

SYLLABUS
BGS 381L – ETHICS - SPRING 2012
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1. Course Objectives

This course will examine the appropriate roles of business in society, the roles of government in encouraging/requiring ethical behavior, and the ethical responsibilities of employees at work and citizens in their private lives.

A significant part of the course will focus on the professional ethical requirements of CPAs. We will examine requirements of the AICPA's Code of Professional Conduct, the SEC, the Department of Labor, the common law, and other relevant laws, principles, and rules.

LEB 323 or the equivalent is a prerequisite for this course.

2. Typical class meetings

First half of each class: Except for one or two introductory lectures, about half of each meeting will consist of interactive discussions on general ethical topics. Ethics is not a topic that can be easily taught in a "lecture-only" format. It is usually best covered by an exchange of viewpoints.

Second half of each class: For the other half of most meetings, I will lecture on the professional ethical requirements of accountants.

3. Grade Distribution and Grade Components

I will give a final grade distribution as listed below:

A 25%
A- 25%
B+ 25%
B 15-20%
<B 5-10%*

*If your average is 1-3 points below the lowest B, your grade will be a B-. 4-7 points below the lowest B will be a C+, 8-10 points below a C, etc.

The components of the final grade will be as follows:

Exam 1: 20%
Exam 2: 20%
Attendance/Class Participation: 20%
Journal: 40%

4. Details on Grade Components

Exam 1: Friday, January 20, in class. This will be a multiple-choice exam with a one hour time limit. The questions will be related to the accountant-specific lectures.

Exam 2: Wednesday, February 8, in class. This will be another multiple-choice exam with a one hour time limit. The questions will again be related to the accountant-specific lectures. This exam will not be cumulative.

Attendance and class participation: Your “baseline” score in this category will be 75. It can be adjusted up or down in the following ways:

- a. If you miss more than a few classes, and do not have a good reason for doing so, I will subtract points.
- b. If you participate regularly in class discussions, I will add points.

Journal: About once per week, I will distribute a handout at the end of class with an ethical dilemma for you to analyze. There will be a total of about 12 questions during the semester, and three of the journal entries will be collaborative efforts done during class time. Your responses will be due on February 8.

My expectations for “A” journals will be as follows:

- a. Length. I will be looking for an average of at least one page (handwritten or typed, double spaced with normal margins) per question. You may write more if you wish. So, you may mix long and short responses, but I’ll want a minimum total of one page per question.
- b. Content. I will be looking for your well-reasoned opinion, and not for any particular answer. Developed and thoughtful responses that are dense with reasoning based on the assigned readings and class discussions will score well.

5. Textbook and reading assignments

Text: Applied Business Ethics by Dean A. Bredeson

At the end of most lectures, there will be a reading assignment that will be covered in the next class. Many assignments will come from the text, and there will also be Internet assignments and/or in-class handouts from time to time.

6. Scholastic dishonesty

Any scholastic dishonesty related to the exams or to the journal assignments will result in an “F” in the course and a referral to the Dean of Students for further discipline. See the UT Honor Code at <http://registrar.utexas.edu/catalogs/gi09-10/ch01/index.html>

The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the Services for Students with Disabilities at <http://www.utexas.edu/diversity/ddce/ssd>

By UT policy, I must be notified 14 days in advance of an absence for observance of a religious holy day.

7. Schedule of Topics

McCombs School of Business, University of Texas

Course: LEB 380.1 Business Ethics for Accountants

Instructor: Dean Bredeson

Required materials

1. Text: Tom Beauchamp and Norman Bowie, editors, *Ethical Theory and Business* (Pearson, 2006)

Day-by-day schedule

Class Day 1

After a brief “nuts and bolts” time of distributing the syllabus, introducing myself, and outlining course grading and expectations, we will begin an introductory lecture. There will be less discussion than usual during this first meeting, and I will primarily focus on a series of (mostly) high-profile wrongdoing by accountants and executives in recent years. In each case, we will isolate a single action that could have greatly limited the harm to shareholders, fellow employees, etc.

Day 2

We will look at the AICPA code of conduct in general, and the roles of the SEC and PCAOB, and then move on to the first specific topic: Independence rules for auditors. As will be typical for the professional responsibility portions of each lecture, we will first look at the rules themselves and then at a series of examples both real-world and hypothetical to more precisely draw lines between acceptable and unacceptable practices. Specifically, on this day 2 we will look at direct financial interests and indirect material financial interests.

During the second part of class, we will look at the legal system for two reasons. First, general ethics often begin where the legal system ends, and I want to give an overview of key legal doctrines. Second, in some of our cases, politicians are pressured (sometimes even with results) to “make the law more ethical”.

Day 3

During the first part of class, we will spend a second day looking at financial interests, focusing in particular on unpaid fees, gifts to auditors, and taking out personal loans. We will also look at newer rules for auditor compensation, auditor rotation, and disclosures to audit committees under the Sarbanes-Oxley Act.

Then, we will shift to general ethics, and look at consumer response to bad corporate behavior. From the Exxon *Valdez* spill to cars with design defects to local restaurants that fail health department inspections, we will look at short-, medium-, and long-term effects of bad publicity.

Day 4

Our series of independence discussions will now shift to rules for immediate family members, rules for audit client employees going to work for an audit firm and for accounting firm employees going to work for an audit client, and SEC rules on providing consulting services to audit clients.

During the second half, we will have a first discussion on utilitarian thought. “Doing the greatest good for the greatest number” is an intuitively pleasing way to make difficult decisions, and is almost a mathematical way to approach dilemmas. But, in complex decisions, the key problem often lies in assigning an appropriate weight to employees and groups with competing interests. We will introduce the shareholder and stakeholder interest models, and look at the classic case Ford v. Dodge.

Day 5

In this next-to-last independence lecture, we will look at the effects that litigation, threatened litigation, and indemnification clauses (both general and covering only intentional misrepresentations by clients) have on auditor independence.

We will also follow up (with discussions of cases) the shareholder and stakeholder models, including problems with focusing exclusively on one or the other, and problems with always following the majority’s will.

Day 6

We will finish independence today by looking at special rules that apply to those conducting government audits and to those conducting audits of employee benefits plans. We will also look at rules for “complex” business structures, in which auditors or audit clients hold potential influence over each other through other “third party” firms.

We will then look at the difference between act utility (outcomes are most important) and rule utility (following established rules is most important) and discuss whether pure motives or higher returns are most important in a different circumstances. We will discuss whether the rules change if there are threats to health and physical safety involved.

Day 7

Today, we will examine rules related to keeping client information confidential, and the reasons for a lack of an attorney-client style privilege. We will look at examples of clients authorizing the release of information, situations in which such release is required, and general requirements for protecting information.

In the second half, we will look at assigning blame vs. fixing underlying problems when things go wrong. Often, when there is professional negligence, an injured customer, or the like, companies search quickly for a “fall guy” in an attempt to deflect lawsuits and bad publicity. We will look at companies who instead spent more time and money and fixed their underlying problems.

Day 8

We will continue our professional responsibility discussions with a look at contingent fees and commissions for referrals and where to find current updates on state standards that may be more strict than the general rules. We will also look at acts discreditable, and the difference between merely foolish personal behavior, and career-threatening foolish personal behavior.

In segment #2, we will discuss a specific proposal that has generated at least some interest in Congress: making self-reporting of problems (to industry boards and the like) generally inadmissible evidence in civil lawsuits. Sometimes, companies try to “bury” mishaps, and fear that any written records will end up in court. But, companies could often benefit from sharing information on common problems and using the experiences of others to design safer systems. We will especially focus on medical mishaps in our discussion.

Day 9

Today, we will focus on advertising and solicitation rules, and watch video clips of several TV ads put out by local attorneys and others, to evaluate whether the messages they contain would be appropriate for CPAs. We will do the same with a series of print and radio ads. We will also cover rules for firm names, and rules for former partners.

Then, we will discuss the extent to which the government can fix various problems through regulation. We will then evaluate whether industry self-regulation would be preferable in various circumstances, and how to cure the problem of “free-riders” when changes are not mandated by law.

Day 10

In day 10, we will look at ethical rules for tax professionals, beginning with an overview of the AICPA’s Statements on Standards for Tax Services. We will compare the “realistic possibility” standard to common evidentiary standards (preponderance, beyond a reasonable doubt, clear and convincing, etc.). We will also examine duties when mistakes are discovered, and responsibilities for returning a client’s records.

Then, as a follow up to our look at government regulation vs. industry self-regulation, we will look at the Federal Sentencing Guidelines. We will examine sentencing before the Guidelines took effect, and debate whether they are a step in the right direction.

Day 11

We will have one more day on rules for tax professionals today. We will look at definitions for “tax return preparer”, civil penalties for understating tax liability negligently and intentionally, civil penalties for improperly disclosing client information, and criminal penalties imposed by the Internal Revenue Code for various attempts to defeat and evade taxes.

We will then discuss allocating risk. When injuries and losses occur, the strict liability system often says, “let the person/company with the greatest ability to pay do so.” Intuitive fairness would more often say, “Let the person/company most at fault pay.” We will debate these two positions.

Day 12

Midterm

Day 13

We will cover professional rules for consulting services. In particular, we will examine recent changes both implemented and proposed. We will look at specific provisions of the SSCS, and illustrative examples related to due care, competence, and adequate planning. We will also take a look at malpractice liability.

Then, we will spend a second day looking at risk allocation, and talk about fairness in the insurance industry. Regulations that require coverage of people that pose higher risks are numerous (especially with health insurance), and other times insurers have a more-or-less free hand in raising rates or refusing coverage altogether (as, more commonly, with auto insurance). We will discuss fairness to individuals, and to other policyholders who are currently healthy, safe drivers, etc.

Day 14

We will start today's class with a look at ethical guidelines for management accounting and for financial planning. Specific topics will include the Institute of Management Accounting's rules, FICA withholding IRS rules, and ERISA rules.

Then, we will have the first of three days on employment and discrimination law. I will give a lecture-based overview of the Civil Rights Act, the Americans with Disabilities Act, and the Age Discrimination in Employment Act. We will also look at state statutes and local ordinances that go beyond the major federal statutes.

Day 15

We will have a bit from day 14 to finish, including a survey of the Investment Advisers Act of 1940 and broker liability under SEC rules. Then, we will have an overview of common law liability for torts and breaches of contracts. The common law introduction will be followed by discussions for the next two classes.

Then, we will talk about diversity goals. Day 14 focused on illegal discrimination, and today we will look at going beyond legal minimums by looking at recruiting and affirmative action policies at the University of Michigan, the University of Texas (in the pre-Hopwood era and for the forthcoming fall 2005 freshman class), and from major corporations. We will discuss goals that are most fair to all sides.

Day 16

Today, we will start with a look at intentional tort common law liability, focusing on fraud and defamation, and more briefly looking at interference with contract. We will examine the parties which may sue accountants for fraud, and at real world disaster scenarios that resulted from extreme punitive damages awards.

Then, we will discuss whistleblowers, starting with the obvious Enron example and progressing to others. We will exchange viewpoints on when is proper to report problems to the press, the government or other "outsiders", and when problems should be handled internally. We will also look at whistleblower protection statutes.

Day 17

Breach of contract liability will be the topic for the first half today. Ethically, one ought to keep contractual commitments, of course. After a brief look at the elements that lead to the formation of an enforceable contract, we will look at the legal consequences of breaking contracts, including direct and consequential damages.

Then, we will look at marketing. Some forms of deceptive ads are not legal, but companies can still get away with much misdirection. By looking at a series of ads featured in the reading assignments, and at video clips of others, we will discuss the ethical obligations (if any) that companies have to not exaggerate.

Day 18

As a last common law topic, we will look at potential negligence liability for CPAs. Underlying most professional duties is the simple responsibility to act reasonably in the circumstances. This class stresses that, beyond following enumerated rules, there is always a general minimum. We will look at several cases in which defendant accountants lost, and at the key arguments that swayed each jury in favor of each plaintiff.

Then, we will look at more marketing issues, including selling to the least educated consumers, whether they are in the U.S. or abroad. There are a series of interesting international cases involving companies who often made a fortune, and acted entirely legally, but harmed children or other consumers

Day 19

Texas and other states have passed Deceptive Trade Practices Acts which, in some circumstances, create a higher standard of conduct than the Code of Professional Conduct. In addition, these statutes generally call for the automatic trebling of damages, and so carry serious financial disincentives to bad behavior.

Then, we will start a two day discussion on privacy. During this first day, we will discuss the responsibilities that companies have when it comes to “spying” on their own employees. The law allows private companies to conduct drug tests, (often) polygraph tests, set up surveillance cameras, conduct searches of employee desks and computers, read employee email, and monitor employee’s Internet usage. We will discuss whether companies should voluntarily refrain from any of these activities.

Day 20

Today, we will look at the 1933 Securities Act, and especially at Sections 11, 12(a)(1), 12(a)(2), and 17(a). We will discuss elements of different cases under the Act and defenses to each, and will finally look at the impact of Sarbanes-Oxley on 1933 Act provisions. We will also begin a look at the 1934 Securities Act.

We will have a second day of privacy, this time focusing on the obligations companies have to protect their customers’ information. Companies often sell phone numbers and purchasing data back and forth, and we will look at a proper balance between gathering information so that products and services can be better targeted and respecting customers’ wishes to be “left alone”. We will also look at companies who have suffered a backlash for going too far, and an interesting new Texas anti-spam law.

Day 21

We will start by finishing our discussion of the 1934 Securities Act, with a heavy focus on Section 10(b) and Rule 10b-5. We will also look at the newer responsibilities under the Private Securities Litigation Reform Act for accountants to act as whistleblowers against clients under the right circumstances.

Then, we will have the first of two days of “students’ choice” ethics topics. Whatever topics are selected, these class discussions tend to be particularly energetic and interesting.

Day 22

Sarbanes-Oxley and the PCAOB will have been discussed from time to time in connection with other topics, and today we will review some of those “fragments” and supplement them with not-yet-discussed provisions. We will also look at recent PCAOB rules.

Then, we will have a second day of “students’ choice” topics.

Day 23

There are two other major federal statutes that can affect accountants we will not have discussed yet: the Foreign Corrupt Practices Act, which prohibits many types of bribes to foreign officials, and the Racketeer Influenced Corrupt Organizations Act, which originally was used to target organized crime but has of late been used in many additional situations. Internal controls that prevent entanglement in these two types of cases are most important.

Then, we will have the first of two segments on current events/recent developments. Unfortunately, a semester will not pass without stories breaking about bad corporate behavior. I will assign Internet reading assignments on breaking scandals, lawsuits, and the like, for class discussion.

Day 24

We will end the CPA-specific part of the course with a big-picture lecture that incorporates and draws themes from the first 23 lectures.

We will end the general ethics part of the course with a second day of discussion on recent/current corporate happenings. Journal will be due at the beginning of this class, and there will be a brief review for the final exam.

FINAL EXAM