

2017 WL 242608

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United States District Court,
D. Delaware.

Charles Pratt, Jr., Plaintiff,
v.
M & T Bank Corp., Defendant.

No. 14-cv-1126 (RGA)

Filed 01/19/2017

Synopsis

Background: Information technology auditor brought action against employer bank, alleging violation of Delaware's Whistleblower Protection Act and implied covenant of good faith and fair dealing. Bank moved for summary judgment.

Holdings: The District Court, Andrews, J., held that:

^[1] auditor's reporting of bank's violations of **data** privacy laws was not protected by the Whistleblower Protection Act;

^[2] fact issues as to whether there was a causal link between auditor's termination and his reporting of **data** privacy violations precluded summary judgment on implied covenant of good faith and fair dealing grounded in public policy; and

^[3] fact issues as to whether bank misrepresented auditor's title precluded summary judgment on implied covenant of good faith and fair dealing claim.

Motion granted in part and denied in part.

West Headnotes (8)

^[1] Labor and Employment

Delaware Whistleblower Protection Act protects employees who are fired for reporting a

violation of certain state and federal laws, and in doing so, it encourages reporting, promotes public health and safety, and provides a check on persons in positions of authority. 19 Del. Code § 1703.

Cases that cite this headnote

^[2] Labor and Employment

Information technology auditor's allegations that employer bank violated **data** privacy laws, including Graham Leahy Bliley Act and Health Insurance Portability and Accountability Act (HIPAA), were not covered by Delaware's Whistleblower Protection Act, since the Act reached only standards related to finances, not **data** privacy; auditor did not allege a "violation" within meaning of the Act, because **data** privacy laws did not refer to standards that protected the public from financial fraud resulting from how a company, such as employer bank, managed and accounted for its finances. 19 Del. Code § 1702(6)(b).

Cases that cite this headnote

^[3] Federal Civil Procedure

Genuine issue of material fact existed as to whether there was a causal link between information technology auditor's termination and his reporting of employer bank's alleged violations of **data** privacy laws, precluding summary judgment on auditor's claim, under Delaware law, for termination in violation of implied covenant good faith and fair dealing grounded in public policy.

Cases that cite this headnote

[4] **Labor and Employment**

If an employee can prove he was fired because he reported illegal conduct to his employer, he will have made a valid claim, under Delaware law, for **breach** of implied covenant of good faith and fair dealing based on violation of public policy.

Cases that cite this headnote

[5] **Labor and Employment**

Public policy exception to the Delaware Whistleblower Protection Act generally requires a clear mandate of public policy; the public interest allegedly implicated by employee's firing must be recognized by some legislative, administrative, or judicial authority. 19 Del. Code § 1703.

Cases that cite this headnote

[6] **Labor and Employment**

A plaintiff can prove retaliation, to support wrongful termination claim under Delaware law, by showing a pattern of antagonism coupled with timing to establish a causal link.

Cases that cite this headnote

[7] **Federal Civil Procedure**

Genuine issue of material fact existed as to whether employer bank misrepresented information technology auditor's position as being an assistant vice president, and whether auditor relied on such misrepresentation in

accepting his position, precluding summary judgment on auditor's claim that his title downgrade from assistant vice president to banking officer less than two months after he was hired was a violation of implied covenant of good faith and fair dealing under Delaware law.

Cases that cite this headnote

[8] **Labor and Employment**

Under Delaware law, an employer violates the covenant of good faith and fair dealing when it induces another to enter into an employment contract through actions, words, or withholding of information, which is intentionally deceptive in some way material to the contract.

Cases that cite this headnote

Attorneys and Law Firms

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MEMORANDUM OPINION

Andrews, U.S. District Judge:

***1** This is a case of an auditor that did his job too well, or not well enough. Since there are genuine disputes of material fact, that is for the jury to sort out.

Plaintiff Charles Pratt worked for Defendant M & T bank for seventeen months until it fired him. During that time, Plaintiff worked in Defendant's audit department on the information technology security team.

Plaintiff alleges that his reports of **data** security violations, requests for further testing, and objections to misleading reporting of said violations were why Defendant wrote him up and ultimately fired him. On that basis, he brings Delaware Whistleblower Protection Act and implied covenant of good faith and fair dealing claims against Defendant. He also brings an implied covenant claim because Defendant changed his position from Assistant Vice President to Banking Officer within six weeks of starting the job.

Defendant has filed a motion for summary judgment on all three claims. (D.I. 57). For the following reasons, Defendant's motion is denied in part and granted in part.

I. SUMMARY JUDGMENT STANDARD

"The court shall grant summary judgment if the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(a). Material facts are those "that could affect the outcome" of the proceeding. *Lamont v. New Jersey*, 637 F.3d 177, 181 (3d Cir. 2011) (quoting *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986)). "[A] dispute about a material fact is 'genuine' if the evidence is sufficient to permit a reasonable jury to return a verdict for the nonmoving party." *Id.* The burden on the moving party may be discharged by pointing out to the district court that there is an absence of evidence supporting the non-moving party's case. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986).

The burden then shifts to the non-movant to demonstrate the existence of a genuine issue for trial. *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 586–87, 106 S.Ct. 1348, 89 L.Ed.2d 538 (1986); *Williams v. Borough of West Chester, Pa.*, 891 F.2d 458, 460–61 (3d Cir. 1989). A non-moving party asserting that a fact is genuinely disputed must support such an assertion by: "(A) citing to particular parts of materials in the record, including depositions, documents, electronically stored information, affidavits or declarations, stipulations ..., admissions, interrogatory answers, or other materials; or (B) showing that the materials cited [by the opposing party] do not establish the absence ... of a genuine dispute" Fed. R. Civ. P. 56(c)(1). The non-moving party's evidence "must amount to more than a scintilla, but may amount to less (in the evaluation of the court) than a preponderance." *Williams*, 891 F.2d at 461.

When determining whether a genuine issue of material fact exists, the court must view the evidence in the light

most favorable to the non-moving party and draw all reasonable inferences in that party's favor. *Wishkin v. Potter*, 476 F.3d 180, 184 (3d Cir. 2007). If the non-moving party fails to make a sufficient showing on an essential element of its case with respect to which it has the burden of proof, the moving party is entitled to judgment as a matter of law. See *Celotex Corp.*, 477 U.S. at 322, 106 S.Ct. 2548.

II. DELAWARE WHISTLEBLOWER PROTECTION ACT CLAIM

*2 ¹¹The Delaware Whistleblower Protection Act protects employees who are fired for reporting a violation of certain state and federal laws. In doing so, the Act "encourage[s] reporting," "promotes public health and safety," and "provides a check on persons in positions of authority." *Smith v. Univ. of Del.*, 47 A.3d 472, 476 (Del. 2012).

In order to qualify as a violation under the Act, the employer misconduct must speak to public health and safety or to fraud. As to fraud, the relevant category here, the statute defines a violation as:

an act or omission ... that is [materially inconsistent with, and a serious deviation from, financial management or accounting standards implemented pursuant to a rule or regulation promulgated by the employer or a law, rule, or regulation promulgated under the laws of this State, a political subdivision of this State, or the United States, to protect any person from fraud, deceit, or misappropriation of public or private funds or assets under the control of the employer.

Del. Code tit. 19 § 1702(6)(b).

¹²Plaintiff alleges Defendant violated **data** privacy laws including the Graham Leahy Bliley Act and the Health Insurance Portability and Accountability Act. Defendant counters that violations of these laws are not covered by the Whistleblower Act.

The plain language of the statute resolves the conflict here. The Act requires that the reported employer misconduct violate (1) a financial management standard or accounting standard (2) enshrined in a federal or state

law, rule, or regulation and (3) aimed at fraud, deceit, or misappropriation of funds. Plaintiffs claim fails on the first requirement. Plaintiff has not cited any financial management standard or accounting standard, let alone any act or omission that deviates from such a standard.

“Financial management” and “accounting” reference the details of how a company manages and accounts for its finances. “Financial” means “[o]f, pertaining, or relating to finance or money matters.” “Financial,” *Oxford English Dictionary* (Online Ed.) (accessed Jan. 18, 2017). “Accounting” is “[t]he action, process, or art of keeping and verifying financial accounts...” “Accounting,” *Oxford English Dictionary* (Online Ed.) (accessed Jan. 18, 2017).

A “standard” is “[a]n authoritative or recognized exemplar of correctness, perfection, or some definite degree of any quality.” “Standard,” *Oxford English Dictionary* (Online Ed.) (accessed Jan. 18, 2017). The use of the term standard reflects a focus on regulation.

Putting these terms together, a financial management standard is not any standard that is tangentially related to running a business but rather regulations and rules that describe how a business should manage its finances. For example, the federal government has “financial management standards” that apply to recipients of federal grants.

Accounting standards are similar, although focused on the measurement and categorization of the business’s finances. The U.S. Generally Accepted Accounting Principles are an example of accounting standards.

The legislative history of the Act reinforces the intuition that the statute refers to how a business manages and accounts for its finances. The fraud provision of the Act was added in 2004, in the wake of the Enron scandal. At its core, the Enron scandal involved the fraudulent accounting and reporting of Enron’s earnings and debts. Gary J. Aguirre, *The Enron Decision: Closing the Fraud-Free Zone on Errant Gatekeepers*, 40 Tex. J. Bus. L. 107, 111–14 (Spring 2004).

*3 During the 2004 amendment of the Act, the fraud provision was referred to as the Enron clause. (D.I. 77–1 at 17 (Transcript of House Debate on June 24, 2004)). In explaining its purpose, the House sponsor of the amendment said the Act, as amended, “will give those individuals who are out there trying to protect us from wrongs, environmental harm, *financial harm*, the *Enrons of the world*, the opportunity to come forward and to let the world know that there are problems going on in a

business.” (*Id.* at 15 (Transcript of House Debate on June 24, 2004) (emphasis added)).

This legislative history reinforces my conclusion from the Act’s text that the Act reaches only standards related to finances, not **data** privacy. The prior case law cited by Defendant does little to elucidate the reach of the statute, but, insofar as it teaches anything, it also supports that conclusion.

In *Fender v. Delaware Division of Revenue*, the Third Circuit rejected a claim based on reporting of gender discrimination. 628 Fed.Appx. 95 (3d Cir. 2015). *Fender* stands for the unexceptional proposition that a violation not covered by the statute is not covered by the statute. In *Meltzer v. City of Wilmington*, the Delaware Superior Court rejected a claim based on a report that the City was dedicating insufficient resources to defend an employment discrimination case. 2011 Del. Super. LEXIS 154, at *27 (Apr. 6, 2011). In *Harmon v. State*, the claim involved scoring of a horse race. 2007 Del. Super. LEXIS 571, at *4–5 (Nov. 28, 2007). Plaintiff claimed his correction of another judge protected public funds. *Id.* at *15. In rejecting the claim, the Superior Court explained:

Plaintiff has not alleged financial fraud or misappropriation of public funds. Plaintiff stretches the rubber band to the breaking point when he claims that the enforcement of the rule pertaining to an interference break is insuring that the public gets its fair share of gambling funds to protect the public from fraud and deceit.

Id. *Harmon* thus supports the conclusion that the statute does not reach to cover anything that is tangentially related to financial management or accounting. Plaintiff’s argument that **data** privacy laws are covered by the statute, while clever, “stretches the rubber band to the breaking point.” Thus I am granting summary judgment on the Delaware Whistleblower Protection Act claim.

III. IMPLIED COVENANT OF GOOD FAITH AND FAIR DEALING CLAIMS

The Delaware courts recognize four situations that give rise to an implied covenant claim, two of which are relevant here. First, Delaware recognizes a cause of action when an employee’s termination violates public policy. *Bailey v. City of Wilmington*, 766 A.2d 477, 480 (Del. 2001). Second, Delaware recognizes a cause of action

misrepresentation. Plaintiff's job title was downgraded from Assistant Vice President to Banking Officer less than two months after he was hired.

¹⁸Delaware recognizes an implied covenant claim when an employer "induces another to enter into an employment contract through actions, words, or the withholding of information, which is intentionally deceptive in some way material to the contract." *Merrill v. Crothall-Am., Inc.*, 606 A.2d 96, 101 (Del. 1992). In *Merrill*, the employer had represented it was offering Plaintiff a permanent position when in fact it only intended the employment to be temporary. *Id.* at 98–99. On this misrepresentation, the court allowed the claim to move forward. *Id.* at 102. In later cases, this implied covenant claim has been described as allowing a claim "where the employer misrepresents an important fact and the employee relies on it when deciding to accept a new position...." *Bailey*, 766 A.2d at 480.

*5 There is a genuine dispute of material fact whether Defendant misrepresented Plaintiff's title when it hired him. Defendant's own document production confirms that Plaintiff was hired on October 29, 2012 as an Assistant Vice President and on December 7, 2012 his position was downgraded to Banking Officer. (D.I. 67–1 at 19). Plaintiff testified in his deposition that he was told by Human Resources over the phone, in his offer letter, and

in the personnel system that he was hired as an Assistant Vice President. (D.I. 59–2 at 72, 163). He further testified that Denise Cramer, Assistant General Auditor, told him the title change "happens all the time." (*Id.* at 74.) That is, Defendant had made this type of title change to others as well. Plaintiff testified that the title change affects "merit increases, bonuses and future promotions." (*Id.* at 75.) Finally, Plaintiff also testified that he was very upset about the title change. (*Id.* at 75; D.I. 74–1 at 5–6).

This testimony and documentary evidence are sufficient to create a genuine dispute over whether Defendant misrepresented Plaintiff's position and Plaintiff relied on the misrepresentation in accepting the position.

IV. CONCLUSION

Defendant's motion for summary judgment is denied in part and granted in part. An order consistent with this opinion will follow.

All Citations

--- F.Supp.3d ----, 2017 WL 242608

Footnotes

¹ Defendant filed its motion for summary judgment on June 6, 2016. (D.I. 57). On June 30th, Plaintiff executed an affidavit. (D.I. 63–3 at 31–33). In the affidavit, Plaintiff raises for the first time two reports he made earlier in his career at M & T Bank. (*Id.*) These reports predate the first corrective action memo. (*Id.*) Defendant argues the affidavit establishing these dates should not be credited under the sham affidavit doctrine. (D.I. 67 at 8–9). In urging the Court to reject Plaintiff's affidavit, Defendant relies on interrogatories and deposition testimony. (D.I. 67–1). While these earlier incidents of reporting strengthen Plaintiff's case, they are unnecessary for him to survive summary judgment and I have not relied on them.

² Appendix citations are to the internal pagination and are cited as App. The appendix can be found at D.I. 63 (App. 1–30), 63–1 (App. 31–62), 63–2 (App. 63–94), and 63–3 (App. 95–127).