

Roger's Dilemma: A Situational Examination of Ethical Behavior in the Presence of Internal Control Deficiencies

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ABSTRACT: This case exposes students to decision making in an ethically and legally ambiguous situation. It also asks them to practice using their ethical sensitivity by identifying situations where ethical conflicts are present. Students will learn the Securities and Exchange Commission's definition of insider trading and gain an understanding of the Supreme Court's recent interpretations regarding the specifics of what constitutes insider trading. Students will also learn about the legal protection afforded to whistleblowers under the Sarbanes-Oxley Act and learn about the code of ethics requirement applicable to public company's senior financial officers and the chief executive officer. Finally, students will be exposed to the definition of an internal control deficiency and learn how to identify two types of internal control deficiencies.

Keywords: insider-trading law; corporate code of ethics; whistleblowing; internal control; Sarbanes-Oxley Act; internal control deficiency.

INTRODUCTION

Roger McDaniels sat in front of his computer pondering his immediate future. He had just finished an impromptu meeting with Beth Sullivan from the internal audit department and his confidence was shaken. Both Roger and Beth left the meeting wondering if their recent decisions were for the best.

Roger's accounting career began approximately ten years ago when he became a CPA. Over the last decade, Roger had been successfully employed in a variety of accounting positions. It therefore came as no surprise to Roger when three months ago, he was contacted by an executive recruiter and offered the CFO position at Solodor Pharmaceuticals (SP). SP's mission was to conduct tests on Celenza, a new drug that had been developed to fight acute lymphoblastic leukemia. If successful, Celenza had the potential to increase the average life expectancy of affected patients by up to six years. Celenza offered terminal patients the most hope of any drug in over a

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decade. Although not stated publically, it was known in the industry that other pharmaceutical companies did not want to incur the significant costs associated with developing a similar drug because sales of a new drug would merely cannibalize sales from their current, but less effective medications.

Upon accepting the employment offer from SP, Roger felt very exhilarated. If SP's mission was successful, not only would Roger be handsomely rewarded (as his compensation package provided him with numerous stock options, which in themselves would likely make Roger a millionaire), but Roger would also play a part in extending the lives of numerous terminally ill patients. Given the history of death in his family from various forms of cancer, more specifically the death of his father from leukemia when he was only a child, Roger was all too aware of the pain and mental anguish associated with terminal illnesses.

Upon starting his new position, Roger was not surprised to learn that, similar to other new pharmaceutical companies, SP was currently experiencing severe cash flow problems. Thus, the immediate priority for Roger was to procure a round of additional equity financing. If Celenza was shown to be successful, it had the potential to be a cash cow. However, in its current state, SP had no expectations of any Celenza sales occurring for at least two more years because extensive testing was needed before the FDA's Center for Drug Evaluation and Research would even consider approving the drug. Without obtaining a minimum of \$5,500,000, SP would run out of money and be forced to liquidate within the next four months. This would not only leave Roger unemployed but would make his stock options worthless. It would also put Celenza's future in jeopardy.

Roger recently held meetings with three different financiers and pessimistically awaited their responses. Due to the weak economy, raising significant equity financing was an extremely difficult task. Therefore, when Steve Butler called to arrange a breakfast meeting, Roger was anxious.

Steve Butler was a senior vice-president of Cambridge, a venture capital firm with access to over a billion dollars. If SP's management team impressed Steve, Roger knew the firm's current financial woes would be solved. However, if SP's management team failed to impress...well, Roger chose not to concentrate on that option.

The breakfast meeting between Roger and Steve came and went with Steve appearing to be extremely intrigued with the market potential of Celenza. At the end of breakfast, Steve suggested that Cambridge would potentially be willing to invest up to \$5,500,000 but only after conducting a thorough analysis of Celenza's research progress.

Accordingly, two weeks after the breakfast meeting, scientists from Cambridge spent ten days examining the research that SP had conducted to date on Celenza. Roger was feeling cautiously optimistic because Steve's team seemed to be impressed. However, as weeks went by Roger's pessimism began to return. It had been three weeks since the team had visited SP and Roger had yet to hear from Steve.

Two days later the phone rang in Roger's office. After realizing it was Steve calling, Roger attempted not to act apprehensive. During the call, Steve explained that his firm was in the process of preparing a share purchase agreement in which Cambridge would purchase up to 55 percent of SP. Cambridge was willing to pay \$100,000 for each 1 percent of SP ownership, conditional on obtaining a controlling interest in SP. After hanging up, Roger exhaled deeply and exhaustively leaned back in his chair as he considered Cambridge's proposal. On the positive side, the news of an equity purchase could not have come at a better time since SP's creditors were phoning daily requesting payment. On the negative side, obtaining the required \$5,500,000 meant Cambridge would effectively control SP. Cambridge had a reputation for replacing the management teams in firms that it acquired and for pursuing a high-price/low-volume marketing strategy. The possibility of being fired would be catastrophic for Roger since he had to be employed by SP for at least one year before his stock options would fully vest. Cambridge's marketing strategy would also be in contrast to the desires of SP's current management team who wanted to maximize profits—but also

planned on being socially responsible by implementing a low price/high volume marketing strategy. Roger clenched his jaw in agony because he knew that a high-price/low-volume strategy meant that Celenza would only be available to the wealthy and not available to those who were covered by traditional health insurance policies.

After waiting a sleepless week during which no draft agreement appeared, Roger became increasingly agitated. Roger did not want to act hastily but after he could wait no longer he phoned Steve's office. Although Steve was out of the office, Roger reached Steve's assistant and asked to see a draft of the purchase agreement. The assistant agreed to overnight a hard copy of the deal.

Upon returning from lunch the next day, Roger noticed a UPS package resting on the corner of his desk. As he tore open the document Roger's heart palpitated with nervous excitement. As he glanced over the first sheets he immediately noticed that this was not a draft of the agreement between Cambridge and SP but a final copy of a deal between Cambridge and Dugas Incorporated that was to be announced the next day.

Roger's first instinct was to throw away the draft without reading it because it was obvious to Roger that Steve's assistant had made a mistake and sent him a copy of the wrong deal. However, curiosity got the best of Roger so he decided to read over the entire document. Afterward, Roger checked the Internet for details of Dugas Incorporated. There did not seem to be any public information available about a deal between Cambridge and Dugas Incorporated. Now consumed with interest, Roger noticed that Dugas Incorporated was currently trading on the New York Stock Exchange at \$3.14 per share, down from a yearly high of \$28.45. He next reviewed a few financial news articles that expressed concern regarding Dugas Incorporated's cash flow. The articles also expressed doubt that Dugas Incorporated would be able to obtain the additional financing it needed to stay afloat.

Roger reclined in his chair realizing that he was privy to a very significant piece of information. In less than 24 hours Dugas Incorporated would announce Cambridge's investment. This news was sure to have a significant impact on the price of Dugas Incorporated's stock. Roger contemplated just how high their stock price would go, maybe \$10, maybe \$15, maybe even past its yearly high.

Roger could not believe his good fortune. A grin slowly crept across Roger's mouth as he accessed SP's operating account and used every last dollar to purchase 470,000 shares in Dugas Incorporated. Roger was actually giddy with excitement and found that he could barely contain himself. With the profits that SP would make once the news regarding Dugas Incorporated went public, he had single handedly prevented SP from surrendering control to Cambridge. He had never felt better about himself. Roger was now fully confident that he would remain at SP long enough for his options to vest. As Roger left his office that day he realized that his actions would stop Cambridge from imposing a high-price/low-volume marketing strategy on SP such that only the very wealthy could afford Celenza. Roger found it satisfying to help people who so desperately needed it.

A month later, Roger's actions were discovered by Beth Sullivan, an internal auditor at SP, while performing a routine test on a stratified sample of cash transactions. Beth discovered that Roger used SP's operating funds to purchase shares in Dugas Incorporated just one day before the stock price skyrocketed. This discovery led Beth, who was unsure if she should further investigate the transaction, to request an impromptu meeting with Roger. Beth chose to discuss the situation with Roger rather than her immediate superior because SP's corporate structure was such that the head of the internal audit department ultimately reported to Roger, the CFO.

The meeting had only begun when Roger somewhat aggressively instructed her to simply drop the transaction from her sample. To underscore his point he made sure to mention that he was her boss's boss, and ultimately the person in charge of the internal audit department. Sensing that Beth was uncomfortable with his instructions, Roger slumped forward exhaustively and elaborated on his

heartfelt reasons for having used corporate funds to purchase the shares in Dugas Incorporated. After her meeting with Roger, Beth experienced an uneasy feeling in the pit of her stomach.

It was now two months since Beth's meeting with Roger but Beth still felt queasy when she contemplated Roger's actions. She had lain in bed the previous night tossing and turning unable to sleep. As she showered that morning she considered that it was important to ensure that she acted legally in spite of ethicality. People were thrown in jail for violating the law not for violating ethics. She resolved that in spite of thinking that perhaps Roger had behaved ethically, she had to behave rationally. If she reported Roger's actions, there was no way by which she could be held legally responsible for any of Roger's actions. There was also no means by which Roger or SP could fire her, for the Sarbanes-Oxley Act of 2002 (SOX, [U.S. House of Representatives 2002](#)) provided her with protection from their retribution. She never realized that reading the Occupational Safety and Health Administration (OSHA) fact sheet in SP's lunchroom would help her resolve such a significant dilemma. After many bored lunch breaks she could now recall the fact sheet verbatim:

An employer covered under SOX may not discharge or in any manner retaliate against an employee because he or she: provided information, caused information to be provided, or assisted in an investigation by a federal regulatory or law enforcement agency, a member or committee of Congress, or an internal investigation by the company relating to alleged mail fraud, wire fraud, bank fraud, securities fraud, violation(s) of SEC rules and regulations, or violation(s) of federal law relating to fraud against shareholders. ([OSHA 2011](#))

As Beth arrived at work that morning, after a brief stop at the local coffee shop, she confidently wrote a letter to SP's Board of Directors informing them of Roger's actions.

After reading the letter, the Board of Directors has requested that you prepare a report that explicitly addresses the following:

REQUIREMENTS

- Requirement 1:** Identify all of the stakeholders involved with Roger's decisions (i.e., those individuals and/or parties affected in some way by Roger's decisions) and the potential impact of his actions on each of them.
- Requirement 2:** Ethical sensitivity is a personal characteristic that enables an individual to recognize when an ethical issue is present. Using your ethical sensitivity, identify the various ethical conflicts present in this case.
- Requirement 3:** Publicly traded companies are required to establish a corporate code of ethics. Exhibit 1 provides background information regarding the "Code of Ethics" requirement and Exhibit 2 displays SP's own Code of Ethics. Considering the information in the case, the actions of Roger, and SP's Code of Ethics, please discuss if Roger's conduct was in violation of Part A of SP's Code of Ethics.
- Requirement 4:** Discuss the internal control deficiencies at SP that put the company at risk of violating Part B of the Code of Ethics. An internal control deficiency exists when a control either does not exist or when a control does not permit management to prevent, detect, or correct employee actions that are not consistent with the company's objectives. For your reference, Exhibit 3 provides a widely accepted definition of internal control.
- Requirement 5:** Investigate Roger's actions and determine whether his conduct was in violation of Part C of SP's Code of Ethics. To help you assess the legality of the situation, Exhibit 4 provides background information regarding the judicial system's interpretation of what constitutes insider trading.

Requirement 6: Beth acted as an internal whistleblower when, instead of following the normal chain of reporting, she bypassed her direct supervisor and informed the Board of Directors of Roger's actions. Discuss if her behavior was truly ethical, keeping in mind that her actions may have an adverse effect on those individuals suffering from acute lymphoblastic leukemia.

EXHIBIT 1

Background Information on a Corporate Code of Ethics

The Sarbanes-Oxley Act of 2002 (SOX) was implemented after numerous corporate accounting scandals (e.g., Enron, WorldCom, and Tyco). The purpose of SOX was to improve investor confidence in the capital markets. Of specific interest to SP's situation is Section 406 of SOX, which requires that public companies adopt a code of ethics applicable to the company's senior financial officers and the company's chief executive officer. The company must disclose the code in their annual report or on a website. As per Section 406 (SOX 2002), the "Code of Ethics" is:

written standards that are reasonably designed to deter wrongdoing and to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely, and understandable disclosure in reports and documents that a registrant files with, or submits to, the Commission and in other public communications made by the registrant;
- Compliance with applicable governmental laws, rules, and regulations;
- The prompt internal reporting to an appropriate person or persons identified in the code of violations of the code; and
- Accountability for adherence to the code.

EXHIBIT 2

Solodor Pharmaceuticals' Code of Ethics

The following code of ethics is applicable to all employees of Solodor Pharmaceuticals. As employees of Solodor Pharmaceuticals we will:

- A. always be honest and ethical;
- B. ensure reliable and relevant financial reporting;
- C. comply with all applicable governmental laws, rules, and regulations; and
- D. adhere to this code and quickly report any employee found in violation of it to Solodor Pharmaceuticals' Board of Directors.

EXHIBIT 3

Definition of Internal Control

Internal control is defined as a process designed to help the organization accomplish its objectives. Within organizations, internal control is established through an organization's reporting structure, the decision rights, and authority given to specific departments and to individual employees. To ensure controls are working as intended, information about the controls should be gathered and

communicated to those responsible for monitoring the effectiveness of the controls. Internal control plays an important role in protecting the organization's resources from unintended use and fraud (Committee of the Sponsoring Organizations of the Treadway Commission [COSO] 1993).

EXHIBIT 4

Background Information on Insider Trading

Definition of Insider Trading

Insider trading occurs when an individual has material, nonpublic information about a company and uses that information to trade in the company's securities (Seitzinger 2002). Material, nonpublic information is defined as information that is not available to the public that would be important to an investor in making a decision to buy or sell a security.

The Securities Exchange Act of 1934 ("the 1934 Act")

Section 16(b) of the Securities Exchange Act of 1934 directly addresses insider trading, making it illegal for insiders to profit by trading on the basis of material, nonpublic information that they possess (Securities Exchange Act 1934). Section 16(b) defines insiders as directors, officers, and those owning more than 10 percent of the company's stock.

Section 10(b) of the 1934 Act indirectly addresses insider trading, making it unlawful for an individual to use "any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the [SEC] may prescribe" (Securities Exchange Act 1934). Expanding on Section 10(b), the SEC adopted Rule 10(b)5 prohibiting "any person, directly or indirectly" from engaging in fraud or misrepresentation when trading securities, prohibiting individuals from deceiving any person in connection with the purchase (or sale) of securities.

While the 1934 Act is relatively easy to apply to corporate *insiders* who trade on material, nonpublic information, it is far more difficult to determine whether the provisions of the 1934 Act apply when an individual *outside* of the company trades on material, nonpublic information.

Recently, the Supreme Court adopted the "misappropriation theory" of insider trading, which holds that a company's information qualifies as property. Misappropriation is the intentional, illegal use of another person's property by an individual responsible for taking care of the other person's property. The Supreme Court cited the following rationale for adopting misappropriation theory, "it is well established, as a general proposition, that a person who acquires special knowledge or information by virtue of a confidential or fiduciary relationship with another is not free to exploit that knowledge or information for personal benefit" (*Diamond v. Oreamuno* 1969). Thus, the court's message is that individuals who obtain material, nonpublic information through confidential relationships are not at liberty to exploit it.

The Supreme Court adopted misappropriation theory as a result of *United States v. O'Hagan* (*United States v. O'Hagan* 1997). O'Hagan was a partner in a law firm that represented Grand Met, a company planning to purchase a large amount of stock in the Pillsbury Company. When O'Hagan learned of the deal, he purchased stock options in Pillsbury, making a fortune. O'Hagan's rebuttal to the charge that he violated Section 10(b) of the Securities and Exchange Act of 1934 was that, because he did not owe a fiduciary duty to Pillsbury, he did not commit fraud by trading on the basis of the material, nonpublic information. The Supreme Court rejected O'Hagan's argument stating, "The misappropriation theory holds that a person commits fraud . . . when he misappropriates confidential information for securities trading purposes, in breach of a duty owed to the *source* of the information." Further, the Supreme Court affirmed information as property stating, "A company's confidential information . . . qualifies as property to which the company has a right of exclusive use."

In 2000, the SEC adopted Rule 10(b)5-1 to more clearly define when a purchase or sale of securities occurs “on the basis of” material, nonpublic information. The rule defines trading “on the basis of” material, nonpublic information as those situations where the trader is aware that (s)he possesses material, nonpublic information. The SEC adopted Rule 10(b)5-2 in 2000 to provide guidance as to situations where an individual owes a duty of trust or confidence with regards to the misappropriation theory of insider trading (SEC 2000). A duty of trust or confidence is owed when:

- “[a] person agrees to maintain information in confidence.”
- “Whenever the person communicating the material, nonpublic information and the person to whom it is communicated have a history, pattern, or practice of sharing confidences, such that the recipient of the information knows or reasonably should know that the person communicating the material, nonpublic information expects that the recipient will maintain its confidentiality.”

In sum, this exhibit demonstrates that insider-trading laws are largely established by judicial opinion. While the Securities Exchange Act of 1934 definitively prohibits company insiders from trading on the basis of material, nonpublic information, it is less clear in defining when it is prohibited for individuals outside of an organization to trade on the basis of material, nonpublic information. Further, the judicial system’s interpretation of what constitutes insider trading by those outside an organization has changed dramatically over time.

CASE LEARNING OBJECTIVES AND IMPLEMENTATION GUIDANCE

This case asks students to evaluate a decision made in a legally and ethically ambiguous situation. Students are first asked to identify the stakeholders affected and then to use their ethical sensitivity to identify the situation's ethical conflicts. Then, using the company's code of ethics as a guide, students are asked to determine whether the decision maker violated the code's requirement that employees act in an ethical and legal manner. The case presents a situation where the decision maker's ethical and legal obligations may be in conflict, requiring students to consider whether ethical issues can transcend legal requirements. Students must also consider the legal and ethical issues surrounding whistleblowing. The specific scenario encourages open and lively debate among students because even though whistleblowing is legally protected, it is an open question, given the case's situation, as to whether such behavior is ethically responsible.

The case also asks students to consider recent Supreme Court rulings and Securities and Exchange Commission trading rules to determine whether an individual, who by common law and by approximately seventy years of legal precedent is not considered to be an insider, has violated insider-trading laws.

Finally, students are asked to take an internal auditor's perspective to identify the internal control deficiencies that permitted the individual to unilaterally execute the decision made in the case. Specifically, students are required to evaluate the absence of effective controls around a firm's operating account and the deleterious effect that an inappropriate reporting structure can have on the effectiveness of the internal audit department.

Learning Objectives

Upon successful completion of this instructional case, students should understand: (1) the Securities and Exchange Commission's definition of insider trading and the Supreme Court's interpretation of what constitutes insider trading, (2) the legal protection that the Sarbanes-Oxley Act affords whistleblowers, (3) the code of ethics requirement applicable to a public company's senior financial officers and chief executive officer, (4) the definition of an internal control deficiency, (5) how to identify two types of internal control deficiencies, and (6) the definition of ethical sensitivity and how to identify situations where ethical conflicts are present.

Case Implementation Guidance

Authors' Case Implementation Approach

The case approach used by the authors takes approximately 75 minutes of class time.¹ The instructor should supply the case to students approximately one week before it will be discussed in class. The instructor should make it clear that students need to read the case in its entirety, but that students need not attempt to answer the case requirements. Then, on the day the case is discussed, the instructor should break students up into small groups and ask the groups to answer the selected case requirements. The authors suggest giving student groups approximately 30 minutes to formulate their answers. While the authors recognize that each group needs to formulate written responses to the case requirements, the authors did not instruct students to appoint a single "note-taker" because it was preferred that writing responsibility be shared within so that each member was free to participate in formulating the group responses.² Next, the instructor should reconvene the

¹ The authors' recommended approach is based on their experience with using the case in their classes.

² While the authors' observations suggest that groups generally shared note-taking responsibility, it is possible that one note-taker was appointed in some groups. The authors suggest that appointing one group member as "note-taker" is not desirable because doing so may result in the appointed note-taker focusing his/her effort on writing, as opposed to participating in helping to formulate the group responses.

class, verbally informing students that no further note-taking is required and that each student will earn a participation grade based on the quality of the comments they share during the discussion of the selected case requirements.³ After the in-class discussion is finished, the authors suggest requiring each group to turn in their case requirement answers for a grade. The authors believe this approach encourages student participation during in-class discussion because by first sharing their thoughts in small groups, students are then emboldened to share their thoughts with the class as a whole. Because the authors' suggested approach asks students to answer case requirements within a group, case grading does not take a large amount of time. The authors found it took approximately one hour to grade the work of a class of 50 students who were divided into 13 groups.

The authors graded students' performance on the case in two parts: (1) participation in the class discussion, and (2) the logic of each group's written response to the case's requirements. Although all members of each group received the same grade on the written analysis portion, every individual received a distinct grade on the in-class discussion portion.⁴ The participation grade for each individual was determined based on the quality of their comments and their ability to synthesize the case material. The grade for the written analysis portion was based on the relevance and internal consistency of the group's response to the case.

Alternative Case Implementation Approach

Alternatively, to provide more time for in-class case discussion, the instructor can distribute the case to student teams approximately one week before it will be discussed in class. The instructor should instruct teams to read the entire case and to formulate answers to the case requirements. The instructor should tell teams to bring at least two copies of their answers to class on the day the case is discussed. One copy of the team's answers should be submitted to the instructor thereby providing the instructor with evidence of each team's preparation for the in-class discussion. The other copy of the team's answers serves as a discussion aid that the group can refer to during the in-class discussion. Once class starts, the instructor should ask students to sit in their teams and open the discussion of the case requirements. The instructor may decide to inform students that they will receive a participation grade for discussing the case. If so, the authors suggest bringing a copy of the class roster, providing the instructor with a tool that can be used to record the quality and quantity of each student's participation in the discussion.

Aside from giving the instructor more time for in-class discussion as compared to the case implementation approach used by the authors, asking teams to consider the case requirements in advance will likely provide for deeper student insights and richer in-class discussion. The authors believe that asking students to formulate their answers to the case requirements in small teams before the in-class discussion will stimulate participation because the small-team setting provides a safe place for students to air their ideas before introducing their thoughts to the entire class. Although the authors did not use this case approach, instead requiring students to formulate their responses to the case requirements in small groups during class, the authors suggest grading teams' responses to the case requirements should not take a large amount of time.

³ The authors suggest that students will more attentively focus on participating in class discussion if they are formally instructed to cease taking notes because they will be completely available to listen, analyze, and respond to the in-class discussion comments.

⁴ Although we recognize that this grading scheme may fail to fully recognize the group member who makes a valuable contribution within his/her group but fails to share the contribution with the class at large, we did not feel it tractable to assess the quality of each individual's contribution within their specific group.

TABLE 1
Undergraduate Student Responses to a Survey Evaluating the Usefulness of the Case

No.	Questionnaire Item	Mean ^a (Std. Dev.) n = 40	Mean Difference ^b	t	Significance (two-tailed)
1	Roger's Dilemma was easy to understand	1.98 (1.33)	-2.02	9.63	< 0.01
2	Roger's Dilemma was effective in illustrating a situation where an ethical conflict is present	1.23 (0.43)	-2.77	40.52	< 0.01
3	After completing Roger's Dilemma, I understand Sarbanes-Oxley's code of ethics requirements	2.50 (1.30)	-1.50	7.29	< 0.01
4	Roger's Dilemma increased my ability to identify ethical conflicts	2.13 (1.14)	-1.87	10.43	< 0.01
5	After completing Roger's Dilemma, I better understand the importance of segregation of duties	1.48 (0.75)	-2.52	21.27	< 0.01
6	Roger's Dilemma helped me to better understand the importance of internal control	1.33 (0.47)	-2.67	35.67	< 0.01
7	I enjoyed Roger's Dilemma	1.82 (1.49)	-2.18	8.42	< 0.01
8	Roger's Dilemma should continue to be used in this course	1.40 (0.63)	-2.60	26.00	< 0.01
9	I found Roger's Dilemma to be an effective way to learn	1.33 (0.47)	-2.67	35.67	< 0.01

^a A seven-point response scale was used where: 1 = strongly agree, 4 = neutral, 7 = strongly disagree.

^b Mean difference from neutral point of 4. Negative mean differences indicate relative agreement, where positive mean differences indicate relative disagreement.

Case Audience

Although this case was not explicitly designed for an M.B.A. program, the authors believe this case is a good fit for the M.B.A. classroom because the case requirements engage students on multiple learning dimensions. Students must integrate their knowledge of internal control and insider-trading law while applying their ethical sensitivity to identify ethical conflicts. In examining the ethical conflicts identified, students must engage in critical thinking to evaluate the decision makers' actions and to determine whether their actions were appropriate given the stakeholders involved. The authors designed the case to provide a rich foundation for in-class discussion and debate, a cornerstone of many M.B.A. pedagogical approaches.

The authors have found this case to be well suited for use in upper-level, undergraduate accounting courses and for use in an accounting master's program. A survey of nine questions examining the usefulness of the case was administered to two student demographic categories. The first student demographic category was undergraduate accounting students who had completed principles of financial accounting, managerial accounting, and intermediate financial accounting, and the second category was Master's of Accountancy (M.Acc.) students. Responses to each question ranged from 1 "strongly agree" to 7 "strongly disagree" with 4 labeled as "neutral." Table 1 displays descriptive statistics for the undergraduate students' responses to the survey, while Table 2 displays statistics for the graduate students. Students overwhelmingly found the case

TABLE 2
Graduate Student Responses to a Survey Evaluating the Usefulness of the Case

No.	Questionnaire Item	Mean ^a (Std. Dev.) n = 31	Mean Difference ^b	t	Significance (two-tailed)
1	Roger's Dilemma was easy to understand	1.58 (0.81)	-2.42	16.69	< 0.01
2	Roger's Dilemma was effective in illustrating a situation where an ethical conflict is present	1.29 (0.94)	-2.71	16.09	< 0.01
3	After completing Roger's Dilemma, I understand Sarbanes-Oxley's code of ethics requirements	2.19 (1.25)	-1.81	8.05	< 0.01
4	Roger's Dilemma increased my ability to identify ethical conflicts	2.52 (1.41)	-1.48	5.86	< 0.01
5	After completing Roger's Dilemma, I better understand the importance of segregation of duties	2.23 (1.38)	-1.77	7.14	< 0.01
6	Roger's Dilemma helped me to better understand the importance of internal control	2.29 (1.35)	-1.71	7.07	< 0.01
7	I enjoyed Roger's Dilemma	1.39 (1.12)	-2.61	13.04	< 0.01
8	Roger's Dilemma should continue to be used in this course	1.81 (1.33)	-2.19	9.20	< 0.01
9	I found Roger's Dilemma to be an effective way to learn	1.61 (1.26)	-2.39	10.58	< 0.01

^a A seven-point response scale was used where: 1 = strongly agree, 4 = neutral, 7 = strongly disagree.

^b Mean difference from neutral point of 4. Negative mean differences indicate relative agreement, where positive mean differences indicate relative disagreement.

interesting, as the responses to all of the questions were significantly different from a neutral response.

The case requirements were constructed to help guide the class toward achieving the learning objectives and the nature of the case requirements provide direction for class discussion. Student responses to a short, knowledge questionnaire containing four questions were solicited before students read the case and after the in-class discussion. Students completed the questionnaire one week prior to being provided with the case. Then, students also completed the questionnaire immediately after discussing the case in class. Table 3 and Table 4 display the response change for each question.⁵ The response change per question was calculated as the difference between the percentage of correct responses on the post-test and the pre-test questionnaire. Table 3 displays the response changes for the undergraduate accounting students, while Table 4 displays the response changes for the graduate accounting students.⁶ Questionnaire results provide support for the

⁵ It is possible that the questionnaire, or an adapted questionnaire, could be used as an outcome assessment for accreditation purposes.

⁶ The response changes for questions 1 and 3 for the undergraduate students were significantly different from that for the graduate students. Regarding question 1, the much larger response change for undergraduates is the result of a much lower percentage of correct responses on the pre-test as both groups scored approximately the same on the post-test. As regards question 3, the significantly higher response change for the graduates is caused by a much higher percentage of correct responses on the post-test for the graduate students.

TABLE 3
Comparison of Undergraduate Student Responses (Pre- and Post-) to the Case Knowledge Questionnaire

Questionnaire Item (Correct Answer in Bold)	Response Change^a	t	Significance (one-tailed)
1. True or False : The head of the internal audit department should report to a high-placed company executive (such as the chief financial officer) so that the internal audit department's work is taken seriously at all levels of the organization.	40.5%	4.01	< 0.01
2. Internal control is best described as:	21.3%	1.99	0.03
A. A set of standards that specifies the accounting principles a company may use to prepare a set of financial statements.			
B. A process that is designed to help a company achieve its goals.			
C. A set of procedures that a public accounting firm uses in conducting financial statement audits.			
D. The ethics, values, and integrity of an organization's management team.			
3. Within the United States, which law made it illegal for an individual to profit by trading on the basis of material, nonpublic information?	14.1%	1.43	0.08
A. The Securities Act of 1933			
B. The Securities Exchange Act of 1934			
C. The Insider Trading Sanctions Act of 1984			
D. The Sarbanes-Oxley Act of 2002			
4. Section 406 of the Sarbanes-Oxley Act of 2002 requires publicly traded companies to disclose their:	56.1%	7.06	<0.01
A. Audit report			
B. Internal control report			
C. Corporate code of ethics			
D. Management discussion and analysis			

^a The response change per question was calculated as the difference between the percentage of correct responses on the post-test questionnaire and the pre-test questionnaire.

effectiveness of the case in achieving the learning objectives, as the response change for each question was significantly positive.

The case requirements are designed to be relatively independent of each other, consequently, they do not need to be completed in any particular order. The authors have successfully used the case in both undergraduate and graduate-level accounting courses. Students consider this case to be a valuable learning experience, as demonstrated by Table 5, which displays selected quotes from both undergraduate and graduate students who have taken part in a course where this case is utilized.

The case integrates key accounting topics that managers should be familiar with (i.e., internal control, code of ethics, and whistleblowing). The case also familiarizes students to insider-trading law, internal control deficiencies, and the Sarbanes-Oxley Act, making it a useful tool for discussing the accounting concepts frequently covered in an M.B.A. accounting course.

TABLE 4
Comparison of Graduate Student Responses (Pre- and Post-) to the Case Knowledge Questionnaire

Questionnaire Item (Correct Answer in Bold)	Response Change^a	t	Significance (one-tailed)
1. True or False : The head of the internal audit department should report to a high-placed company executive (such as the chief financial officer) so that the internal audit department's work is taken seriously at all levels of the organization.	13.4%	1.28	0.13
2. Internal control is best described as:	16.3%	1.87	0.03
A. A set of standards that specifies the accounting principles a company may use to prepare a set of financial statements.			
B. A process that is designed to help a company achieve its goals.			
C. A set of procedures that a public accounting firm uses in conducting financial statement audits.			
D. The ethics, values, and integrity of an organization's management team.			
3. Within the United States, which law made it illegal for an individual to profit by trading on the basis of material, nonpublic information?	51.7%	5.45	< 0.01
A. The Securities Act of 1933			
B. The Securities Exchange Act of 1934			
C. The Insider Trading Sanctions Act of 1984			
D. The Sarbanes-Oxley Act of 2002			
4. Section 406 of the Sarbanes-Oxley Act of 2002 requires publicly traded companies to disclose their:	71.2%	8.17	< 0.01
A. Audit report			
B. Internal control report			
C. Corporate code of ethics			
D. Management discussion and analysis			

^a The response change per question was calculated as the difference between the percentage of correct responses on the post-test questionnaire and the pre-test questionnaire.

TABLE 5

Sample Feedback Obtained from Students after Discussing Roger's Dilemma

- "It's nice to think outside of the box and focus more on the grey areas. It seems most classes only focus on black and white issues. The grey area will better prepare us for our professional careers."
- "Helped drive it home that sometimes the law and ethics conflict, which hasn't really been addressed in my courses. Keep using the case."
- "Segregation of duties is always taught for accounting purposes but the application of this case helped give me an understanding of it for internal auditing."
- "I believe that the case was extremely thought provoking. The discussion added a variety of elements that I did not think of."
- "I thought it was a much more interesting way to learn about the securities laws and also to become aware of ethical issues/legal issues that could affect me later in life."
- "I think it is effective when students become involved and are willing to argue ethical dilemmas."
- "I found that Roger's Dilemma exemplified the struggle between doing what is ethical and doing what is legal. It demonstrated reasons why people may act the way they do in certain situations. It also made me question how I would respond in such predicaments."
- "This is one of those cases that will not be settled quickly. I really enjoyed reading this case. I especially enjoyed hearing everyone's statements regarding the questions. It made me think of circumstances that I didn't think about while reading it."
- "Held my interest while teaching me ethical concepts."

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