

“Arochem” and “George Chapman”: Two Small Fraud Cases

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A few years ago, I began to teach a graduate forensic accounting course. As I became familiar with forensic accounting and fraud auditing, I realized that the materials I envisioned using were difficult to find and, in some cases, non-existent. This paper contains two small fraud cases that I developed to illustrate issues for which I could not find materials. Although the “George Chapman” case takes a great deal more text to present, the “Arochem” case has proven to be an extremely challenging assignment for my students and has led to much more intense class discussions. These two cases definitely exemplify the axiom that more does not mean better.

The “Arochem” case focuses on the difference between fraudulent financial statement reporting and aggressive accounting. In this case, students are required to take the roll of a judge and, based on the information provided in the case, decide if the Arochem CEO is innocent but using aggressive accounting practices, guilty of fraudulent financial statement reporting, or if they need more information to make a decision. Once the students make that decision, they are required to write three entries that record the purchase of the crude oil inventory, the refining costs, and the actual sale of the inventory so that (1) the oil inventory is valued at the selling price for the finished products less the cost to refine the oil and (2) profit is recognized before the actual sale and refining of the oil. The journal entries must use accounts that are usually found in financial accounting systems. After I developed the text for the case, I asked three of our alumni engaged in fraud auditing to review the material and individually develop an answer to it. All three alumni provided surprisingly similar answers which became my answer key.

The “George Chapman” case was developed because I wanted a short case that would illustrate the type of information that can be obtained through publicly available documents and how that information can be used in a fraud investigation. In this case, students take the roll of an internal auditor following up on a tip from the company’s hotline. The anonymous tip alleges that George Chapman has embezzled \$100,000 from a trust fund he is administering. Among other actions, the internal auditor goes to the local county clerk’s office to find whatever records exist concerning Chapman’s local real estate transactions. Using information provided in the case and eight documents “found” at the county clerk’s office, students must identify symptoms of fraud, develop an analysis of Chapman’s known inflows and outflows of cash, and decide if they have proven Chapman has committed a fraud based on their findings.
