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Balancing the Moral Scales

BUSINESS ADVISORS, FRAUD/INVESTIGATIVE & FORENSIC ACCOUNTING
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Are charitable donations and good deeds a potential indicator of fraudulent activity? The theory of moral equilibrium, as applied to a business environment, posits exactly this question.

According to University of Texas business professor Robert Prentice, JD, moral equilibrium functions as a “mental accounting ledger.” Rather than your typical debits and credits, entries recorded are either positive or negative. For example, if someone were to donate money to charity, they might earn a positive point. Contrastingly, if that same person were to cut off a fellow driver in rush hour traffic, they might then earn a negative point. As these points are earned, our brains naturally attempt to balance our points between the two columns. It is this primarily subconscious, but also occasionally conscious; behavior that drives even fraudsters to act as exemplary citizens.

One of the prime examples of this theory in action is the now-infamous story of Bernie Madoff. Madoff operated a Ponzi scheme in which he defrauded his investors of billions of dollars. Throughout the duration of his scheme, the Madoff Family Foundation donated millions to hospitals, theaters, and other charities. Mr. Madoff volunteered at several organizations and even served on the board of Yeshiva University. Madoff was publicly “redeeming” his fraudulent acts by attempting to restore moral equilibrium by balancing out the bad with the good.

This is why as auditors, investigators, and fraud examiners in particular, it is imperative to maintain professional skepticism in order to detect instances when good deeds are utilized to cover up bad ones. At Schneider Downs, we are committed to helping our communities, and bringing awareness to the trends in consumer fraud strengthens our ability to meet those commitments. For more information on fraud prevention or detection, contact Tom Pratt at tpratt@schneiderdowns.com or Brian Webster at bwebster@schneiderdowns.com or any member of the Schneider Downs client service team.

You've heard our thoughts... We'd like to hear yours

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