



the center for ethics

"The Best Way to Rob a Bank is to Work for One"
— Joke Punchline

WHITE COLLAR CRIME

by Robert Marley, Ph.D.

Although the above quote is a one-liner commonly delivered during stand-up comedy routines, we chuckle because it holds several truths. First: knowledge is power. By working for a bank, a would-be robber acquires knowledge not available to the public, giving him more opportunity to steal from the bank without holding it up at gunpoint. Second: society views white collar crime as non-violent,



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and therefore less threatening than violent crime. Our laws, police, and courts prioritize addressing violent crimes, dealing with white collar crimes more leniently. Perhaps unsurprisingly, white collar crime continues to increase, while violent crime has decreased by 30 percent since 1990. What can be done to stem the rising tide of white collar crime? An appropriate starting point seems to be understanding what motivates individuals to commit white collar crime, so that is precisely what this issue seeks to provide.

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RESEARCHERS FIND SECURITY LOOPHOLE FOR SQUARE E-PAYMENT APP

by Claudia Rodriguez

Most people have mobile payment applications on their smartphones these days. Mobile payment applications such as Venmo, Square, and PayPal offer easy and affordable e-payment solutions to small businesses, allowing customers to make payments with the click of a button. Square, a very popular mobile payment application, offers e-payment processing services for a small fee of 2.75% per transaction. You have probably seen Square in small shops, farmers' markets and salons. Square "readers" are easy-to-use payment facilitators that snap into the end of a smartphone and read a customer's credit card information, making Square very attractive to business owners who want to simplify their point of sale process.

However, letting someone else swipe your credit card from a tiny card reader on their smartphone may raise questions for you. Is the other person storing your credit card information? Can your credit card information be hacked? We've all read enough news to know that almost everything can be hacked, leaving



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individuals' personal information easily stolen. From Equifax to Target data breaches, the public has become aware that hackers can do pretty much anything from the other end of a computer terminal. Recently, during a Black Hat security conference researchers figured out a unique way to hack Square readers. Adam Laurie and Zac Franken, directors of Aperture Labs, created a code that let them feed magnetic stripe data from stolen credit cards into a microphone, converting it to a sound file. They then played that sound file—a series of beeps—into the Square reader via stereo cable. The researchers found these beeps permitted a Square user to perform electronic payments! What does this mean? It means that hackers could potentially use individuals credit cards without physically cloning them, knowing their PIN, or being physically present during a purchase. These researchers presented their findings to Square, but the company did not see this as a significant threat, stating instead that they have the necessary traffic analytics and

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other mechanisms to detect fraud. However, I sure feel like many big fraud stories started with one person trying to tell the world "Hey, there is a problem!" (Madoff anyone?).

We can hope that Square is correct and they indeed have the necessary tools to detect and prevent this type of fraud. In my opinion, prevention is the preferred option when it comes to fraud. Time will tell how this story plays out.

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Researchers Find Security Loophole for Square e-Payment App

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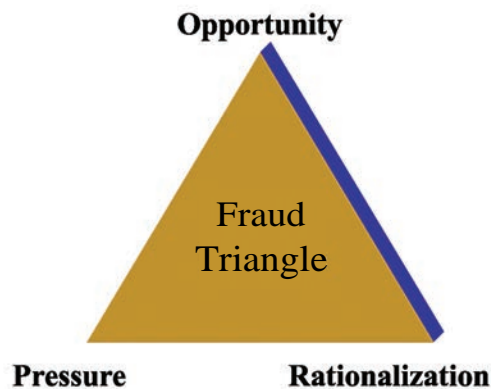
Congratulations to Rebecca White, Ph.D., who recently received the Women in Entrepreneurship Education Award and the 2017 Max J. Wortman Award from the U.S. Association for Small Business and Entrepreneurship (USASBE). The Wortman Award recognizes lifetime achievement encompassing the ideals of entrepreneurial activity — through new venturing, corporate venturing or social venturing. White is Director of the Lowth Entrepreneurship Center in The University of Tampa's Sykes College of Business, which was also awarded the National Model Program Award for undergraduate entrepreneurship programs by USASBE in 2016.

WHY DOES FRAUD OCCUR?

by Robert Marley, Ph.D.

Would it surprise you to know that criminologists were not really concerned with understanding the root causes of white collar crime until relatively recent times? The term white collar criminal was not even coined until 1939 when Edwin Sutherland, Ph.D., a professor at Indiana University, was the first to explore why corporations committed criminal acts. It is somewhat ironic, then, that his term is now used to describe non-violent financial crimes committed by individuals.

Sutherland died unexpectedly in 1950 before being able to answer the question "Why does white collar crime occur?" Fortunately, Sutherland's quest was continued by one of his students, Donald Cressey, whose research culminated in the publication of "Other People's Money" in 1954, which laid the foundation from which the fraud triangle emerged 20 years later. Still the primary tool used to understand fraud, the fraud triangle consists of three elements: Pressure, Opportunity, and Rationalization.



Pressure

Fraud begins with pressure. While interviewing white collar prison inmates ("fraudsters"), Cressey noticed a common pattern: all had a financial problem and believed that nobody else would help. In other words, they all had a non-sharable financial problem. Cressey also noted that it did not matter whether there were people who might help the fraudster (such as a mother, a father, siblings, spouse, or friends), it only mattered that the fraudster believed there was nobody he could turn to for help. While society might empathize with certain universal financial pressures (such as the need for money to buy food, medicine, or clothing), Cressey observed that financial pressures often went beyond the boundaries of societal acceptance — such as a fraudster who felt financial pressure to attain higher status. For example, even though many people may want to own a Ferrari, most people will not commit fraud

to do so. Cressey noted that financial pressure could lead an individual to commit fraud if it was intense enough. Thus, a non-shareable financial pressure is what causes individuals to start thinking about committing fraud.

Opportunity

While pressure provides the motive to commit fraud, it does not result in fraud unless an opportunity is also available. Cressey discovered that whenever fraud occurs, two components of opportunity are also present: (1) an individual is aware of a weakness that can be exploited, and (2) the individual is able to exploit the weakness. To illustrate, suppose that a customer becomes aware that cash received from daily sales remains in the cash register until it is deposited on Friday. Thus, although the customer is aware of a weakness, he cannot exploit the weakness unless he has access to the cash register. Thus, opportunity is the weakness that allows fraud to occur.

Rationalization

Rationalization is how a would-be fraudster justifies his behavior, enabling him to avoid viewing himself negatively. In other words, rationalization is what permits a fraudster to continue living a normal life. Common rationalizations include, "I am just borrowing the money, I will pay it back later," "This makes up for the raise I did not receive this year," and "I deserve this money because I am underpaid." As a result, it is important to note that rationalization is not a means of justifying a fraud that has already occurred, but part of the fraudster's motive for committing a crime. Thus, rationalization is how a person considering fraud convinces himself that committing the fraud would be justified.

Conclusion

In the opening remarks on the first page of this newsletter, I suggested that understanding the causes of white collar crime was an important starting place. Consequently, this article applied the fraud triangle to answer the question "Why does fraud occur?" Armed with the knowledge that fraud occurs when an individual has a non-sharable financial pressure, an awareness and ability to take advantage of an exploitable weakness, and a way to justify their behavior, you are now prepared to help your organization protect itself against fraud.

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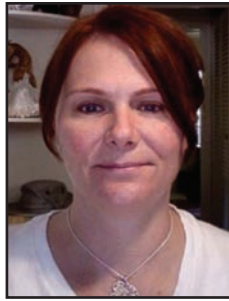
FACULTY IN THE SPOTLIGHT

by Robert Marley, Ph.D.

Melissa Walters is an accounting information systems professor at The University of Tampa. She teaches courses at both the undergraduate and graduate level, simultaneously maintaining her technical expertise while giving back to the community by serving as UT's academic advocate to the West Florida chapter of the Information Systems Audit & Control Association (ISACA). Given that information systems change so rapidly, I asked for her insight on the connection among ethics, information systems, and students.

Marley: Why is it important to include ethics into classes that teach students information systems concepts?

Walters: Teaching ethics is important because information systems change dynamics. When we use an information system, it serves as a buffer between those using the system (users) and those affected by the system. In other words, systems remove the person-to-person component, which disassociates us from the impact our actions have on others. As a



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consequence, systems change our behavior. They also make it harder for to consider the ethical implications of our behavior.

Marley: I see. So perhaps this explains why people can post surprisingly inappropriate or offensive content on social media... because they are disassociated from the effect that their post will have on others?

Walters: Right. Social media and other online content presents several unique problems. For example, the way content is presented on social media frequently leads people to forget about copyright issues.

Because content is so widely available and so immediately accessible, people often don't recognize the intellectual property issue. Most individuals would never steal a framed painting hanging in somebody's office, but many people will download and use artwork posted online without a second thought.

Marley: Unintentional white-collar crime?

Walters: Most people don't see it as crime. They don't consider how principles of ethical behavior apply to the use of information systems. In my opinion, a large part of the problem is that we tend to embrace new technology before we fully understand its implications. Ideally, we need to more carefully think about ethical behavior while using systems, which is why ethics should be incorporated into information systems classes.

Marley: How do you incorporate ethics in your accounting information systems classes?

Walters: Ethics is part of my world view, so it is integrated into the course material that I cover and the approach I use to deliver that material. For example, when we cover systems risk management, we discuss risk responsibility, or the user's responsibility to protect sensitive electronic data from unauthorized disclosure. I use an ethics-based activity that I call "online minute research." This entails unexpectedly stopping the class to ask everyone to spend 60 seconds researching a systems-based ethics topic using the internet. At the end of the minute, I ask students to lead the discussion by sharing what they have discovered.

Marley: Neat. By the way, the only time one of my professors ever stopped class was to hand out pop quizzes. What spurred your interest in ethics?

Walters: I acquired a greater appreciation for ethics by conducting research with a UT colleague, Teresa Pergola, Ph.D. While doing so, I volunteered to teach an ethics class. Teaching that class provided me with a deeper understanding of how to incorporate ethics in my information systems classes.

Marley: Thank you for this interview. You've given us some unique insights to reflect upon.

GLOBAL PERSPECTIVES ON CORRUPTION

by Daniel Verreault, Ph.D.

First, let's revisit definitions with a focus on global applications of both private and public sectors. White collar crime refers to financially motivated nonviolent crime committed by business and government professionals. Within criminology, it was first defined by sociologist Edwin Sutherland in 1939 as "a crime committed by a person of respectability and high social status in the course of his occupation." Transparency International defines corruption as "the abuse of entrusted power for private gain. This is the working definition used by Transparency International (TI), applying to both the public and private sectors." Based on these definitions, corruption encompasses both public and private sectors and focuses on the well to do and powerful subverting value for personal gain. Looking at the world map in the TI 2017 Corruption Perceptions Index, we see that reds and oranges dominate (higher corruption levels), with islands of yellows and golds (lower corruption levels). Both government and private



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Global Corruption Perceptions Index - 2017

corruption combine in creating a 21st century gulag of malevolence. TI scores and ranks countries on a corruption scale that underlies the world map.

Survey data from The Institute of Business Ethics "Surveys on Business Ethics — 2016 (IBE)" also calculated corruption scores for selected countries around the world. The IBE data was based on reported observations of bribery and corruption. IBE reported its data on a 0 to 100 scale where 0 indicates no corruption. We recoded the IBE country data to the TI scale where 100 is least corrupt to make a comparison. The figure to the right illustrates the comparative scores for the IBE selected countries.

The IBE scores are both higher (less corrupt) and less variable than TI scores. The median country score per IBE for the set was 84 vs. a median score of 52 for TI. Among the major differences in scores was Russia, Mexico, Brazil,

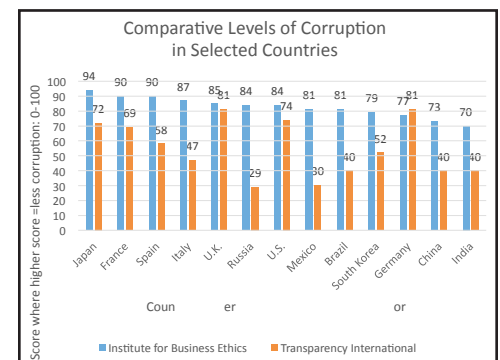
and Italy, which appear as far more corrupt in the TI report. We suggest that the data sets are driven by their measures, where IBE required a reported observation, and thus are not directly comparable. In our opinion, the TI methodology and scores seem to better capture the "true" levels of corruption and represent a better guide for models of governance and for capital allocation by companies.

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ETHICS IN THE NEWS

by Daniel Verreault, Ph.D.

Volkswagen continues to labor under the burden of its legal and ethical problems. What differentiates the VW case from most others is 1) the blatant level of deception, 2) the extension of corruption from the C-suite to the engineering function, 3) the extent of the theft from diesel customers world-wide who paid for “clean diesel” and received something else, 4) negative health effects in Europe, where diesel and population concentration are very high [1], and 5) decimation of an entire line of business. It is difficult to imagine a more pervasive betrayal of trust. Moreover, VW is still not offering its European customers the same financial incentives offered to U.S. customers. It is difficult to predict how the claims against VW will be settled. It is even more difficult to imagine when VW will regain the trust of consumers.

The Equifax case involves a failure of “due care” with respect to the maintenance of internal control systems in a known hostile

environment. Can there be any company not aware of the threat of cyberattack? Certainly, the guardian of critically sensitive data for most of the adult U.S. population should have been on constant alert. The company maintains a staff of almost 300 IT professionals. The now former CEO, Richard Smith, in testimony before congress, blamed a single employee for “forgetting” to install a software patch to plug a vulnerability in the Apache Struts System. [2] The patch was available to Equifax in March and the first hacking intrusion likely occurred on May 13. The internal guideline for installing patches is 48 hours, which would involve the following: installing the patch, closing the work order, and a patch effectiveness review by IT management. Unfortunately, a system-wide electronic sweep for system vulnerabilities indicated no threat, therefore proving to be ineffective. But was the patch-related vulnerability red-lighted by the system after 48 hours? The situation as currently depicted seems to suggest an internal control failure on the part of Equifax and its external auditor. Disclosing the hack almost five months after it occurred violates the company’s

code of ethics, which requires the company to “treat customers, consumers, and employees with respect and dignity.” [3]

Of course, Equifax is not alone. Yahoo, Target, multiple U.S. government entities, and Deloitte (among many others) have proved vulnerable to hackers. As a society we sue and punish those responsible when professional standards are not upheld. However, we have yet to determine whether society has the will and means to deal with cybercriminals—whether they be lone-wolf hackers, organized criminal enterprises, or state-sponsored actors. If we can conclude anything, it is that our IT systems are often vulnerable, and that those who illegally seek out those vulnerabilities are always on the prowl.

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[1] <https://www.sciencedaily.com/releases/2017/09/170918093337.htm> accessed on October 18, 2017.

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[3] http://m.equifax.com/about_equifax/governance/code_of_ethics/en_us accessed on 10/18/17.

Thoughts on Stock Price Reaction to Scandals

Here are two, five-year charts of VW and Wells Fargo American Depository Receipts (ADR), both suffering from severe scandals. On the left is Volkswagen ADRs, and on the right is Wells Fargo. VW is struggling to bounce back. Wells Fargo has mostly recovered, even though much of the recovery is recent, based on relatively good results and governance changes. For VW, business disruption and legal liability is greater than for Wells Fargo. A whole dominant line of business, clean diesel, is defunct. VW’s deception has extended further than that of Wells Fargo geographically, even including claims of 5,000 early deaths in Europe from “dieselgate.” The market is assessing the comparative penalties on future cash flows rather than making an ethical assessment. In this case, we think that the market has the cash flow penalties correct. Entirely by coincidence we think that, although both were serious violations of trust, the ethics transgressions rank in the same order.



ENRON AND ANDY FASTOW OUR PERSPECTIVE

by Alaina Butler and Duncan McGarry



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Boom and bust. Enron flourished and inspired many Americans leading up to the year 2000, and then plummeted once the nation discovered the truth behind the company's "success." Three leaders of the company — Kenneth Lay, Jeffrey Skilling, and Andrew Fastow — released financial statements that created the appearance of a financially successful, innovative company. These misleading statements were approved by Enron's own accounting department and by its independent auditor. The actions of these three executives lead to the largest corporate accounting scandal in America.

On Monday, Oct. 16, 2017, over 400 UT faculty, students and alumni had the opportunity to meet Andrew Fastow, the only Enron executive who has admitted doing wrong, and hear his

side of the story. As business students, it was a great experience listening to him. We, as a collective group of individuals, have the ability to ensure the business world functions without corruption and fraud, with ethics and morals. As we listened to Fastow speak, we saw the world through his eyes. Although he now admits doing wrong and feeling great remorse for harming so many individuals and families, he admitted that at the time of his arrest he did not believe he had broken any rules. Today, Fastow admits that while he may have technically followed the rules of the time, his actions were unethical because they violated the principles upon which the rules were based.

Fastow's perspective was explained through a discussion of loopholes. At Enron, he found loopholes in the rules, being proud of his creativity at the time. He helped to create the illusion of billions of dollars in profits for Enron, but his motives were corrupt. Thus, instead of breaking the rules outright, he subverted the spirit of the rules to avoid their intent. Fastow stated that there will always be a gray area in any business decision, between what is technically allowed and what is right. He stated that he lacked the moral compass required to make the right decisions. We came away believing that Fastow regretted his unethical actions. When asked by a student what he would do today if he were a CFO again, Fastow said that he fears the corporate world because he is afraid to go near the gray area again.

We believe his outreach in speaking to students like us, without receiving any financial compensation for doing so, is his way of helping atone for his negative actions. Businesses operate every day in the gray area, making it each individual's responsibility to make the ethical choice; therefore, at any moment an executive can choose poorly, beginning the spiral to fraud. Fastow helped us see just how thin this line can be in business; explaining how he crossed that line helped us to understand what we can do to prevent making unethical decisions.

Fastow's presentation brought the UT community together for a unique experience, giving us the opportunity to hear the Enron story from the perspective of somebody at its core. If put in a position similar to Fastow's, would today's business students behave similarly? Those who attended his presentation likely have a better understanding of right and wrong and how the gray zone can lead to unethical choices. Thus, our moral compass was strengthened due to this event. With our ethical awareness heightened, we are in a better position to learn the rules of accounting, keeping in mind the principles of right and wrong. Having gained new perspectives from Fastow's presentation, we hope that UT graduates will work towards improving business ethics, perhaps even ensuring that harmful scandals like Enron never occur again.

TAMPA BAY ETHICS AWARD

by Jessica Luce

Lorna Taylor, president and CEO of Premier Eye Care, received the 27th annual ethics award on Friday, Oct. 6, 2017, at a breakfast ceremony at UT before her friends, supporters and Premier Eye Care employees.

Taylor is an accomplished leader, both in directing fast-growing Premier and in making an impact in the community. Premier, ranked as one of "Florida's Best Companies to Work For" for six consecutive years, has also ranked as one of the state's fastest-growing companies two of the past three years by the *Florida Business Journals*.

As a past chair of The Spring of Tampa Bay, Taylor was honored with the organization's Angel Award, and was named a Woman of Distinction by the Girl Scouts of West Central Florida in 2013. In 2014, she received the Light of Sight Award from the Lion's Eye Institute Foundation, and the Jan Roberts Sustainability Leadership



Jessica Luce
Associate Editor



Award recipient Lorna Taylor (third from left), stands alongside Dr. Dan Verreault, Dr. Robert Marley, First lady Renée Vaughn, President Ronald Vaughn and Dean Frank Ghannadian

Award from the Sustany Foundation and Center for Ethics. *The Business Observer* named her as one of its 2015 top entrepreneurs of the year, and she was recently named as a Florida finalist in the prestigious EY (formerly Ernst & Young) Entrepreneur of the Year 2017 Award.

Personally, Taylor is involved in a wide variety of community and charitable causes. Taylor serves on the Board of Trustees for The Dalí Museum, and on the Moffitt Medical

Directors (MMD) Board, Preserve Vision Florida, Florida Coalition Against Domestic Violence Foundation, Arts Conservatory for Teens and Tampa Bay Businesses for Culture and the Arts. She also serves on UT's Board of Trustees. Taylor is a graduate of Princeton Theological Seminary and earned a master's degree in divinity, concentrating in social ethics. For more information go to www.ut.edu/TampaBayEthicsAward.

SUSTAINABLE BUSINESS AWARDS

by Jessica Luce

On June 7, 2017, the UT Center for Ethics, with its community partner the Sustany Foundation, hosted the 9th Annual Sustainable Business Awards luncheon. Seven businesses were honored for their contributions to building successful companies that positively impact the community. The businesses were recognized for their contributions in building a sustainable economy in Tampa Bay, while embracing the "triple bottom line" — advancing the interests of people, planet and profit through innovative practices, products and services. The 2017 winners include Suncoast Federal Credit Union (NFP), Doubletree, INETICO, Jones Potato Farm, Safer Home Services, Atelier Architecture and Kenyon Energy. AACSB International, The Association to Advance Collegiate Schools of Business, was awarded the Jan Roberts Leadership Award. For more information go to www.ut.edu/centerforethics/sustainablebusinessawards.



Winners of the 2017 Sustainable Business Awards

ETHICS SPEAKER SERIES

by Jessica Luce

Fall Ethics Speaker Series: "Rules versus Principles." See review, page 5.

Fall Ethics Hot Seat Series: "Ethics from the Outside In and Inside Out." On Wednesday, Nov. 8, Earnest Broughton, senior advisor for the Ethics and Compliance Initiative, was on the hot seat. He brought a sold-out crowd on an interactive journey that explored the emerging science behind why we act the way we do, especially when our behavior runs contrary to the values we hold dearest, and what we can do about it.

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