



The Forensic Accounting Educator

Spring 2010

Editor: Tanweer Hasan

Senior Editor: Larry Crumbley

Volume 2, No. 1



A MESSAGE FROM THE PRESIDENT

SPRING 2010

Greetings to Members of the FIA Section:

Planning is in progress for two important events this year. First, the Mid-Year Research Conference is being coordinated by Sam Tiras at L.S.U. He has put together more than 30 speakers for the May 7-8 conference in Baton Rouge, LA. This First FIA Research Conference list of events and speakers can be found at http://aaahq.org/meetings/2010FIA_Program.htm. Our major speakers will be Aaron Beam, former Controller of HealthSouth and author of *The Wagon to Disaster*. Go to the AAA Internet site and register for our research event. You can fly into Baton Rouge or New Orleans (if you wish to spend a day or two in N.O.).

Also, plan to attend the FIA breakfast on Wednesday morning, August 4, 2010 in San Francisco. Our speaker will be William A. Hanlin, Jr., at Hanlin, Moss, in Seattle. His topic is The Search for Risk.

Would you like to serve on a committee? I especially need a chairperson and more members for the Earnings Management/SET committee. Please see the current committee compositions in this newsletter. I need a Western Regional Coordinator. Tanweer Hasan, at Roosevelt University, has agreed to be the editor of our newsletter.

Have a great Spring, and I hope to see you in May and again in August. Do not forget to visit our FIA Internet site, and please go to the Membership Application in this newsletter, download a copy, then make copies and give to your faculty at your university. We need to build up our membership, and each of you can help. It's great to be a forensic accountant.

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.

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.

The new elected officers for 2010-11 have been certified.

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An Interactive Fraud Investigative Game

Ronald J. Huefner*

An excellent fraud detection case by Cindy Durtschi (*Issues in Accounting Education*, Volume 18, Number 2 (2003))¹ forms the basis for an interactive investigative exercise in my undergraduate (senior-level) fraud examination class. This case involves a minor league baseball team, the Tallahassee BeanCounters (TBC), whose owner suspects that fraud is occurring within his organization. The owner asks his audit firm, currently performing the annual audit, to investigate.

Setting Up

Students are organized into teams of three to five individuals, depending on class size. The task of each team is to determine what, if any, frauds were committed in this company between April and July. They receive the audit file, a collection of about 60 pages of documents collected during the current audit. Careful examination of this data, including observations of people and processes conducted as part of the audit, is required to get some initial ideas as to where to begin the fraud examination. Students must then decide what additional information is needed, and where the team must go or whom the team must ask to get it.

The Process

The team corresponds, by e-mail, with various individuals both inside and outside the company (all such parts being played by the instructor). They may ask questions, seek data, or even hire a private investigator. Instructions include the following:

- a. *Address your email to the person you believe could provide the information you want. Keep in mind that you don't want to "tip off" or offend your suspects.*
- b. *Describe very specifically the information you want. For example, "Dear Ms. Hughes: Could you please forward me a copy of the invoices for promotional activities?"*
- c. *If your request goes to someone outside the company, clearly describe the person, entity, or process you want information about. For example: "I would like to ask the Accounts Payable person at the phone company for a copy of the bills they sent to TBC." "If I look in the property registration records, what vehicles, homes, boats, or recreational vehicles will I find registered to Candie Harris?" or "If I conducted a surveillance of the parking operations on April 30 from 4 P.M. to 10 P.M., what would I see?"*

Remember, you may ask for any type of information (other than information that is illegal to obtain). So, investigate from any angle you can imagine. You can communicate with TBC employees, their families or associates, vendors, or anyone else you think might have information you need. You can look for information from public sources and, with enough

* The author is a Professor at the University of Buffalo. He can be contacted at rhuefner@buffalo.edu with any questions about this activity.

¹ The case also can be found in Chapter 18, Crumbley *et al.*, *Forensic and Investigative Accounting*, 4th edition, Chicago: Commerce Clearing House, 2009.

evidence for a judge to grant a subpoena, you can get information from private sources such as banks or credit bureaus. Your instructor will return the requested information via email.

Cost of Information

As in real life, there is a cost (in wasted time and billable hours) for requesting irrelevant information. Students are instructed to: *Save time and effort by running all ideas through your team. Make certain you understand why you want the information, and what you think you have to gain by receiving it. Avoid blanket requests that are mere fishing expeditions.*

There is a cost for information requests that will relate to the team's grade on the assignment. Specifically, when a team makes its 11th request for information, they are charged 1 point off their grade. When they make their 21st request for information, they are charged an additional 2 points (for a total of three). The 31st request for information costs an additional 3 points (for a total of six), and so on. This is very effective in encouraging students to think before they ask, and they become very conscious of how many requests they have submitted. They weigh carefully the benefits of additional information (potentially solving more frauds) versus the costs of asking for irrelevant information. The number of inquiries per team typically ranges from the high teens to the high 30's, with a mean in the mid-20's.

Getting Started

Before requesting any additional information, students are encouraged to take time within their group to review the materials in the Audit File. *Look for red flags. Analyze the different accounts. Ask whether the accounts look reasonable. Are changes in the direction and size expected? Look at the employees. Is there a person who might face financial pressure and have the opportunity to commit fraud? Look at your personal observations of TBC processes. Do you detect any weak internal controls? Is there a particular person who is in a position to exploit that weakness? Look at the books as a whole. Do assets appear to be missing? Who had the opportunity to commit a theft? Once you have identified potential leads, ask yourself how could the fraud have been concealed in the books? How might the perpetrator have converted the stolen assets to his or her personal use?*

Solving the Case

If you uncover a fraud (or frauds), the ultimate goals would be to prosecute the criminal to deter him/her from committing future frauds and send a message to others who might commit fraud in the future. To have a successful prosecution, you must provide your instructor with a report that provides the following details for any fraud you find:

- 1. Who committed the fraud?*
- 2. How was the fraud committed?*
- 3. How you would convince a jury that the perpetrator intended to commit the fraud (i.e., it is fraud, not an error).*
- 4. What is the economic impact of the fraud (how much money was stolen)?*

5. Finally, you must show that your suspect was the one who benefited financially from the crime (trace the money to him/her and show that he or she spent it).

Grading

This is a competitive exercise. Teams are graded relative to the other teams within the class. In other words, the team solving the fraud(s) most completely and creating the most convincing presentation of its evidence receives the most points. All other teams are graded relative to the number one team. So, if the second-place team has 90 percent of the evidence that the first-place team accumulated, that team gets 90 percent of the points that the first team received. Therefore, it benefits each team to keep its leads and suspicions private. Further, because of the cost of information feature, teams are exceptionally hesitant to share information with other teams.

Instructor Workload

The case is labor-intensive for the instructor. While the task is usually assigned over about a three-week period, inertia, procrastination, and start-up time means that most inquiries are made in the final seven to ten days. This requires frequent monitoring of e-mail during that period. I promise responses within 24 hours, but actual response time is usually much less. In a class with enrollment in the mid-30's, there will be about ten groups. This size means responding to about 250-300 e-mails. Some can be answered by merely attaching the requested information, but others require non-standard answers. Crafting responses can be fun, however.

Summary

Though not technically a "game," this assignment takes on game-like characteristics. It is challenging to find the pathways to the information needed. One may first need to find "a," which then leads to "b," then to "c," and so on. While some information in the case is straightforward, some is not. Students also become competitive against the cost of information, seeking to get answers at the least possible cost. Finally, they are competing against their classmates to be the best fraud finders.

Students find the Tallahassee BeanCounters case to be fun, challenging, and extremely worthwhile. Many view it as the highlight of the course, being as close as we can come to simulating a fraud investigation in the classroom.

Random Reinforcement: A Game Used in a Fraud Audit Course

Karen A Van Peurse^{*}

Random Reinforcement is a game developed for and used in the fraud audit classroom. Its purpose is to inspire active student engagement in the process of planning for unique and fraud-infused assurance engagements. It incorporates a fraud ‘risk’ into each case, along with four other engagement characteristics, to mimic an assurance client situation. It creates each case using Excel, yielding up to 81,928 different possibilities at the press of a button. Once selected, students are asked to conduct audit planning exercises for the ‘engagement’ that emerges from that massive range, and to communicate their results with the class for feedback.

Random Reinforcement uses an Excel subroutine, developed for this purpose, which forms ‘cases’ from any combination of five different engagement characteristics:¹ Level of assurance (7), That subject to review (11), Industry (14), History of fraud (19), and Employee characteristics (4). The student, or student team, is first asked to select a random number (say from one to five). The instructor then applies the ‘random’ Excel function (one to five times, depending on the number the student chooses) to the characteristic boxes (shown in light yellow in the picture below). The result is a random combination that represents the characteristics of their case. This process can be repeated for any number of student teams or cases, any number of times.

A segment of the spreadsheet is illustrated below. The ‘light’ section houses the numbers that will comprise each audit engagement ‘case.’ For example, the case below is an ‘audit or review’ (2), to do with solvency (1) for a carpet manufacturer (5) with 6-50 employees and a limited segregation of duties (2) in which system an application of Benford’s law reveals duplicate entries (18, not shown). Engagement characteristic options can be reduced (or expanded) by the instructor using the ‘RAND’ (random) function to suit their needs.

Your Engagement is:		#	Level of Assurance Desired	That subject to your review	Industry	History of fraud in this organization or system?	Employees
Level of Assurance	2	1	Advisory engagement	Solvency issues	Construction: Housing	Yes: employee stole materials in past	0-5, involved owner/manager
Scope of Engagement	1	2	Audit (or Review if appropriate)	Environmental issue	Tourism:	Yes: CEO distorted this information 5 years ago	6-50, limited segr. of duties
Industry	5	3	search for fraud or distortion	Stock system	Franchise restaurant holder	Yes: supplier-purchaser collusion has occurred	>50, one location
History of Fraud	18	4	Reactive search for fraud or distortion	Revenue and efficiency	Primary product (timber) exporter	None known, but system related to this issue could allow employee theft	>50 multiple locations
Employees	2	5	Proactive fraud audit	A private endowment trust	Carpet manufacturer	None known, but incentive system rewards high revenue salespersons	

^{*} The author is a Professor at the University of Waikato, Hamilton, New Zealand. She can be contacted at kvp@waikato.ac.nz.

¹ Numbers in parentheses represent the number of situations for each category.

Students are asked to discuss the ‘scope’ of their engagement with their teams, and to imagine the specific fraud scenarios that their particular situation may suggest. They are then asked to complete one (or more) audit planning activities, all of which require them to engage with the specific characteristics of their case. These are to:

- Prepare a detailed engagement letter for their ‘case.’ They are allowed to add questions, and assume answers, which they deem necessary to complete the engagement letter;
- Design an appropriate sampling plan (for compliance, discovery or substantive testing as appropriate) to obtain evidence of fraud which may (or may not) be suspected in their case;
- Design a specific analytical review plan which they would apply to the client’s data; and
- Assess the legal and regulatory implications and obligations that may have an impact on their risk, materiality assessments, their planning or their evidence collection processes.

Random Reinforcement has been applied in advanced audit classrooms three times in three years. The class sizes were from 17-46 and included mostly 19-21 year olds inexperienced in business. The engagement characteristics have been refined over that time in response to how well students engage with it or to reduce the possibility of combinations that don’t make sense.

The response has been very good. There is ‘anticipation’ in seeing what their case will turn out to be. Sometimes, and given the standard classroom teaching to which they are accustomed, they find it difficult at first. They might expect the instructor to lecture to them or to present a single case for analysis. Once they start working with their case however, and once they start hearing back from other student teams, they move away from depending on the instructor for all the input, they work with their team, and come up with what I have found to be some very creative (!) responses. Feedback from other teams and the instructor help them refine their audit plan.

Random Reinforcement may contribute to learning in a number of ways. It appeals to several different learning styles: It is both concrete and active (for Accommodators), requires reflection (for Divergers and Assimilators) and combines the ‘abstract’ with the ‘active’ (for Convergents) (Kolb, 1985; Azevedo and Akdere, 2006). It is said that there may be substantial learning benefits to students who “develop the ability to adopt different learning styles in different situations” (Loo, 2002, p. 255) such as what this exercise provides. This learning is particularly so for the Accommodator with whom business and accounting students appear to show the least kinship (Loo, 2002).

Random Reinforcement provides students an opportunity to develop their ‘imagination’ skills, which is particularly relevant to fraud investigations. They must ‘imagine’ what sorts of fraud may be occurring from mere indications of concern, and thereupon design an evidence collection plan to gather evidence around that possibility. It applies fraud concepts, such as ‘proactive’ and ‘reactive’ fraud, Benford’s Law and draws on knowledge of regulation. It engages them in teamwork and communication. The game seeks to identify both a life-like yet unpredictable situation, to help them apply audit principles, to work with others, to learn from feedback, and to think on their feet.

The game is best suited for in-class use, and for students who have had exposure to audit principles. Using teams reduces the time taken to hear 'feedback.' The size of the team, or the exercise, can be adjusted to the time available or to the number of the students in the class. Most standard classrooms have sufficient equipment to project the game's Excel subroutine onto a screen.

References

- Azevedo, R.E. and Akdere, M. (2006). An experimental study of learning styles inventory: Implications for human resource development. Paper presented at the Academy of Human Resource Development International Conference. Columbus, OH, Feb 22-26, 2006. ED492736.
- Kolb, D.A. (1985). *The Learning Style Inventory: Technical Manual*. Boston: McBer.
- Loos, R. (2002). A meta-analytic examination of Kolb's learning style preferences among business majors. *Journal of Education for Business*, 77(5), pp. 252-256.

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

* Michael M. Grayson is a member of the faculty at Texas A&M International University.

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.”

Forensic & Investigative Accounting Section

FIA Section of the American Accounting Association

2nd Annual Breakfast Meeting

**San Francisco, CA
August, 2010**

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(2009-2010)**

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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 19th century and DNA analysis was to the 20th, forensic accounting will be to the 21st century.”

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

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

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 _____