

Ethics: Real Life Application & Case Studies of the AICPA Code of Professional Conduct



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INTRODUCTIONS



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FIRM OVERVIEW

McKonly & Asbury is a team of CPAs and Business Advisors serving clients from our offices in Camp Hill, Lancaster, and Bloomsburg.

We provide **Advisory & Business Consulting, Audit & Assurance, Entrepreneurial Support & Client Accounting, Internal Audit, Professional Placement, Tax, and Technology** services to a variety of industries including:



Affordable Housing



Construction



Employee Benefit Plans



Family-Owned Business



Healthcare



Manufacturing & Distribution



Nonprofits



THEMES FOR TODAY'S CONVERSATION

1. AICPA Code of Professional Conduct
2. Case Studies
3. Joint Ethics Enforcement Program





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AICPA CODE OF PROFESSIONAL CONDUCT

AICPA CODE OF PROFESSIONAL CONDUCT

- Organized by Topic based on a Conceptual Framework approach
- 3 Parts:
 - Members in Public Practice
 - Members in Business
 - All other members (retired, unemployed)



AICPA CODE OF PROFESSIONAL CONDUCT

- Conceptual frameworks and related interpretations
- The code is organized intuitively
 - Separates guidance by line of business, then by topic
 - Where necessary, topics are broken into subtopics and sections



AICPA CODE OF PROFESSIONAL CONDUCT

■ Conceptual Frameworks

- Incorporate a “**Threats and Safeguards**” approach, designed to assist users in analyzing relationships and circumstances that the code does not specifically address
- Under this approach, users:
 - Identify threats to compliance with the rules
 - Evaluate the significance of those threats to determine if it is at an acceptable level
 - If not at an acceptable level, users apply safeguards to eliminate the threats or reduce them to an acceptable level



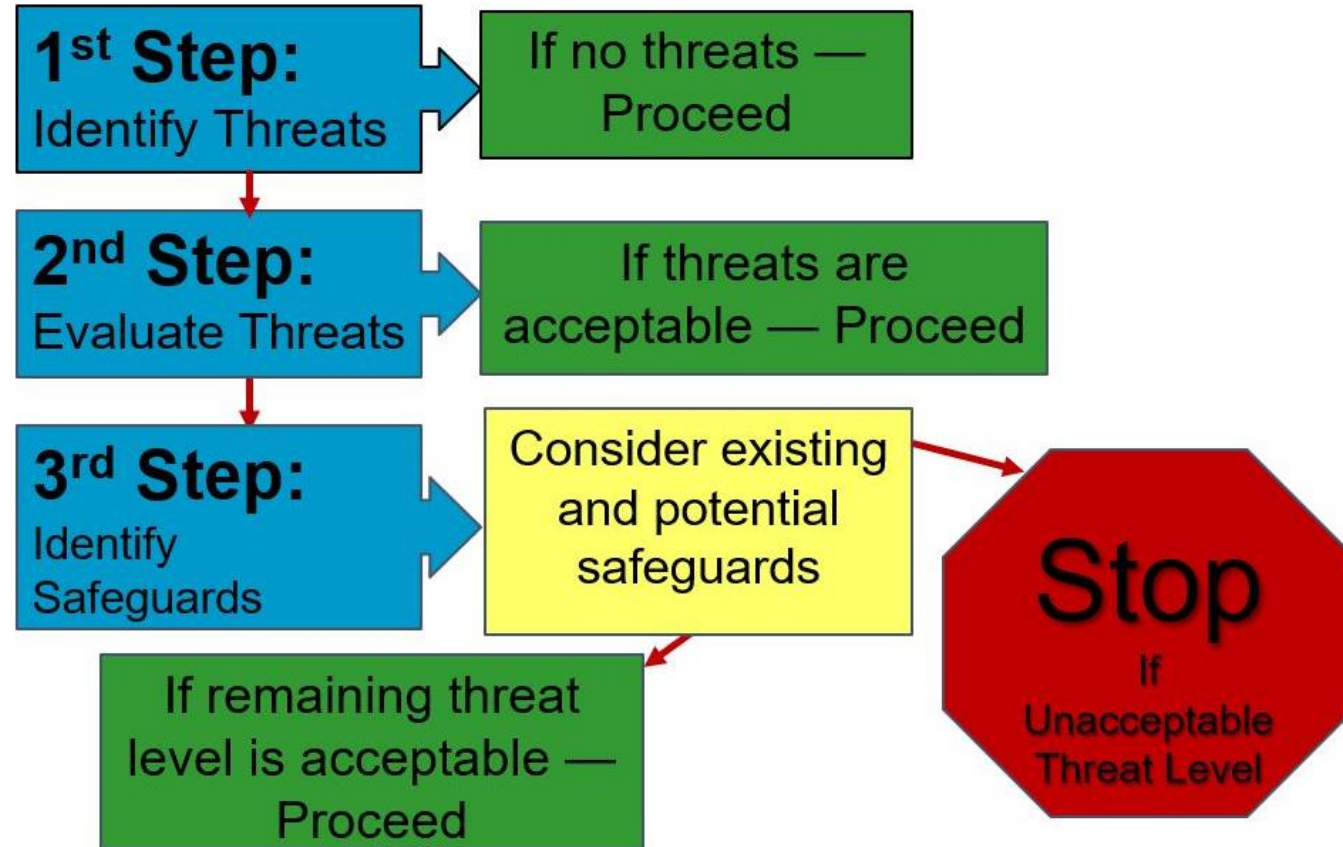
AICPA CODE OF PROFESSIONAL CONDUCT

The Code of Professional Conduct identifies 7 threats that could compromise a CPA's compliance with the AICPA code of professional conduct. These 7 categories should be considered in assessing the risk of noncompliance relative to a specific fact pattern.

1. Adverse Interest
2. Advocacy
3. Familiarity
4. Management Participation
5. Self-Interest
6. Self-Review
7. Undue Influence



CONCEPTUAL FRAMEWORK: THREATS AND SAFEGUARDS APPROACH



ET 1.000.010 Conceptual Framework for Members in Public Practice



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CASE STUDIES

CASE STUDY #1: ERC

Employee Retention Credits & Conflict of Interest

- Up to \$26,000 per employee! Just one headline.
- CFOs are getting up to 10 targeted emails a day. Phone calls, too.
- Promises of millions of dollars.
- Sound too good to be true? Many pitfalls, but you don't want to leave money on the table.
- IRS has warning signs of aggressive ERC marketing on their website.

“Aggressive promoters present wildly misleading claims about this credit. They can pocket handsome fees while leaving those claiming the credit at risk of having the claims denied or facing scenarios where they need to repay the credit,” said IRS commissioner Danny Werfel in a May 25, 2023, statement.

The Employee Retention Credit (ERC) – sometimes called the Employee Retention Tax Credit or ERTC – is a refundable tax credit for businesses and tax-exempt organizations that had employees and were affected during the COVID-19 pandemic.



CASE STUDY #2: PAYMENTS

A vendor contacts the accounts payable employee to update the payment information in the system. The contact information contains new bank account information. The accounts payable employee receives the information and questions whether this should be updated. The accounts payable employee would typically seek approval from the Controller; however, this role is currently vacant. The accounts payable employee has the access and ability to change the payment information.

1. Can an open position create a lack of controls and processes?
2. Should the accounts payable employee have the ability/access to change payment information? Would this be a conflict of interest?
3. Did the accounts payable employee call their contact at the vendor to verify the change is accurate?



CASE STUDY #3: REMOTE WORK

An employee working for you is often unable to be contacted during the workday. You may call or send emails and receive responses hours later. The work quality seems fine, but some deadlines have been pushed back and occasionally missed.

1. Does this even matter? The work is still mostly getting done.
2. Is the thought process different with a remote working environment?
3. What are the company policies and procedures in regard to this?
4. Does your company allow alternative work arrangements? Work from Home?



CASE STUDY #4: TECHNOLOGY

Employees are working from different remote locations with varying degrees of privacy. Employees are working the required hours and getting their tasks completed on time.

1. For the short term should there be concerns with working in public spaces?
2. Is working in public spaces with possible public view of confidential data any different than working at home with family members able to view the same data? Is there an issue either way? Does it depend on the industry the employee works in?
3. Are there clear recommendations and expectations presented to employees? Are remote employees any different?



CASE STUDY #5: APPROVALS

CEO Signing of Checks

- Office manager was submitting a list of potential checks with original invoices attached for approval for payment.
- CEO was then signing blank checks which were to match the invoice list in order to be more efficient (CEO traveled frequently).
- Office Manager printed and mailed checks. CEO ensured that total of checks mailed matched the approved invoice listing and reviewed the bank reconciliations.
- Office Manager was duplicate paying invoices! 1st payment fraud; 2nd payment real.
- **Loss of over \$6,000,000 over 5+ years.**



CASE STUDY #6: TIME REPORTING

Time Reporting

- I am taking off for a long weekend on Friday and Monday. I cannot wait.
- There is also a big deadline coming up and I have to get several things done.
- I end up working 50+ hours on Monday through Thursday of this week.
- There is no need to record any Paid Time Off for Friday or Monday since I have already worked more than enough hours.
- **Does it matter? What are my company's policies? Does my boss think this is acceptable? What about Human Resources? Am I acting ethically?**



JOINT ETHICS ENFORCEMENT PROGRAM

Joint program of AICPA and virtually all State Societies

- Created to simplify / streamline investigations of a member of multiple organizations
- Acknowledgement that most state code-of-ethics are very similar if not identical to AICPA Code – single investigation and hearing process
- Governed by standard JEEP Agreements signed by AICPA and States
- Process laid out by Professional Ethics Division JEEP MANUAL OF PROCEDURES



JOINT ETHICS ENFORCEMENT PROGRAM

Automatic Discipline

- A CPA will receive disciplinary action WITHOUT a hearing in certain cases
 - Conviction of a crime punishable by imprisonment for more than 1 year
 - Willful failure to file his or her individual income tax return
 - Filing of a false or fraudulent income tax return – for self OR client
 - Willful aiding in the preparation and presentation of a false or fraudulent income tax return



JOINT ETHICS ENFORCEMENT PROGRAM

2021 Annual Report of Disciplinary Activity

■ Total cases opened during period:	389
■ Total cases completed during period:	482
■ Expelled/Suspended	74
■ Admonished	66
■ Corrective Action Required	94
■ Dismissed / No Violation	57
■ No Further Action	98
■ Subsequent Monitoring Completed	26
■ Other	67



FINAL WORDS

Adhere to Ethics While Protecting Yourself

- Know your own weaknesses and desires. Refine them and/or compensate for them.
- Do not become a slave to professional standards. They are a tool, not a master.
- Be skeptical in ALL things.
- Communicate concerns; others may feel the same way.
- If uncertain, concentrate on present and future impacts. What is the real trade-off you are making?
- You can sell your services daily, your reputation only once.



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UPCOMING EVENTS

NOVEMBER 16 WEBINAR



Register Today!



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DECEMBER 14 WEBINAR



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