

**DAVID L. COTTON, CPA, CFE, CGFM**  
**COTTON & COMPANY LLP CHAIRMAN**

Dave Cotton is chairman of Cotton & Company LLP, Certified Public Accountants, headquartered in Alexandria, Virginia. The firm was founded in 1981 and has a practice concentration in assisting Federal and State government agencies, inspectors general, and government grantees and contractors with a variety of government program-related assurance and advisory services. Cotton & Company has performed grant and contract, indirect cost rate, financial statement, financial related, and performance audits for more than two dozen Federal inspectors general as well as numerous other Federal and State agencies and programs.

Cotton & Company's Federal agency audit clients have included the U.S. Government Accountability Office, U.S. Navy, U.S. Marine Corps, U.S. House of Representatives, U.S. Capitol Police, U.S. Small Business Administration, U.S. Bureau of Prisons, Millennium Challenge Corporation, U.S. Marshals Service, and Bureau of Alcohol, Tobacco, Firearms and Explosives. Cotton & Company also assists numerous Federal agencies in preparing financial statements and improving financial management, accounting, and internal control systems.

Dave received a BS in mechanical engineering (1971) and an MBA in management science and labor relations (1972) from Lehigh University in Bethlehem, PA. He also pursued graduate studies in accounting and auditing at the University of Chicago Graduate School of Business (1977 to 1978). He is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM).

Dave served on the Advisory Council on Government Auditing Standards (the Council advises the United States Comptroller General on promulgation of **Government Auditing Standards**—GAO's yellow book) from 2006 to 2009. He served on the Institute of Internal Auditors (IIA) Anti-Fraud Programs and Controls Task Force and co-authored **Managing the Business Risk of Fraud: A Practical Guide**. He served on the American Institute of CPAs Anti-Fraud Task Force and co-authored **Management Override: The Achilles Heel of Fraud Prevention**. Dave is the past-chair of the AICPA Federal Accounting and Auditing Subcommittee and has served on the AICPA Governmental Accounting and Auditing Committee and the Government Technical Standards Subcommittee of the AICPA Professional Ethics Executive Committee. Dave chaired the Fraud Risk Management Task Force, sponsored by COSO and ACFE and is a principal author of the **COSO-ACFE Fraud Risk Management Guide**. He is presently serving on the AICPA's Performance Audit Standards Task Force.

Dave served on the board of the Virginia Society of Certified Public Accountants (VSCPA) and on the VSCPA Litigation Services Committee, Professional Ethics Committee, Quality Review Committee, and Governmental Accounting and Auditing Committee. He is a member of the Association of Government Accountants (AGA) and past-advisory board chairman and past-president of the AGA Northern Virginia Chapter. He is also a member of the Institute of Internal Auditors and the Association of Certified Fraud Examiners.

Dave has testified as an expert in governmental accounting, auditing, and fraud issues before the United States Court of Federal Claims and other administrative and judicial bodies.

Dave has spoken frequently on cost accounting, professional ethics, and auditors' fraud detection responsibilities under SAS 99, *Consideration of Fraud in a Financial Statement Audit*. He has been an instructor for the George Washington University masters of accountancy program (**Fraud Examination and Forensic Accounting**), and has instructed for the George Mason University Small Business Development Center (**Fundamentals of Accounting for Government Contracts**).

Dave was the recipient of the AGA's 2006 Barr Award ("to recognize the cumulative achievements of private sector individuals who throughout their careers have served as a role model for others and who have consistently exhibited the highest personal and professional standards") as well as AGA's 2012 Educator Award ("to recognize individuals who have made significant contributions to the education and training of government financial managers").



**2018 Professional Development Training  
May 17, 2018**

***Resolving Ethical Dilemmas—  
You Make the Call!***

**Dave Cotton, CPA, CFE, CGFM  
Cotton & Company, LLP  
Alexandria, Virginia  
*dcotton@cottoncpa.com***



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## Why do we need this session?

- ✓ Shouldn't it be easy to remain ethical?
- ✓ What are some barriers to sound ethical decisionmaking?
- ✓ How can these barriers be overcome?

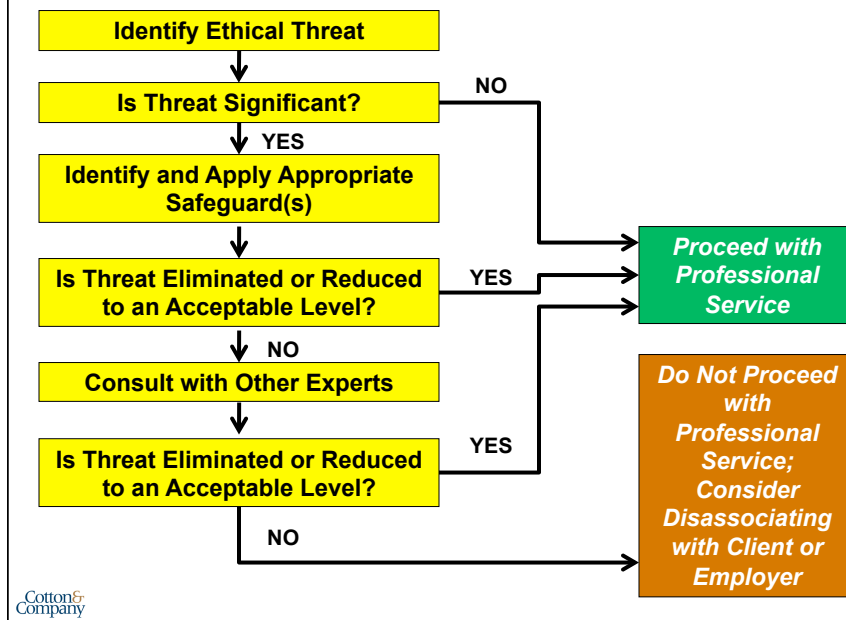
## The Four Barriers to Staying Ethical

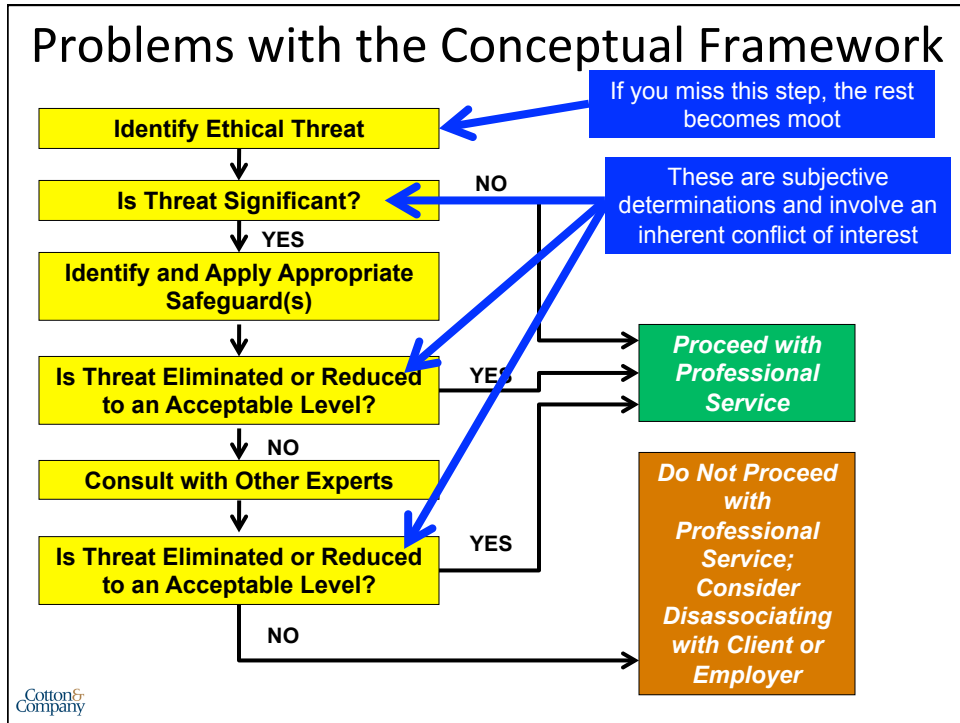
- Recognizing an ethical dilemma when it confronts you
- Not everyone agrees on the proper course of action in any given situation
- We have a strong tendency to rationalize in favor of a course of action that benefits us
- It's not possible to follow ALL the ethics rules in every situation

## Wait, Wait

- Shouldn't there be a simple, easy-to-follow set of procedures we can use?
- A good program, checklist, process, or model to guide us...

## AICPA Conceptual Framework





*Let's Just Practice ...*

# Ethical Dilemmas: Case Studies

## Ethical Case Studies

- ✓ Read each case study
- ✓ Formulate your conclusion on each
- ✓ Mark your conclusion on the case study and on the cover/summary page

## Ethical Dilemmas

### **#1 – New Age Soccer**

- [ ] A. There is no real problem here. Keeping informal track of scores did not formally violate any rules.
- [ ] B. This is a problem. By agreeing to participate in the league, these parent-coaches committed themselves to following the rules.

## Ethical Dilemmas

### #2 – DUE-Due-Diligence

- [ ] A. There is no problem here. Since the adjustments are below your numerically defined materiality level, you have no obligation to insist that the corrections be made to the financial statements.
- [ ] B. This is a problem. Although the adjustments are below your numerically defined materiality level, you have an obligation to insist that the corrections be made to the financial statements so that the user can be fully informed.

## Ethical Dilemmas

### #3 – How Green Is Your Reputation?

- [ ] A. There is not really a problem here. Pat is clearly the most qualified person GAO has to lead this evaluation and Pat's reputation for scholarly and unbiased analysis has never been questioned.
- [ ] B. This is a problem. Although, Pat is clearly the most qualified person GAO has to lead this evaluation and Pat's reputation for scholarly and unbiased analysis has never been questioned, if users of GAO's report became aware of Pat's spouse's lobbying activities and the contributions to environmental activist groups it may not "look good."



## Ethical Dilemmas

### **#4 – Office of Redundancy Office**

- A. There is no problem here. Congressman Buster's comment, taken in total, merely indicates his continuing support for ORO's work.
- B. This is a problem. Congressman Buster may have been trying to get you to change your conclusions.

## Ethical Dilemmas

### **#5 – PEAK Performance**

- A. Juno's reasoning seems sound. There's no need to require restatement of prior year financial statements.
- B. Juno's reasoning is flawed. You need to inform PEAK that they need to restate the prior year financial statements.

## Ethical Dilemmas

### #6 – Non-Attest Services for GMO

- A. This non-attest service would impair your firm's independence and should not be undertaken unless RY&C resigns as GMO's auditors.
- B. This is not the type of non-attest service envisioned by Rule 101 or the yellow book, so there is no problem accepting the assignment.
- C. This non-attest service can be undertaken as long as supplemental safeguards are met.
- D. This non-attest service can be undertaken as long as supplemental safeguards are met and GMO's audit committee approves the service.

## Ethical Dilemmas

### #7 – SOX Compliance at Electronic Village Corporation

- A. There is no problem here. You and your firm have not done anything improper.
- B. This is a problem. You should not accept the engagement on these terms.

## Final Thoughts to Ponder

- ✓ We are CPA's and accountability professionals first and foremost
- ✓ Our first obligation is to ***serve the public interest***
- ✓ Serving the public interest and prospering are not mutually exclusive, BUT
- ✓ If serving the public interest ever conflicts with prospering,
- ✓ Our choice must be to serve the public interest