

Chapter 2

Discussion Questions

1. Identify the stakeholders and how they were affected by Heene's actions?

The stakeholders in the “Balloon Ball Hoax” are the boy, Falcon Heene; the parents, Richard and Mayumi Heene; brothers, Bradford and Ryo Heene; Larimer County sheriff, Jim Alderman; Denver International Airport travelers and employees; National Guard unit; local police; search and rescue teams; media and news services; Colorado taxpayers; and the public.

The public through the media watched and worried about the fate of the boy in the balloon. Colorado taxpayers footed the bill for the \$50,000 costs of personnel time, equipment and other incidentals to track the balloon, search and rescue mission, and investigation of the hoax. Denver International Airport closed to avoid collision with the balloon. Travelers were delayed and flights rerouted or rescheduled. Airport employees had to remain calm and courteous as travelers became frustrated with delays, missed flight times, and rescheduling.

Local police, the National Guard unit, and search and rescue teams spent hours and used expensive equipment to track and hunt for the balloon and boy while Falcon was safe the whole time. Sheriff Jim Alderman had to conduct investigations under intense media scrutiny. At first, the media was incredulous that the parents were being questioned and investigated. Then Mr. Alderman was ridiculed for not detecting the hoax sooner.

Falcon Heene was used by his parents to pull off the hoax that he was on a hot air balloon that had escaped its tether. Falcon was expected to lie and help his parents with the hoax. His brothers, Bradford and Ryo, were also expected to lie and help the parents. Media attention was focused on all of the sons as the story played out. Falcon explained on CNN *Larry King Live* in response to a question from Wolf Blitzer that he was hiding and not responding to his name because of the show.

The parents, Richard and Mayumi Heene, used the hoax to create and garner attention so that they could get their own reality television show. Their actions were a result of egoism. The need for media attention was the utmost reason for the hoax, and the hoax was carried out without regard for anyone else or cost to the taxpayers. Richard Heene had called the media and Federal Aviation Administration (FAA) twice while the balloon was aloft.

The media and news services followed the story in detail. Journalism ethics and skepticism were forgotten in the thrill of chasing the story and being the first to report updates.

As a result of the hoax, Sheriff Jim Alderman considered charges against the Heenes for conspiracy, contributing to the delinquency of a minor, making a false report to authorities, and attempting to influence a public servant. Some of these charges are felonies and carry a maximum sentence of six years in prison.

Richard Heene pled guilty to the felony charge of attempting to influence a public servant and received four years' probation. He was prohibited from receiving any financial

benefit from the case during the period of the probation and received 90 days of jail time with 60 days being work release time. Richard pled to more severe felony charge so that his wife could be charged with misdemeanor, a lesser charge. She, thereby, could avoid deportation back to Japan. Mayumi pled guilty to false reporting to authorities. She was sentenced to 20 days in jail, which she can serve on weekends after her husband's release.

Sheriff Alderman sought and was awarded full restitution of approximately \$50,000 for the cost of investigating the hoax. The FAA sought and was awarded a fine of \$11,000.

Update on what happened to the family: in 2012, Mr. Heene helped support his family by becoming the Aluminum Man, the aluminum foil-covered superhero. He also had an invention called the "Heene Duty," a "truck transformer" for flat bed trucks that transforms into tool boxes, workstations and picnic tables as well as still trying to cash in on the reality TV craze with his 'Richard Heene: Psyence Detective' and an appearance on 'Wife Swap.'

2. What stage of moral reasoning is exhibited by Richard Heene's actions? Do you believe the punishment fit the crime? Why or why not?

Richard Heene was reasoning at stage 2 (satisfying one's own need) in the staging of the balloon hoax. In pleading guilty to a felony charge, Richard was reasoning at stage 3 in the sense that he was showing loyalty to his wife.

As you discuss the case, be sure to consider that students may have many different opinions about whether the punishment fits the crime. It is their ability to reason ethically that is most important.

3. How do you assess at what stage of moral development in Kohlberg's model you reason at in making decisions? Are you satisfied with that stage? Do you believe there are factors or forces preventing you from reasoning at a higher level? If so, what are they?

Students are usually at stage 2 two (pursuit of self-interests) or stage three (influenced by peers) in that they try to do what is expected of them by others. However, many students are at stage 4 because they respect the laws and believe they apply to all, including themselves. One goal of an accounting ethics class is to help students move into the post-conventional stage.

Some students will erroneously believe they are at higher levels of reasoning and explain it by saying that they choose their own ethical principles to follow rather than following the law. For this to be a correct position, the principle would have to apply to themselves and to others equally. If they do not like to pay sales taxes, do they skip all taxes? Do you they think others should skip the taxes they do? How is a fair determination made that considers the interests of all parties?

Also, ask students if they are consistently reasoning at the same level for all ethical dilemmas. Some students may have a family and may reason at a higher level on family dilemmas than those that occur at work.

4. Using the child abuse scandal at Penn State discussed in Chapter 1, explain the actions that would have been taken by Joe Paterno if he had been reasoning at each stage in Kohlberg's model and why.

Stage 1: Paterno would not tell anyone about Sandusky, if he could be sure that no one would ever find out, as it would keep others from being mad at him. However, once McQueary informed him about Sandusky, Paterno would tell his superiors to show his obedience to rules and avoidance of punishment. Stage 2: Paterno would want to satisfy his own needs and protect his football program. Thus, he would tell the athletic director but would avoid confronting Sandusky. Stage 3: Paterno would want to follow the rules and be fair to the best interest of others, and particularly, the interests and loyalty to Penn State. He would tell his superiors but follow their guidance on what is best for Penn State. He would not want to take an action that jeopardizes the football program. Stage 4: Paterno would want to comply with the morality of law and duty to social order. He would tell his superiors but would also report in accordance with the Clery Act. He might also inform child protective services. Stage 5: Paterno would weigh alternative courses of action by evaluating the benefits and harms to society. He might conclude that the harms to the young boy were greater than other harms, including the loss of reputation to Penn State. He might look for a way to help the boy while also protecting the reputation of Penn State and the football program. Stage 6: Paterno would consider all options from his personal ethical system to do the right thing. His action would be guided by universal ethical principles that would apply to others in a similar situation. He would look past self-interest and consider how Sandusky's actions affected so many children and

tarnished the reputation of the Penn State football program that is guided by ethical values.

5. Aristotle believed that there was a definite relationship between having practical wisdom (i.e., knowledge or understanding that enables one to do the right thing) and having moral virtue, but these were not the same thing. Explain why. How do these virtues interact in Rest's Four Component Model of Ethical Decision Making?

A person who has all the right moral virtues (i.e., courage, temperance, self-discipline, moderation, modesty, humility, generosity, friendliness, truthfulness, honesty, justice) knows what ends to pursue, but without practical wisdom, that person will not know how to set about pursuing the right ends. Aristotle believed that having one's heart in the right place is not good enough: being a good person requires a kind of practical wisdom as well as a good disposition. Or, as author John Bradshaw puts it in his book,

[Reclaiming Virtue](#): **Practical wisdom “is the ability to do the right thing, at the right time, for the right reason.”** A person who has practical wisdom but does not have the right moral virtues will be very effective in devising means to personal ends, but those ends might not be noble. The villain in a James Bond film might be seen as a portrait of a person with practical wisdom but no moral virtue.

For this reason, Aristotle believed that practical wisdom was the virtue that made all the other virtues possible. Without the correct application of practical wisdom, the other virtues would be too much or too little and turn into vices. Aristotle recognizes that what we truly and firmly believe influences our behavior. If we have really internalized the

practical wisdom and thought about the reasoning to support it, we will be more likely to exhibit moral virtue. According to Aristotle moral virtue comes as a result of habitually doing the right thing. One becomes virtuous just by habitually doing virtuous things (i.e., be fair-minded, honest, trustworthy) One becomes courageous by habitually doing courageous things (i.e., don't subordinate judgment).

Aristotle's moral virtues correlate with Rest's moral character while practical wisdom correlates with the moral sensitivity, moral judgment, and moral motivation in Rest's four-component model of ethical decision making.

6. In the text, we point out that Rest's model is not linear in nature. An individual who demonstrates adequacy in one component may not necessarily be adequate in another, and moral failure can occur when there is a deficiency in any one component. Give an example in accounting when ethical intent may not be sufficient to produce ethical behavior and explain why that is the case.

An example from accounting might be the public accounting firms' conflict of responsibilities to the public and to the client organizations. The audit fees are paid by the client organization rather than the general public. (There is an old German proverb which says "Whose bread I eat, his song I sing.") The general public including investors and creditors are the direct beneficiary of independent auditing services. The public interest often conflicts with the client interests over disclosures, transparency, and valuations in the balance sheet and income statement. It has often seemed as if the client interests

(being the ones who paid the fees) won the conflict in the corporate accounting scandals of the early 2000s and the subprime mortgage bubble of the 2007-2008 financial crises.

The ethical domain for accountants and auditors involves (1) the client organization that hires and pays for accounting services; (2) the accounting firm; (3) accounting profession; and (4) the general public. In the Enron case, Enron was paying more consulting fees to Andersen than audit fees. As one of the largest clients of Andersen's Houston office, if not entire firm, Enron expected Andersen to do the audit quickly and with minimal disruptions so that the consulting could continue to expand the business model, revenues and net income. Andersen wanted to continue as the largest accounting firm; this would only happen if the firm kept the high fees from Enron. The accounting profession, at the time, wanted more consulting engagements and was looking to rebrand the CPA as a "cognitor," a certified consultant. The public wanted Enron to continue to grow so that the stock prices would remain high. The conflicting interests all seemed to be suggesting that Enron should continue to grow and all would be happy. The biggest conflict was if Andersen should have been concerned about upholding the accounting profession's requirement to follow GAAP and to be independent. However, the lure of the large consulting fees encouraged Andersen to look the other way and to go along with Enron at the expense of the profession's reputation and the need of the public for reliable financial statements.

Another example from chapter 1 is the Betty Vinson situation at WorldCom. She knew it was wrong to "cook the books" but she did not act on those beliefs. She identified the moral issue but lacked the conviction to carry out her decision with moral courage.

Instead, she followed the orders from superiors and later justified her behavior by rationalizing it as a one-time act and demanded by people who knew accounting better than herself. Thus, Betty did not act on her ethical intent and did not display ethical behavior.

These are examples of ethical conflict in accounting. In some cases moral blindness may cause the accountant not to see the moral issue (ethical sensitivity) even though the decision maker has the ability to apply moral judgment and is of high moral character. For example, does an accountant realize that when her company overstates inventory that it may lead to fraudulent financial statements. Can she spot the ethical issues from the start or only after the damage has been done?

7. In teaching about moral development, instructors often point out the threefold nature of morality: It depends on emotional development (in the form of ability to feel guilt or shame), social development (manifested by the recognition of the group and the importance of moral behavior for the group's existence), and cognitive development (especially the ability to adopt another's perspective). How does this perspective of morality relate to ethical reasoning by accountants and auditors?

Accountants and auditors must have the proper emotional development in order to put others first and before self; the social development to recognize the importance of the public need for fair financial statements, and being able to follow a code of ethics and uphold the ethical values of the accounting profession; the cognitive development to be independent, objective and non-biased.

- 8. Some empirical research suggests that accountants and auditors may not achieve their higher levels of ethical reasoning. Why do you think this statement may be correct?**

Kohlberg was working on stage 6 at the time of his death and believed that this stage rarely occurred. Published studies during the 1990s indicate that CPAs reason primarily at stages 3 and 4. CPAs are influenced by relationships with peers, superiors, and clients (stage 3) and by the rules (stage 4). One hindrance to reaching stage 6 is that there are no universal accounting rules as the convergence to a single set of standards is showing. However, CPAs should be moved to reason at stage five and evaluate harms and benefits of actions on stakeholders; be far-minded and objective; and act in a virtuous manner.

- 9. Do you agree with Carol Gilligan's criticism of Kohlberg's model that women reason differently than men and rely more on a care-and-response orientation? Why or why not? Do you believe Kohlberg's model is culturally biased? Why or why not?**

Gilligan interviewed twenty-nine women from referrals of abortion and pregnancy-counseling centers and found different takes on the three level of moral development than Kohlberg. She found that in using Kohlberg's model that men typically think in formulas of peoples' rights, like a math problem. And in turn, women are more uncomfortable responding to ethical dilemmas. When looking at situation, men will ask of themselves what the "right" answer is. They will ask themselves the why, what, when questions. Women, on the other hand, will tend to solve an ethical dilemma without trying to hurt

anyone. Perhaps this is why “Men are from Mars and Women are from Venus.”

Ask your class how they felt about the ethical dilemmas presented in chapter 1 discussion questions 1 and 2. You might find some students are uncomfortable being asked to decide whether the runaway train is harming or killing five people or one. Some would prefer an option that does not kill anyone. Some students also prefer to discuss the dilemma as saving one versus five. This discomfort may not fall solely along gender differences.

10. Arthur Andersen LLP was the auditor for Enron, WorldCom, Waste Management and other companies that committed fraud. Andersen was forced to shut its doors forever after a U.S. Department of Justice lawsuit against the firm that it had obstructed justice and lied to the government in the Enron case. One thing Andersen had done was to shred documents related to its audit of Enron before the government could get its hands on them. Some in the profession thought the government had gone too far given the facts and mediating circumstances including top management’s deception; others believed the punishment was unjustified because most accounting firms got caught up in similar situations during the late 1990s and early 2000s (pre-Sarbanes-Oxley). What do you believe? Use ethical reasoning to support your answer.

At the time of Enron and Andersen scandal, most of the big accounting firms were making more off of consulting engagements rather than auditing engagements. (Urban legend has it that one accounting firm even paid \$10,000 to a company in order to obtain the company’s audit engagement, which was tied to a consulting engagement.) Auditing

engagements had become the loss leader for the firms. The large consulting engagements affected the independence of the audit in appearance, if not in fact. Using the utilitarianism approach, one could argue that keeping the client happy on an audit was in the greater good of the accounting firm, the client, shareholders, public, suppliers, employees, and the market. Using the Golden Rule approach, one could argue that in order for the accounting firms to be considered trusted advisers, they could not disapprove of every business of the client; all CPAs had to treat their clients in this way, at least prior to Sarbanes-Oxley. By becoming trusted advisers, the clients would then award more consulting contracts, and the firms would benefit. Using the deontology approach, the firms had a duty to protect the confidentiality of the client. Therefore, documents should be shredded and not turned over to the authorities. All these have a fallacy of confirming the consequences. In other words, the ends do not justify the means. There is no ethical justification to destroying documents to “save a client.”

11. In this chapter we discuss the role of Sherron Watkins in the Enron fraud.

Evaluate Watkins’ thought process and actions from the perspective of Kohlberg’s model. Do you think she went far enough in bringing her concerns out in the open? Why or why not?

Watkins identified the ethical issues in the Enron debacle. She was motivated to do the right thing by self-interest and possibly enlightened egoism; this implies that Watkins was at Kohlberg’s stage 2 (satisfying one’s own needs). It is hard to judge whether she was at stage 3 (fairness to others), since she did not mention the interest of stockholders,

employees, retirees of Enron, although her memo mentioned that Enron could implode from the business model and accounting cover-up.

In determining whether Watkins went far enough to bring her concerns out in the open is a bit like being a Monday morning quarterback. She did bring her concerns to the chair of the board. Should she have taken the concerns to the audit committee, independent member of the board, and/or the entire board? Should she have gone outside the company – to the SEC, or a news reporter? Was she waiting on a response from Lay? How much time was involved? Did she need time to sell her Enron stock before telling outsiders? Watkins has been a licensed Texas CPA since 1983; she may have felt constrained by the obligation of confidentiality. She tried to do the right thing perhaps for selfish reasons (i.e., concern about ever getting another job if Enron implodes). She did not carry through ethical thought with ethical action.

12. You are in charge of the checking account for a small business. One morning, your accounting supervisor enters your office and asks you for a check for \$150 for expenses that he tells you he incurred entertaining a client last night. He submits receipts from a restaurant and lounge. Later, your supervisor's girlfriend stops by to pick him up for lunch, and you overhear her telling the receptionist what a great time she had at dinner and dancing with your supervisor the night before. What would you do and why?

As employee you would want to find out what the accounting and reimbursement policies of the firm are. (If there are no policies, then policies need to be developed or possibly at least written down.) Many firms will have at least oral policies that reimbursements are

for business related activities. Unless the supervisor is the owner of the firm he would be expected to follow those policies also. The IRS would require a detailed receipt for business meals over \$75, if the tax return were audited, with the persons present and business reason or discussion at the meal. After lunch or the next day the accountant should ask his supervisor for that information. It may be possible that there was another couple with the supervisor and his girlfriend the previous night for the business meal. Once that information is acquired, you may want the owner to approve the expense or least made aware of the expense.

Using Kohlberg's model, the above steps would be reasoning at the conventional level and stages 3 and 4. The ethical theories would be using the deontology, justice, virtue and utilitarianism.

13. Do you believe that our beliefs trigger our actions, or do we act and then justify our actions by changing our beliefs? Explain.

A highly ethical person knows his values, principles and beliefs. Those values, principles and beliefs would then determine his actions in an ethical situation. A person who does not understand or fully know his values, principles and beliefs, might act in an ethical situation without thinking through the consequences other than from an egoistic view point. Later rationalizations may be used to reconcile actions to ethical beliefs. If this is a one-time event the person can learn from the experience, refine his values, principles and beliefs for future situations. However, a person who always justifies or rationalizes his actions has a flexible belief system or is lacking in the moral virtues. In effect justifications and rationalizations become the belief system of that person.

14. Do you think Betty Vinson was a victim of “moral blindness”? Why or why not?

Betty Vinson’s situation at WorldCom: she knew it was wrong to “cook the books” but she did not act on those beliefs. Instead, she followed the orders from superiors and later justified her behavior by rationalizing it as a one-time act and demanded by people who knew accounting better than herself. She was concerned for her job, understandably, but did not see the big picture that the WorldCom fraud was hurting many people (i.e., stockholders, employees) and she might have been able to stop it. Thus, Betty did not act on her ethical intent and did not display ethical behavior.

Moral blindness is used to describe someone who can't tell right from wrong, rather than just choosing to ignore doing "the right thing." Since Betty knew that it was wrong to “cook the books” she was not a victim of moral blindness. She was weak in not staying true to her ethical values; she may have felt pressured and did not have a choice except to go along. That is different from moral blindness.

15. In her case against the Defense Contract Audit Agency (DCAA) that resulted from actions against her for blowing the whistle on improper agency practices, Diem-Thi Le sought to provide DCAA documents to the Office of Special Counsel (OSC) to back up her claims of retaliation. DCAA provided Le with a memo that said she was “not permitted to access or copy or possess any Agency document for [her] private purposes, including

preparation of complaints in any forum,” according to the OSC report, which directly quoted the memo. DCAA Assistant General Counsel John Greenlee drafted the template of the August 31, 2007 memo, which bore the signature of Sharon Kawamoto, one of Le’s supervising auditors.

Le wanted clarification. Kawamoto told Greenlee in a September 7, 2007, email that Le wanted to know if she could “access documents related to audits cited in her performance appraisals in order to prepare complaints to OSC and the Equal Employment Opportunity Office,” states the OSC report. Le wanted copies of her performance appraisals and related emails. Greenlee responded that Le “may not distribute or disclose those documents to anyone else—period—without asking permission. That permission will not be granted her.”

Do you think Le should have been provided access to her performance appraisals and related emails, given that some aspects of this information contained work-related matters and client information? Does she have an “ethical right” to such information? What ethical limitations might have existed for Le with respect to using this information, assuming that she was a member of the Institute of Management Accountants (IMA)?

Le should have been provided access to her performance appraisals and related emails. As a federal agency there should have been a procedure for an employee to appeal performance appraisals. The appeal process includes access to those appraisals. Any work-related matters or client specific information could be redacted. The justice theory would support Le having this information. As an IMA member Le has a responsibility to

keep informational confidential and to report ethical issues within the organization up the organizational chain of command. Communication of the problems outside the organization (i.e., to the news media) is not considered appropriate unless there is a clear violation of the law. Le had the right to consult an attorney about her legal obligations and rights concerning the ethical conflict.

16. In this chapter, we discuss the study by Libby and Thorne of the association between auditors' virtue and professional judgment by asking members of the Canadian Institute of Chartered Accountants to rate the importance of a variety of virtues. The most important virtues identified were truthful, independent, objective, and having integrity. The authors note that the inclusion of these virtues in professional codes of conduct (such as the Principles of the AICPA Code of Professional Conduct) may account for their perceived importance. Explain how these virtues relate to an auditor's intention to make ethical decisions.

The virtues of independence and objectivity relate to the auditor being responsible to the accounting profession and the general public: the ethical domain of auditing. The virtues of honesty and integrity are part of the questioning mind, search for knowledge, and suspension of judgment of skepticism which enables an auditor to be objective and independent. The intention to make ethical decisions requires an auditor to deliberate on whether to employ honesty, integrity, independence and objectivity in his work. The action of this deliberation of virtues affects the intention and exercise of professional judgment.

17. Interpretation 102-4 of the AICPA Code of Professional Conduct that was discussed in Chapter 1 provides that a CPA should not knowingly misrepresent facts or subordinate her judgment when performing professional services. Explain how Rest's model of moral development influences the steps a CPA should take to avoid subordinating professional judgment.

Rest's model has four components (moral sensitivity, moral judgment, moral motivation, and moral character). A CPA requires moral sensitivity to know when his judgment is being pressured towards subordination to the client or other interests. The CPA needs to keep the interest of the public foremost in making judgments and remaining skeptical, be objective, and independent in the situation (moral judgment). He will then need moral motivation and moral character (courage) to resist the pressure to subordinate judgment. This may require that the CPA act as an internal or external whistleblower, as permitted by the profession's codes of ethics.

18. Explain what you think each of the following statements means in the context of moral development.

- a. How far are you willing to go to do the right thing?**
- b. How much are you willing to give up to do what you believe is right?**
- c. We may say we would do the right thing, but when it requires sacrifice, how much are we willing to give up?**

Each of the statements indicates that doing the right thing may not be easy or comfortable. It may require speaking up when it is easier and more comfortable to remain silent. The statements highlight why doing the right thing is not the common thing to see done. Moral development of character requires the courage to act on the right thing, not just the knowledge of right and wrong. Moral courage requires placing the interests of others ahead of one's own when ethical circumstances require. Both Cynthia Cooper and Diem-Thi Le are positive examples of placing ethics ahead of self-interest.

19. In a June 1997 paper published in the *Journal of Business Ethics*, Sharon Green and James Weber reported the results of a study of moral reasoning of accounting students prior to and after taking an auditing course. The study also compared the results between accounting and non-accounting students prior to the auditing course. The authors found that: (1) accounting students, after taking an auditing course which emphasized the AICPA Code, reasoned at higher levels than students who had not taken the course; (2) there were no differences in moral reasoning levels when accounting and non-accounting majors were compared prior to an auditing course; and (3) there was a significant relationship between the Seniors' levels of ethical development and the choice of an ethical versus unethical action. ³⁹

Comment on the results of this study.

The results of the study show that ethical training and emphasis can make a difference in behavior, level of ethical development and the knowledge of ethical versus unethical. The study does not indicate the duration of the ethical training or optimal intervals of when to

update the training. The discussion of the profession's codes of ethics keeps the expectations of the profession uppermost in one's mind. Even though discussion of ethics with students may lead to more ethical behavior, it still requires the moral conviction to act on what students might learn is the right thing to do as an accounting professional. It is this last crucial step that we should strive as educators to help students achieve in practice.

20. A major theme of this chapter is that our cognitive processes influence ethical decision making. Use the theme to comment on the following statement, which various religions claim as their own and has been attributed to Lao Tzu and some say the Dalai Lama:

**“Watch your thoughts; they become your words.
Watch your words; they become your actions.
Watch your actions; they become your habits.
Watch your habits; they become your character.
Watch your character; it becomes your destiny.”**

One's character reveals one's values and whether one has the courage to act on those values. Character traits include integrity, honesty, compassion, trustworthiness, loyalty, citizenship. A person shows his or her character by displaying these traits, which ones are important and which are not. The quote above shows the relationship between thoughts, words, actions, habit and character. One's character will determine whether one is virtuous or not, and thus, holds the key to one's destiny. As we said before, we are what we do not what we think of doing. We become virtuous by doing the right things and developing a strong character; one who knows right from wrong and acts on her values.

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