

SUMMER 2005
C.W. POST CAMPUS OF LONG ISLAND UNIVERSITY
COLLEGE OF MANAGEMENT
SCHOOL OF PROFESSIONAL ACCOUNTANCY
ACC 754 – FRAUD EXAMINATION
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Graduate Bulletin Description (3 credits):

The nature of fraud, elements of fraud, fraud prevention, fraud detection, fraud investigation, design and use of controls to prevent fraud, and methods of fraud resolution are examined in this course. The role of fraud examination to perform a variety of antifraud and forensic accounting engagements including, but not limited to, investigating suspected fraud, investigating assertions of fraud, developing fraud loss estimates and performing acquisition due diligence are also considered.

Background

In audits conducted in accordance with generally accepted auditing standards (GAAS) or the standards of the Public Company Accounting Oversight Board (PCAOB), auditors have a responsibility to plan and perform audits to obtain reasonable assurance that the financial statements are free of material misstatement, including material misstatements caused by fraud. Corporate frauds and audit failures at Enron, WorldCom, and other companies have further increased public focus on fraud, and the public is demanding greater vigilance from all parties involved in organizational governance. As a result of the passage of the Sarbanes-Oxley Act of 2002, audit committees of publicly traded entities not only are responsible for the appointment, compensation, and oversight of independent auditors but also are required to establish a system for the receipt, retention, and treatment of complaints received by the issuer. Further, they have been given authority to hire advisers, funded by the issuer, to carry out their duties. Independent public accountants and internal auditors will continue to serve important roles in the process. Forensic accountants have emerged, however, as vital allies in the fight against fraud. Forensic accountants with appropriate education, training, and experience can provide additional assistance to audit committees and financial statement audit teams so they may better carry out their responsibilities.

Cases involving management fraud, money laundering, tax fraud, bankruptcy fraud, securities fraud, and other types of fraud continue to be prevalent and are increasing in frequency. Fraud issues surface in many engagement circumstances that involve the skills of the professionals identified above. Specifically according to the The American Institute of Certified Public Accountants, Inc. (AICPA):

1. Forensic accounting is one of the seven hot new "sizzling" career areas in accounting is estimated that there will be a shortage of between 25,000 and 50,000 security professionals in the next few years in the U.S. Exciting opportunities for students who become knowledgeable in fraud abound in various federal agencies (e.g. FBI, Postal Inspectors, etc.), major corporations and professional service firms. Both the size and number of frauds is increasing which will result in even increased demand for fraud-fighting professionals in the future.
2. Fraud is an extremely costly business problem. For example, a Fortune 500 Company recently had a \$436 million dollar fraud. Because this company's profit margin was approximately 10 percent, this organization had to generate 10 times the amount of the fraud, or \$4.36 billion, to restore net income to what it would have been without the fraud. When faced with the choice of generating another \$4.36 billion in revenues or reducing fraud losses, this company decided that reducing and

eliminating future frauds was the more effective way to spend its money. When there is a financial statement fraud, the market value of the stock usually drops from 500 to 1,000 times as much of the fraud, causing investors to lose millions and even billions of dollars. Eliminating fraud is a business problem for organizations and society and we need to facilitate the application of the skills of our best students to fighting this significant problem.

3. Fraud topics taught will help students become better professionals in whatever career they choose. The technology, interviewing, document examination, public records, and other tools students will study will make them better consultants, auditors, tax professionals, managers and even parents.

Assumed Knowledge:

ACC 754 is an elective in the M.S. in Accountancy program, which is intended for students who have completed an undergraduate degree in accounting. As a result, it is assumed that you have a basic understanding of the revenue (e.g., sales and accounts receivable), purchasing/payables and inventory cycles – including underlying accounting principles. The completion of a one semester course in Auditing (or equivalent knowledge) is also assumed. Completion of ACC 753 – “Advanced Assurance Services and Computer Auditing,” although helpful, is not required.

Due to the nature of the areas addressed by this course, students should be familiar with the basic tools for reading and interpreting financial statements. Lectures will review the essentials of these tools – however, depending on experience and prior course work, individual students may need to read “high-level” supplemental material. For example, it is assumed that students are familiar with SAS 99 – “Consideration of Fraud in a Financial Statement Audit.” Please contact me for any assistance required in this area.

Course Web Site

A web-based, password-protected class site (e.g., WebCT) is available to you. Syllabi, assignments, copies of selected presentations and other resources will be made available to you within this site. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters are a component of this site and will serve as the primary means for my communicating with you outside of class if needed. Both the Mid-Term and Final exams will be administered through the course web site.

Texts:

Required:

- “Fraud Examination,” by W. Steve Albrecht, 2003 – South-Western, ISBN 0-324-16296-0.
- “Financial Shenanigans,” by Howard Schilit, 2002 – McGraw-Hill, ISBN 0-07-138626-2

You will also be required to access a variety of reading materials on the internet. Further details are provided below. The course will also use selections from the AICPA’s Professor/Practitioner Case Development Cases. Selected cases are available for download from the AICPA’s website at: <http://www.aicpa.org/members/div/career/edu/caselist.htm>

Grading:

Students are expected to attend class and to be thoroughly prepared to discuss the assigned readings and discussion cases. Grades will be based on the following components:

Class Preparation, Participation and Discussion Cases	30%
Term Project (AICPA Professor/Practitioner Case Study)	20%
Mid-Term Exam	25%

Class Preparation and Participation:

In this class much of the learning is dependent on the accessing the combined knowledge and experience of the group. It is everyone's job to keep the discussion productive and moving forward. In class discussions it is equally important to talk about *how* to do something, as it is to talk about *what* to do. Contributions don't all have to be original flashes of insight - but these are very welcome! Class members who summarize, clarify, simplify or suggest what else needs to be covered can also make a valuable contribution. I encourage you to take some risks in this class, assuming you have done the analysis and assessed the evidence. Completion of reading assignments and homework cases will enable you to appropriately partici

If you are concerned about your contribution to class learning please make an appointment to see me. I will provide feedback on class participation about half way through the semester.

Discussion Cases:

As you will soon see from the case studies, there are no "right" answers to management problems and sometimes professional challenges. Rather, what cases do is bring a small chunk of the real world into the academic setting, where we can examine it, determine what problems exist, discuss optional approaches to dealing with the problems, and decide upon a course of action. In this respect, the study of professional accounting practice via cases is similar to the study of medicine. That is, it is difficult to learn medicine without examining specific cases; reading about a disease is no substitute for managing the care of a patient. The same is true for professional accounting.

Please note that participants should not prepare written abstracts or responses for submission, but rather come prepared to class to discuss the assignment. Homework (e.g., reading/preparation assignments) is expected to take approximately three-four hours for each lecture, dependent on the student's previous background.

Term Project:

For the term project, you will participate as a member of a two or three person Forensic Accounting team (based on class enrollment). Each team will be required to complete the following tasks:

- select one case from a list of relevant AICPA "Professor/Practitioner Case Studies";
- prepare an engagement memo to the client describing proposed scope of Forensic Accounting Activities and Deliverables;
- answer the specific questions identified as part of the case study;
- prepare and submit deliverables for the firm's quality assurance partner in accordance with the engagement memo – including appropriate workpapers, supporting conclusions reached and any other items "deemed necessary" including observations on data analyzed and any other recommendations deemed appropriate by the team;
- prepare and present a "PowerPoint" discussion document on the case and discuss findings, and any recommendations for internal control improvement; and
- present the above PowerPoint in class – not to exceed 10 minutes.

Overall grade (20 points) will be based on both an individual student (10 points) and team effort (10 points). Further details on the Project will be distributed and discussed during the third lecture. It is anticipated that students will devote approximately 8 to 12 hours to complete the term project.

Mid-Term and Final Exam:

Both the Mid-Term and Final Exam will consist of 33 short answers (multiple choice) questions. The Final Exam will be non-cumulative. Both exams will be administered electronically via the University's WebCT system. The exams will include material both from lectures and the reading materials. It is highly recommended that you incorporate the review of the multiple choice questions at the end of each chapter into your preparation as they provide an excellent review of the text material. It is anticipated that for each exam you will have a one week period to complete the two-hour exam online in accordance with the following schedule (please note that the exam must be taken during a single two hour sitting within the designated one week period):

	One Week Period	Scope of Exam
Mid-Term		Lectures 1 through 5
Final		Lectures 6 through 10

Other:

Except for the two exams, it is permitted, and you are encouraged to “**NETWORK**” with your classmates in preparing for or developing any of the course requirements.

Course Schedule:

The course is composed of the following topics and their approximate percentage of course time:

- Fraud Detection and Prevention (33%)
- Investigating Fraud and Forensic and Litigation Services within a CPA firm (23%)
- Detailed analysis of financial and occupational fraud (29%)
- Course administration, examinations and student presentations (15%)

<i>DATE</i>	<i>LECTURE/DISCUSSION TOPIC</i>	<i>READING/PREPARATION ASSIGNMENT</i>	<i>COMMENTS</i>
(#1)	Introduction to the course; The Nature of Occupational and Financial Fraud.	Page Thru – “Albrecht” – Chapters 1 and 10. Page Thru – “Schilit” – Chapter 1.	The lecture will also review and provide commentary and analysis on selected high-profile corporate fraud cases.
(#2)	Fighting and Preventing Fraud	Page Thru – “Albrecht” – Chapter 2. Read – “Albrecht” – Chapters 3 and 4. Discuss Case 3-6. (Chapter 3 Case #6). Discuss Case 4-12. Check-Out – “Management Antifraud Programs and Control” (AICPA). Page Thru – “Schilit” – Chapter 2.	AICPA material available at http://www.aicpa.org/download/antifraud/SAS-99-Exhibit.pdf
(#3)	Detecting Fraud: Recognizing the Symptoms	Read – “Albrecht” – Chapter 5. Discuss Case 5-10. Read – “Schilit” – Chapter 3.	
(#4)	Detecting Fraud: Leveraging Financial and Technical Tools	Read – “Albrecht” – Chapter 6. Discuss Case 6-13. Read – “Schilit” – Chapters 11-12. Read – “I’ve Got Your Number,” Journal of Accountancy, May 1999. Read – “The Four Phases of Analytical Procedures.” (AICPA).	JofA article available at https://www.aicpa.org/pubs/jofa/may1999/nigrini.htm . AICPA available at https://www.aicpa.org/antifraud/detection/developing_audit_procedures/review_techniques/12.htm .
(#5)	Investigating Fraud	Read – “Albrecht” – Chapter 7	

		Discuss Case 7-13. Scan – “Albrecht” – Chapter 8. Discuss Case 8-14.	
(#6)	Revenue Fraud	Read – “Albrecht” – Chapter 11 pp.359-370. Discuss Case 11-6. Read – “Schilit” – Chapters 4, 5, 6, 9 & 14.	
(#7)	Inventory, Liability & Asset Fraud	Read – “Albrecht” – Chapter 11 pp.370-380. Chapter 12. Discuss Case 11-7. Discuss Case 12-7. Read – “Schilit” – Chapters 7, 8, 10 & 13.	
(#8)	Occupational Fraud	Read – “Albrecht” – Chapter 13 Discuss Case 13-5. Check-Out – “2004 Report to the Nation on Occupational Fraud and Abuse”. (ACFE) Check-Out – “ACFE Fraud Prevention Checkup”	ACFE report available at http://www.cfenet.com/pdfs/2004RttN.pdf ACFE checkup available at http://www.cfenet.com/pdfs/Fraud_Prev_Checkup_IA.pdf .
(#9)	Forensic and Litigation Services	Read – “Albrecht” – Chapter 14 Discuss Case 14-7. Discuss Case 14-8. Term Project Presentations	
(#10)	Inquiry Methods and Fraud Reports	Read – “Albrecht” – Chapter 9. Discuss Case 9-8. Term Project Presentations	