**University of Pittsburgh**

**Katz Graduate School of Business**

**BACC 2251 – Forensic Accounting and Fraud Examination**

**Fall 2010**

**Tues. and Thurs. 11:00am-12:20pm, Rm. 114 Mervis Hall (CLN # 35372) 3 credits**

Professor Vicky Hoffman, Ph.D., C.P.A. Secretary: Ms. Jessica Fick

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**Office Hours**: Tuesdays 1:30-2:30pm **and by appointment**

**Access to CourseWeb**: <http://courseweb.pitt.edu> (follow the links to BACC 2251). Login using your Pitt e-mail ID and Password. If you use some other e-mail address, please make sure you forward your Pitt e-mail to this address. Also, it is very important that you **check CourseWeb before each class session.**

***Required Materials*:**

**1. Text*:*** Fraud Examination, 3rd Edition, by W. Steve Albrecht, Conan C. Albrecht, Chad O. Albrecht, and Mark F. Zimbelman,South-Western Cengage Learning, 2009.

ISBN-13: 978-0-324-56084-8.

**2. Paperback Book**: The Number by Alex Berenson, Random House Trade Paperbacks (2004). **ISBN-13:** 978-0812966251 (**ISBN-10** 0812966252).

**Course Description/Objective**:

The AICPA recently called forensic accounting one of the seven hot, new, “sizzling” career areas in accounting. It is estimated that there will be a shortage of between 25,000 and 50,000 professionals working in this area in the next few years in the U.S. Exciting opportunities for students knowledgeable in fraud abound in various federal agencies (e.g. FBI), major corporations, and professional service firms. In sum, there are tremendous career and service opportunities related to fighting fraud! Fraud is *extremely costly* to our society. For example, when there is a financial statement fraud, the market value of the stock usually drops from 500 to 1,000 times the amount of the fraud, causing investors to lose millions and sometimes billions of dollars. Thus, the accounting profession can aid society by developing our ability to fight this enormous problem.

But, even if you do not want to pursue a career in forensics or fraud examination, the tools we will study in this course, including interviewing, document examination, public records searches, and others, will make you better consultants, auditors, tax professionals, managers, entrepreneurs, business owners and even better parents and citizens.

This class is designed to help you to achieve the following goals. You will:

* understand what forensic accountants do and get exposure to some careers in this area.
* become familiar with several forms of fraud and the methods that fraud examiners use to prevent and detect it.
* develop expertise in detecting financial statement fraud from the external auditor perspective.
* gain a better understanding of how technology is used to detect fraud.
* acquire a basic understanding of how interviews are conducted so as to detect deception.
* be better prepared to resist ethical pressure to commit fraud by gaining familiarity with common ethical dilemmas that you might encounter in the business world.
* gain a historical view of financial statement fraud and get exposure to some controversial ideas about how and why some of the biggest frauds occurred and what can be done about the problem.

# Students with Disabilities

If you have a disability for which you are (or may be) requesting an accommodation, please contact me and the Office of Disability Resources and Services, 140 William Pitt Union, (412) 648-7890, (412) 383-7355 (TTY) at the very beginning of the semester.

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| --- | --- |
| **Grading:** | *Points* |
| Class participation, including attendance, homework, and demonstrating knowledge  of reading assignments. (If necessary, this preparation and knowledge might be demonstrated through collecting HW or quizzes).Your group participation will also influence this score. | 210 |
| Short Presentations to the class | 40 |
| Midterm Exam | 250 |
| Final Exam | 250 |
| Group Project | 250 |
| Total possible points | 1,000 |

***Class Notes:*** Please check CourseWeb before coming to class each session. For each chapter of the textbook, I have prepared lecture slides that we will go over in class. **PLEASE PRINT OUT THE SLIDES AS A HANDOUT (selecting “pure black and white, framed” makes the best copies) BEFORE COMING TO CLASS.** I will also put assigned articles from newspapers and journals on CourseWeb for you to print out and read on assigned days.

***Class Participation, Homework***: Your advance preparation and active participation is crucial to your success in the course. It is essential that you complete all reading assignments before class, and that you complete and are prepared to discuss all homework assignments. Of course, you must attend class to be able to participate.

***Short Presentations***: Throughout the semester, each student will have an opportunity to make a short (5 to 10 minute) presentation at the beginning of class for the sharing of fraud-related events, etc. that you have found on the internet, in the *Wall Street Journal*, at your work, or from other sources. It is critical that you learn to become involved and speak up so that you can represent yourself well in meetings and groups. I am giving credit for sharing insights you find because there are tremendous developments related to fraud every day, and having all of us actively watching for these developments will be far more beneficial than just having me find them and present them to you.

***Project***: There will be a group project on a recent fraud that is described in an SEC Accounting and Auditing Enforcement Release (AAER). This will be a written project that is due on the date indicated on the syllabus. Specific information about the project will be forthcoming.

***Exams***: There are two exams, equally weighted, on the dates indicated on the syllabus. While the final exam is not intended to be fully comprehensive, it may require drawing upon information from earlier in the course. There will be **no make-up exams** unless there is an emergency situation, and you make arrangements with me prior to the exam.

**NOTE: These assignments are subject to change. If you have missed a class, it is your responsibility to make sure you have up-to-date information**. **Please check CourseWeb before coming to class every day for updated information. In addition to the items listed, there will be some in-class activities and videos presented.**

**Please note the following abbreviations used in the course calendar below:**

**“A” stands for the Albrecht, Albrecht, Albrecht and Zimbelman text, and A1 stands for chapter 1 in that text.**

**“B” stands for the book titled “The Number” by Alex Berenson (B1 is chapter 1 in this book, etc.).**

**On the syllabus, articles are identified by authors’ last names, and are available to be downloaded from CourseWeb. The page following the class schedule includes the full title of these articles and readings. As current events unfold, I will also add articles to CourseWeb during the semester, so it is important to check CourseWeb before each class.**

**The HW problems assigned from the Albrecht et al. text are abbreviated as follows:**

**MC =Multiple Choice; DQ = Discussion Question; SC = Short Case; EC = Extensive Case; and IA = Internet Assignment**

| **DATE** | | **TOPIC** | **ASSIGNMENT** |
| --- | --- | --- | --- |
| **1** | Tues., August 31 | Introduction and course overview  The Nature of Fraud | Read A1 |
| **2** | Thurs., Sept. 2 | Guest Speaker, Jeff Klink from  Klink and Co. | Read the Messmer article and the Wolosky article on Forensic Accounting on Courseweb |
| **3** | Tues., Sept. 7 | Why People Commit Fraud | Read A2  A1: DQ 5; SC 6, 12  A2: DQ 6; EC 1 |
| **NO CLASS: THURS., SEPT. 9th: Use this time to read A3, A4, and A5 to be covered next week** | | | |
| **4** | Tues., Sept. 14 | An Overview of Forensic Accounting and Fighting Fraud | Read A3  A3: DQ 6, 8; SC 6, 8; EC 2  Read *WSJ* article on CourseWeb on how small business fraud is increasing in economic downturn  Please download the ACFE 2010 Report to the Nation by clicking on: http://butest.acfe.com/rttn/rttn-2010.pdf  and bring it to class. |
| **5** | Thurs., Sept. 16 | Fraud Prevention and Recognizing Fraud Symptoms | Read and A4 and A5  A4: DQ 2, 5, 9  A5: DQ 1,2,3,4 |
| **6** | Tues., Sept. 21 | Proactive Detection of Fraud | Read A6  A6: DQ 3, 4, 5, 7  Read the Cleary and Thibodeau article on Benford’s Law on Courseweb |
| **7** | Thurs., Sept. 23 | Investigating Theft Acts and Investigating Concealment | Read A7 and A8  A7: DQ 2, 3, 5; SC 3, 6, 13  A8: DQ 1, 3, 8; SC 2 and 4  Read Fitzgerald’s article about data that has been deleted |
| **8** | Tues., Sept. 28 | Investigating Conversion | Read A 9  A9: DQ 3, 4, 5, 7 and SC 4  Read over the Jane and John Brown and Richard Wright cases, which we will do in class. |
| **9** | Thurs., Sept. 30 | Chapters A7, A8, A9 continued  Go over instructions for project | Read WSJ article about Betty Vinson  In-class ethics case |
| **10** | Tues., Oct. 5 | Interviewing | Read A10 (from beginning until top of p. 293)  Read Hall article and Wells article |
| **11** | Thurs., Oct. 7 | Interviewing | Read A10 (293-end)  A10: DQ 2, 3, 6, 11 and SC 2 and SC7 |
| **NO CLASS TUES., OCTOBER 12th and THURS. OCTOBER 14th-CAREER SERVICES WEEK** | | | |
| **12** | Tues., Oct. 19 | Guest Speaker: John Elliott, Director of Internal Audit at the University of Pittsburgh | Read B: Introduction, Preface |
| **13** | Thurs., Oct. 21 | **MIDTERM EXAM** |  |
| **14** | Tues., Oct. 26 | Interviewing | Review Midterm Exam  Read Vrij and Semin article  Read B:1-2 |
| **15** | Thurs., Oct. 28 | Financial Statement Fraud, Overview | Read A11  A11: Think about how the 9 elements of the “perfect storm” relate to the fraud triangle.  Read B: 3-4 |
| **16** | Tues., Nov. 2nd | Revenue Fraud | Read B: 5-6 |
| **17** | Thurs., Nov. 4 | Planning Audits to Detect FS Fraud | Read B: 7-8  Read Wilks and Zimbelman article  HW A11: EC 3 |
| **18** | Tues**.**, Nov. 9 | Inventory Frauds | Read A12  Read B: 9  Read summary of academic research on auditor independence |
| **19** | Thurs., Nov. 11 | Liability, Asset, & Inadequate  Disclosure Frauds | Read A13  Read Cynthia Cooper’s interview about her book *Extraordinary Circumstances*  Read B: 10, 11; Conclusion and Afterward |
| **20** | Tues., Nov. 16 | Other Fraud Against Organizations | Read A14  Read 4 articles on Billing Schemes by Joseph Wells (Part 1 though 4) |
| **21** | Thurs., Nov. 18 | Consumer Fraud | Read A15 and the AMP case |
| **NO CLASS TUESDAY, NOVEMBER 23rd and THURSDAY 25th -- THANKSGIVING** | | | |
| **22** | Tues., Nov. 30 | Guest Speaker, SA Ignace Ertilus FBI’s Pittsburgh Division Cyber Squad |  |
| **23** | Thurs., Dec. 2 | Bankruptcy, Divorce and Tax Fraud | Read A 16  Handout of Ethics Case: Answer the 3 questions at the end of the case |
| **24** | Tues., Dec. 7 | Guest Speaker from Gleason and Associates on Being an Expert Witness | Read Chapter 18 in the text (Legal Follow Up) to prepare for today's guest speakers  **Project is DUE today** |
| **25** | Thurs., Dec. 9 | Regulating the Detection of Financial Statement Fraud and Course Wrap-Up | Read article by Ronen and Cherny about Restructuring the Market for Audit Services |
| **Final Exam date and time to be announced- Finals are from Mon., Dec. 13th to Thurs., 16th** | | | |

**Articles listed on syllabus, available on CourseWeb:**

Small Businesses Face More Fraud in Downturn, *Employees Engage in Check Forgery, Petty-Cash Theft; Managers Sometimes Mistakenly Blame Lower Sales Instead of Foul Play,*

by Simona Covel, Thursday, February 19, 2009

ACFE (Association of Certified Fraud Examiners) 2010 Report to the Nation (available on-line) and on CourseWeb.

*The Forensic Accountant: The Sherlock Holmes of the Accounting World,* by M. Messmer, February 2004, *Business Credit*, 50-51.

*Forensic Accounting to the Forefront* by Howard W. Wolosky, February 2004, *Practical Accountant*, 23-28.

*Applying Digital Analysis Using Benford’s Law to Detect Fraud: The Dangers of Type I Errors,* by R. Cleary and J. Thibodeau, May 2005, *Auditing: A Journal of Practice and Theory*, Vol. 24, No. 1: 77-81.

*Deleted But Not Gone* by Thomas Fitzgerald, *The New York Times*, November 3, 2005.

*Answer Please: Fraud-Based Interviewing* by J.J. Hall, August 2005, *Journal of Accountancy*, Volume 200, 61-65.

*Not all liars are fraudsters, but all fraudsters are liars: A Fish Story or Not?,* by J. Wells, November 2001, *Journal of Accountancy*, 114-117.

*Using Game Theory and Strategic Reasoning Concepts to Prevent and Detect Fraud*, by J. Wilks and M. Zimbelman, September 2004, *Accounting Horizons*, 173-184.

*Extraordinary Circumstances: An Interview with Cynthia Cooper*, CFE, CISA by Dick Carozza, Used for Classroom Purposes only in Fraud Examination course

*A Prognosis for Restructuring the Market for Audit Services* by J. Ronen and J. Cherny, May 2003, *The CPA Journal*, 7-9.

*Billing Schemes, Part 1: Shell Companies that Don’t Deliver*, by J. Wells, July 2002, *Journal of Accountancy*, 76-79.

*Billing Schemes, Part 2: Pass Throughs*, by J. Wells, August 2002, *Journal of Accountancy*, 72-74.

*Billing Schemes, Part 3: Pay-and-Return Invoicing*, by J. Wells, September 2002, *Journal of Accountancy*, 96-98.

*Billing Schemes, Part 4: Personal Purchases*, by J. Wells, October 2002, *Journal of Accountancy*, 105-109.

*WSJ* article about Betty Vinson: ***Over the Line: A Staffer Ordered To Commit Fraud Balked, Then Caved --- Pushed by WorldCom Bosses, Accountant Betty Vinson Helped Cook the Books --- A Confession at the Marriott.* b**[y Susan Pulliam](javascript:void(0);)*.* [Wall Street Journal](https://sremote.pitt.edu/,DanaInfo=proquest.umi.com+pqdweb?RQT=318&pmid=7510&TS=1251913095&clientId=17454&VInst=PROD&VName=PQD&VType=PQD). (Eastern edition). New York, N.Y.: [Jun 23, 2003](https://sremote.pitt.edu/,DanaInfo=proquest.umi.com+pqdweb?RQT=572&VType=PQD&VName=PQD&VInst=PROD&pmid=7510&pcid=4978941&SrchMode=3&aid=6). pg. A.1. Copyright Dow Jones & Company Inc Jun 23, 2003

*WSJ* article on how small business fraud is increasing in economic downturn:Small Businesses Face More Fraud in Downturn: *Employees Engage in Check Forgery, Petty-Cash Theft; Managers Sometimes Mistakenly Blame Lower Sales Instead of Foul Play.* by Simona Covel, Feb. 19, 2009.