

NEW ACCOUNTANT[®]



Fraud.

What Happens When Good Guys Go Bad.



BECKER
PROFESSIONAL EDUCATION

FRAUD

What Happens When Good Guys Go Bad

When the FBI is pounding on your front door, and there's a message on your voicemail from *Nightline*, you know they're not there to congratulate you on the great job you've been doing.

By Tim Gearty, CPA, MBA, JD - National Director and Editor-in-Chief, Becker Professional Education

Yet, that was precisely the situation faced by Patrick Kuhse, an ambitious young stockbroker with a wife and two young children, an idyllic life in southern California, and the prospects of a long and successful career ahead of him.

How did such a seemingly happy tale turn into something more akin to a script for *Law & Order: Criminal Intent*? How did Kuhse go from being a preferred stock trader for the state of Oklahoma to evading Interpol as an international fugitive in the jungles of Costa Rica for four years? How did his high-flying career in investment management crash, burn, and end with a 71-month sentence to federal prison?

The one word answer is fraud. And although the story of Patrick Kuhse sounds like the stuff of primetime TV, the cold, hard fact is that fraud is a far more common part of everyday business life than most would ever imagine.

Fraud may not always net out in the millions of dollars as Kuhse's did, but sooner or later, as an accountant, you'll come face-to-face or very close to an act of fraud in your professional

life. Perhaps even more sobering, says Kuhse, now a well-known speaker and consultant on business ethics, is that virtually all accountants will at some point face an opportunity to commit fraud themselves. Kuhse's experience can serve as a hard-earned lesson for aspiring accountants not only about how fraud happens, but also about how to avoid its pitfalls in their own lives.

A first-person account of how fraud happens

As a professional educator in the fields of accounting and finance, I believe that Patrick Kuhse's story of real world fraud, as related by him in our recent interview, can serve as an eye-opening lesson in life for aspiring accountants, auditors, and CPAs.

Tim Gearty: As I teach in Becker's Continuing Professional Education fraud courses, and as every accountant learns in school, there are three fundamental elements of fraud— pressure, opportunity, and rationalization. That's the academic side. To give us more insight into how fraud



plays out in real life, what pressure did you feel?

Patrick Kuhse: Actually there was no pressure when the State of Oklahoma first engaged me as one of their select group of investment advisors. I didn't really think there was much earning potential, but it was a good resume builder and a stepping-stone to more lucrative future assignments.

The real pressure came later when I realized just how much money could actually be made there. When it started to materialize, euphoria set in, and I thought, "Wow, I've made a huge amount of money. I've surpassed my peers. I've really achieved success. And I want more." The pressure to go on became even more intense.

TG: Pressure is often associated with "status." Was there anything else in your background that led to this behavior?

PK: When I was in business school in the early '70s, we thought we were the greatest generation to ever hit town. We had a feeling of entitlement. We were smarter than everyone else—the future Gordon Gekkos of the world. Interestingly, when I say this to students today, they look at each other knowingly, chuckle uneasily, and sort of squirm in their seats. They know I know they feel that way too.

Whether it happened forty years ago or yesterday, a feeling of entitlement is one of the critical thinking errors common in unethical behavior. It's that general belief that "the world owes me something" or "I deserve it." And yes, status often comes into play, too, especially when it's linked with power.

A prime indicator that you're in the entitlement mode is when you change your "wants" to "needs," as in I need a new car, a new computer, a better job, a higher score on the exam. The pressure mounts when you also "need" it fast, and you become willing to skirt the edges of ethics or the law to fill the need.



TG: What about the second fundamental element of fraud, opportunity? How did that come into play?

PK: After I made my first trade for the State of Oklahoma, I realized I wasn't going to be making much money. I discussed my concern with my primary contact—the manager on the account—who suggested I simply inflate the my commission rate. So I raised it as high as the law would allow, and on the next trade, I made a huge amount of money. It was then that my contact came back to me with the expectation that I share some of the inflated earnings with her under the table.

That was my turning point. Was I going to make the payback and continue the lucrative trading, or would I walk away? I struggled with the decision for a couple of days, but in the end I rationalized my ethical concerns away.

TG: You just mentioned the third side of the fraud triangle, rationalization. How did you rationalize doing something

you obviously knew was wrong?

PK: First, I had convinced myself that I was complying with the "letter" of the law in inflating the commissions. As for the paybacks, I rationalized that I would only do it once. Nobody was really going to get hurt. And it was all just zeros anyway.

Once you've made that kind of rationalization, you've established your true colors. One time becomes more times, and each anesthetizes you a little more to the wrongdoing. In talking with fellow inmates, I learned that it's that same kind of escalating rationalizations that got every one of us in trouble.

TG: What would have happened if you hadn't been caught?

PK: I had plenty of time—four years to be precise—in prison to talk about that with other inmates. A lot of times the decision to continue a fraud stems from another critical thinking error, ultra-optimism, that sense of invulnerability. I truly believe that even if there was the

Sometimes we need another person to assess our situation objectively and to tell us the harsh truth, not just what we want to hear.

death penalty for fraud, people would commit it anyway. They're that convinced that they're not doing anything wrong and will never get caught. It happened in the early 2000s with Enron and many others. It's happening today, with cases like Madoff. Fraud is here to stay.

The decision to continue doing it may result from another critical thinking error that I call situational ethics. Instead of letting ethics direct the situation, the person lets the situation direct their ethics. It's not totally unlike the student who knows it's wrong to steal an iPod from someone else's desk, but feels it's OK to download music without paying for it. Where you draw the line in one instance could blur the next line you have a chance to cross.

TG: What insights and lessons can students take away from your experience?

PK: One of the important takeaways is a better understanding of why and how people fall into fraud. Another is that all accountants will most likely face an opportunity to commit fraud along the way—even if it's as seemingly benign as padding billing hours. Thinking that you could never be tempted is the flip side of the invulnerability bubble that surrounds those who actually give into it.

That's why I always stress the importance of having a mentor in your life. We all have a hard-wired sense of right and wrong. Sometimes we need another person to assess our situation objectively and to tell us the harsh truth, not just what we want to hear.

Another thing to remember: don't assume that you can spot the "bad

guys." Prison taught me that nearly all of the "white-collar" criminals look like the "good guys." Before they were sentenced, they were living in the same neighborhoods, eating the same barbecue in the same backyards, and enjoying the same good life as their successful peers.

I'd also like to dispel the myth of country club prisons. They don't exist. Being in prison is universally horrible. But I think it's even more horrible for those left outside the prison walls—the family, and especially the children, who suffer the brunt of the shame and live with the stigma in their everyday lives.

TG: Any parting words of wisdom?

PK: I always advise students who are faced with uncertain ethical decisions to ask themselves three simple questions based on the time-tested wisdom found in the *Power of Positive Thinking*: 1) Is what I'm doing perfectly legal? If you're not sure, ask a lawyer. 2) Is the situation a win/win for all who could be affected in any way? 3) Would I want my action to be reported on the front page of the Wall Street Journal?

Tim Gearty is the National Director and Editor-in-Chief for Becker Professional Education, the world's leading provider of CPA Exam Review, Continuing Professional Education, and other professional education and career development programs for accounting, finance, and project management professionals. For more information, visit becker.com. To learn more about Patrick Kuhse, visit his website at speakingofethics.com.

Eight Critical Thinking Errors



Patrick Kuhse has identified the following as the most common thinking errors underlying unethical behavior. They can serve also as red flags to potential problem situations in everyone's life.

Entitlement: A general belief that "the world owes me something" or "I deserve it."

Ultra-optimism: A sense of invulnerability. There's no downside to my behavior.

Rationalization: A moral justification. "I'm ethical, therefore, whatever I do is ethical."

SUDS: Seemingly unimportant or urgent decisions made without regard for consequences.

Victimitis: Always the victim—of society, family, school, world—and always blaming others

Laziness: Always taking the short cut. If you're going around in circles, maybe you're cutting too many corners.

Affection-disconnection: No longer listens to others. Quick to criticize, but totally unwilling to take criticism.

Situational ethics: A different set of ethics for different situations. Letting the situation direct our ethics, not vice versa.

You can learn more about Patrick Kuhse's incredible journey and his work as an international speaker, trainer, and consultant on business ethics at his website: speakingofethics.com