**Case 1-4 Lone Star School District**

Jose and Emily work as auditors for the state of Texas. They have been assigned to the audit of the Lone Star School District. There have been some problems with audit documentation for the travel and entertainment reimbursement claims of the manager of the school district. The manager knows about the concerns of Jose and Emily, and he approaches them about the matter. The following conversation takes place:

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| **Manager:** | Listen, I’ve requested the documentation you asked for, but the hotel says it’s no longer in its system. |
| **Jose:** | Don’t you have the credit card receipt or credit card statement? |
| **Manager:** | I paid cash. |
| **Jose:** | What about a copy of the hotel bill? |
| **Manager:** | I threw it out. |
| **Emily:** | That’s a problem. We have to document all your travel and entertainment expenses for the city manager’s office. |
| **Manager:** | Well, I can’t produce documents that the hotel can’t find. What do you want me to do? |

**Questions**

1. **Assume that Jose and Emily are CPAs and members of the AICPA. What ethical standards in the Code of Professional Conduct should guide them in dealing with the manager’s inability to support travel and entertainment expenses?**

The auditors are doing an audit of travel and expense reimbursements. Most states are very explicit about what may be reimbursed, the type of receipt required and the maximum reimbursement by category. Most states will have a stated hotel rate and per diem rate that employees are entitled to be reimbursed up to the maximum amount. State auditors will test expense accounts to see if appropriate receipts were submitted. If an employee receives a reimbursement beyond the per diem amount, it may be considered theft by the state. The manager should expect to be asked to produce documents to support travel and expenses. He should provide documentation within a reasonable timeframe. The manager has a duty and obligation to be honest and trustworthy in his job as a state employee. His defensive posture may reflect consciousness of guilt, which is why direct contact is a better means of discussing such matters and not text messages or email exchanges.

Jose and Emily should be guided by the principles of integrity, objectivity and independence. They should act in a professional manner and not be accusatory. However, a healthy dose of skepticism in demanding documentation is an essential element of exercising due care. This case deals with an incident of occupational fraud and must be dealt with by the auditors.

Although this case did not mention it, materiality and relevancy could be called into play by the manager. The manager paid cash and did not keep a receipt. The fact that the hotel cannot help by producing a receipt may suggest a cover-up of some sort, in which materiality becomes mute.

1. **Using Josephson’s Six Pillars of Character as a guide, evaluate the statements and behavior of the manager.**

Trustworthiness, respect, responsibility, and fairness are the values in this case from the Six Pillars of Character. The manager should be honest, not deceive or steal. Both the manager and the state auditors should be treated with respect, use of good manners, do not threaten anyone and deal peacefully with anger and disagreements. Both should take responsibility for actions, be self-disciplined and accountable. Both can expect fairness since the state rules and policies are part of public record and may even be part of public law.

The manager is not acting as a credible manager. The manager’s statements make him seem defensive and guilty. Most important, the manager is acting in an untrustworthy manner that potentially compromises his position with the school district. He is quite naïve about the need for documentation to support his expenses and should know better as a manager. The auditors may be right to be suspicious of him paying cash for a hotel and for hiding which hotel he was staying.

* + 1. **Assume that Jose and Emily report to Sharon, the manager of the school district audit. Should they inform Sharon of their concerns? Why or why not?**

Yes, Jose and Emily should inform Sharon of their concerns. No supervisor likes surprises. Depending on their experience level it may be very appropriate that they look to Sharon for guidance on what to do next. Before they speak to Sharon or have a consultation with Sharon, it may be appropriate to expand the audit of the manager’s reimbursements or the audit of the district. Could the district accounting staff be as much at fault as the manager?

* + 1. **Assume that they don’t inform Sharon, but she finds out from another source. What would you do if you were in Sharon’s position?**

Sharon should wait for the results of the audit before deciding what to do even if she found out about the situation in another way. She can discuss that matter with Jose and Emily but Sharon needs to know all the facts before acting.

As the manager and, in some instance, a mentor to Jose and Emily, Sharon should temper any reaction by the experience level of Jose and Emily. However, Sharon should wonder if Jose and Emily understand the significance of the situation.

As for the manager, Sharon should consider writing a memo for the personnel file on the findings and Sharon should oversee travel expenses for a while to make it clear to the manger this is a serious matter. She may want to require additional staff training for all employees on how to submit expense reimbursements, ethical issues, and how it relates to the entity’s ethics policies, professional codes and expectations.