

# The Ethics of Fraud

**By: Kimberly F. Turner, CPA**

**Guest Columnist, Chief Audit Executive, Texas Tech University System**

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Fraud—an ugly word representing an ugly act. The Association of Certified Fraud Examiners defines fraud as an intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain. I think we can all agree that based on this definition, there is nothing ethical about fraud. Ethics does play a part, however, in each of the three elements present in every fraud: motivation, rationalization, and opportunity.

Motivation to commit fraud arises from many different situations. Fraud committed by individuals may stem from greed or from an addiction such as gambling, drugs, or alcohol. Other people commit fraud due to dissatisfaction with the job, the pay, or the recognition received. Examples include an individual embezzling funds from his employer to get what he "deserves," a manager overstating sales in her division in order to increase bonuses for herself and her employees, a public school underreporting student absences to maintain funding levels, or executives misstating a company's financial statements to maintain stock prices for investors or to avoid bankruptcy. These motivations are clearly unethical, but fraud often results from less ignoble circumstances—a sick family member, financial difficulties caused by death or divorce, even the unexpected loss of a job. Difficult circumstances such as these may cause people who consider themselves ethical to consider unethical actions.

Most everyone who chooses to commit fraud rationalizes the behavior. If the rationalization for fraud is to pay medical bills, save a family's house from foreclosure, or keep a company out of bankruptcy, does that bring some semblance of ethics to the act itself? Our society says no—the end does not justify the means. Does the answer change if it is not an individual who benefits but a group of people, such as children at the public school I mentioned earlier? If funding is cut, there may not be enough to buy the latest equipment, improve facilities, or pay salaries to get more experienced faculty members on staff. Arguably, having better teachers, facilities, and equipment benefits the students in the long run. The rationalization falls apart, however, with the realization that these benefits come at the expense of someone else. Funding for public schools originates with taxpayers and is based on a formula where overall funding is balanced among many schools. Therefore, excess funding to this school comes at the expense of other schools—and other students. Clearly, committing fraud with the rationalization that you are benefiting a deserving group of people still does not bring even a modicum of ethics to the act.

Once a motivated individual has rationalized the fraudulent act, all he needs is an opportunity to commit it. Since an organization cannot directly control situations that provide motivation nor impact a person's ability to rationalize the behavior, it is critical to limit opportunities for fraud within the organization. In fact, organizations have an ethical responsibility to implement systems that reduce the probability of fraud. In other words, we sometimes have to protect people from themselves. This ethical responsibility encompasses employees, but also protects consumers, shareholders, vendors, donors, and other stakeholders. When organizations have

strong systems that reduce the probability of fraud, they are demonstrating ethical organizational behavior.

Who can impact organizational behavior? You can. As a student, you can demonstrate academic integrity by refusing to cheat or let others use your work. As an employee, you can safeguard organizational assets by expending funds properly, ensuring assets are secured, and approving only those transactions that benefit the organization. While these may seem simple, they are all important steps in fraud prevention.

Why is fraud prevention so important? Certainly, it protects the assets of an organization, but by far the most important reason to prevent against fraud is to protect the lives of people. During my career, I have performed many fraud investigations. When people commit fraud, the ending is never a happy one. Fraud tragically affects not just the perpetrator, but everyone around the situation. Coworkers, supervisors, and family members feel betrayed and hurt. They are often left wondering how they will be able to trust people in the future. Fraud destroys lives.

We will all be faced with ethical dilemmas in our lives, including some of the very situations I have described. I hope you will remember that if you are dealing with a question of ethics, fraud is never the answer. I have rarely heard someone express regret for doing the right thing.