



# **The Forensic Accounting Educator**

**Fall 2010**  
**Senior Editor: Larry Crumbley**  
**Editor: Tanweer Hasan**

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## **A MESSAGE FROM THE PRESIDENT**

**FALL 2010**

### **Greetings to Members of the FIA Section**

As each of you settle into your fall classes, please let me update you about a few items. Even with the several AAA communication glitches our FIA breakfast, August 4 in San Francisco, was a success. More than 100 people attended the breakfast. In August we had approximately 508 members, but I wish to shoot for 1,000. Natalie Churyk and her Member Acquisition Committee just finished an e-mail campaign to the attendees of the San Francisco meeting attempting to get new members.

William A. Hanlin, Jr. with Hanlin Moss, in Seattle, Washington gave an excellent talk in S.F. entitled "The Search for Risk...from audit to fraud." His Power Point slides can be found on the FIA Internet page:

[<http://aaahq.org/fia/attachments/TheSearchforRisk2009.pdf>]. Thank you Bill Hanlin!



At our breakfast I asked Vice President Bob Rufus to start working with the various professional forensic organizations to develop networking, interactions, CPE and communication possibilities. Also, I announced that I wish to have three awards, and I asked President-Elect Tim Louwers to search for sponsors to fund these awards:

Best Manuscript Award.  
Best Teaching Innovation Award.  
Best Dissertation Award.

Ed Ketz ([edketz@psu.edu](mailto:edketz@psu.edu)) is the chairperson of the new Awards Committee, and you can find his Call for Nominations on our website

[[http://aaahq.org/fia/attachments/FIA\\_Awards\\_Nominations.pdf](http://aaahq.org/fia/attachments/FIA_Awards_Nominations.pdf)].

I established an Operations Manual Committee with Zabi Rezaee ([zrezaee@memphis.edu](mailto:zrezaee@memphis.edu)) as the chairperson. Would you like to serve on this committee or any other committee? I especially need members for our 2012 Mid-Year Research Meeting.

I have asked Ronald Daigle ([rjd005@shsu.edu](mailto:rjd005@shsu.edu)) to set up a forensic accounting syllabus exchange website. See his Call for Syllabus at

[http://aaahq.org/fia/attachments/FIA\\_Syllabus\\_Exchange.pdf](http://aaahq.org/fia/attachments/FIA_Syllabus_Exchange.pdf).

Sam Tiras, chairperson of the 2<sup>nd</sup> Annual Mid-Year Research Conference, says our Mid-Year Research Conference will be in New Orleans, March 25/26, 2011. Stay tuned for our call for papers.

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More good news is that Darrell Dorrell, Principal in Financial Forensic, has agreed to speak at our August Wednesday breakfast in Denver. Look Darrell up on the Internet. I hope to see you at our mid-year meeting and next August. Do visit our FIA Internet site, and please go to the Membership Application, make copies and give a copy to each of your faculty. We need sponsors for our expensive breakfast in Denver. Do you know anyone who is willing to help?

Have a successful fall semester and let me know any suggestions for our section. It's great to be a forensic accountant! Raising the Bar. Setting the Standards.

Sincerely,

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## **Manuscripts and Fraud Detection Stories**

Anyone wishing to submit short manuscripts, cartoons, fraud stories, letters to the editor, calls for papers, or other items to *The Forensic Accounting Educator* should send the material to the senior editor, D. Larry Crumbley, at the address below

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## **Call for Short Papers for the Next Issue:**

### **Playing Games in the Accounting Classroom**

Do you utilize some form of game in your forensic accounting classroom? Describe your game, and how it is used, in a short manuscript. Your manuscript should be short (not over two to three pages single spaced). Submit your manuscript in Word or RTF format electronically to [dcrumbl@lsu.edu](mailto:dcrumbl@lsu.edu).

### **Technology in the Classroom**

In what ways do you use technology in the classroom? Do you use spreadsheets, videos, PowerPoint, or other technology in your teaching? What works and what doesn't work? Your manuscript should be short (not over two to three pages single spaced). Please submit your manuscript in Word or RTF format electronically to [dcrumbl@lsu.edu](mailto:dcrumbl@lsu.edu).

# **The Adelphia Fraud: Understanding How It Was Accomplished**

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Sherre G. Strickland  
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## **I. INTRODUCTION**

Despite some of the world's best controls and oversight, in each of the last four decades the United States financial markets have been subjected to multiple cases of fraudulent reporting. How could major frauds occur with the current reporting standards of the Securities and Exchange Commission (SEC) and US audit requirements? Auditors, board members, audit committee members, the SEC, financial analysts, and others seem unable to identify many frauds until they have inflicted major damage on investors, lenders, suppliers, the public, and the financial markets.

The Association of Certified Fraud Examiners (ACFE) publishes bi-annual reports on occupational fraud and abuse. In its 2002 report, ACFE disclosed that 11.5 percent of frauds were detected by external auditors and 18.6 percent were detected by internal auditors. In its 2008 report, ACFE stated that fraudulent financial statements represented greater median losses than any other type of fraud. The initial detection of frauds by owners/executives is by tip in more than 50 percent of the reported cases. Only 16.3 percent of frauds were detected by external auditors and 12.4 percent by internal auditors. These statistics are not changing significantly, but the number and financial magnitude of frauds are. (ACFE 2008)

Since many frauds continue to evade discovery until reaching enormous size, one must wonder if higher education needs to reassess its role in educating those who should be able to identify fraud. One group that should be better able to identify fraud is the accountants. Possibly

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academia should strive to provide a better foundation of how frauds occur so accountants can be attune to areas of potential abuse.

While much has been written about fraud cases, few specific accounting details have been published. Instead, most financial literature describes fraud cases in very broad terms. For example, in one early article, The Wall Street Journal (Markon and Frank 2002) described the Adelphia Communications Corporation (Adelphia) case as follows:

“...the Rigases engaged in a mass coverup that included fictitious receipts, falsified financial reports and lavish personal spending at the expense of shareholders... The Rigases used company jets for private jaunts...borrowed billions of dollars for their closely held companies and used \$252 million of company funds to meet margin calls on their private stock... the Rigases embarked on a series of escalating financial frauds to conceal the borrowings and inflate earnings. The company also falsified it financial results... Timothy Rigas...instructed Adelphia employees to create fictitious transactions to boost Adelphia’s revenue. The Rigases also created a special accounting system to mask their personal transactions.”

While reporting such as the above is appropriate for much of the financial community, it may not be detailed enough to assist accountants in discovering future fraudulent activities. The purpose of the following paragraphs is to provide numerous, specific details of the Adelphia fraud as a tool for accounting educators. The details are provided in an effort to assist understanding of how the Adelphia fraud was perpetrated. Aided with knowledge of how specific acts of fraud are carried out, perhaps accountants can more effectively discover fraudulent activities early enough to prevent material damage.

On July 24, 2002, in the US District Court of the Southern District of New York, the SEC filed suit against Adelphia and six of Adelphia’s top executives, four of whom were members of one family, the Rigas family. In its preliminary statement, the SEC described the case as “one of the most extensive financial frauds ever to take place at a public company.” (SEC 2002).

There were three principal categories of the SEC's fraud charges. First, between the middle of 1999 and the end of 2001, Adelphia fraudulently excluded over \$2.3 billion of debt from its consolidated financial statements by recording the debt on the books of unconsolidated affiliates. Second, between the middle of 1999 and the end of 2001, in press releases and SEC filings, Adelphia and the other defendants regularly misstated Adelphia's reported performance in a number of statistics used by Wall Street to evaluate cable companies. Third, since at least 1998, Adelphia misrepresented and omitted material facts to conceal the use of company assets by the Rigas family.

The following paragraphs are organized as follows. First, the relevant parties involved in the Adelphia fraud will be introduced. Next, background will be given about the cash management system used by Adelphia. Then, details of each of three categories of the SEC's fraud charges will be presented. Finally, accounting and auditing issues will be discussed.

## **II. RELEVANT PARTIES**

There are three parties particularly relevant to the Adelphia fraud case: Adelphia Communications Corporation, the Rigas family, and the Rigas family entities. Each of these three parties is examined below.

### **Adelphia Communications Corporation**

Adelphia was a Delaware corporation headquartered in Coudersport, Pennsylvania. At the time it was charged by the SEC, it owned, operated, and managed cable television systems and other related telecommunications businesses. Adelphia was organized as a holding company and, as such, all of its assets were owned by its subsidiaries. Examples of Adelphia's subsidiaries include National Cable Acquisition Associates, Century Cable Holdings, and Olympus Cable Holdings. Adelphia issued Class A and Class B shares of common stock. Class

B shares had ten times the voting power of Class A shares and were held almost exclusively by the Rigas family. Shares of Adelphia's Class A stock were listed on NASDAQ until June 3, 2002.

Adelphia was founded by John J. Rigas in 1952 in Coudersport, Pennsylvania, a small town of approximately 2,500 residents, located in the north-central part of the state. In 1952, there were only 60 small cable systems in the United States. By 1999, Adelphia's common stock traded from a low of \$45 to a high of \$87 per share. Adelphia reported 1999 revenues of \$1.2 billion and a net loss of \$241 million. On December 31, 1999, Adelphia's total assets were \$17.3 billion and it had over five million basic cable subscribers. In comparison, for the year ended December 31, 1999, Verizon Communications, one of Adelphia's major competitors, reported revenues of \$33.2 billion, net income of \$4.2 billion, and assets of \$62.6 billion.

Adelphia was controlled by the Rigas family, four of whom were members of Adelphia's top management. In total, the Rigas family controlled more than 75 percent of Adelphia's voting shares.

### **The Rigas Family**

Members of Adelphia's top management included John Rigas, founder and Chief Executive Officer (CEO); Timothy Rigas, John's son, Chief Financial Officer (CFO), Chief Accounting Officer, and Treasurer; Michael Rigas, John's son, Executive Vice President for Operations and Secretary; and James Rigas, John's son, Executive Vice President for Strategic Planning. On December 31, 1999, five of the ten members of Adelphia's board of directors were Rigas family members, John, his three sons, and Peter Venetis, John's son-in-law.

In 2002, John J. Rigas resigned as Adelphia's CEO, Timothy J. Rigas resigned as CFO, and the Rigas family relinquished control of the company as John, Timothy, Michael, and James

Rigas resigned as directors. John Rigas and sons Timothy and Michael were arrested on conspiracy charges.

### **Rigas Family Entities**

In addition to ownership interests in Adelphia, members of the Rigas family owned other companies, several of which were in the cable television industry. As a group, Rigas family-owned companies were referred to as the Rigas Family Entities (RFEs). Examples of RFEs are Hilton Head Communications, Coudersport Television Cable Company, Highland Video Associates, Highland Holdings, and Highland 2000. The financial results of the RFEs were not consolidated into Adelphia's financial statements.

Adelphia had management agreements with the cable television RFEs. In return for approximately 5% of the cable television RFEs' revenues, Adelphia managed all functions of the cable television RFEs.

### **III. CASH MANAGEMENT SYSTEM**

In two of the SEC's three charges against Adelphia, fraud was facilitated through Adelphia's cash management system. Adelphia maintained a centralized cash management system in which the cash of Adelphia, Adelphia's subsidiaries, the cable RFEs, and some non-cable RFEs were co-mingled in a Florida bank. The various companies made regular deposits to the bank and Adelphia made all disbursements from the bank account. In Adelphia's accounting for the cash management system, journal entries were made to intercompany accounts to record transactions affecting the cash account. Exhibit 1 shows the relationship between the parties participating in Adelphia's cash management system.

Exhibit 1  
Adelphia's Cash Management System

| Adelphia  | Adelphia<br>Subsidiaries | Cable<br>Television<br>RFEs                            | Some Non-cable<br>Television<br>RFEs | Some Non-cable<br>Television<br>RFEs |
|---|--------------------------|--|--------------------------------------|--------------------------------------|
| Consolidated into<br>Adelphia's financial<br>statements |                          |  |                                      |                                      |
|   |                          | Cash managed through Adelphia's cash management system |                                      |                                      |

As Exhibit 1 shows, the cash of Adelphia, its subsidiaries, the cable RFEs, and some non-cable RFEs were commingled into one cash account maintained by Adelphia. Some non-cable RFEs maintained their own cash accounts. Adelphia's and its subsidiaries' operations were consolidated into Adelphia's financial statements, while the operations of cable RFEs and non-cable RFEs were not consolidated into Adelphia's financial statements.

#### IV. FRAUDULENT BEHAVIOR

As stated, there were three principal categories of the SEC's fraud charges. First, Adelphia fraudulently excluded over \$2.3 billion of debt from its consolidated financial statements by recording the debt on the books of unconsolidated affiliates.

## **Exclusion of \$2.3 Billion of Long-term Debt**

Adelphia excluded from its balance sheet \$2.3 billion of long-term debt by (1) reclassifying some of its co-borrowing liabilities, (2) direct placements of securities with RFEs, and (3) false sales of digital converters. Each of these fraudulent activities is examined below.

### ***Reclassification of Co-borrowing Liabilities***

When Adelphia borrowed funds, the cash was deposited in the centralized cash management system and journal entries similar to the following resulted:

|    |                |     |     |
|----|----------------|-----|-----|
| 1) | Cash           | x x |     |
|    | Long-Term Debt |     | x x |

As Adelphia provided management services to the cable RFEs through “normal” operations, journal entries similar to the following resulted:

|    |                          |     |     |
|----|--------------------------|-----|-----|
| 2) | Intercompany Receivables | x x |     |
|    | Management Fees Revenues |     | x x |

At certain times, to give the appearance that its long-term debt was being shifted to the RFEs, Adelphia created false journal entries, such as:

|    |                       |     |     |
|----|-----------------------|-----|-----|
| 3) | Long-Term Debt        | x x |     |
|    | Intercompany Payables |     | x x |

When financial statements were prepared, Adelphia offset some of its intercompany receivables (entry 2) against some of its intercompany payables (entry 3) and, thus, understated its long-term debt. This process moved approximately \$500 million of long-term debt off

Adelphia's balance sheet. It also moved \$500 million of assets off its balance sheet. This process was possible because Adelphia's intercompany receivables were large enough to absorb the intercompany payables offset.

### ***Rigas Direct Stock Placement***

On a few occasions, Adelphia engaged in direct placements of securities with RFEs without receiving the benefit of any cash receipts. Instead, Adelphia recorded reductions of its long-term debt and increases in stockholders' equity. When Adelphia transferred long-term debt to RFEs, journal entries similar to the following resulted:

|    |                       |     |     |
|----|-----------------------|-----|-----|
| 4) | Long-Term Debt        | x x |     |
|    | Intercompany Payables |     | x x |

When Adelphia issued the additional shares of stock, journal entries similar to the following resulted:

|    |                          |     |     |
|----|--------------------------|-----|-----|
| 5) | Intercompany Receivables | x x |     |
|    | Common Stock, A or B     |     | x x |

By offsetting the intercompany receivables (entry 5) against intercompany payables (entry 4), Adelphia removed over \$1 billion of long-term debt from its balance sheet. At the same time, Adelphia overstated its stockholders' equity by over \$1 billion.

### ***Sale of digital converters***

Adelphia falsely recorded the transfer of digital converters to a non-cable RFE and journal entries similar to the following resulted.

|    |                        |     |
|----|------------------------|-----|
| 6) | Long-Term Debt         | x x |
|    | Property and Equipment | x x |

Through the above process, Adelphia transferred over \$100 million of long-term debt off its balance sheet even though the non-cable RFE did not purchase the converters.

### **Reported Performance**

The second principal category of the SEC's fraud charges concerns misstatements made by the defendants. While there are several components of the SEC's charges, one way to categorize them is 1) financial misrepresentations and 2) statistical misrepresentations.

#### ***Financial misrepresentations***

As is normal for publicly traded companies, the financial markets had expectations of Adelphia's performance. Adelphia routinely made public predictions of its expected performance. The SEC asserted that the defendants artificially inflated Adelphia's earnings before interest, taxes, depreciation, and amortization (EBITDA) through two major activities: 1) fee transactions with RFEs and 2) market support transactions with cable box manufacturers.

Fee transactions with RFEs: Adelphia took steps to artificially inflate its EBITDA by recording management fees charged to RFEs. The management fees amounts were recorded after the financial periods' "normal" results were known. The recordings of such fees were designed to increase Adelphia's EBITDA to meet market expectations and Adelphia's predictions. The additional fees were not based on actual economic events and Adelphia did not receive any cash or other assets from the RFEs. For the 2000 and 2001 fiscal years, Adelphia artificially inflated its EBITDA by approximately \$400 million by recording journal entries similar to the following:

- 7)       Receivables from RFEs    x x
- Management Fees Revenue    x x

Included in entries such as the above, were management fees of the type typically provided by cable operators (even though Adelphia did not provide such services to the RFEs) and debt placement fees. Adelphia did not provide such debt placement services to the RFEs and never before or since charged the RFEs a debt placement fee. Also included in entries such as the above, was interest revenue from the RFEs. Adelphia misrepresented the interest revenue as management fees revenue. This misrepresentation resulted in an increase in EBITDA although it did not result in a misstatement of net income.

Market support transactions with cable box manufacturers: To access more than basic television channels, cable subscribers require converter boxes. The converter boxes are owned by the cable providers, such as Adelphia, and rented to subscribers. As Adelphia grew, its acquisition of cable converter boxes to satisfy subscriber demands became a major expenditure for Adelphia. In order to artificially inflate its EBITDA, Adelphia entered into contracts with two suppliers to increase Adelphia's acquisition cost of converter boxes by approximately \$26 per box, for a total of approximately \$100 million, in return for market support revenues from the suppliers. Adelphia's assets and EBITDA were immediately inflated by the market support revenues through journal entries similar to the following:

- 8)       Property and Equipment   x x
- Market Support Revenue    x x

### ***Operating statistics misrepresentations***

The SEC charged that Adelphia misrepresented several statistics that investors may find relevant in evaluating cable companies, including 1) its basic cable subscribers, 2) high-speed internet subscribers, and 3) progress in rebuilding its cable systems. The SEC also charged that Adelphia misrepresented its compliance with terms of bank loans and debt securities.

**Basic cable subscribers:** Adelphia fraudulently inflated its performance in providing basic cable services by (1) including in basic cable subscribers statistics some subscribers who were not basic cable subscribers and (2) not adjusting prior data to reflect similar subscribers. This not only resulted in overstating current basic cable subscribers but also overstating the growth rate in basic cable subscribers. Fraudulent data were reported in 10-Ks, quarterly press releases, conference calls, and presentations. Examples of inflated performance include 43,000 Brazilian and Venezuelan subscribers to services provided by a company in which Adelphia held only a minority interest, 33,000 Adelphia internet service customers who did not subscribe to cable services, and 60,000 Adelphia home security service customers who did not subscribe to cable services.

**High-speed internet subscribers:** Adelphia fraudulently inflated its performance in providing high-speed internet service by including approximately 10,000 subscribers to high-speed internet services provided by Cable RFEs not owned by Adelphia and not adjusting prior data to reflect similar subscribers. This not only resulted in overstating current high-speed internet subscribers but also overstating the growth rate in high-speed internet subscribers.

**Rebuilding of cable systems:** Cable systems able to both send and receive signals (two-way-capable systems) are attractive to investors because they enable cable companies to provide high-speed internet services. Cable companies without two-way-capable systems must rebuild their

systems to allow two-way transmissions. Rebuilding cable systems can be expensive and significant rebuilding expenditures could negatively affect the company's ability to engage in other activities. As a result, it is important that cable companies have a high percentage of two-way-capable systems and, thus, do not have to expend significant amounts to rebuild their systems. Adelphia misled the public by overstating its two-way-capable systems and understating its expenditures in cable systems assets. During 1999-2002, Adelphia overstated by approximately 10 to 15 percent its two-way-capable systems and understated its non-two-way capable cable systems. In 2001, Adelphia understated its expenditures for cable systems by recording a \$101 million transfer of cable converter boxes to a non-RFE. The RFE did not have a cable business and there were no expectations that Adelphia would be paid for the boxes.

**Loan and debt terms compliance:** Adelphia's bank loans and public debt securities had terms requiring Adelphia to meet certain ratios related to such items as cash flow, total assets, and interest expense. The SEC charged that during 1999 through 2000, Adelphia submitted fraudulent reports to bank lenders showing that Adelphia was in compliance with loan covenants. The SEC also charged that during 2001 through 2002, Adelphia submitted fraudulent reports to holders of its publicly issued notes. The reports fraudulently showed that Adelphia was in compliance with the conditions of the notes even though Adelphia had not made calculations to determine if it was in compliance.

### **Use of Company Assets by Rigas Family**

The third principal category of the SEC's fraud charges concerns Adelphia's concealment of the use of company assets by the Rigas Family. The SEC charged that during 1999 through 2002, members of the Rigas family, in violation of their fiduciary responsibilities, used Adelphia's assets for their own purposes. The major thrusts of the SEC charges include 1)

Adelphia did not disclose significant payments made to the Rigas family, 2) Adelphia paid to satisfy margin calls for the Rigas family on stock pledged as collateral, 3) members of the Rigas family used an Adelphia airplane for personal travel, and 4) Adelphia paid for a golf course constructed primarily on Rigas family property.

***Undisclosed payments to the Rigas family***

During 1999 through 2000, Adelphia advanced approximately \$52 million to members of the Rigas family, in excess of their publicly disclosed compensation. The payments were not reported to Adelphia's board of directors, outside directors, or the public. The amounts advanced were not included in Adelphia's expenses reported in its 10-K, but were recorded through journal entries similar to the following.

|    |                             |     |
|----|-----------------------------|-----|
| 9) | Accounts Receivable – Rigas | x x |
|    | Cash                        | x x |

***Undisclosed payments of margin calls***

During 1998 through 2002, members of the Rigas family acquired approximately 14 million shares of Adelphia's class B common stock. To acquire the class B shares, members of the Rigas family pledged approximately 23 million Adelphia class A common shares as collateral for margin loans. The Rigas family was required to pay interest on the margin loans and meet margin requirements related to the Adelphia class A shares pledged. If the market value of the class A pledged shares declined, the Rigas family could be required to pay cash or provide additional securities, or the lender could sell the Adelphia class A common shares. As the market value per share of Adelphia's class A common stock declined during 2000 through 2002, from \$40 per share to \$6 per share, margin calls were made against the Rigas family for

approximately \$252 million. Adelphia paid the \$252 million for the Rigas family to satisfy the margin calls. The payments were not reported to Adelphia's board of directors, outside directors, or the public. The payments were recorded through journal entries similar to the following.

|     |                             |     |     |
|-----|-----------------------------|-----|-----|
| 10) | Accounts Receivable – Rigas | x x |     |
|     | Cash                        |     | x x |

### ***Rigas Family Use of Adelphia Plane***

During 1999 through 2002, members of the Rigas family routinely used Adelphia's airplanes for personal travel. None of Adelphia's costs of operating the airplanes were reimbursed by the Rigas family. The uses of the airplanes were not reported to Adelphia's board of directors, outside directors, or the public.

### ***Golf course***

From 2001 through 2002, Adelphia paid approximately \$13 million for construction of a golf course on land mostly owned by the Rigas family. The payments were not reported to Adelphia's board of directors, outside directors, or the public. The payments were recorded through journal entries similar to the following.

|     |                        |     |     |
|-----|------------------------|-----|-----|
| 11) | Property and Equipment | x x |     |
|     | Cash                   |     | x x |

## **V. ACCOUNTING AND AUDITING CONCERNS**

The Adelphia fraud involves several important accounting and auditing concerns. For example, as examined in previous paragraphs, there were false journal entries made to give the appearance of shifting long-term debt from Adelphia to RFEs, to record stock issuances without the benefit

of cash receipts, to record sales of digital converters without actual sales being made, to record management fees revenues without providing actual services, to record increased market support revenues without providing increased services, and to record cash payments for benefit of Rigas family members. While the Adelphia false journal entries relate to specific accounting principles, such as income recognition in the case of sales of digital converters and provision of market support services, the two major factors relevant to the Adelphia fraud are the related parties associated with Adelphia and the commingling of Adelphia's and RFEs' cash.

### **Related Parties**

The facts that the Rigas family controlled Adelphia's voting shares, held four top management positions in Adelphia, and held five of the ten positions on Adelphia's board of directors make the consideration of related party disclosures particularly relevant. The FASB Codification discusses related party disclosures, in part, as follows.

Examples of related party transactions include those between: ... An entity and its principal owners, management, or members of their immediate families. (850-10-05-3) Information about transactions with related parties that would make a difference in decision making shall be disclosed so that users of the financial statements can evaluate their significance. (850-10-10-1)

In each of Adelphia's annual reports (10-k) for 1999 and 2000, the Rigas family is mentioned over 20 times. However, none of the fraudulent activities with the Rigas family was discussed. The audit reports for both years reflect "clean opinions."

### **Commingling Cash**

Commingling cash is the act of mixing the cash belonging to one party with those of another party or parties. From a legal standpoint, the commingling of cash is generally prohibited as a conflict of interest. To avoid commingling, Adelphia should have established separate bank accounts for itself, its subsidiaries, and the RFEs, instead of commingling the cash in one bank

account as it did in its cash management system. Adelphia's commingling of the cash of many entities made fraud much more possible than if the cash had not been commingled.

## **VI. CONCLUSION**

The SEC's 2002 fraud suit against Adelphia consisted of three principal issues: the financial statement exclusion of debt, misstatement of performance, and the concealment of Rigas family use of Adelphia assets. Many false journal entries were recorded by Adelphia and went undetected for several years. The frauds were facilitated by related parties issues and the commingling of cash. Adelphia was significantly controlled and managed by the Rigas family. Cash of many entities were commingled and managed by the Rigas family.

It is important that the financial community, particularly the accounting profession, understand how frauds, like the Adelphia frauds, were perpetrated. Perhaps with a better understanding of the detailed manner in which frauds are conducted, the financial community will be better equipped to prevent such frauds occurring again.

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Securities and Exchange Commission (SEC). 2002. *Complaint: SEC v. Adelphia Communications Corporation, John J. Rigas, Timothy J. Rigas, Michael J. Rigas, James R. Brown and Michael C. Mulcahey*. Litigation Release No. 17627. Washington, D.C.: SEC.



### **List of Schools with Forensic Programs and/or Certifications (Listed by State)\***

In an effort to create a comprehensive file of all of the Forensic Accounting Programs and Certifications within the United States, we have compiled a list that is presented below. We encourage all FIA members to submit their Forensic Programs and Certifications available at U.S. academic institutions that do not appear on the list. The file will be continuously updated and presented in upcoming editions of the newsletter. To add your program or certifications please contact Dr. Tanweer Hasan at [thasan@Roosevelt.edu](mailto:thasan@Roosevelt.edu).

| State         | Name of School                 | Name of Business School                             | Certification | Degree/Minor/Certificate                           |
|---------------|--------------------------------|---|---------------|--|
| California    | Golden Gate University         | School of Accounting                                | Graduate      | Forensic Accounting Certificate                    |
| Colorado      | Colorado Technical University  | College of Business and Management                  | Undergrad     | Bachelors in Financial Forensics                   |
|               | Jones International University | School of Business                                  | Graduate      | MBA in Forensic Accounting                         |
| Connecticut   | Post University                |   |               | Professional Certificate in Forensic Accounting    |
| DC            | Georgetown University          | McDonough School of Business                        |               | Certificate in Forensic Accounting                 |
| Florida       | Florida Atlantic University    | College of Business                                 | Graduate      | Executive Masters                                  |
|               | St. Thomas University          | School of Business                                  | Graduate      | Forensic Accounting Certificate                    |
| Georgia       | Georgia Southern University    | College of Graduate Studies                         | Graduate      | Masters Degree                                     |
| Illinois      | Roosevelt University           | Walter E. Heller College of Business Administration | Graduate      | Graduate Certificate in Business Fraud Examination |
|               |                                |   |               | Master of Science in Forensic Accounting           |
| Indiana       | Indiana State University       | Scott College of Business                           | Undergrad     | Minor in Forensic Accounting                       |
| Louisiana     | Louisiana State University     | E.J Ourso College of Business                       | Graduate      | Master Specialty                                   |
| Massachusetts | Bentley College                | McCallum Graduate School of Business                | Graduate      | Certificate in Fraud and Forensic Accounting       |

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\* Compiled by Anne Ali, a Graduate Student at Roosevelt University.

|               |                                   |  |                    |   |
|---------------|-----------------------------------|--|--------------------|---|
|               | Western New England College       | School of Business                         | Graduate           | Concentration in Forensic Accounting                          |
|               |                                   |  |                    | Fraud Investigation   |
| Missouri      | Webster University                | George Herbert Walker School of Business & | Graduate           | Masters in Forensic Accounting                                |
| New Hampshire | Southern New Hampshire University |  | Graduate           | Forensic Accounting and Fraud Examination Certificate         |
| New Jersey    | Rider University                  | College of Business Administration         | Graduate           | Concentration in Forensic Accounting and Fraud                |
| New York      | Canisius College                  | School of Business                         | Graduate           | Masters in Forensic Accounting                                |
|               | Baruch College                    | Zicklin School of Business                 | Graduate           | Certificate in Forensic Accounting                            |
|               | New York University               |  | Graduate           | Certificate in Forensic Accounting                            |
| North Dakota  | Minot State University            | College of Business                        | Undergrad          | Minor in Fraud Examination                                    |
| Ohio          | Franklin University               |  | Undergrad          | Business Forensics Program, Minor in Business Forensics       |
| Pennsylvania  | Carlow College                    | School of Management                       | Undergrad/Graduate | Forensic Accounting Major, Certificate in Forensic Accounting |
|               | La Salle University               |  | Graduate           | Fraud and Forensic Accounting Certificate                     |
|               | University of Scranton            | Kania School of Management                 | Undergrad          | Forensic Accounting Major, Forensic Accounting Certificate    |
| West Virginia | West Virginia University          | College of Business and Economics          | Graduate           | Certificate In Forensic Accounting                            |

# Forensic Accounting Certification Programs

Norbert Tschakert, Ph.D., CPA, CFE, CFF\*

[ntschak@uvi.edu](mailto:ntschak@uvi.edu)

Forensic accountants can add significant value to most organizations. For this value to be leveraged, it is critical that anti-fraud training and awareness continues to be promoted. More accountants need to specialize in the field of forensic accounting, and forensic accountants should be involved in investigations early in the process. In this article, I describe Forensic Accounting Certification Programs that can help accountants to become proficient in this much needed field.

## **Certified in Financial Forensics (CFF)**

**American Institute of Certified Public Accountants (AICPA)**

[www.aicpa.org/interestareas/forensicandvaluation](http://www.aicpa.org/interestareas/forensicandvaluation)

The CFF is a relatively new designation (2008) and the requirements are:

- CPA License and Membership in the AICPA
- Membership in the AICPA Forensic and Valuation Services Section
- Five years of experience in practicing accounting
- Pass the CFF Exam
- Payment of examination fees and yearly membership dues

The four hour computer-based CFF exam contains 150 multiple choice questions. The exam has to be taken at a [Kryterion Test Center](#). The content of the CFF Exam is governed by the Content Specification Outline (CSO) which is shown below:

### **1) Professional Responsibilities and Practice Management**

AICPA

CPA Professional Responsibilities in Civil and Criminal Matters

### **2) Fundamental Forensic Knowledge**

Laws, Courts and Dispute Resolution

Planning and Preparation

Information Gathering and Preserving

Discovery

Reporting, Experts and Testimony

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\* The author is Assistant Professor of Accounting at the University of the Virgin Islands.

### 3) Specialized Forensic Knowledge

Bankruptcy, Insolvency and Reorganization  
Computer Forensic Analysis  
Economic Damages Calculations  
Family Law  
Financial Statement Misrepresentations  
Fraud Prevention, Detection and Response  
Valuation

Specific preparation material for the CFF is still sparse as it is a young credential (about 4,300 so far). However, the AICPA recommends the '[Financial Forensic Accounting Education Series](#)', a series of 15 online courses on forensic accounting. There are no additional CPE Requirements for the CFF Designation. A video explaining the benefits of the CFF Designation is available on the [AICPA Youtube Channel](#). NACVA has been charged with developing a course to prepare for the test.

### **Certified Fraud Examiner (CFE)**

**Association of Certified Fraud Examiners (ACFE)**

[www.acfe.com](http://www.acfe.com)

The requirements for the CFE Certification are:

- Membership in the ACFE
- Recommendation forms from three individuals who have worked with the candidate
- Pass the CFE Exam
- Two years of professional experience in a related field
- Minimum of a Bachelor's Degree or four years of additional professional experience
- Payment of examination fees and yearly membership dues
- Agree to abide by the ACFE Bylaws and Code of Professional Conduct
- Earn 20 hours of CPE Credit per year. At least 10 CPE must directly relate to the detection and deterrence of fraud and 2 hours must directly relate to ethics.

The exam consists of four parts. **Fraud Detection and Deterrence** provides theories of crime causation and an understanding of human behavior when confronted with certain environments. This involves the Fraud Triangle (perceived opportunity, financial pressure and rationalization) as well as statistics and differentiation of white collar, organizational and occupational crime. **Fraudulent Financial Transactions** is the most comprehensive part and it provides the student with an in-depth understanding of a large variety of fraud types including Insurance, Health Care, Tax, Securities, Consumer, Public Sector, Procurement and Bankruptcy Fraud. **Legal Elements of Fraud** is designed to provide an introduction to rules

of evidence, prosecution of fraud, rights of employees and testifying as an expert witness. **Fraud Investigation** addresses covert examinations, computer forensics, interview theory and providing written reports.

The test can be taken through the CFE Exam Prep Course Software so that there are no travel requirements. In order to be admitted to take the exam, a candidate has to correctly answer all questions provided in this software solution at least once (approximately 1,000 Questions). Only then a verification file can be exported from the software and emailed to ACFE. After receiving and entering the authorization code to take the test, a previously hidden test module becomes available in the same software and the candidate has 30 days to complete all four parts of the exam. Each of the four exam section has 125 Questions and questions are timed out after 75 seconds. A total of 35 CPE Credits is granted upon completion of the CFE. The ACFE website includes a video with ACFE President Jim Ratley explaining the benefits of becoming a CFE as well as a point calculator that can be used to determine candidate eligibility. Significant educator discounts are available.

**Certified Forensic Accountant (Cr.FA)**  
**American College of Forensic Examiners International (ACFEI)**  
**[www.acfei.com](http://www.acfei.com)**

As the only organization in this list the ACFEI offers forensic certificates for a variety of disciplines such as the Certified Forensic Physician, Certified Forensic Nurse, Certified Medical Investigator, Certified Master Forensic Social Worker, Certified Forensic Consultant and Certified Forensic Accountant.

The requirements for the Cr.FA are:

- CPA License or its international equivalent
- ACFEI Membership
- Pass the Cr.FA Exam
- Provide three professional references

The exam consists of 100 questions and is intended for individuals with pre-existing knowledge in forensic accounting. The recommended reading to prepare for the exam is 'Forensic and Investigative Accounting' by Larry Crumbley. Cr.FA's must provide documentation for 15 hours of forensic accounting related CPE Credits each year. Members of the Advisory Board to the College can also add the title 'Diplomat of the American Board of Forensic Accounting' (DAPFA) and a Fellow of the American College of Forensic Examiners Institute can add the title 'FACFEI'. The exam can be taken online.

**Certified Forensic Financial Analyst (CFFA)**  
**National Association of Certified Valuation Analysts (NACVA)**  
[www.nacva.com/CTI/CFFA.asp](http://www.nacva.com/CTI/CFFA.asp)

The Certified Forensic Financial Analyst (CFFA) can be achieved via five different pathways:

- Financial Litigation Path
- Forensic Accounting Path
- Business and Intellectual Property Damages Path
- Fraud Risk Management Path
- Matrimonial Litigation Support Path

Each Pathway includes a standard three-day CFFA Candidate Workshop and a five-day workshop according to the specialization. The three-day CFFA Candidate Workshop discusses

- Legal Theory and Case Law on day one,
- Litigation Skills and Communication Skills on day two and
- Case Studies in Communication Skills in the Courtroom and in the Boardroom on day three

There is a four hour exam at the end of each workshop. A candidate must have one of the following credentials to be admitted to the program: CVA, AVA, ABV, ASA, AM, CBA, CBV, CFA, CFE, CMA, Cr.FA, CPA, CA. Furthermore, proof of work experience in a related field (extent depending on specialization) and three references must be provided. A total of 24 CPE Credits is granted for attending the live seminars in conjunction with this certification. CFFA's need to recertify every three years which includes 36 hours of related training and 6 engagements in the chosen specialty area. The previously available Certified Fraud Deterrence Analyst (CFD) was merged into the CFFA designation in 2007.

**Forensic Certified Public Accountant (FCPA)**  
**Forensic CPA Society (FCPAS)**  
[www.fcpas.org](http://www.fcpas.org)

A Study Guide and the following five books build the basis for the FCPA exam:

- *Crumbley/Heitger/Smith*: Forensic and Investigative Accounting
- *Manning*: Financial Investigation and Forensic Accounting
- *Inbau/Reid/Buckley/Jayne*: Criminal Interrogations & Confessions
- *Wells*: Corporate Fraud Handbook

- Wells: Principles of Fraud Examination

Accordingly, five tests of 100 questions each have to be taken within a year from the date the first test is taken. The available time is 2 minutes per question and test results are available online immediately after taking the exam. FCPA's have to report 20 hours of fraud or forensic accounting related CPE per year.

Candidates must hold a CPA or another country's CPA equivalent license in order to be eligible to sit for the five exams. CPA's that either hold the CFE or CFF Credential can request an exam waiver, fill out the registration form and submit the yearly membership dues in order to be awarded the FCPA Credential.

### **Certified Professional Forensic Accountant (CPFA)**

#### **The Institute of Certified Forensic Accountants**

[www.forensicglobal.org](http://www.forensicglobal.org)

The Institute of Certified Forensic Accountants is a Canadian Organization that requires an academic degree or three years of professional experience as a prerequisite for the CPFA Exam. Forensic accounting degrees from a published list of universities allow for a full exam waiver. The exam consists of the following five modules:

- Financial Investigation and Forensic Accounting
- Fraud Examination
- Fraud Auditing
- Occupational Fraud and Abuse
- Corporate Governance and Ethical Issues

## LET'S PLAY DOMINOES

Michael M. Grayson\*

Let's play dominoes, and watch them fall.  
Fannie Mae, Freddie Mac, and that's not all.  
AIG, Merrill Lynch, and Wachovia, too,  
Plus the biggest thrift of them all - WaMu.

Who owned what? We do not even know.  
Lawyers would sue for collection, but some could not show  
That the client for whom they filed even owned the rights  
To collect from the defendants they had in their sights.

"Change the mortgage terms!" One hears the cry  
Of people willing to kiss *other* people's money goodbye.  
If the borrowers could not pay them, they probably cannot pay now,  
So how will this improve things? Tell me how.

This will make more work for forensic accountants all around.  
So many things went wrong that the work will just abound.  
Somebody took money out of the process, and that is who  
We want to track down and sue, sue, sue.

If a family's gross income is four thousand dollars per,  
Less taxes, food, clothing, and transportation, sir,  
Then that leaves only so much to pay the mortgage bill -  
That is, if to pay he actually will.

The four C's of credit may have been ignored  
When someone's loan eligibility was scored.  
Character, capacity, capital, and conditions -  
So obvious they require very little expositions.

Does the person understand what obligations mean?  
Is the purpose of the loan something for which the ultimate lender is keen?  
Do not lend to someone who does not pay loans back.  
Even if you seize collateral, for some you will get jack.

What we need for forensic accountants is some really good sound bites  
To appear on TV news all those nights.  
Here is one: "There is no such thing as a free lunch,  
And the folks who tell you there *is* one are playing you for a dunce."

---

\* The author is a member of the faculty at Texas A&M International University.

## **FRAUD IS A BAD THING**

**Michael M. Grayson<sup>\*</sup>**

Fraud is a bad thing, it is true,  
So why do people do, do do?  
Opportunity is one part of the reason why,  
Because they think they can do it on the sly.

Incentive or pressure is the second part here.  
Pressure implies that they have a fear  
Of something bad happening if they do what is right,  
So they do what is bad without putting up a fight.

Incentive means that if they commit fraud, they will receive  
Something good for themselves if they successfully deceive  
People who rely on them to do proper work  
And report honestly instead of information berserk.

The ability to rationalize completes the fraud triangle.  
People who know would not call this a new fangle.  
The fraudsters knew it was wrong, but excuses they make—  
And some people even want to let them get away with it. Boy, that takes  
the cake!

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<sup>\*</sup> The author is a member of the faculty at Texas A&M International University.

## FIA 2<sup>nd</sup> Annual Breakfast Meeting Photos

















# **Purple Book**

## **Forensic & Investigative Accounting Section**

### **FIA Section of the American Accounting Association**

#### **2<sup>nd</sup> Annual Meeting**

**San Francisco, CA  
August 4, 2010**

## **Forensic & Investigative Accounting Section**

### ***2009-2010 Officers, Editors, Regional Coordinators***

#### **Officers**

D. Larry Crumbley, President  
Louisiana State University  
Timothy J. Louwers, Vice-President, Academic  
James Madison University  
Sri Ramamoorti, Vice-President, Practice  
Infogix, Inc. and Kennesaw State University  
Carl J. Pacini, Treasurer  
Florida Gulf Coast University  
Rosie E. Morris, Secretary  
Texas State University-San Marcos  
Sara Rushinek, Webmaster  
University of Miami  
Rosie E. Morris, AAA Common's Representative  
Texas State University, San Marcos

#### **Regional Coordinators**

Mid-Atlantic: James A. DiGabriele, Montclair State University  
Midwest: William J. Kresse, Saint Xavier University  
Northeast: Richard J. Proctor, Western Connecticut State University  
Ohio: David D. Pearson, Case Western Reserve University  
Southeast: Michael A. Seda, Shaw University  
Southwest: Rosie E. Morris, Texas State University, San Marcos  
Western: Cindy Durtschi, DePaul University  
International: Real Labelle, HEC Montreal

## **Forensic & Investigative Accounting Section**

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## **Forensic & Investigative Accounting Section**

### ***Business Meeting Agenda*** **Wednesday, August 4, 2010** **6:45 – 8:15 A.M.**

- 1.** Call to Order (Larry Crumbley).
- 2.** Approval of the minutes (Roselyn E. Morris).
- 3.** Treasurer's Report (Carl J. Pacini).
- 4.** Nomination Committee Report (Susan L. Swanger).
- 5.** Committee Reports (Larry Crumbley).
  - a. By-Law Review Strategic (Priscilla Burnaby).
  - b. Earnings and SET Management (Carol Sullivan).
  - c. Electronic Evidence and Fraud (Nazik Roufaiel).
  - d. IFRS & Fraud (Sri Ramamoorti).
  - e. Litigation Support (Richard E. Hurley).
  - f. Member Acquisition and Retention (Natalie T. Churyk).
  - g. Mid-Year Meeting (Sam Tiras).
  - h. Program (Tim Louwers).
  - i. Publication (Chih-Chen Lee).
  - j. Tax Fraud/ Underground Economy (Carl J. Pacini).
- 6.** Speaker (William Hanlin, Jr.).
- 7.** Thanks to our sponsors.
- 8.** Other Business (Larry Crumbley).

## **Forensic & Investigative Accounting Section**

### ***Breakfast Meeting Minutes***

**August 5, 2009**

**6:45 – 8:15 am, New York Hilton**

**New York, New York**

Larry Crumbley called the meeting to order at 7:00 AM.

Dr. Crumbley reported on the interest in a section devoted to forensic and investigative accounting. An introductory email on establishing the FIA section resulted in 250 paid members. 141 confirmed for the breakfast meeting.

Priscilla Burnaby reported on the drafting of By-Laws for the section by the By-Law Review Strategic Committee. A motion was made, and seconded, that the By-Laws be adopted as written. The motion passed unanimously.

Susan Swanger reported on the Nomination Committee and presented the slate of officers:

|                             |                   |
|-----------------------------|-------------------|
| President                   | D. Larry Crumbley |
| Vice President, Academic    | Richard Riley     |
| Vice President, Practice    | Sri Ramamoorti    |
| Treasurer                   | Carl J. Pacini    |
| Secretary                   | Roselyn E. Morris |
| Webmaster                   | Sara Rushinek     |
| AAA Common's Representative | Carol A. Hartley  |

It was moved and seconded to accept the slate of officers. The floor was opened for questions. None being noted, the slate of officers were approved.

Treasurer Carl Pacini reported that \$3,700 had been collected as dues from the 225 charter members.

Secretary Rosie Morris had no minutes to report.

Dr. Crumbley acknowledged and thanked Tim Louwers of the Program Committee for carving forensic sessions out from the auditing submissions. Dr.

Louwers announced that there were 50 paper submissions and 9 sessions. The final one being that day from 4:00 to 5:30 PM on “Creating Fraud Cases.”

Dr. Crumbley called attention to the committees and membership on page 6 of the section program book. It was suggested that a committee be established on litigation services. Please email Dr. Crumbley with other suggestions or questions.

Dr. Crumbley called attention to the last page of the program book. He expressed thanks to the business sponsor of the section: AICPA’s Certified Financial Forensic (CFF) Credential Group, and especially to Elaine Leggett.

Sharyn Maggio gave an overview of the CFF credential group composed of over 3,500 CPAs. There are over 20 applications to the group a week. The number of 3,500 CPAs in the group is significant as it triggers the formulation of an examination for certification. Ms. Maggio also shared some of her experiences of doing forensic and investigative accounting, including investigating the New Jersey governor, celebrity goodwill, and landlord withholding among others. She then introduced the speaker, Ramona R. Farrell. Ms. Farrell presented “Characteristics and Skills of the Forensic Accountant.”

In other business, Larry Crumbley asked about getting an electronic journal for the section. By show of hands the support for such journal was overwhelming.

With no other business before the section, the meeting was adjourned at 8:15 AM.

Respectfully submitted,  
Rosie Morris  
Secretary of FIA section

***FIA Business Meeting Minutes***  
**August 5, 2009**  
**8:30 – 10:00 am, New York Hilton, New York**

The business meeting of the Forensic and Investigative Accounting (FIA) Section met immediately following the Breakfast Meeting establishing the section.

The meeting was called to order by Larry Crumbley at 8:30 AM. Larry quickly summarized the pressing issues for the section as money needed for the mid-year meeting and practice issues.

Mid-Year Meeting Discussion: Richard (Dick) Riley thought it would be possible for the section to meet in conjunction with the West Virginia conference. That conference is scheduled to have the 2010 meeting in June in Washington, D.C. There is a commitment of a speaker of \$1,000. Total cost for a mid-year meeting was estimated at \$14,000. Since the section has a membership of 225 and cash of only \$3,700, the group brainstormed how to have a mid-year meeting and who might sponsor and underwrite the costs. Carol Hartley suggested meeting with the Public Interest section or another section to help offset costs of first meeting. Dick Riley was requested to put together a one-page proposal on having the West Virginia conference and section meet jointly in 2011.

Journal Discussion: Larry Crumbley proposed adding an electronic forensic and investigative accounting journal to the AAA umbrella. The group agreed that it was a good idea. Larry volunteered to work with the AAA to add such a journal.

Strategy of the section was discussed with everyone in agreement that the Breakfast Meeting was a great success and start to the section. Long term the section does not want to align with a special interest professional group exclusively. Ideas were discussed on how to consider curriculum and professional issues of practitioners in the section.

Meeting adjourned at 9:55 AM.

Respectfully submitted,  
Rosie Morris  
Secretary of FIA Section

## Forensic & Investigative Accounting Section

### *Treasurer's Report* September 2009-May 2010

|                                |                       |
|--------------------------------|-----------------------|
|                                | 9 months<br>2009-2010 |
| Beginning Balance—Cash—9/1/09  | \$1822.03             |
| <u>INFLOWS</u>                 |                       |
| Deferred AAA Dues*             | 31.50                 |
| Deferred Dues-Full*            | (1522.50)             |
| Assoc. Member Dues-Revenue     | 220.50                |
| Full Member Dues-Revenue       | 4522.50               |
| <u>Mid-Year Meeting</u>        |                       |
| Registration Fees              | 9445.00               |
| Contributions                  | 300.00                |
| Inflows from Mid-Year Meeting  | 9745.00               |
| <br><u>Annual Meeting</u>      |                       |
| Contributions                  | 9,000.00              |
| Deferred Income                | 1,860.00              |
| Inflows from Annual Meeting    | 10,860.00             |
| TOTAL INFLOWS                  | 23,857.00             |
| <br><u>OUTFLOWS</u>            |                       |
| <u>Mid-Year Meeting</u>        |                       |
| Hotel-Rooms/Food/Bev           | \$6115.49             |
| Hotel-Audio Visuals            | 280.00                |
| Copying/Printing               | 373.82                |
| Staff Support                  | 58.00                 |
| Meeting Coordinator Fee        | 544.27                |
| Postage                        | 235.84                |
| Outflows from Mid-Year Meeting | 7607.42               |
| <u>General/Admin</u>           |                       |
| Credit Card Fees               | 73.61                 |
| Awards                         | 81.00                 |
| <u>Committees/Officers</u>     |                       |
| Travel                         | 978.63                |
| TOTAL OUTFLOWS                 | 8840.66               |
| NET CASH FLOW                  | 15016.34              |
| Ending Cash Balance            | \$16838.37            |
| <br># of members—active(full)  | 381                   |
| # of members—associate         | 43                    |

\*Dues payments are applied to deferred accounts and 1/12 is realized each month of the member year.

## **Forensic & Investigative Accounting Section**

### ***2010-2011 Officers and Regional Coordinators of FIA Section***

#### **Officers**

D. Larry Crumbley, President  
Louisiana State University  
Timothy J. Louwers, Vice-President, Academic  
James Madison University  
Robert Rufus, Vice-President, Practice  
Rufus & Rufus  
Carl J. Pacini, Treasurer  
Penn State - Abington  
Cindy Durtschi, Secretary  
DePaul University  
Rosie E. Morris, Webmaster  
Texas State University, San Marcos  
Tanweer Hasan, Editor, Forensic Accounting Educator  
Roosevelt University  
Jacquelyn S. Moffitt, AAA Common's Representative  
Louisiana State University

#### **Regional Coordinators**

Mid-Atlantic: James A. DiGabriele, Montclair State University  
Midwest: William J. Kresse, Saint Xavier University  
Northeast: Richard J. Proctor, Western Connecticut State University  
Ohio: David D. Pearson, Case Western Reserve University  
Southeast: Michael A. Seda, Shaw University  
Southwest: Jackie Moffitt, Louisiana State University  
Western: Cindy Durtschi, DePaul University  
International: Real Labelle, HEC Montreal

## **Forensic & Investigative Accounting Section**

### ***Committee Chairpersons, 2010-2011***

#### **By-Law Review Strategic Committee**

Priscilla Burnaby, Chair, Bentley College

#### **Nomination Committee**

Susan L. Swanger, Chair, Western Carolina University

#### **Member Acquisition and Retention Committee**

Natalie T. Churyk, Chair, Northern Illinois University

#### **Program Committee**

Richard Brody, Chair, University of New Mexico

#### **IFRS & Fraud Committee**

Sridhar Ramamoorti, Chair, Infogix, Inc. and  
Kennesaw State University

#### **Electronic Evidence and Fraud Committee**

Nazik Roufaiel, Chair, State University of New York

#### **Tax Fraud/Underground Economy Committee**

Carl J. Pacini, Chair, Florida Gulf Coast University

#### **Earnings Management/SET Committee**

Carol Sullivan, Chair, Texas Wesleyan University

#### **Mid-Year Meeting Committee**

Sam Tiras, Louisiana State University

#### **Publications Committee**

Chih-Chen Lee, Chair, Northern Illinois University

#### **Litigation Support Committee**

Richard E. Hurley, Chair, University of Connecticut

[See web site for up-to-date list.]

# Forensic & Investigative Accounting Section

## Research Conference Report

|  |                           |                      |                   |                       |            |
|--|---------------------------|----------------------|-------------------|-----------------------|------------|
| <b>AMERICAN ACCOUNTING ASSOCIATION</b>         |                           |                      |                   |                       |            |
| 55 Forensic & Investigative Accounting Section |                           |                      |                   |                       |            |
| May 7 - 8, 2010                                |                           |                      |                   |                       |            |
| The Cook Hotel - Baton Rouge, LA               |                           |                      |                   |                       |            |
| <b>INFLOWS:</b>                                |                           |                      |                   |                       |            |
| <b>MEETING REGISTRATION FEES</b>               | <b>TOTAL ATTENDEES:</b>   | <b>Count</b>         | <b>Price Each</b> | <b>Total</b>          |            |
|  | Early Member Fees:        | 46                   | \$ 125.00         | \$ 5,750.00           |            |
|  | Late Member Fees:         | 15                   | \$ 150.00         | \$ 2,250.00           |            |
|  | Non-Member Reg Fees:      | 5                    | \$ 125.00         | \$ 625.00             |            |
|  | Non-Member Late Fees:     | 3                    | \$ 150.00         | \$ 450.00             |            |
|  | AAA Reg Fees:             | 1                    | \$ 125.00         | \$ 125.00             |            |
|  | Comp Reg Fees:            | 2                    | \$ -              | \$ -                  |            |
|  | Doctorial Students        | 9                    | \$ -              | \$ -                  |            |
|  | Guest Tickets Fri Dinner: | 7                    | \$ 35.00          | \$ 245.00             |            |
|  | Total Registration Fees:  | 88                   |                   | \$ 9,445.00           |            |
| <b>CONTRIBUTIONS</b>                           |                           |                      |                   |                       |            |
|  | Audimation Services, Inc. | \$ 300.00            |                   |                       |            |
|  | TOTAL CONTRIBUTIONS       | \$ 300.00            |                   |                       |            |
|  | <b>TOTAL INFLOWS</b>      | <b>\$ 9,745.00</b>   |                   |                       |            |
| <b>OUTFLOWS:</b>                               |                           |                      |                   |                       |            |
| <b>FOOD &amp; BEVERAGE</b>                     |                           | <b>Total with **</b> | <b>Before **</b>  | <b>Service Charge</b> | <b>Tax</b> |
|  | Friday PM Break           | \$ 368.55            | \$ 315.00         | \$ 53.55              | \$ -       |
|  | Friday Dinner             | \$ 1,960.09          | \$ 1,421.25       | \$ 538.84             | \$ -       |
|  | Saturday Breakfast        | \$ 839.30            | \$ 700.00         | \$ 139.30             | \$ -       |
|  | Saturday AM Break         | \$ 368.55            | \$ 315.00         | \$ 53.55              | \$ -       |
|  | TOTAL F&B                 | \$ 3,536.49          | \$ 2,751.25       | \$ 785.24             | \$ -       |
| <b>AUDIO VISUAL</b>                            |                           |                      |                   |                       |            |
|  | Fri/Sat AV                | \$ 280.00            |                   |                       |            |
|  | TOTAL AV                  | \$ 280.00            | \$ -              | \$ -                  | \$ -       |
| <b>ROOM AND INCIDENTAL CHGS</b>                |                           |                      |                   |                       |            |
|  | Room Rental               | \$ 3,200.00          |                   |                       |            |
|  | Room credit adj           | \$ (960.00)          |                   |                       |            |
|  | Staff Room Chg            | \$ 339.00            |                   |                       |            |
|  | TOTAL ROOM CHRG           | \$ 2,579.00          |                   |                       |            |
| <b>TOTAL MTG CHGS PD TO HOTEL / LSU</b>        |                           | <b>\$ 6,395.49</b>   |                   |                       |            |
| <b>MEETING EXPENSES</b>                        |                           |                      |                   |                       |            |
|  | Printing                  | \$ 373.82            |                   |                       |            |
|  | Mtg Coordinator Fee       | \$ 544.27            |                   |                       |            |
|  | Staff Support             | \$ 58.00             |                   |                       |            |
|  | Postage                   | \$ 235.84            |                   |                       |            |
|  | TOTAL MISC EXP            | \$ 1,211.93          |                   |                       |            |
|  | <b>TOTAL OUTFLOWS</b>     | <b>\$ 7,607.42</b>   |                   |                       |            |
|  | <b>NET FLOW</b>           | <b>\$ 2,137.58</b>   |                   |                       |            |

## **Forensic & Investigative Accounting Section**

### ***Bio of the Speaker***

**William A. Hanlin, Jr., CPA, CFE, CVA** has worked in public accounting since 1969. He is a Certified Public Accountant with vast experience in tax and business matters, and is an expert at helping clients resolve tax problems with Washington State and with the IRS. Bill also assists clients with tax planning to help reduce their tax burden. He is the co-founder and managing partner of The Hanlin Moss Group, P.S.

Bill is a Certified Fraud Examiner (CFE) and has been engaged to detect, investigate and deter fraud. He also provides litigation support as an expert witness in all kinds of cases, including contract disputes, divorce, bankruptcy cases, loss-of-income cases, and partnership disputes.

Since 1994 Bill has been designated as a Certified Valuation Analyst (CVA). He is one of a select group of CPAs fully qualified to value privately-held businesses. He has prepared numerous valuations for various purposes: divorce, buy/sell agreements, partnership agreements or dissolution of partnership, estate/succession planning, product loss, loss of income, and bankruptcy. Bill also teaches valuation theory all over the U.S. and helps to set the national standards for NACVA.

#### **Title of Talk:**

The Search for Risk.

## **Forensic & Investigative Accounting Section**

### ***Report on the 2010 Annual Meeting***

Tim Louwers, Coordinator

#### **Overview:**

In our first year on the AAA Annual Meeting Program, 23 papers were ultimately designated for the FIA Section. The resulting breakdown by category was as follows:

Archival  
Behavioral/Experimental  
Modeling  
Others (Cases, field studies, etc.)  
Totals

Papers presented in concurrent/dialogue sessions  
Papers presented in research interaction sessions (I  
Papers withdrawn from concurrent/dialogue sessio  
Papers transferred to other sections  
Papers rejected

Included in the totals were 6 papers from other Sections; inclusion of these papers (mostly bankruptcy/financial distress papers from the Auditing Section) facilitated creation of intersectional sessions as well as avoided direct conflicts between related sessions being offered by other Sections at the same time. One tax-related paper was transferred to the ATA Section due to the lack of qualified reviewers and the lack of similar papers to create a session around.

In addition, three panel sessions were proposed, all of which were accepted. A fourth FIA Section-related panel ("Preparing Students and Faculty for the Trial Aspect of Forensic Accounting") is being presented by the TLC Section.

The AAA allocated the FIA Section 9 time slots for concurrent sessions and panels. Originally, 21 papers were assigned to 6 concurrent sessions; 6 papers were later withdrawn due to various reasons (paper acceptance, already on program, etc.).

The Section had a surplus of reviewers (64), discussants (36), and moderators (17) which was a pleasant surprise for a Section of our size and newness. Because of the large number of reviewers, I was able to send the papers out for at least two and sometimes three reviews (on borderline papers).

#### **Challenges and Possible Solutions:**

1) Challenge:

I was caught off guard by the TLC Section's panel discussion ("Preparing Students and Faculty for the Trial Aspect of Forensic Accounting") which clearly fell under the FIA Section's interests and caused a conflict with one of our

scheduled panels. Working with Lynn Rees (AAA Annual Program Coordinator), we were able to reschedule our panel to a morning session as to avoid the conflict of two potentially popular panel discussions.

Possible solution:

Although I contacted the other Section liaisons to send me any “fraud or forensic” related papers, I didn’t consider panels. Next year’s coordinator needs to continue to work to open the lines of communication between Sections to avoid similar problems.

2) Challenge:

Outside panelists are sometimes difficult to recruit. In addition to giving up their work time and having to incur travel expenses, the AAA usually requires them to register for the conference, so they also incur an additional fee for the registration.

Possible Solution:

After bringing this concern to the AAA’s attention, the AAA adopted the following policy:

**“Please note that the AAA expects presenters and panel participants to cover their own expenses including the meeting registration. However, if an invited non-member/non-academic participant plans to attend only their panel presentation or stay only for that day, the AAA will provide a name badge and quick reference guide (for locating their session) that will be available for them at the on-site meeting registration desk.”**

3) Challenge:

While not a big concern this year, late conference presentations (i.e., Wednesday afternoons) are difficult to staff with moderators and discussants. The problem is that to save money, most participants leave in the morning to avoid staying an extra night.

Possible Solution:

Rather than scheduling concurrent sessions on Wednesday afternoon, instead schedule Research Interaction Forums and Dialogue Sessions (moderators but no discussants). This suggestion was proposed at the 2010 Annual Meeting Coordinators’ meeting this past August, but was not acted on. We should make this suggestion again at this year’s Coordinators’ meeting.

**Final Remarks**

I wish to acknowledge the many reviewer, discussant, and moderator volunteers, as well as Kathy Casper at the AAA who always responded to changes in a timely fashion and was able to resolve all the issues that came up regarding the AAA’s online system. This job would be much more difficult if not for Kathy!

## **Forensic & Investigative Accounting Section**

### **Special thanks to the following sponsors of the FIA Section:**

- Audimation Services, Inc.  
Thank you Dana C. Newman
- Commerce Clearing House  
Thank you Pat Cummings
- Infogix, Inc.  
Thank you Sri Ramamoorti
- National Association of Certified Valuation Analysts  
Thank you Pamela R. Bailey
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- Rider University  
Thank you Marge O'Reilly-Allen
- Roosevelt University  
Thank you Tanweer Hasan

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The Walter E. Heller College of Business Administration offers a Master of Science in Accounting Forensics, which requires seven core courses and three elective courses. To view the program, go to <http://legacy.roosevelt.edu/business/msaf.htm>

“What the use of fingerprints was to the 19<sup>th</sup> century and DNA analysis was to the 20<sup>th</sup>, forensic accounting will be to the 21<sup>st</sup> century.”

- Gordon Brown, Former Chancellor of the Exchequer, 10 October, 2006.

The opinions of the authors herein are not necessarily those of AAA, Roosevelt University, Louisiana State University, E.J. Ourso College of Business, LSU Accounting Department, the Senior Editor, or the Editors.

# Everyone in the American Accounting Association Should be a Member of the Forensic and Investigative Accounting Section.

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***Discover why so many of your colleagues find the FIA the place to be.***

\* “Hockey great Wayne Gretzky advises that we need to go where the puck will be, rather than going to where the puck is now. Similarly, to become a great forensic accountant, you need to join and participate in the many valuable FIA activities.”

**D. Larry Crumbley  
Louisiana State University**

Forensic accounting issues are important to everyone in the AAA, for we all have a vested interest in enhancing the quality of the forensic and fraud education of accounting students. This section provides a forum that cuts across disciplines, specialty areas and geographic boundaries. As Gordon Brown said, “What the use of finger prints was to the 19th century and DNA analysis was to the 20th, forensic accounting will be to the 21st century.” The FIA Section enables members to share their experiences, providing opportunities for linkage between large and small schools, educators and practitioners, and members worldwide. Use the attached form to apply for membership in the FIA (you must also be a member of the AAA). Mail your application to AAA headquarters (5717 Bessie Drive, Sarasota, FL 34233-2399). Join today and become better connected to your colleagues and your profession.

**GIVE THE FORM BELOW TO COLLEAGUES AND ENCOURAGE THEM TO JOIN!**

## **Membership Application for the Forensic and Investigative Accounting Section**

ID# \_\_\_\_\_  
Name \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_  
Affiliation \_\_\_\_\_  
Telephone: Office \_\_\_\_\_ Home \_\_\_\_\_ Fax \_\_\_\_\_  
Dues Enclosed: \$15  
Payment method: ☐ Check enclosed (make payable to AAA) ☐ VISA ☐ Mastercard  
Billing Address \_\_\_\_\_  
Account Number \_\_\_\_\_ Expiration date \_\_\_\_\_  
Signature \_\_\_\_\_