

Higher Degrees of an Ethical Dilemma

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INTRODUCTION

Matador Materials, a public company, became an industry leader in the United States supplying construction and heavy building materials and through numerous acquisitions. Matador followed a decentralized operating philosophy, which allowed facilities to operate as autonomous profit centers. Facility managers reported directly to the vice president of operations at the main corporate office and were given broad decision-making authority over facility expenditures with minimal, if any, oversight. If the facility was generating a profit, little attention was paid to the facility manager's decisions. Matador followed a "don't ask don't tell" philosophy, which allowed facility managers to do whatever necessary to achieve the company's financial objectives. Corporate executives realized their philosophy encouraged questionable business practices bordering on unethical—or worse, illegal—but rationalized their actions as being consistent with industry practices. Consistent with the company's code of ethics, a confidential ethics hotline was established for employees to report suspected unethical or illegal behavior. Within the company, it was common knowledge that calling the ethics hotline would not end well for the employee.

THE NEWBIE

After completing her accounting degree and passing the CMA® (Certified Management Accountant) examination, Teresa was excited about her first accounting job as the accounting manager at Matador Materials, the largest employer in her rural hometown of Hope, GA. Since graduating from high school, Teresa stayed in Hope to raise her now 10-year-old daughter. Teresa was the third generation from her family to work for Matador Materials but the first to work in the office. Her grandfather, father, and brother had loaded and unloaded building materials. On her first day, Teresa mused, "This is best accounting job in Hope. I am so blessed to work here and raise my daughter near family and friends."

THE DISCOVERY

In the past, the Hope facility consistently outperformed other facilities, with corporate executives hailing it and its facility manager Sam as models for others to emulate. All that changed a year ago, though, when a competitor opened a new facility in Hope. This resulted in dramatic decreases in sales and increases in costs, with the Hope facility reporting a loss for the first time ever. Executives who once praised the Hope facility now requested a complete review of the

facility's financial results. They charged Pat, the former Hope accounting manager who was recently promoted to divisional controller, with the task. As expected, Pat discovered a significant decrease in sales driven by lower selling prices and increased operational costs driven by inefficient operations. Pat was puzzled by the extraordinary increase in the facility's administration expenses. Pat knew Sam approved those expenditures with the source documents retained locally at Hope, so he asked Teresa to investigate.

THE INVESTIGATION

Teresa realized this investigation could jumpstart her career. While Teresa reported directly to Pat at the corporate office, she felt a deep sense of obligation to Sam at Hope. She reasoned, "If I do a good job at the Hope facility, when Pat retires in the next five years, I could become the next divisional controller."

Analyzing the details of the administration expenses, Teresa uncovered significant increases in overtime and tuition reimbursement costs in the general administration and human resources departments. Confident she had the necessary skills to uncover the root cause of the increase, her first stop was the payroll department.

"Good morning, Mary," Teresa said to her payroll clerk. "I need your help. Would you please pull last year's timecards for Sam's administrative assistant, Tia, and the switchboard operator, Tamara, and all of the human resource clerks?"

"No problem, Teresa. It might take me a little bit. Can I get them to you after lunch?"

"Sure. Mary, is there anything unique about these timecards?"

"Funny you should ask. These are the only departments in the entire facility that submit their timecards in Excel. All the other departments use the company's time system," Mary said.

"I suspect that was something Pat set up years ago for convenience. I will get him to clarify. Please make this a priority. This is my first major project for Pat and Sam," Teresa said.

Mary said, "Consider it done. We are excited to have you as part of our team."

From payroll, Teresa next visited with the accounts payable clerk to review the tuition reimbursement source documents. The company recently began offering tuition reimbursement (company-paid tuition) to encourage employees to further their education.

"Annette, I need your help. I am reviewing tuition reimbursement expenses for a project for Pat and Sam. Would you please pull the source documents supporting those expenditures?" Teresa asked.

"Sure, that is easy. Normally I file all of those together, so when the continuous improvement manager from corporate audits our files, I do not have to pull them for each university. Here you go."

"Thanks. One more question. Which departments take full advantage of the tuition reimbursement?"

"If memory serves, the general administration and human resource departments have over the last couple of years, but I am not 100% certain."

THE REVIEW

Teresa decided to review the tuition reimbursement source documents first. She discovered Annette was correct; the general administration and human resources departments used the benefit extensively. In the last year, Tia and Tamara were reimbursed \$20,000 each. Angel, the human resources manager, and Marty, the human resources clerk, received payments of \$35,000 combined. The invoices appeared to be from bona fide universities all approved by Sam. Although the dollars spent were abnormally high, the supporting source documents justified the expenses.

Turning her attention to the timecards, Teresa was not surprised to find that Tia, Tamara, and Marty were the only administrative employees who submitted their timecards in Excel. As with the tuition reimbursement source documents, everything was in order and approved by Sam or Angel. There was, however, something out of the ordinary about their time: all three reported 70 hours worked per week for more than a year. Teresa knew something was not right and decided to discuss her findings with Pat.

DISCUSSION WITH THE DIVISIONAL CONTROLLER

"Pat, sorry for calling so late. I just completed my analysis of the administration expenses. If you have a moment, I would like to discuss my findings," Teresa said hesitantly.

"What did you find?" Pat asked.

"The two drivers for the increased administration expenses are overtime and tuition reimbursement in the facility administration and human resources departments. In previous years, neither department had any significant overtime and no tuition reimbursement costs. For the current year, overtime pay is \$50,000 with tuition reimbursement of \$75,000."

Pat asked a little puzzled, “Did you review the source documents?”

“Absolutely. Sam approved all of the expenses. What I found a bit curious was that Tia, Tamara, and Marty used Excel to submit their time, which averaged 70 hours per week for more than a year. Coincidentally, besides Angel, they were the only employees to request tuition reimbursement.”

“Great. Thanks for your thorough analysis,” Pat said.

“It seems the overtime and tuition reimbursement costs are related. When you were at Hope, did you or Sam make any special accommodations for employees taking classes? I am curious if you approved overtime pay for employees taking online classes as long as they did their course work at the office,” Teresa suggested hopefully.

“Teresa, I did not make any such arrangement and am certain neither did Sam. I am confident Sam is in complete control of all of the expenditures at Hope. I hope you are not suggesting that Sam gave preferential treatment to the facility administration and human resource departments or, worse, committed some type of fraud. During my 10 years at the Hope facility, Sam would not tolerate anyone bending much less breaking the rules,” Pat commented, clearly agitated. “Your line of inquiry is unfounded. If you persist in pressing the issue, your tenure with our company may be short.”

DISCUSSION WITH THE FACILITY MANAGER

Teresa remained unsettled by Pat’s warning. Even though she reported directly to Pat, her loyalties were to her profession and to Sam and the management team at the Hope facility. She felt compelled to resolve the issue. Even though Sam and Pat shared a close working relationship and friendship for several years, Teresa could not help but wonder if Pat was protecting his former colleague or someone else at Hope. She had to know. Ignoring her boss’ warning, Teresa arranged a meeting with Sam.

“Sam, it surely has been a long couple of months. No matter what we do, it seems we cannot return to profitability,” Teresa said.

“It surely has,” Sam agreed. “We are most definitely feeling the pressure from our competition. Some of our most experienced workers resigned in favor of the competition, which has adversely affected our financial results. But that is old news to you. You asked for this meeting. What is up?”

“I am not certain if you are aware that Pat asked me to analyze our financial results for last year,” Teresa explained. “I found the obvious decreases in sales and increases in operating costs. One thing I discovered that I did not expect was a doubling of our administration costs year-over-year.”

“That’s incredible. I suspect the accounting department is the culprit. With Pat leaving, I would expect overtime costs increased during the transition,” Sam said.

“Surprisingly, the accounting department expenses are flat. The cost increases are actually in the facility administration and human resources departments,” Teresa interjected.

A little annoyed, Sam exclaimed, “That cannot be right. We have not hired anybody new in more than a year. In fact, we have been working to reduce our costs.”

“That is exactly what I thought. When I dug deeper, I found significant increases in tuition reimbursement and overtime costs. Tuition reimbursement costs are up because Tia and Tamara in your department, as well as Marty and Angel in human resources, started taking classes. For the past year, Tia, Tamara, and Marty worked an average of 70 hours per week. Here are the source documents for tuition reimbursement and their timecards all with your signature,” Teresa indicated as she handed the documentation to Sam.

“I knew they went back to school, but I was not aware of the overtime hours. I did approve their tuition reimbursement and time, so they must be correct,” a now agitated Sam said.

Teresa pressed, “Sam, are you sure? Are these really your signatures?”

“Yes. They are my signatures,” an almost furious Sam countered. “I approve ALL expenditures at this facility and do an excellent job of it. I do not appreciate what you are implying. If I were you, I would be careful about making any accusations. I have known these people for more than 10 years. We go to church together, and our kids play on the same soccer team. Teresa, you are out of line here. When Pat hired you over my objection, there were several more qualified candidates. You have only been at our facility for three months. If you are not careful, you might not make your fourth. I am in charge here. This conversation is over. Leave your source documents with me, and I will get the issue resolved. You are not to mention this again. Understood?”

Barely audible, Teresa answered, “Understood.”

CASE QUESTIONS

1. As a CMA, Teresa is governed by the IMA® (Institute of Management Accountants) Statement of Ethical Professional Practice. What are Teresa’s ethical responsibilities under IMA’s standards?
2. Describe how Teresa can follow the steps of ethical conduct resolution detailed in the IMA Statement.

3. Pat is also a CMA. Evaluate which of IMA's standards Pat may have violated. What are the repercussions of violating IMA's ethical standards?
4. Who are the stakeholders in the case?
5. Evaluate Teresa's potential responses to this ethical dilemma and the advantages and disadvantages of each.
6. If Teresa elects to escalate the situation, what safeguards are in place to protect her from repercussions in the workplace?
7. What did you learn from this case?
8. What factors would Teresa consider when deciding to become a whistleblower or investigate further?

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