

Current Issues in Business Ethics – 2025

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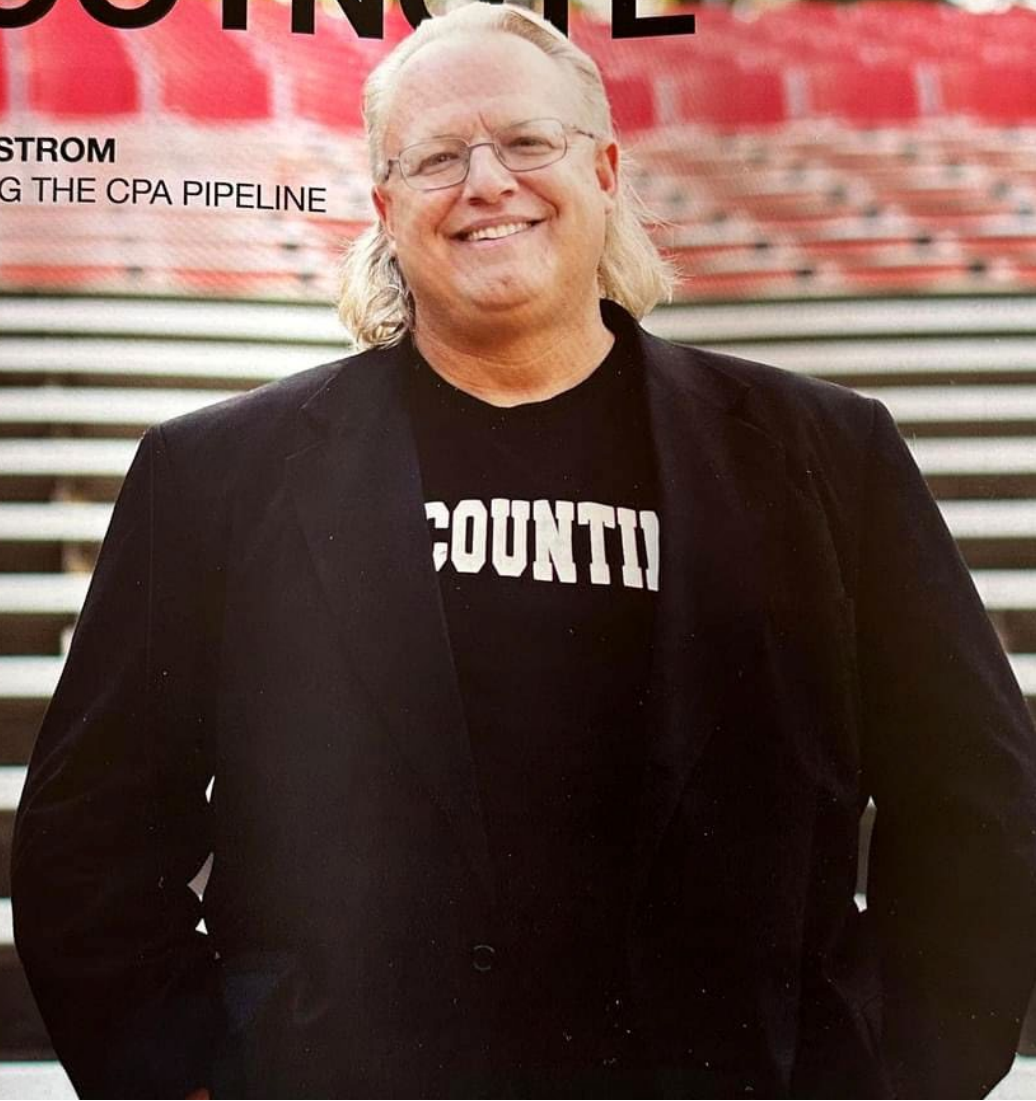
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THE MINNESOTA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

FOOTNOTE

BOZ BOSTROM
TACKLING THE CPA PIPELINE



Learning Objectives

- Understanding the impact of pressure on ethical decision making
- Understand the importance of assessing trustworthiness in the hiring and promotion process
- Understand types of industries and other programs which increase risk of ethical violations
- Ethical risks of engaging in online activities
- Understand ethical perspectives
- Recognize the impact of influence on ethical violations

Understanding the impact of pressure on ethical decision making





Complicating fact patterns

- Your family is close to Mike's family, and your sons are best friends
- Mike may need to sell the farm if he can't make this claim
- Mike is well respected in the community, and you fear you may lose clients if word gets out that you didn't help him
- And what is the big deal? The federal government already has \$36 trillion of debt. Another couple hundred grand doesn't matter

Jeffrey Lewke

- Falsely claimed to have irrigated crops more times than he did
- Claimed that certain crops were produced in another county
 - But he actually produced crops in a county where he made a claim
- Prevented planting claims:
 - Never attempted to plant some of the properties
 - Made claims on properties actually planted
 - Made a claim on a horse pasture
- Made nearly \$250,000 of false claims
- 6 months in prison and restitution

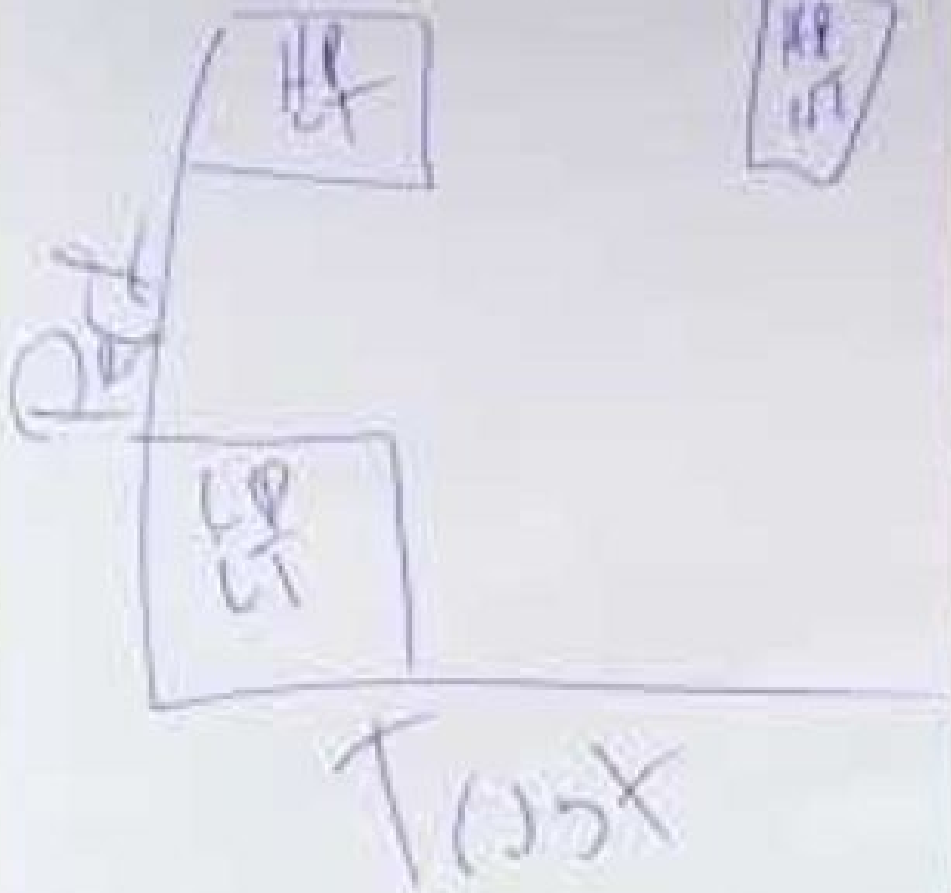
Consequences to agents

- This case did not mention any wrongdoing by the agent. If there had been, what consequences could the agent have faced?
- Loss of license
- Fines
- Jail/prison time for conspiracy

**Understand the importance of
assessing trustworthiness in the
hiring and promotion process**

Discussion

- In mid-size or large organizations, ethical violations are often committed by middle management
- What can top managers and owners do to prevent this?



Continued Discussion

- In the interview process, it can be difficult to assess trustworthiness
- Referrals and references can help
- Especially for middle/upper management decision, how can the risk of putting a non-trustworthy person in a management position be mitigated?
- Promoting from within

**BE THERE FOR
EACH OTHER**

**MINDSET
MOMENTS**



Back to the question

- What responsibility do top leaders have?
- Promote based not only on performance, but also on trustworthiness
- Observe and promote those who care about the organization and their colleagues and not simply their own metrics

Understand types of industries and other programs which increase risk of ethical violations

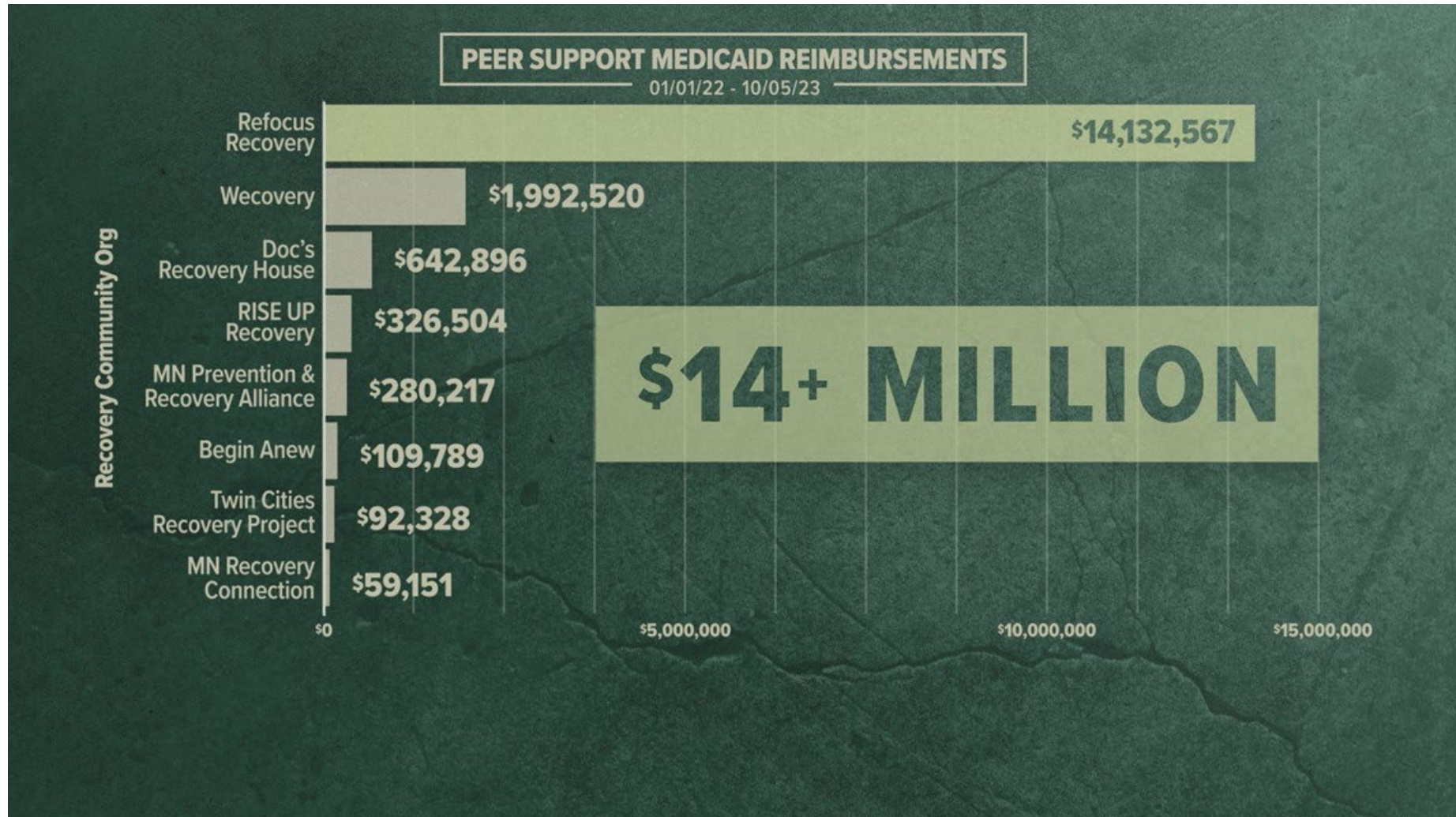
What do you think? Which of the following are permitted peer recovery support services under Minnesota's Medicaid program?

- a. Group meetings
- b. Individual meetings
- c. Movie nights
- d. Phone calls

Refocus / Kyros Scandal

- Refocus Recovery –a nonprofit
- Contracted with for-profit company Kyros to provide the services. In, theory, this is okay, but...
 - Services were excessive or did not occur
 - Refocus appeared to be not much more than an intermediary for Kyros
 - In 2022, Refocus took in \$4.7M and paid \$4.5M to Kyros
 - Kyros kept nearly 60% of government payments for itself

Kyros and Refocus dominated the peer support market

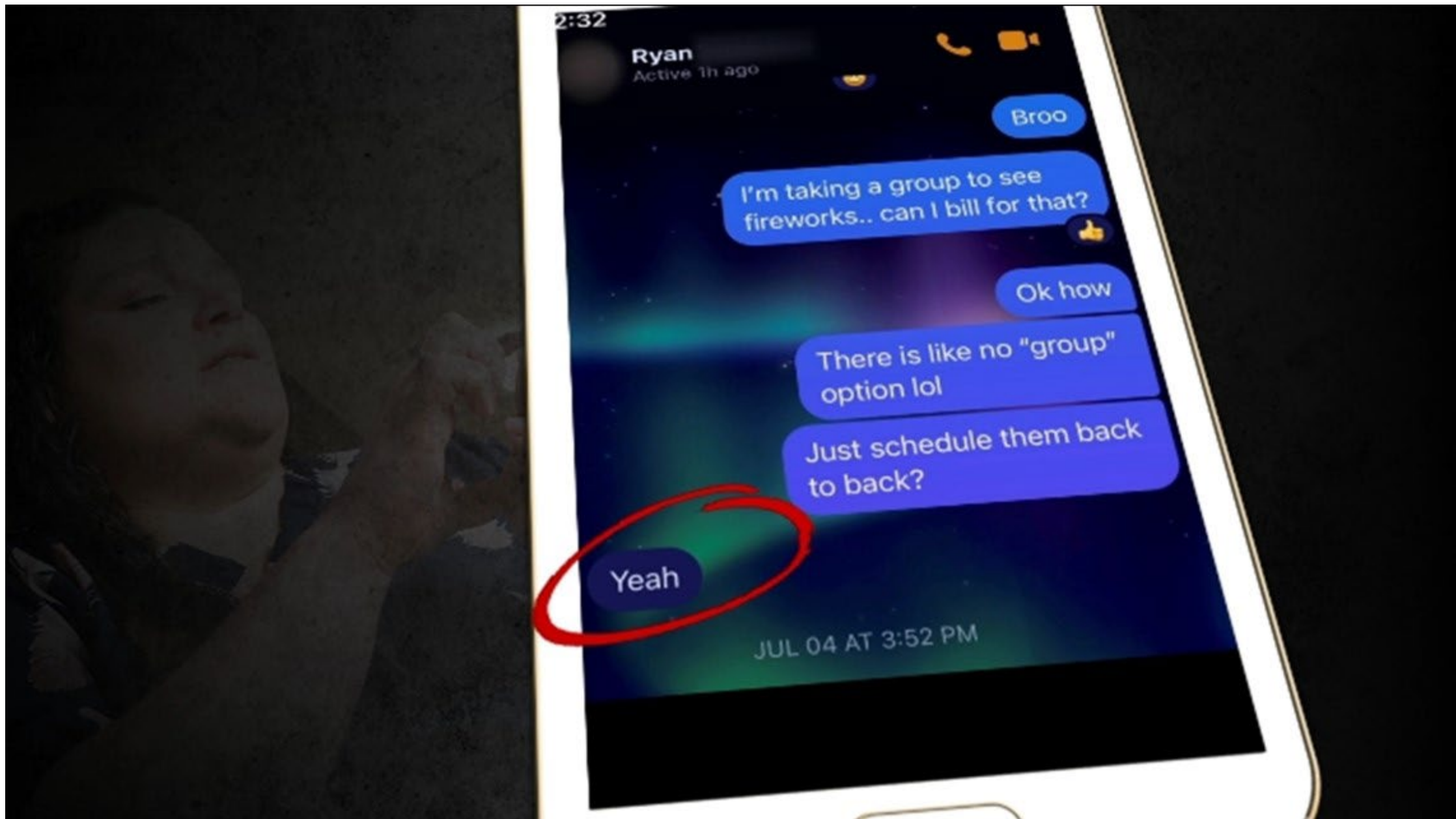


Issue: Movie Nights!

- Kyros would host movie nights and encourage peers to bring multiple clients, but...
- Can't group bill
- Movie nights don't count

Issue: Group billing

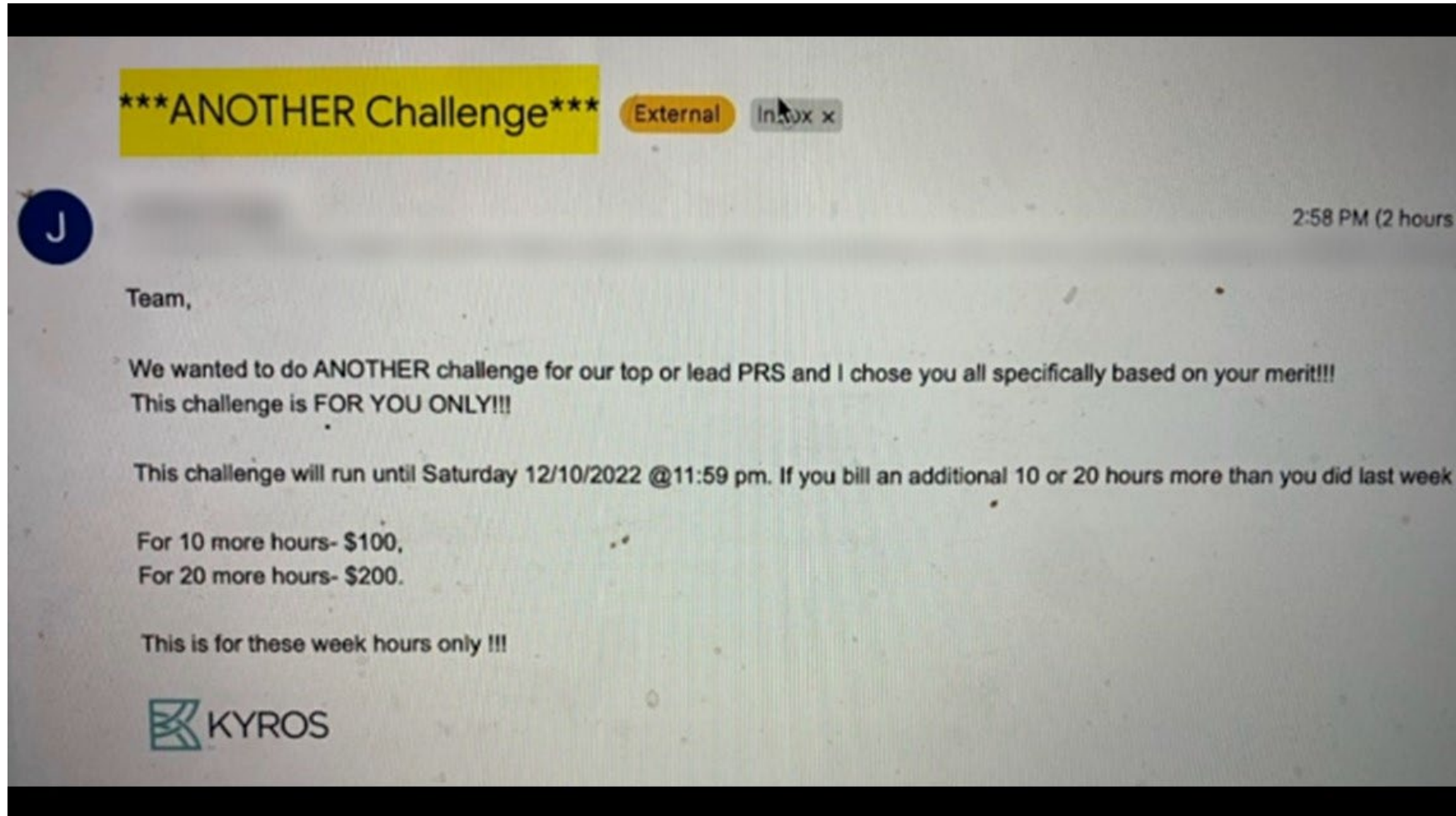
- Not allowed
- Must meet with clients one-on-one
- How would Refocus get around this?



Issue: Overbilling

- One client was asked if he was really provided with 47 hours of service in a month
- He said it was “at best, 10 hours”

In accounting, billable hours are good! They are also good at Kyros!



Issue: Phone Calls

- Kyros: “Did you know that having phone calls with a client qualifies for service hours?”
- “Keep your clients (sic) hours up and incorporate some client calls this week!”
- Under state regulations, peer provider phone calls can be billed to Medicaid only when an appointment is made ahead of time, or the client calls the provider in an emergency
 - Not explained to the Peers

Yesterday 8:55 PM

What's your understanding of Kyros instructions on what phone calls can be billed for?

Anything

They've said any phone call should be billed

Didn't need to be pre scheduled?

No

Hmm. Law says only calls made by client in emergency or prescheduled

Well they definitely don't tell you that

Regulation

- Accreditation standards needed to be met
- Granted in 2021, but not in 2022
 - Due to partnership between Refocus and Kyros and suspected fraud
 - Reinstated by DHS (Department of Human Services) after legislative reforms which would supposedly address gaps in oversight
- In September of 2024, Kyros shut down
- FBI and OIG investigations ongoing

Feeding our Future: Background

- US Dept of Agriculture established the Federal Child Nutrition Program
- USDA distributes funds to state governments
 - In MN, the MN Dept of Education (MDE) administers/oversees the program
- Sponsoring organizations submit applications for a site, and the site will provide the meals
 - Sponsoring organizations in charge of monitoring and seeking reimbursement
- USDA provides funds to MDE on a per meal basis
- MDE gives funds to sponsoring organization which keeps 10-15% as an administrative fee and then reimburses the sites

Aimee Bock

- Founder and executive director of Feeding our Future, a nonprofit sponsoring organization
- Feeding our Future employees recruited individuals/entities to open sites (about 250 sites)



Initial Allegations

- Sites fraudulently claimed to be serving meals
- Dozens of shell companies formed to serve as sites or to launder money
- False documentation created/submitted
- 125 million false meal claims
- Alleged fraud was about \$250M
 - Went from \$3M of federal funds in 2019 to nearly \$200M in 2021

Updates

- Now up to a total of 70 defendants compared to an initial 47
- At least 24 have pled guilty thus far
 - Bock maintaining her innocence and not agreeing a plea deal
 - Trial scheduled for Feb 2025

Trial for first 7 defendants

- Hadith Ahmed (self-described “right-hand man” of Aimee Bock)
 - Cooperated in hopes of getting a lighter sentence than expected 4-5 years
 - Testified he ran a fake food site and took kickbacks
- Feeding our Future weren’t checking if sites were serving meals
 - “Anybody could submit whatever they wanted.”
- Oversaw site supervisors
 - “We were not doing anything. We were not going to sites. Not visiting, inspecting.”
- “Everybody” at Feeding our Future took kickbacks
- “I think the best way to put it is that Feeding Our Future was a bank: You come and you get money. You submit claims, you get paid.”

Verdict in June 2024

- 5 of 7 defendants were convicted
- In total, there were 64 total charges and 43 returned as guilty
- 2 jurors were removed along the way. Why?

What do you think: Why were 2 jurors removed in the first Feeding our Future trials?

- a. They fell asleep during the trial
- b. They had participated in the scheme
- c. They lied during *voir dire* (juror examination)
- d. They were offered bribes



Feeding Our Future MN

2.9 ★★☆☆☆ 45 Google reviews

Food and beverage consultant in Saint Anthony,
Minnesota

Permanently closed

Google Reviews

- “Defrauded taxpayers out of \$250 million. Money that was supposed to be used to feed children. Gross”
- “Jail isn’t good enough for creeps who steal \$ meant for children. Hope it’s a LONG TIME.”
- “Thieves who steal from the needy. The worst scum.”
- “This company thought they had it all figured out, posting fake 5 star reviews and attempting to bribe a juror for 120,000\$. Your greediness got you at the end, should have put up a mili lol jk Now someone’s gonna get time. This win is for the starving people y'all screwed over. Get ready for what’s coming. 👊”
- “The people involved in this organization should go into politics. They have what it takes to go far!”

What is the obvious question?

WHERE WAS THE
OVERSIGHT?????

Role of the auditors

- Feeding our Future's 2019 and 2020 financial statements, and the 2021 financial statements of several related entities, were audited by CPA Global Portfolio Consulting
 - Sole CPA was Charles Amevo
- An audit requires “obtaining audit evidence through inquiry, physical inspection, observation, third party confirmations, examination, analytical procedures, and other procedures.”
 - “Respondents did not undertake these processes.”
- Firm permit and CPA certificate were revoked. \$20,000 of civil penalties

MN's Office of the Legislative Auditor was asked to conduct a Special Review of MDE's Oversight of Feeding our Future

Report: Minnesota Department of Education's 'inadequate oversight' of Feeding Our Future opened door to fraud

A much-anticipated special review of the Minnesota Department of Education's oversight of Feeding Our Future found that the state agency "failed to act on warning signs."

OLA Findings

- Federal regulations required MDE to monitor and enforce Feeding Our Future's compliance with program requirements. MDE's responsibilities under federal law ranged from:
 - Providing guidance and training to Feeding Our Future staff
 - Terminating the organization's participation in the programs if warranted.
- “However, we found MDE's oversight of Feeding Our Future to be inadequate. In fact, we believe MDE's actions and inactions created opportunities for fraud.”

Other Findings

- MDE had identified concerns, which went unaddressed, but still approved program applications
- MDE should verify statements made by high-risk applicants
- MDE identified serious concerns during a 2018 review, but never did another review
- MDE received at least 30 complaints and by law must investigate
 - Often did not or the investigation was “inadequate”
- MDE twice found Feeding our Future “seriously deficient,” which is grounds for terminating the sponsor’s participation
 - MDE deferred all serious deficiencies

Commissioner of Education Rebuttal

- “MDE disputes the OLA’s characterization regarding the adequacy of MDE’s oversight”
- “MDE’s oversight of these programs met applicable standards and MDE made effective referrals to law enforcement.”
- “What happened with Feeding Our Future was a travesty – a coordinated, brazen abuse of nutrition programs that exist to ensure access to healthy meals for low-income children. The responsibility for this flagrant fraud lies with the indicted and convicted fraudsters.”

Whistleblower: Abdi Nur

- Noticed members of the Somali community flaunting cash and luxury items on social media.
- Noticed a bride receiving a tray of gold during a wedding in the Twin Cities.
- “All of a sudden, there was like a boom and people were buying very expensive homes and posting about those homes. Then people started showing off expensive cars, money, equipment and other things on Facebook and Snapchat.”

Political response

- Governor Walz created a new fraud investigations unit within the Bureau of Criminal Apprehension (BCA)
- “As long as there have been programs aimed at helping people, there have been fraudulent actors looking to steal from those who need them most, Our job is to stay one step ahead of them. We’re coupling new tools, like AI, with old fashioned police work, to slam the door shut on theft.”



Reply by Speaker-designate Lisa Demuth

- "We need real change to crack down on fraud, and that starts with a process that is truly independent of the leadership that allowed fraud to run rampant over the last five years."



Ethical risks of engaging in online activities

What do you think: A long-term fraud that combines investment schemes, romance scams and cryptocurrency fraud is called:

- a. Chicken dance scam
- b. Dirty dog scam
- c. Lipstick on a pig scam
- d. Pig butchering scam

What is a pig butchering scam?

- A long-term fraud that combines investment schemes, romance scams and cryptocurrency fraud
- “Fattening up” victims before taking everything they have
- Often run by Chinese gangs in guarded compounds
 - People apply to white collar jobs in SE Asia and are trafficked to Myanmar
 - Abused and threatened with execution
- Santa Clara county prosecutor Erin West:
 - “I’ve been a prosecutor for over 25 years, I’ve done all kinds of different types of crime. And I’ve never seen the absolute decimation of people that I’ve seen as a result of pig butchering.”

Pig Butchering Red Flags

- A long-lost contact or stranger sends you a message on social media.
- You are urged to send money to an investment platform that is similar but does not match the platform's official website address.
 - Referred to as typo-squatting.
- You have an online romantic interest who asks you to send payment to them or an investment platform in cryptocurrency.
- You embark on an online romantic relationship, and your love interest guarantees profits or big returns if you invest with them.
- A romantic interest reaches out to you through an online messaging application like WhatsApp with account numbers so you can transfer of funds.
- Cost U.S. individuals nearly \$4 billion in 2023

Example – Jane Yan

- Jane received a text: “Are we going to the salon tonight?”
- She said “You have the wrong number.”
- The man, “Eric,” continued to ask friendly questions
- First investment in a crypto exchange was \$5,000, told she made \$1,000
- A month later, invested \$400,000, and quickly made 20% on that

Pig Butchering

- A couple months later, Jane:
 - Invested her retirement fund in the crypto exchange
 - Borrowed money from family members
 - Invested her children's college money, and...
 - Her husband's retirement fund
- When she tried to take money out, she was told to pay more
 - Jane needed to invest more to initiate a money transfer. She had to pay money to get a lock taken off her account. Then she had to pay taxes.
- Lost over \$1.6 million

Dennis Jones

- Divorced and became friends with a woman named “Jessie” on Facebook
- Jessie convinced him to invest in crypto
- Never met, but Dennis invested (and lost) all he had
- His children setup a meeting with him, with a plan that he would move in with one of them
- Dennis did not show up for the meeting, and at the 82, he committed suicide



“Expert” recommendations

- Be careful what you post and make public online.
 - Scammers can use details shared on social media and dating sites to better understand and target you
- Beware if the individual seems too perfect or quickly asks you to leave a dating service or social media site to communicate directly.
- Beware if the individual attempts to isolate you from friends and family or requests inappropriate photos or financial information that could later be used to extort you.

“Expert” recommendations

- Beware if the individual promises to meet in person but then always comes up with an excuse why he or she can't.
 - If you haven't met the person after a few months, for whatever reason, you have good reason to be suspicious.
- Never send money to anyone you have only communicated with online or by phone.
 - Never provide your financial information or allow your bank accounts to be used for transfers of funds.
- Requests for gift cards are also a red flag.

Understand ethical perspectives

Tax Foundation National Tax Literacy Poll: About the poll

- Surveyed 2,700 taxpayers in 2024
- Results being released in a three-part series

What do you think: What percent of the public feels their income taxes are too high?

- a. 10%
- b. 25%
- c. 50%
- d. 67%
- e. 90%

Literacy is not strong

- Over 61% did not know or were not sure of basic tax concepts related to income tax filing
- For example...
- What is more valuable: a \$1,000 tax credit or \$1,000 tax deduction?
 - Only 36% said Tax Credit
 - 64% said Tax Deduction or did not know

Do you think the US Tax code is overly complex?

- a. Not sure
 - a. 7%
- b. Not complex
 - a. 4%
- c. Somewhat complex
 - a. 23%
- d. Overly complex
 - a. 65%

Do you think the US federal tax code is in need of reform, or not?

a. Not sure

a. 10%

b. No

a. 4%

c. Yes

a. 86%

Do you think your federal tax rates are too high, too low, or just right?

- a. Not sure
 - a. 9%
- b. Just right
 - a. 19%
- c. Too low
 - a. 7%
- d. Too high
 - a. 65%

Would you say the value you receive from federal government services meets what you pay in federal taxes?

- a. Not sure
 - a. 13%
- b. Exceeds the value
 - a. 4%
- c. Does not meet the value
 - a. 63%
- d. Meets the value
 - a. 21%

Federal income taxes paid by income earners

- Top 1% 42% (was 33% in 2001)
- Top 5% 63%
- Top 10% 74%
- Top 25% 89%
- Top 50% 98%

- Bottom 50% 2%

- 54% of respondents want high earners to pay more in taxes, but 71% support lowering the top income tax rate



Other findings

- What percent of respondents said their own income taxes are too high?
 - Two-thirds
 - 15 years ago, 56% said that



**Jerry, all these big companies,
they write off everything.**

IRS Criminal Investigation Report - 2023

- Much more financial crimes identified than tax fraud!



Tax Fraud
Identified

\$5.5B



Other Identified
Financial Crimes

\$31.6B



Warrants
Executed

1334



Referred For
Prosecution

1838



Conviction
Rate

88.4%



Convictions

1508

What do you think: The most common investigation done by the IRS relates to:

- a. Abusive tax schemes
- b. Employment tax
- c. Money laundering
- d. Non-filers

Types of investigations

- Money Laundering – 955
- Narcotics – 528
- Bank Secrecy Act – 511
- Non-Filer – 251
- Employment Tax – 221
- Abusive Return – 201
- International Operations – 147
- Identity Theft – 137
- Abusive Tax Schemes – 103
- Questionable Refund Program – 93
- Healthcare Fraud – 44
- Public Corruption – 37
- Corporate Fraud – 34
- Financial Institution Fraud – 28
- Terrorism – 14

Gross Tax Gap

- What is meant by this term?
- Difference between the amount of tax owed by taxpayers for a given year and the amount of taxes paid on time for that same year.
- What was the amount of the gross tax gap in 2022?
- Almost \$700 billion

Gross Tax Gap of almost \$700 billion

- Federal tax revenues were about \$4.9 trillion in 2022
 - Gap was 14% of revenues
- Non-filing, which means tax not paid on time by those who do not file on time:
 - \$63 billion
- Underpayment, or tax that was reported on time, but not paid on time.
 - \$94 billion
- Underreporting, which reflects tax understated on timely filed returns.
 - \$539 billion

Larry Lindberg



- Pharmacist and the CEO of Midwest Medical Holdings LLC
 - Minnesota pharmaceutical and medical equipment company.
- Lindberg was responsible for filing tax returns and paying taxes on behalf of the company.
 - Failed to pay several hundred thousand dollars in federal payroll taxes each quarter
- Owes IRS \$6 million
- Defaulted on several installment agreements
- Diverted assets to other companies and to his children
 - Including an airplane and airplane hangar, two vacation homes
- 2 years in prison and 2 years supervised release

Christopher Harrison



- CFO and majority owner of Ebenconcepts
 - Insurance and HR benefits business
- Paid himself \$25 million from the company. Claimed as business expenses AND did not include the amounts in income
 - \$145,000 watch
 - \$300,000 swimming pool
- \$6 million of unpaid taxes
- 18 months in prison
- "The license to run a business is not a license to avoid paying taxes." – IRS Special Agent

Betty Hawkins and Phyllis Ricks (North Carolina)

- From 2009 through 2018, the women filed more than 1,000 false tax returns
- These returns included fictitious federal income tax withholding figures as well as other fraudulent items that generated fraudulent refunds for the clients.
- Total of 5 years in prison and \$5.2 million of restitution

**Recognize the impact of
influence on ethical violations**





Timeline

- 2018: Steve McBee makes fraudulent crop insurance claims
- 2022: McBee Dynasty is filmed
- March 2024: Series premiere on Peacock, Season 1
- Nov 2024: McBee pleads guilty

The false claims

- Submitted false reports to Rain and Hail, a company reinsured by the Federal Crop Insurance Corporation.
- Underreported 2018 crop yields by approximately 675,000 bushels of corn and 150,000 bushels of soybeans.
- Received \$2.6 million in federal crop insurance benefits and over \$500,000 in premium subsidies to which he was not entitled, totaling \$3.1 million
- Admitted he sold more than 1.6 million combined bushels despite only producing about 500,000 bushels???

Additional issues and resolution

- In 2019, misrepresented crop sequences to obtain unauthorized insurance benefits. Claimed soybeans were the first crop planted when wheat had already been harvested
- In 2020, provided false planting dates (planted corn too late) for ineligible crops to receive further benefits.
- November 2024. Pled guilty to crop insurance fraud
- Faces up to 30 years in federal prison, in addition to \$3.1 million of restitution. And.....
- 2025: Season 2 of McBee Dynasty will premiere, Steve McBee will not be included

Key Takeaways

- Understand the relevant rules
- Discuss your decision with others who don't have a stake in the outcome
 - Assume your decision will be discovered
 - Focus on the long-term
- Keep yourself and others out of situations where violations are more common
- “Stay true to your core values and never compromise on your principles” – Indra Nooyi, retired CEO of PepsiCo

Thank you!

- Questions, comments, or to stay in touch with Boz:
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