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Wells Fargo Bank: When Sales Incentives and Management Pressures Lead to Widespread Fraud

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The Case

A Brief History of Wells Fargo

Henry Wells and William G. Fargo formed Wells Fargo & Company in 1852. It started out as a local community bank to serve the western United States. After the Great Depression, the bank rebounded with the rest of the U.S. and began to expand from offering savings accounts and home loans to providing other financial products to its customers. Wells Fargo grew from just one office in San Francisco to become one of the largest banks in the United States.

Throughout the 20th century, Wells Fargo developed a strong, loyal customer base as the bank expanded eastward. By 2015, Wells Fargo had $1.8 trillion in assets, was the third largest bank in the country in total assets and had the highest market capitalization among all U.S. banks (Wells Fargo Annual Report, 2015). Wells Fargo was operating nationwide through 8,700 locations and 13,000 ATMs, partially as a result of mergers and acquisitions made over the years. By the end of 2015, Wells Fargo had 265,000 employees.

As a publicly held company, Wells Fargo led the financial industry with many financial products for both individual and commercial customers. The bank offered checking and savings accounts, debit and credit cards, mortgage and consumer loans, and investment services. Investment securities were offered through its Wells Fargo Securities group, established in 2009 (a result of a takeover of Wachovia Corporation). Through various recessions, Wells Fargo maintained an image of outstanding customer service and aggressive cross-selling of products (Wells Fargo website, *History)*. For example, if a customer opened a checking account with Wells Fargo, the teller or other frontline employee was encouraged to "cross-sell" other financial products (e.g., saving accounts, credit cards, loans, investment products) to the customer. This was meant to encourage customer loyalty to the bank by providing a "one-stop" financial center for the customer. Unfortunately, the "success" of these aggressive incentive programs led to one of the biggest financial institution scandals in history (Reckard, 2013). This happened despite Wells Fargo having multiple oversight agencies scrutinizing its operations [e.g., the United States Securities and Exchange Commission (SEC), the Federal Deposit Insurance Corporation (FDIC), and Consumer Financial Protection Bureau (CFPB)]. However, a phone call to a *Los Angeles Times* reporter in 2013 unveiled a large-scale scandal. The next section discusses the background, including the players and events that led to the scandal.

A Chronicle of the Executive Compensation Plan, Sales Incentives, and the Corporate Governance Structure

In 2007, John Stumpf was named CEO of Wells Fargo, after working for 25 years in operations and working his way up the ranks.[1] He was considered among his colleagues to be aggressive and extremely loyal to Wells Fargo. To promote growth of customer accounts (which generated service fees as revenue for the bank) and bank assets (through the extension of loans and lines of credit, which resulted in interest and service fees for the bank), Mr. Stumpf encouraged his Head of Community Banking division, Carrie Tolstedt, to develop incentive programs for branch-level employees. These programs would help the bank continue its leadership in cross-selling products to its customers as a means to encourage loyalty to the Wells Fargo brand (Reckard, 2013). Ms. Tolstedt's most aggressive program was a sales incentive program started in 2003 that required bank employees to sell 8 products to each customer (Craver, 2017). This was an aggressive goal. By comparison, Wells Fargo's corresponding goal in 2000 was three products per customer (Tippett, 2016).

[1] John Stumpf joined Northwestern National Bank, the flagship bank of Northwest Corporation, in 1982. Northwest merged with Wells Fargo in 1998.

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Around this time, Wells Fargo also adopted an executive compensation program that consisted of a combination of cash and equity (i.e., restricted share rights, performance share awards) for all executives, including Mr. Stumpf and Ms. Tolstedt. The actual pay realized for equity awards depended primarily on one performance measure: Company Return on Realized Common Equity (RORCE). The RORCE was calculated as the net income less the dividends accrued on outstanding preferred stock, divided by average total common equity (excluding average accumulated comprehensive income). If the Wells Fargo's three–year average RORCE was equal to or greater than the specified target, the performance share award resulted in maximum vesting. Otherwise, the award was a reduced amount and could be as low as zero.

According to Wells Fargo's 2016 proxy statement, in 2015 Mr. Stumpf had a base salary of $2.8 million, an annual bonus of $4 million, and a long-term performance share award of $12.5 million. This meant his combined compensation package for 2015 was $19.3 million.[2] Ms. Tolstedt's annual compensation package for the same period totaled $9.05 million, with $1.7 million in base salary, an $850,000 bonus, $1.0 million in restricted share right awards, and a $5.5 million long-term performance share award. The proxy statement also indicated that both Mr. Stumpf and Ms. Tolstedt earned virtually all of the bonus and stock awards available because Wells Fargo achieved its required compensation performance measures.

Given that long-term performance share awards, which can be the majority of executive compensation, were driven only by RORCE, Ms. Tolstedt developed an incentive program for branch employees to help achieve the maximum RORCE. The branch employee program required the customer service representatives in all branches to open at a specified number of accounts per day (assuming the bank was open 6 days a week), preferably with existing customers (to continue the program to increase customer loyalty).[3] No accounts were required to be opened on bank holidays. The goal was for each customer to have 8 products (e.g., checking account, investment account, credit card). New customer relationship development was strongly encouraged, and employees were to suggest other products the customers might be interested in anytime the customer called or came into a branch. The employees were encouraged to meet the daily goals however they could, as failure to meet these goals for two months or more would result in demotion or termination. Mr. Stumpf was apprised of this incentive program and agreed to it without question, as he trusted Ms. Tolstedt's judgment—he once praised her as "the best banker in America" (CNBC News, 2017). In his 2010 report to shareholders, Mr. Stumpf reported, "I'm often asked why we set a cross-sell goal of eight. The answer is, it rhymed with 'great'" (Tippett 2016). This statement suggests that no one actually considered the ramifications of an arbitrary sales goal set because it "rhymed with 'great.'"

According to the Wells Fargo proxy statement issued in 2016, Wells Fargo had 15 members on its Board of Directors. Each of the 14 elected independent directors came from diverse backgrounds not related to Wells Fargo. With the exception of CEO John Stumpf, Wells Fargo senior executives or other external parties involved with business activities (such as creditors) of Wells Fargo were not eligible to be independent board members. Examples of Wells Fargo's independent board members in 2016 included Elaine Chao (former U.S. Secretary of Labor), David James (Retired Chairman, Vulcan Materials Company), James Quigley (CEO Emeritus Deloitte), and Lloyd Dean (President/CEO Dignity Health). John Stumpf, as CEO and Chairman of Wells Fargo, was the board's 15th member. As an executive of Wells Fargo, he was not an independent board member, but being both the CEO and chairman was not an unusual arrangement.[4] The board did have an independent Lead Director.[5]

The Board had seven committees including an audit and examination committee, as well as a corporate responsibility committee. Other committees included committees for credit, finance, governance and nominating, human resources, and risk. These committees were comprised solely of independent directors. John Stumpf was not a member of any of the committees.

[2] The authors accessed proxy statements from 2016 to compare 2015 compensation for Wells Fargo (six executives, including Stumpf and Tolstedt) with executive compensation of JPMorgan Chase (five executives) and Bank of America (seven executives, including two former executives). JPMorgan Chase and Bank of America are large commercial banks that are close competitors with Wells Fargo. The sums of the total compensations for the executives were higher for JPMorgan Chase and Bank of America.

[3] Note that banks charge a variety of fees such as monthly account maintenance fees, penalties for overdrawn checks, ATM fees, and debit card replacement fees. Usually to qualify for a "free" checking account, a customer must have a direct deposit set up or maintain a minimum daily or average balance in order to have the maintenance fees waived. Banks use money deposited by customers to make consumer, mortgage, and commercial loans; these accounts generate revenue through the collection of interest and other fees on the loans extended.

[4] Per Wells Fargo 2015 10-K, page 26 (Wells Fargo Annual Report, 2015).

[5] Per Wells Fargo's 2016 Proxy Statement, page 14 (Wells Fargo Proxy Statement, 2016).

Figure 1 shows the Wells Fargo Board and Executive Management Team in the Year 2015. *[See Figure 1, pg. 142]*
Over a number of years following the development of the incentive programs, revenue growth for the bank increased significantly every year. Much of this revenue growth came from service fees associated with new accounts opened, interest collected on loans, and fees from credit/debit cards.[6] The bank's stock price soared, reflecting analysts and investors' confidence in Wells Fargo's leadership in the banking industry. Mr. Stumpf and the other executives received millions of dollars per year in bonuses and stock awards due to the revenue growth during this period. Wall Street analysts were impressed with Wells Fargo's performance and gave the bank high ratings for being customer-oriented and innovative in its approach to providing needed products and services to their customers.

Tools Established to Encourage Ethical Behavior

The Sarbanes-Oxley Act (SOX) of 2002 contains significant protection for whistleblowers. It requires public companies to establish procedures to address employee complaints related to questionable accounting or auditing matters, and to protect the confidentiality of whistleblowers. Section 1514A states in part that "No company (publicly held)…or any officer, employee, contractor, subcontractor, or agent of such company, may discharge, demote, suspend, threaten, harass, or in any other manner discriminate against an employee" who reports to or assists an investigation into wrongdoing which is being conducted by Congress, the Securities Exchange Commission, or other regulatory agency. If this section of the act is violated, the perpetrator of the retaliation could be subject to criminal and/or civil penalties. The whistleblower could be eligible for back pay, reinstatement, and repayment for legal expenses. Although punitive damages are not included in the verbiage of the section, penalties for violation of the whistleblower protections could include up to 10 years in prison and fines (Siegal 2002)

To show compliance with this section of SOX, Wells Fargo had a fraud/ethics hotline (called EthicsLine) for customers and employees to report suspected fraud or other suspicious activity. Mr. Stumpf also encouraged the Board of Directors to develop an ethics code as required by SOX. The code included a provision that assured employees that there was an "open door" policy for reporting concerns to Mr. Stumpf or to the Board. In Wells Fargo's Code of Ethics, it states, "We have a responsibility to protect the reputation and integrity of Wells Fargo. If you see or suspect illegal or unethical behavior involving Wells Fargo, including possible violations of this Code, or violations of laws, rules or regulations—whether it relates to you, your manager, a co-worker, a customer or a third-party service provider—or if you have a question or need help making an ethics or compliance decision, you have several options" (Wells Fargo Code of Ethics[7]).

The bank provided ethics training that encouraged employees to report any problems or issues (Cowley 2016(1) and (2)). These options included reporting to one or more of the following: the 24-hour EthicsLine, management, human resources, the ethics oversight group, and/or the audit and examination committee of the Board. A fraud prevention department was formed so that suspicious activity could be anonymously reported and investigated promptly. With these activities, executive management was seen as promoting a culture of integrity and accountability.

To further encourage ethical behavior, provisions were included in the executive compensation contracts that allowed for the "clawback" of certain unvested stock awards if the financial statements had to be restated or if it was determined that an executive had caused "reputational harm" to the bank. This was meant to encourage executive management to align their interests with that of the shareholder; in theory, the threat of the loss of unvested stock would motivate the executives to consider what was best for the shareholder (Colvin, 2016).

Problems in the Ranks: A Few Examples

Shortly after the implementation of the sales incentive program, there were complaints from the employees about how the program was working. In 2005, an administrative assistant, Julie Tishkoff, complained to the human resources (HR) department about suspicious activities happening at the branches, such as forged signatures on new accounts and the sending of unsolicited credit cards. Despite continuing to complain for four years, nothing was done, and she was fired in 2009 (Cowley, 2016 (2)). In September 2007, Employee X (a whistleblower not identified) claimed to have written a letter dated

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[6] Note that for a bank's balance sheet, assets are the loans they extend to customers. Liabilities are the accounts such as savings, checking, CDs, IRAs, etc. the bank maintains for customers. The source of income for the bank includes interest collected on loans, and fees assessed on customers' depository accounts and credit/debit cards.
[7] The Wells Fargo's Code of Ethics can be retrieved from
https://www.sec.gov/Archives/edgar/data/72971/000119312516482046/d149067dex9911.pdf

September 13, 2007, to Mr. Stumpf about an unethical activity (Exhibit 1). Employee X also apparently sent a letter on the same day to the audit committee of Wells Fargo requesting anonymity while reporting fraudulent activity (Exhibit 2).[8] In the letters, Employee X claims to have filed a complaint to OSHA in February 2007, and alleged retaliation from Wells Fargo as a result of the complaint.[9]

In 2008, Yesenia Guitron, an employee of the St. Helena (California) branch, complained to her branch manager, HR, and the ethics department about problems with customers ending up with multiple/unneeded debit cards. Eventually, Ms. Guitron was fired by her branch manager (CBS News, 2016). In the same year, Christopher Johnson was fired after only five months with Wells Fargo as a business banker in Malibu, California. He was encouraged to open accounts for friends and family whether they were aware of the accounts or not, and when he refused, he was criticized for not being a "team player." Three days after he complained to EthicsLine, he was fired "for not meeting expectations." Dennis Russell was fired in 2010 because he was unwilling to refer up to 23 customers a day from his call center to sales representatives tasked to sell other products to these customers. Mr. Russell did not feel it was right to try to offer more products to people who already had financial issues such as past due Wells Fargo credit card bills and loan payments, or accounts that had been turned over to payment collection agencies (Cowley 2016(1)).

Branch managers Rita Murillo and Becky Grimes ran into similar issues. Ms. Murillo received hourly phone calls from her regional manager about her Florida branch's failure to meet its sales goals. She heard the threat that many former employees feared: "anyone falling short of their goal after two months would be fired." Also, she was often told she would end up "working for McDonalds" if the branch sales quotas were not met. Ms. Murillo and Ms. Grimes for a while went along with what was required. There is no indication they reported ethical issues associated with meeting unrealistic sales goals. However, Ms. Murillo eventually quit Wells Fargo in 2010 even though she had no job lined up and her husband was not working full-time. Ms. Grimes took early retirement in 2013 because "I could no longer do these unethical practices nor coach my team to do them either" (Reckard, 2013). Employees were instructed on methods for opening accounts; for example, opening fake accounts for family members, or ordering credit cards for customers who were approved for the card, but had not requested a card. Many times, branch managers stayed late to finish their employees' work.

Those managers who did not meet their sales goals were chastised in front of all of the other area branch managers, according to a former branch manager from the Pacific Northwest region (Reckard, 2013). Community Bank managers would intimidate and harass employees, even monitoring them daily or hourly. A former Chief Administrative Officer from 2005 to 2015 testified before the Office of the Comptroller of the Currency (OCC) that it was "common knowledge" at the bank that employees who failed to meet their sales goals would be terminated. Wells Fargo's former Chief Security Officer testified before the OCC that Community Bank's policy was "meet your quota…or be terminated" and that this policy "forced employees to do things against their will." Empirical evidence conveys that termination was a credible threat. From 2011 through the third quarter of 2016, Wells Fargo terminated approximately 8,520 employees for sales performance issues. A store manager received a warning in July 2011 because her branch achieved 98% and 90% of her store's sales goals in the first and second quarter of the year, respectively. The warning stated, "If your sales performance does not improve to an acceptable level, further action up to and including termination may result." In fact, an employee could be in trouble for exceeding sales goals by too little. A Wells Fargo investigations manager wrote in a 2009 email that a local regional president expects everybody to be at 120% of their goals, and that one manager was getting ready to terminate a banker for being at 105% of the sales goal (OCC, 2020).

As a result of the unrealistic sales goals, customers found themselves with unwanted or unauthorized accounts. In one case, a manager from the Pacific Northwest region found her employees had "encouraged" a homeless woman to open six checking and savings accounts, when all the woman needed was one account to receive her Social Security direct deposit (Reckard, 2013). Other customers complained about being charged fees for accounts they did not open, receiving credit or debit cards in the mail that they did not order, or getting calls from collection agencies about accounts they did not recognize. For example, a customer from Tarzana, California (northwest of Los Angeles) received a line of credit she did not want or need (Reckard, 2013). The unauthorized transfer of customer funds from existing accounts created many of these new

[8] CNNMoney was not able to prove whether the letters were sent to or read by Mr. Stumpf or the Board (Egan 2016). The instructor may choose whether or not to include the letters (Exhibits 1 and 2) and the section beginning with "In September 2007, Employee X…"

[9] The US Office of the Comptroller of the Currency (OCC) began investigating Wells Fargo's Community Bank sales practices in February 2015 (OCC, 2020).

accounts. Although the amounts transferred were generally small, and the money transferred back (closing the account) once the employee got credit for opening the "new" account, this activity resulted in high levels of customer complaints—and eventually, lawsuits (Corkery, 2016). Other schemes included the opening of unauthorized ATM accounts, unsolicited PIN number assignments, and/or creating fake email addresses to put on customer applications (Egan, 2017(1)).

In 2011, Wells Fargo Pomona branch general manager Claudia Ponce de Leon saw evidence of unauthorized accounts being opened at her branch. After discussion of the matter with her district manager in both June and July of 2011, she called HR to voice her concerns about these accounts. She called EthicsLine on September 7, 2011, and reported her suspicions there as well. She was then fired on September 27, 2011, for "drinking too much" (Egan, 2017 (2)).[10]

The Wells Fargo controversy came to the attention of the public after a 2013 *LA Times* story about bank clients who were charged unanticipated fees, and/or issued credit or debit cards without their consent. Because of these and other instances of unauthorized/fraudulent accounts being opened, Mr. Stumpf fired over 5,300 Wells Fargo employees from 2011 to 2015, claiming the firings resulted from internal investigations, rather than because of revelations from the Consumer Financial Protection Bureau (CFPB)[11] (Egan and Isidore, 2016).

Once the widespread firings were publicized, Mr. Stumpf appeared before the press and said the false accounts did not represent widespread fraud; rather it was "one percent" of the bank's employees who chose to commit fraud to meet their sales goals (Cowley, 2016 (1); Bellware, 2016). According to Mr. Stumpf, this behavior was not the result of incentives to do "bad things," but the result of employees not honoring Wells Fargo's code of conduct (Bellware, 2016; Glazer and Rexrode, 2016). Mr. Stumpf was quoted on Jim Cramer's *Mad Money* show in 2016 as saying, "…of those 100,000 (employees), the vast majority do the right thing, they come to work. Their life's work and mission are to help people. And I love these people. Every year, on average for the last five years, 1,000 did not do the right thing." In essence, he blamed others for the fraudulent activity (Maxfield, 2017). Mr. Stumpf also told a Congressional committee that managers and "at least one area president" were fired as a result of actions that went against the bank's culture (Bellware, 2016; Egan and Isidore, 2016). Mr. Stumpf (at least initially) did not take responsibility for the behaviors that resulted from Ms. Tolstedt's high-pressure sales program. Though Mr. Stumpf refused to share blame for the illicit activities, that "unusual" call to *Los Angeles Times* former reporter Scott Reckard in 2013 led to a lengthy investigation by the *Los Angeles Times* and the U.S. government and resulted in the shocking revelation of a pervasive practice of opening unauthorized accounts (Maloney, 2016).

Sanctions, Fines, Lawsuits

By 2013, Mr. Stumpf and other executives (including Ms. Tolstedt) were flush with stock options (granted 2009 or earlier[12]) that could be exercised until January of 2016. In mid-July of 2016, Mr. Stumpf announced that Ms. Tolstedt would retire July 31 with high praise from Mr. Stumpf. She was eligible for $124.6 million in retirement benefits from her service with Wells Fargo (Fox News, 2016).

In September of 2016, allegations were being raised that Wells Fargo's sales goals and aggressive cross-selling campaigns had led to the opening of over two million customer accounts that were unauthorized.[13] In August 2016, prior to the announcement on September 8 that the bank was being fined $185 million for opening false accounts, Mr. Stumpf received $26 million from incentive stock options exercised and sold at a profit (Kristof, 2016).

Although there were over 700 whistleblower complaints filed against Wells Fargo by 2010, the Wells Fargo Board did not provide proper oversight until the news broke about the firing of the 5,300 bank employees in 2016. The decentralized

[10] In July 2017, federal regulators ordered damages and a reinstatement of wages to a whistleblower who was fired in September 2011 (Yu, 2017).
[11] This agency was formed after enactment of the Dodd-Frank Act, acting as a one-stop agency to ensure that financial institutions treat their customers fairly. The agency provides a means for consumers to file complaints, ask questions, and recover money when they have been "harmed" by a financial institution. One of their goals is to find "unfair, deceptive, or abusive acts or practices by writing rules, supervising companies, and enforcing the law." They also aim to educate consumers about new risks in the market, as well as research consumer experience with financial services and products. (https://www.consumerfinance.gov/about-us/the-bureau/)
[12] According to Wells Fargo's 2015 Form 10-K, the company had not granted stock options since 2009 (Wells Fargo Annual Report, 2015). However, some were yet to be exercised as of 2013.
[13] As of August 31, 2017, CNNMoney reported that Wells Fargo opened more than 3.5 million fraudulent accounts, rather than the original two million reported (Egan, 2017 (4)).

nature of the company was blamed for the Board's being "unaware" of the widespread unauthorized account activity to meet sales goals, despite having access to EthicsLine. Mr. Stumpf admitted all fraud complaints were handled individually, so no patterns were detected or analyzed until 2013 (Cowley, 2016(2)). Mr. Stumpf claimed to find out about the problems with unauthorized opening of accounts in 2013 (Egan, 2016). The lawsuits and fines continued to accumulate. On February 2, 2018, the Federal Reserve imposed unusually harsh penalties on Wells Fargo in response to the scandal. The central bank restricted Wells Fargo's growth until it "sufficiently improves its governance and controls" (Federal Reserve, 2018). On April 20, 2018, the CFPB and the OCC announced a settlement with Wells Fargo. Because of its violation of the Consumer Financial Protection Act (CFPA), Wells Fargo was fined $1 billion, which included reimbursements to affected consumers, and was required to take steps to strengthen its risk management and compliance management (CFPB, 2018). On October 22, 2018, Wells Fargo agreed to a $65 million settlement with New York State for creating millions of fake accounts without customer authorization. Attorney General Underwood pointed out that "The misconduct at Wells Fargo was widespread across the bank and at every level of management; impacting both customers and investors who were misled" (AG Underwood, 2018).

On September 27, 2016, the board announced that Ms. Tolstedt, the designer of the aggressive sales incentive program, would forfeit $19 million in unvested equity awards and would not be eligible for a bonus in 2016. In addition, Mr. Stumpf would forfeit $41 million in unvested equity awards and not be eligible for a bonus in 2016 (Maxfield, 2017). Mr. Stumpf stepped down as CEO and Chairman of the Board in October 2016 (Glazer, 2016). In total, the bank fired five senior retail bank executives over the scandal and imposed forfeitures, clawbacks, and compensation adjustments on senior executives totaling more than $180 million—including $69 million from Mr. Stumpf and $67 million from Ms. Tolstedt (Reuters, 2017).

Internal Control (or Lack Thereof)

OCC (2020) provides information on Wells Fargo's system of internal control to detect sales misconduct as well as the bank's response to sales misconduct indicators. The bank's sales misconduct indicators were: 1) the EthicsLine employee complaint hotline, 2) employee complaints sent directly to executives or other managers within the bank, 3) customer complaints, and 4) data analytics. The fourth item was not employed until around 2012. Even then, employees at Community Bank were referred for investigation only if they were amongst the most egregious offenders (top 0.01% or 0.05% of offenders).[14] Wells Fargo's' executives read (or were expected to read) the EthicsLine complaints as well as numerous employee and customer complaints. According to OCC (2020), a number of other individuals or groups read the EthicsLine complaints.[15] From 2006 to 2014, EthicsLine complaints increased annually, and as early as 2007, lack of customer consent was the primary EthicsLine complaint. However, senior management did little to make meaningful changes to Community Bank's business model. Community Bank was very important to Wells Fargo's success, generating 55% to 60% of the company's average annual profits from 2010 to 2016 (OCC, 2020). Much of executives' incentive compensation was generated from Community Bank.

Senior Managers provided misleading reports to the Board of Directors and falsely reported to them that internal control was adequate. Following the *Los Angeles Times* article in 2013, the Board received reports on the bank's sales practices (Tayan, 2019). However, even as late as 2015, senior management provided false, misleading, and incomplete reporting to the Board of Directors and the OCC about the root cause, duration, and scope of the problem. For example, in a series of presentations to the Board of Directors in 2015, Carrie Tolstedt misled the Board about the sales practices misconduct problem (OCC, 2020). Nevertheless, there is a question of whether the Board of Directors could have been more proactive in uncovering the scandal.[16] For instance, one investigation found that the Board's audit and examination committee received reports of potential "gaming" activities related to sales as early as 2002 (Egan, 2017 (3)).

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[14] From April 2015 through October 2016, Community Bank's detection threshold was lowered from the top 0.01% to the top 0.05%.

[15] These included the Chief Administrative Officer, the Chief Security Officer, Corporate Investigations, the Director of Human Resources, General Counsel, and the Team Member Misconduct Executive Committee.

[16] Three other groups at Wells Fargo which were responsible for internal control and risk management were Corporate Risk, Audit, and the Law department. They all failed as lines of defense against sales incentive misconduct (OCC, 2020). In addition to Stumpf and Tolstedt, the OCC assessed civil monetary penalties on the following individuals: C. Russ Anderson, Community Bank Risk Officer (who reported to Tolstedt), James Strother, General Counsel (who reported to Stumpf), David Julian, Chief Auditor (who reported to the Board and Stumpf), and Paul McLinko, Audit Director for Community Bank audits (who reported to Julian). (OCC, 2020).

Case Questions:

1. Discuss "red flags" in the context of the fraud triangle (Opportunity, Pressure, and Rationalization) that are present in this case (Learning Objective 2).
2. Discuss the ethical dilemma faced by each of the following actors in this case, describing their behavior (both ethical and unethical) and what they could have done to encourage a more ethical "tone at the top" (Learning Objective 1):
   a. John Stumpf
   b. Carrie Tolstedt
   c. Rita Murillo
3. Discuss risk exposures present in the control environment of Wells Fargo, in terms of the five principles related to the control environment component (refer to the COSO 2013 framework). Recall that these principles state that the control environment component includes (Learning Objective 1):[17]
   - The organization demonstrates a commitment to integrity and ethical values;
   - The board of directors is independent from management and exercises oversight responsibility for the development of internal control;
   - Management establishes structure, authority, and responsibility in pursuit of objectives;
   - The organization demonstrates commitment to competence by hiring, training, and retaining competent individuals; and
   - The organization enforces accountability of individuals for the internal controls that support organizational objectives.
4. Discuss how the compensation and incentive program adopted by Wells Fargo contributed to the fraud (refer to AICPA's AU-C 240 Appendix: Example of Fraud Risk Factors) (Learning Objective 1).
5. Identify protections available to whistleblowers in this case study such as Claudia Ponce de Leon and Christopher Johnson (refer to the Dodd-Frank Act and the Sarbanes-Oxley Act) (Learning Objective 3).
6. Discuss how clawback provisions were activated to penalize the executives of Wells Fargo and whether you think they will discourage Wells Fargo's executives from unethical behavior in the future (refer to articles such as https://www.washingtonpost.com/news/on-leadership/wp/2016/09/19/in-wells-fargo-hearing-executive-pay-clawbacks-are-likely-to-take-center-stage/ (MacGregor, 2016) and http://fortune.com/2016/10/03/john-stumpf-wells-fargo-clawback/ (Colvin, 2016) (Learning Objective 4).
7. Make recommendations to improve the control environment and account operations so as to discourage fraudulent behavior at Wells Fargo (Learning Objective 5).

[17] The list of the principles was added after we discovered some of our students confused the five components of the COSO 2013 framework with the five principles related to the Control Environment component of the COSO 2013 framework.

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Learning Objectives and Implementation Guidelines

The Wells Fargo fraud situation presents a rich context for discussing red flags associated with fraud, the significance of the control environment (including the "tone at the top" and the "tone in the middle"), and protections available to whistle blowers. The blame for the fraudulent/unauthorized accounts obviously should not be solely attributed to frontline workers, as pressure from mid- and executive-level management significantly contributed to the widespread cultural issues at Wells Fargo. While some media attention focused on front-line employees (e.g., Marte, 2016), it is essential to recognize the broader organizational dynamics at play.

This case highlights the three components of the fraud triangle—i.e., perceived opportunity, perceived pressure, and rationalization (Cressey, 1953). It underscores the responsibility of management to establish, implement, and test robust internal controls to mitigate organizational risk exposures. Moreover, the case highlights the role of executive management in shaping organizational culture and setting ethical standards. Professional organizations, such as the American Institute of Certified Public Accountants (AICPA) and the Association of Certified Fraud Examiners (ACFE) have noted the role management plays in setting the culture in an organization. For example, the AICPA's AU-C 240 (formerly SAS No. 99) describes management characteristics that are indicators consistent with the potential for fraudulent/unethical behavior (AICPA, 2002). Exposing students to examples of these situations can better prepare them for the challenges in the profession. Examples of control environment problems that students should recognize include:

- Management setting unduly aggressive or unrealistic targets (as in the case of Wells Fargo);
- Domination of management by an individual or small group without compensating controls;
- Large portions of executive compensation, such as bonuses, stock options, and earn-out arrangements contingent upon achieving aggressive targets for stock price, operating results, financial position, or cash flow (as in the case of Wells Fargo);
- Pressure from management to reduce tax liabilities; and
- The use of aggressive accounting practices to keep the stock price high.

In accordance with the fraud triangle, Wells Fargo presented opportunities for fraud by setting aggressive new account targets while pressuring employees to do whatever was necessary to meet those targets to avoid punishment. In addition, the decentralization of the organization after mergers and acquisitions made it difficult to monitor individual locations. The rationalization component was present through management's goals to be the bank with the most customer loyalty and to maintain market share. As a leader in innovative products and cross-selling, Wells Fargo would be expected to "do what it takes" to maintain its innovative image. Executive management viewed the consistent increase in stock price as a reward from the market for their innovative approach to growth. Executive management felt their leadership skills justified their incentive compensation. Middle management and below rationalized their actions as means to avoid punishment and keep their jobs. They considered the unrealistic goals thrust on them by Wells Fargo and managers above them to be grounds to engage in fraudulent activities. Finally, the financial industry is highly regulated by the SEC, the FDIC, and others, so if the regulators were "okay" with what Wells Fargo was doing, management felt it must be okay to continue doing what they were doing.

This case is meant to be a classroom example of the importance of an environment that reduces the pressure component and has controls in place to reduce the opportunity component.

Learning Objectives:

After completing the case, students should be able to:

1. Recognize the conditions that increase the potential for fraudulent activity, including organizational pressures and opportunities.
2. Identify the "red flags" indicating where fraudulent activity could occur.
3. Understand the protections available to whistleblowers: Explore mechanisms available to individuals for reporting misconduct in place that also protect whistleblowers' rights.
4. Discuss ways to discourage executives from engaging in unethical behavior and to promote a culture of integrity.
5. Develop recommendations to mitigate the identified risk areas.

Implementation in General

Minimal student preparation is required for this case. Instructors can decide which case questions to use based on topical coverage in the course. For example, questions one and four can be used after covering the Fraud Triangle. Questions two, three, and seven can be used after coverage of the COSO 2013 framework, to emphasize the importance of the control environment and the awareness of fraud risk. Question five can be used after coverage of the Dodd-Frank and Sarbanes-Oxley acts, while question six requires a special coverage of clawback provisions for executive compensation. If specific coverage of behavioral red flags for fraud is not included in a course, background material on fraud might be distributed as supplemental reading. An example is the Association of Certified Fraud Examiners (ACFEs) discussion of the fraud triangle on its website. Singleton (2008, 2010) discusses basic axioms of fraud that can be applied to IT audits or audits in general. Other resources include:

- Association of Certified Fraud Examiners (ACFE) *Report to the Nations on Occupational Fraud and Abuse: 2024 Global Fraud Study* (2024)
- Committee of Sponsoring Organizations (COSO) of the Treadway Commission *Internal Control - Integrated Framework Executive Summary* (2013)
- Big Four publications on fraud prevention and reinforcing ethics such as Deloitte's *Fraud Risk Management—Providing Insight into Fraud Prevention, Detection, and Response* (2014), or Ernst & Young's *Overcoming Compliance Fatigue – Reinforcing the Commitment to Ethical Growth: 13th Global Fraud Survey* (2014)

Implementation for In-Class, Small Group Setting

Topical coverage before distributing the case includes discussions on creating a culture of ethics and integrity, as outlined in the COSO 2013 framework. This discussion may entail examining the tone at the top, hiring the right employees, communicating performance expectations throughout the organization, creating a positive work environment, and developing an effective fraud policy (Albrecht et al., 2014).

Implementation for Out-of-Class, Individual Assignment

The **c**ase questions can be structured sequentially, guiding students from analyzing red flags and risk exposures to discussing fraud prevention and detection strategies. The case takes about two to three hours for the students to complete. Instructors may tailor the questions based on course content and assign appropriate sections to graduate or undergraduate students. We have included a sample grading rubric in Exhibit 3. *[See Exhibit 3, pg. 145]*

Feedback from Instructors

Instructors suggest that while the case is best suited for an out-of-class assignment due to its complexity, some in-class discussion to introduce the case may be beneficial. Instructors can adopt various approaches, such as splitting the case into multiple sessions or using it as a take-home assignment with concurrent class discussion on relevant topics. For example, a combination approach was used in the fraud examination course. The instructor split the case into two separate sessions, and had the students work two to three questions per week. The students discussed various aspects of the case in their groups and provided individual responses when they handed in their assignment on the due dates. This step allowed each group (and each student within the group) to independently consider its solutions to the case questions before responding. The auditing course used the case study as an individual take-home assignment, rather than as an in-class activity. The internal auditing class turned in the responses to the case as a homework assignment concurrently with the discussion about the risk of fraud and illegal acts. The international accounting instructor used the case near the end of the semester as an out-of-class assignment.

Feedback from Students

Feedback on a fictionalized version of the case was collected by the authors in their classes to measure efficacy in the fall 2016 and spring 2017 semesters. In the spring 2018 and fall 2018 semesters, feedback was evaluated on the version of the case presented here. The authors gave either all of the case questions or the questions related to the course topic areas (e.g., in internal auditing, questions two, three, and seven were assigned in the spring 2017 semester). The authors make significant use of case studies in their classes throughout the semester, and the size of the courses evaluated generally includes eight to 30 students per semester. We suggest this case be used in a(n) fraud examination, auditing, or internal auditing course.

During the spring 2018 and fall 2018 semesters, feedback was collected from the fraud examination (graduate level),[18] auditing (undergraduate course), internal auditing (undergraduate/graduate cross-listed course), and international accounting (graduate level) courses using the survey in Exhibit 4.[19] *[See Exhibit 4 pg. 146]*

Based on the earlier feedback survey and comments from students and reviewers, we adjusted the case narrative to mirror the actual events in the Wells Fargo scandal. In spring 2018 and fall 2018, we adjusted the case questions administered in the different classes to fit the course topics and learning objectives of the class, based on instructor experience with the earlier version of the case used in fall 2016 and spring 2017. For example, in the fraud examination course (spring 2018 semester), students answered all of the case questions except the ethical dilemma question (case question two). In the spring 2018 semester, two undergraduate auditing sections used the case [20] and answered questions one (behavioral red flags for fraud) and three (risk exposure identification). The internal auditing students worked questions one, two, three, and seven, and provided their individually developed responses. In the fall 2018 semester, the international accounting students answered questions 1 (behavioral red flags for fraud) and two (ethical issues faced by actors in case).

Descriptive statistics can be found in Table 1, Panel A. The instructors collected feedback from the fraud examination (n = 13), auditing (n = 36), internal auditing (n = 14), and international accounting (n = 21) students. Of these 84 students, 32 were employed full-time, 40 were employed part-time, and 12 were not employed. Of the 72 students employed at least part-time, 26 indicated their employer provided fraud awareness training, 25 said their employer had a fraud hotline, 49 responded their employer had an ethics code, and 26 mentioned their employer had a whistleblower protection policy (Table 1, Panel B). *[See Table 1, pg. 148]*

The results of the feedback survey can be found in Table 2. We used a Likert scale (in 10% increments) to collect students' agreement with statements describing various aspects of the case (endpoints were 0 = "strongly disagree" and 100 = "strongly agree"). For the total sample of 84 students (Panel A), the students agreed that the case helped them identify the red flags for fraud (mean of 89.2) and helped them to better understand the control environment (mean of 91.4). The students agreed the case improved their ability to understand how to encourage ethical behavior (mean of 83.2) and also increased their understanding of the protections available under the Dodd-Frank Act (mean of 81.6). Furthermore, the students indicated that they enjoyed working the case (mean of 87.5). Anecdotally, many of the auditing and fraud examination students were incredulous that this case reflected actual events, as many of them were familiar with the results of the Wells Fargo scandal (e.g., fines), but not how the fraud developed.

By class feedback results are in panels B through E. Table 2, Panel B (auditing students) shows agreement levels ranging from 74.4 (Q5, relating to whistleblower protection) to 92.2 (Q3, relating to the importance of the control environment). Note that this class case assignment did not include the whistleblowing question. For the fraud examination students (Table 2, Panel C), agreement ranged from 87.7 to 96.1. The internal auditing students (Table 2, Panel D) had agreement scores ranging from 85.0 to 92.9. Finally, agreement ratings for the international accounting students (Table 2, Panel E) ranged from 80.7 to 86.2. The mean agreement scores tended to be lower for international accounting than for the other courses. This aspect could be due to differences in learning objectives and learners' interests in international accounting relative to auditing (external and internal) and fraud examination. The study of corporate environments that lead to fraudulent activities ties in more with the course material in auditing and fraud examination than in international accounting. In addition, some students who enroll in international accounting (which is an elective course) may have a particular interest in international accounting but not the study of the internal control environment or catalysts for fraudulent activity. The mean agreement levels for all classes on Q3 (the importance of the control environment) were the highest. This result was regardless of whether or not they answered the case questions related to the control environment (case questions three and seven). *[See Table 2, pg. 149]*

Consequences of Scandal

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[18] At our university, the graduate fraud examination course is the capstone course for the MS in Accounting program.
[19] As the feedback collected during the fall 2016 and spring 2017 semesters used a different version of the case, the results are not included here (n= 37). Based on anecdotal feedback from the students and comments from two anonymous reviewers and an associate editor, the case was revised to reflect the actual Wells Fargo situation. In addition, we added some clarification to question 3 to help the students answer that question.
[20] Both auditing sections were combined for reporting purposes, as there were only small differences in the responses between sections.

Cooper and Ginanarajah (2020) and Wilowski (2023) are two articles that provide good timelines of events related to those of the Wells Fargo scandal.

To settle the scandal, as of May 2023 Wells Fargo paid over $10 billion to government agencies for civil penalties and to customers and investors for class action lawsuits (Wilowski, 2023). Due to the scandal, it has fired over five thousand of its employees and has overhauled its management and Board of Directors (Tuttle, 2017; Associated Press, 2024). The Office of the Comptroller of the Currency (OCC) barred John Stumpf, Carrie Tolstedt, and C. Russ Anderson (Community Bank Risk Officer) from the banking industry and ordered them and several other executives to pay civil penalties (Copper and Ginanarajah, 2020; OCC, 2020). In addition, the Wells Fargo Board of Directors has clawed back more than $100 million of compensation from former executives (Tuttle, 2017). In 2023, Carrie Tolstedt faced up to 16 months in prison (Prentice and Schroeder, 2023). This sentence was later reduced to probation, home confinement, community service, and a $100,000 fine (Prentice and Stempel, 2023). However, her boss John Stumpf has not faced prison time. In February 2024, the U.S. government removed some of its consent orders for Wells Fargo, saying the bank has sufficiently fixed its toxic culture (Associated Press, 2024).

Interestingly, the scandal did not lead to restatements of Wells Fargo's financial statements. First, even though the scandal had significant legal and reputational consequences, the dollar amounts of potential restatements were relatively small compared to total revenues and assets. An extensive review in 2016 identified approximately 2.1 million potentially unauthorized accounts over the 2011–2016 period. As a result of this review, Wells Fargo refunded $2.6 million. This refund amount would not likely result in a material change in Wells Fargo's financial statements[21] (CFPB, 2018; Cooper and Ginanarajah, 2020; Wells Fargo Third Quarter Report, 2016). Second, the improper actions and associated financial effects were spread over time. Thus, the impact on any single period was diluted. Third, the fraudulent activities primarily involved creating fake accounts but did not involve misstating actual financial results. The fact that Wells Fargo did not restate its financial statements does not mean that the impact of these fraudulent activities was immaterial. It simply indicates that the monetary impact of the misconduct was not substantial enough to alter the financial picture presented in the financial statements.

In addition to the case questions, an instructor could ask the students to report on events and consequences from the scandal from the end of the case's timeline in 2018. Moreover, an instructor could ask students why Wells Fargo's financial statements were not restated as a result of the scandal.

Conclusion

The description of the Wells Fargo case is meant to get the students to think about fraud awareness, and the importance of the control environment in establishing and maintaining good internal controls to deter and detect fraudulent activity. Organizational culture supports the control environment by establishing a tone at the top that reflects the organization's commitment to integrity and ethical values. Therefore, a strong organizational culture can encourage ethical behavior at all levels and discourage fraudulent activity.

Prior pedagogical literature suggests that case studies have benefits when used in conjunction with traditional methods of lectures (i.e., Boyce et al., 2001; Markus and McConnell, 2001). This case is specifically developed for use in a graduate or undergraduate level fraud examination, forensic accounting, or auditing (external or internal) course to help students better understand the basic elements of the fraud triangle, to help them understand the importance of creating a culture of honesty, and to encourage ethical behavior. Note that this case also can be utilized in courses that discuss fraud detection and prevention as part of the course topic coverage. It uses a real scenario for students to apply their fraud examination/forensic accounting skills to real business issues. With appropriate guidance from instructors, students should be able to use their knowledge about internal control, the fraud triangle, and whistleblower programs to identify areas that could possibly hide fraudulent activity and provide recommendations on how to effectively prevent and detect future fraud.

[21] Wells Fargo Issues Statement on Agreements Related to Sales Practices: https://newsroom.wf.com/English/news-releases/news-release-details/2016/Wells-Fargo-Issues-Statement-on-Agreements-Related-to-Sales-Practices/default.aspx

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Figure 1: Organizational Chart for Wells Fargo Board and Executive Management: 2015

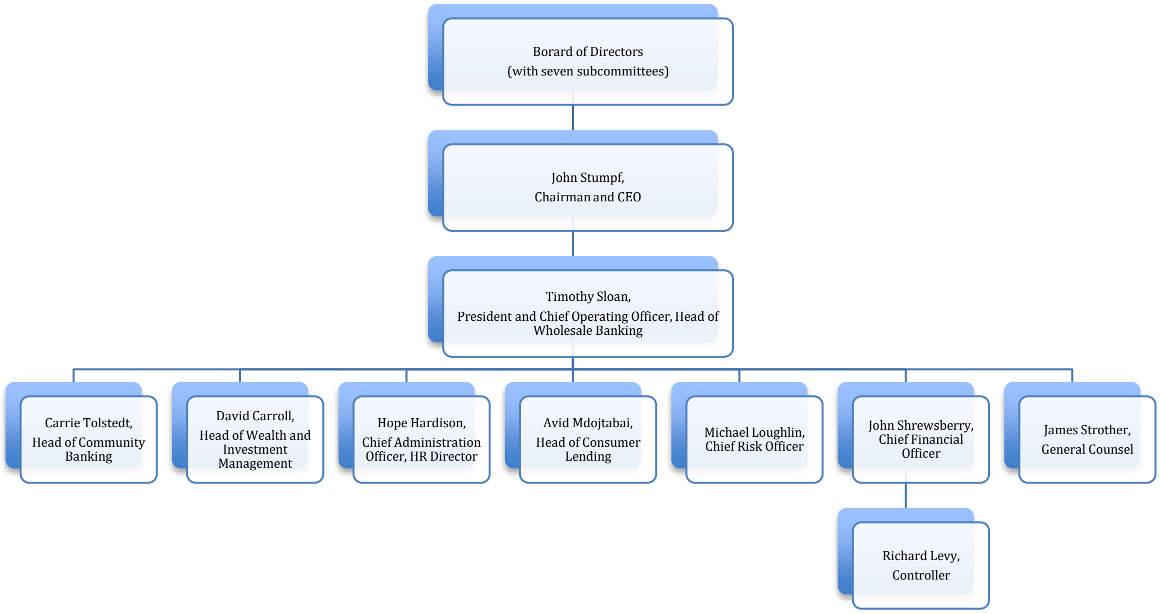
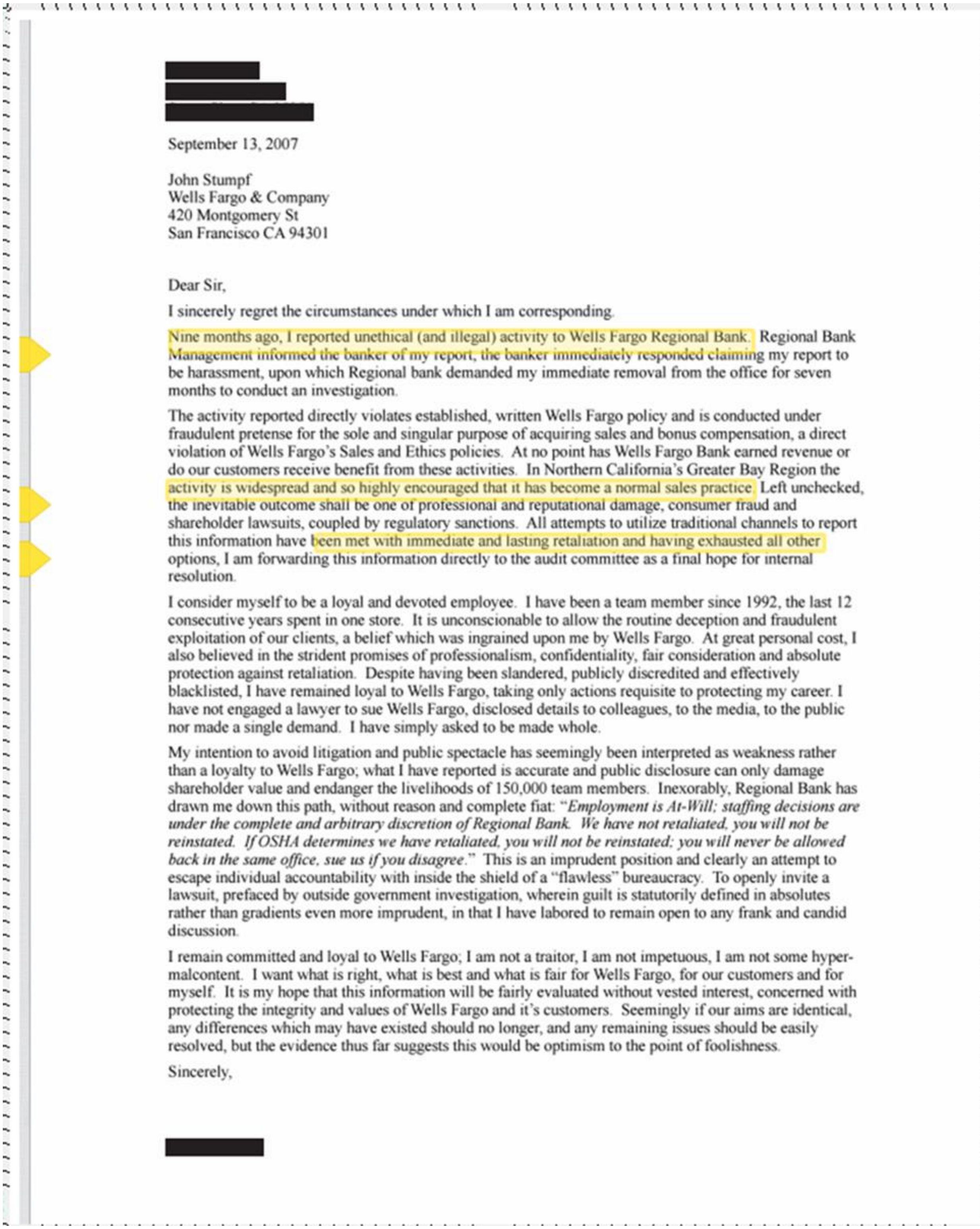


Exhibit 1: Letter from Whistleblower to Mr. Stumpf



[redacted]

September 13, 2007

John Stumpf
Wells Fargo & Company
420 Montgomery St
San Francisco CA 94301

Dear Sir,

I sincerely regret the circumstances under which I am corresponding.

Nine months ago, I reported unethical (and illegal) activity to Wells Fargo Regional Bank. Regional Bank Management informed the banker of my report, the banker immediately responded claiming my report to be harassment, upon which Regional bank demanded my immediate removal from the office for seven months to conduct an investigation.

The activity reported directly violates established, written Wells Fargo policy and is conducted under fraudulent pretense for the sole and singular purpose of acquiring sales and bonus compensation, a direct violation of Wells Fargo's Sales and Ethics policies. At no point has Wells Fargo Bank earned revenue or do our customers receive benefit from these activities. In Northern California's Greater Bay Region the activity is widespread and so highly encouraged that it has become a normal sales practice. Left unchecked, the inevitable outcome shall be one of professional and reputational damage, consumer fraud and shareholder lawsuits, coupled by regulatory sanctions. All attempts to utilize traditional channels to report this information have been met with immediate and lasting retaliation and having exhausted all other options, I am forwarding this information directly to the audit committee as a final hope for internal resolution.

I consider myself to be a loyal and devoted employee. I have been a team member since 1992, the last 12 consecutive years spent in one store. It is unconscionable to allow the routine deception and fraudulent exploitation of our clients, a belief which was ingrained upon me by Wells Fargo. At great personal cost, I also believed in the strident promises of professionalism, confidentiality, fair consideration and absolute protection against retaliation. Despite having been slandered, publicly discredited and effectively blacklisted, I have remained loyal to Wells Fargo, taking only actions requisite to protecting my career. I have not engaged a lawyer to sue Wells Fargo, disclosed details to colleagues, to the media, to the public nor made a single demand. I have simply asked to be made whole.

My intention to avoid litigation and public spectacle has seemingly been interpreted as weakness rather than a loyalty to Wells Fargo; what I have reported is accurate and public disclosure can only damage shareholder value and endanger the livelihoods of 150,000 team members. Inexorably, Regional Bank has drawn me down this path, without reason and complete fiat: "*Employment is At-Will; staffing decisions are under the complete and arbitrary discretion of Regional Bank. We have not retaliated, you will not be reinstated. If OSHA determines we have retaliated, you will not be reinstated; you will never be allowed back in the same office, sue us if you disagree.*" This is an imprudent position and clearly an attempt to escape individual accountability with inside the shield of a "flawless" bureaucracy. To openly invite a lawsuit, prefaced by outside government investigation, wherein guilt is statutorily defined in absolutes rather than gradients even more imprudent, in that I have labored to remain open to any frank and candid discussion.

I remain committed and loyal to Wells Fargo; I am not a traitor, I am not impetuous, I am not some hyper-malcontent. I want what is right, what is best and what is fair for Wells Fargo, for our customers and for myself. It is my hope that this information will be fairly evaluated without vested interest, concerned with protecting the integrity and values of Wells Fargo and it's customers. Seemingly if our aims are identical, any differences which may have existed should no longer, and any remaining issues should be easily resolved, but the evidence thus far suggests this would be optimism to the point of foolishness.

Sincerely,

[redacted]

Exhibit 2: Letter from Whistleblower to Wells Fargo Audit Committee

[redacted]

September 13, 2007

Wells Fargo & Company
Audit and Examination Committee
420 Montgomery St
San Francisco CA 94301

CC John Stumpf

Sirs,

I request that this information remain confidential and my identity anonymous to those not in the direct service of this committee or the CEO of Wells Fargo. My name is [redacted]; I have been an employee of Wells Fargo Bank since 1992 and have spent the last 12 consecutive years working at the [redacted], CA store (branch). I am reporting activity which I believe violates Federal and State laws and regulations as well as Federal laws protecting shareholders from internal fraud.

In February 2007, I filed a complaint with OSHA alleging illegal retaliation by Wells Fargo, the OSHA investigation is ongoing. In the complaint, I allege managers of Wells Fargo Regional Bank (WFB) illegally retaliated in violation of provisions established within Sarbanes-Oxley ACT in response to a report I made in December 2006 to senior managers of WFB, wherein I documented this illegal and unethical activity and fraud. The activities remain ongoing to this day.

I recognize it is not the duty of the committee to assure compliance with laws and regulations or the Company's Code of Ethics and Business Conduct, however in the course of the OSHA and inevitable DOL investigations, the data and allegations will become subject to public scrutiny via the Freedom of Information Act, unearthing internal fraud, failures in the strength of internal reporting mechanisms and invariably subjecting Wells Fargo to civil litigation (PSLRA or similar class action lawsuits). In that this is the only body independent from management, empowered with the oversight to ensure complaints are handled independent of management and investigated in a professional and effective manner, I am hoping it to be incumbent upon this body to review and investigate the activity contained herein. At the core this is internal fraud and remains a significant and ongoing risk to Wells Fargo and its shareholders. I can only assume WFB management has sanctioned these actions, as to date I have never been contacted by any investigator, independent or otherwise, which leaves little reason to believe the full scope of data reported has been fairly evaluated.

I am unable to separate actions which violate Federal and State regulations, Wells Fargo Bank Account Policies & Procedure, Sales & Ethics compensation plans, however cumulatively this data should present the ability of an independent investigator to gain a robust perspective of the activity and adequately measure the liability represented.

I have enclosed all pertinent documents and correspondence initially sent to managers of Wells Fargo Retail Bank, Wells Fargo Investments, Human Resources and subsequent correspondence with OSHA, organized by sections, appendices and synoptic foreword.

I respectfully request to receive acknowledgement as to receipt and status of this information; I have refrained from engaging legal representation through the preliminary stages of the OSHA investigation, so that I would be directly accessible by any person or group interested in defusing and rectifying these activities without public exposure.

Sincerely,

[redacted]

Exhibit 3: Suggested Grading Rubric

Suggested Grading Rubric[22] for Out-of-Class Assignment of Case(s)

If the case is worth 15 points:			
Criterion	**Strong**	**Average**	**Weak**
Identification of Issues	Identify all of the main issues in the case study: 4 -5 points	Identify most of the main issues in the case study: 3 points	Identify some or none of the main issues in the case study: 0 - 2 points
Analysis of Issues	Insightful and thorough analysis of all issues in the case study: 4 - 5 points	Thorough analysis of most issues in the case study: 3 points	Incomplete and/or superficial analysis of issues in the case study: 0 - 2 points
Recommendations on Effective Solutions	Well-documented and appropriate recommendations on solutions to all the issues in the case study: 4 - 5 points	Appropriate recommendations on solutions to most of the issues in the case study: 3 points	Inappropriate and/or incomplete recommendations on solutions to most of the issues in the case study: 0 - 2 points

[22] If instructor chooses to use the case as an in-class assignment, points associated with participation of in-class discussion may be added to the grading rubric.

Exhibit 4: Student Feedback Survey

1. I enjoyed working on the *Wells Fargo Bank* case.

0 10 20 30 40 50 60 70 80 90 100

Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree

2. The *Wells Fargo Bank* case helped me learn to identify "red flags" that could suggest fraudulent activity.

0 10 20 30 40 50 60 70 80 90 100

Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree

3. The *Wells Fargo Bank* case helped me better understand the importance of control environment, especially the tone-at-top.

0 10 20 30 40 50 60 70 80 90 100

Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree

4. The *Wells Fargo Bank* case helped me better understand things that can be done to discourage executives from engaging in unethical behavior.

0 10 20 30 40 50 60 70 80 90 100

Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree

5. The *Wells Fargo Bank* case helped me better understand how whistleblowers are protected under laws such as Dodd-Frank.

0 10 20 30 40 50 60 70 80 90 100

Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree

6. Developing recommendations to mitigate the risk exposures in the *Wells Fargo Bank* case helped me apply the concept of control activities in a realistic situation.

0 10 20 30 40 50 60 70 80 90 100

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

7. Please indicate your classification:

_____undergraduate accounting student

_____graduate accounting student

_____MBA student

_____ Other

8. Are you currently employed?

_____ Yes, full-time

_____ Yes, part-time

_____ No, not employed at this time (skip question 9)

9. Does your employer have any of the following (check all that apply)

_____ Fraud awareness training

_____ Ethics code

_____ Fraud hotline

_____ Whistleblower protection policy (non-retaliation policies, etc.)

Thank you so much for your time!

Table 1: Descriptive Statistics

Panel A: Auditing, Fraud Examination, Internal Auditing, and International Accounting Students (n = 84)

		Frequency	Percent
Class	Auditing	36	42.9
	Fraud	13	15.5
	Internal	14	16.7
	International	21	25.0
	Total	84	100.0
Employment	Full-time	32	38.1
	Part-time	40	47.6
	Not employed	12	14.3
	Total	84	100.0
Classification	Undergraduate	40	47.6
	Graduate	44	52.4
	Total	84	100.0

Course: undergraduate auditing, graduate fraud examination, internal auditing (9 graduate students, 5 undergraduate students), and graduate international accounting

Classification: undergraduate or graduate accounting major

Employment: full-time, part-time, or not employed at this time

Note: The above responses for Employment and Classification are based on students' responses. There actually were 41 undergraduate students and 43 graduate students.

Panel B: Responses about policies/training for those participants currently employed (n = 72)*

Employer provides:	Yes	No or No Answer	Total
Fraud awareness training	26	46	72
Whistleblower protection	26	46	72
Ethics code	49	23	72
Hotline to report fraud	25	47	72

Note that the total of the "Yes" column will add up to more than 72, as some employers had more than one of these policies/training

Table 2: Average Agreement Levels by Survey Question

Panel A: Spring 2018, Fall 2018 all students (n = 84)

(Auditing, Fraud Examination, Internal Auditing, and International Accounting students)

	Minimum	Maximum	Mean	Std. Deviation
Q1: enjoyment	40	100	87.5	15.5
Q2: identify red flags	10	100	89.2	17.1
Q3: import of control env	10	100	91.4	14.4
Q4: ways to discourage unethical execs	10	100	83.2	20.1
Q5: understand whistleblower protection	10	100	81.6	21.5
Q6: develop recommendations	10	100	86.4	16.5

Panel B: Spring 2018, auditing students only (n = 36)

	Minimum	Maximum	Mean	Std. Deviation
Q1: enjoyment	50	100	86.4	13.8
Q2: identify red flags	60	100	91.4	11.7
Q3: import of control env	70	100	92.2	9.6
Q4: ways to discourage unethical execs	30	100	82.2	16.9
Q5: understand whistleblower protection	20	100	74.4	22.1
Q6: develop recommendations	50	100	82.5	12.7

Panel C: Spring 2018, fraud examination students only (n = 13)

	Minimum	Maximum	Mean	Std. Deviation
Q1: enjoyment	60	100	93.9	11.9
Q2: identify red flags	60	100	93.9	11.9
Q3: import of control env	80	100	96.2	7.7
Q4: ways to discourage unethical execs	30	100	87.7	20.5
Q5: understand whistleblower protection	80	100	93.9	9.6
Q6: develop recommendations	60	100	94.6	12.0

Panel D: Spring 2018, Internal Auditing Students only (n =14)

	Minimum	Maximum	Mean	Std. Deviation
Q1: enjoyment	50	100	87.1	19.0
Q2: identify red flags	40	100	87.1	18.6
Q3: import of control env	70	100	92.9	9.9
Q4: ways to discourage unethical execs	30	100	85.0	20.7
Q5: understand whistleblower protection	40	100	89.3	16.4
Q6: develop recommendations	50	100	91.4	15.1

Panel E: Fall 2018, International Accounting Course Students only (n = 21)

	Minimum	Maximum	Mean	Std. Deviation
Q1: enjoyment	40	100	85.7	17.8
Q2: identify red flags	10	100	84.0	24.7
Q3: import of control env	10	100	86.2	23.5
Q4: ways to discourage unethical execs	10	100	80.7	24.9
Q5: understand whistleblower protection	10	100	81.2	24.6
Q6: develop recommendations	10	100	84.8	22.7

For Table 2 data:

Survey Questions analyzed:

Q1: I enjoyed working on the *Wells Fargo Bank* case

Q2: The *Wells Fargo Bank* case helped me learn to identify "red flags" that could suggest fraudulent activity

Q3: The *Wells Fargo Bank* case helped me better understand the importance of control environment, especially the tone-at-top

Q4: The *Wells Fargo Bank* case helped me better understand things that can be done to discourage executives from engaging in unethical behavior

Q5: The *Wells Fargo Bank* case helped me better understand how whistleblowers are protected under laws such as Dodd-Frank

Q6: Developing recommendations to mitigate the risk exposures in the Wells Fargo Bank case helped me apply the concept of control activities in a realistic situation

Agreement with the survey questions were measured based on the following 0 to 100% scale:

0 = Strongly Disagree

50 = Neutral (neither agree nor disagree)

100 = Strongly Agree