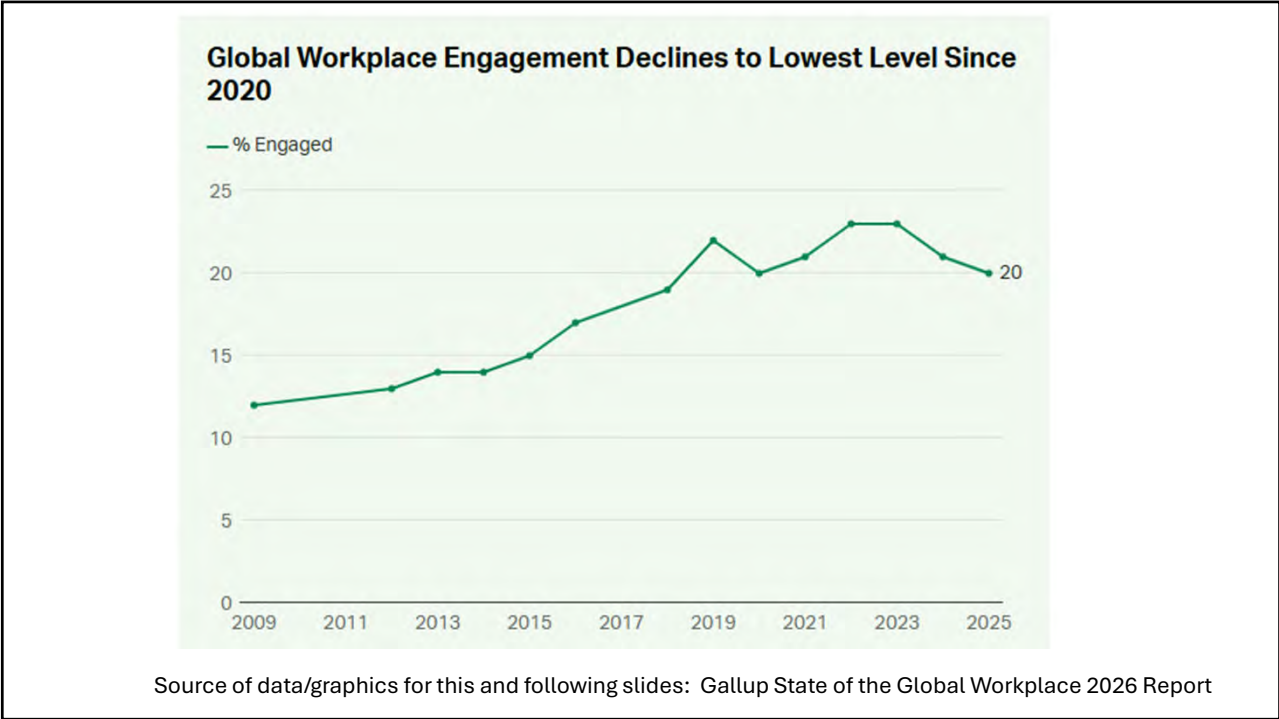


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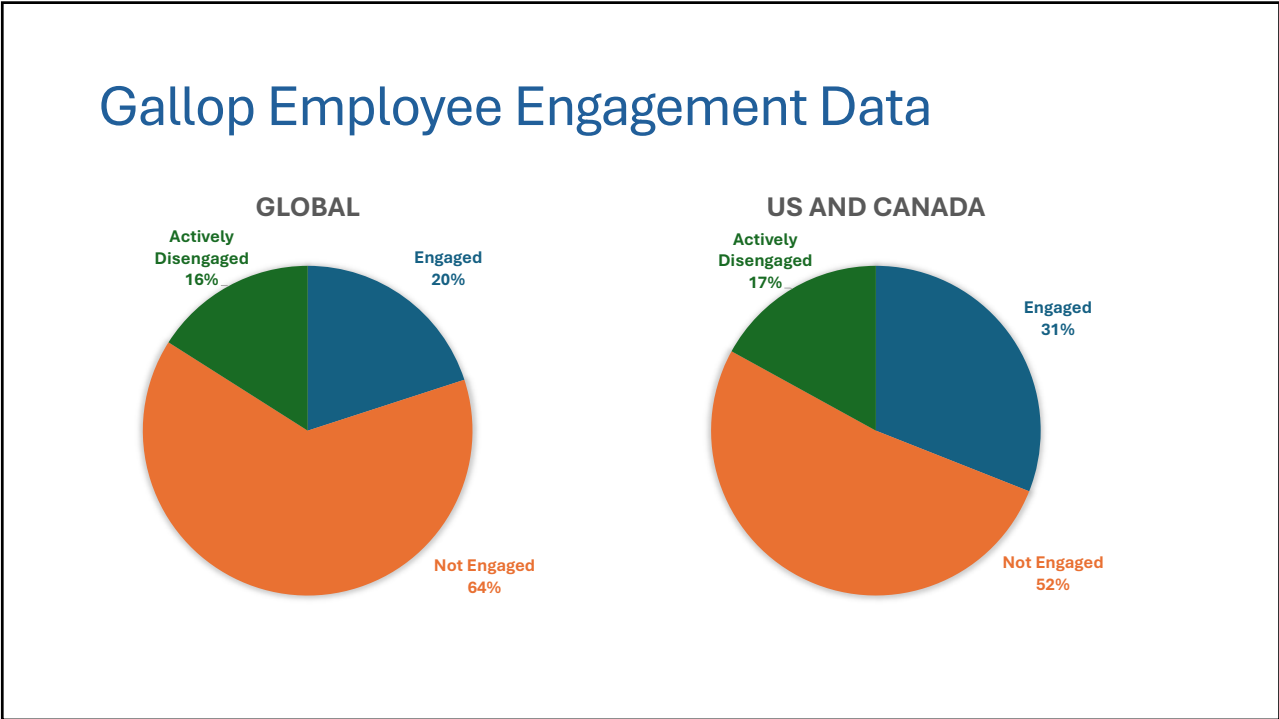
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Engagement in the workplace

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What contributes to wellbeing and workplace engagement?

- Employees enjoy their work
- Work is viewed as important – it improves the lives of others
- Employees feel they have choices in what they do

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Gallup Exceptional Workplace Award

- Given to companies whose culture is embedded and who foster employees' involvement in and enthusiasm for their work
 - Through each stage of the employee life cycle
- Winners have an average 70% engaged work force
 - And an average of 14 actively engaged workers to every 1 actively disengaged worker
 - 8 times the US rate
- Among the 2026 winners
 - Two companies have won the award 20 times
 - ABC Supply Co. Inc
 - Hendrick Health
 - Other notables
 - Stryker – 15-time winner
 - DTE Energy – 14-time winner

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ABC Supply Co. Inc

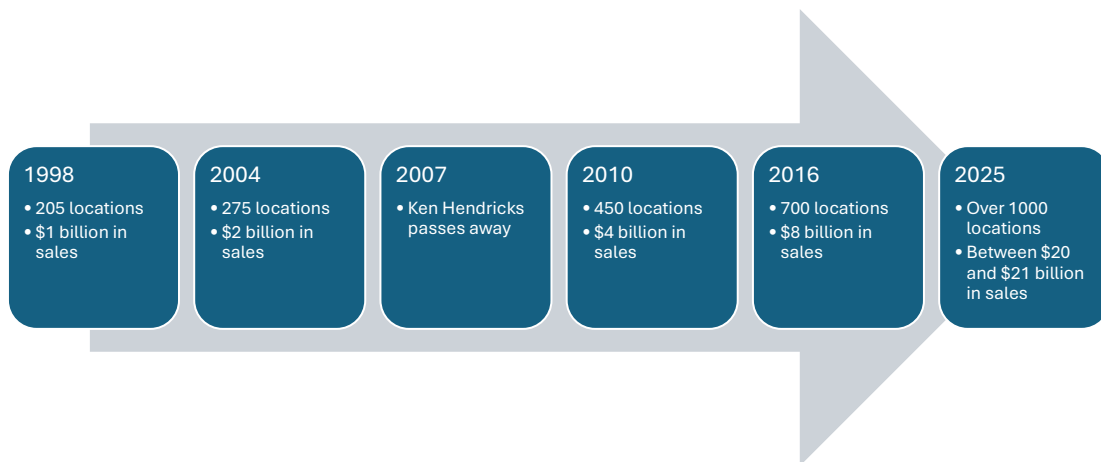
- Founded in 1982 by Ken and Diane Hendricks with three locations
 - Headquartered in Beloit, Wisconsin
- Philosophy
 - Put their contractor customers' needs before everything else
 - Be an "employee-first" company that treats its associates with respect and gives them the tools they need to succeed
- Goal: to be the best company to work for in America
- Diane Hendricks 'bet the farm' in 2009 with acquisition
 - Gave up 40% of the company stock
- Got the farm back



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Trajectory



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Hendrick Health

- Of the 80 award winners, only 9 healthcare organizations earned a Gallop Exceptional Workplace awards
- Founded in 1924 as a not-for-profit healthcare institution
- Started as West Texas Baptist Sanitarium
- Great Depression almost ended the hospital
 - Accepted chickens, goats and black-eyed peas as payment
- T.G. Hendrick, a rancher, paid off the mortgage in 1936 and funded a new wing
- Mission
 - To deliver high quality healthcare emphasizing excellence and compassion...
- Vision
 - To be the leading healthcare provider of choice, in our region and beyond, recognized for enhancing quality, expanding access and excelling in patient engagement

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Key Takeaways

- Understand the relevant rules
- Think about what went wrong at the ethical violations we discussed today
- Think about what is going right at your and other organizations
- Find an ethics mentor who can be your sounding board
 - Keeping in mind AICPA Code of Conduct confidentiality requirements
- Keep yourself and others out of situations where violations are more common

- “Stay true to your core values and never compromise on your principles” – Indra Nooyi, retired CEO of PepsiCo

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