

Sofia University Faculty of Economics and Business Administration
Course Syllabus
Forensic Accounting
Winter 2010
Classroom 524
Lectures on Tuesdays 16 to 18 p.m.
Seminar/Lab—To Be Announced

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Course Description: Forensic Accounting (also known as “fraud accounting” or “fraud examination”) is a graduate-level course that focuses on the nature of deception and fraud and in the investigation and detection of fraud within a private or public organization. This course is designed to enhance a student’s understanding of the emerging field of forensic accounting and to think critically to develop the knowledge, skills and attitudes necessary to establish, maintain and follow anti-fraud policies within an organization or to conduct a fraud investigation. This course is not intended to be a course solely for accountants; thus, it will not be a theoretical course. Effort will be made to make the course as practical as possible for a broad range of students having an interest in fraud examination, fraud prosecution, or anti-fraud policy. Some group work will be required. The course has both lecture and case analysis elements. Students will be required to attend lectures and to attend seminars in which they work on problems and cases.

I. Course Learning Objectives:

By the successful completion of this course, the student will:

1. Develop an understanding of the nature of fraud and deception from both a personal and technical perspective.
2. Develop skills in evaluating risks of fraud or situations more likely to result in fraudulent activity within an organization.

3. Develop an understanding of internal accounting controls, why they are important in preventing fraud, and how the lack of such controls create an atmosphere conducive to fraud.
4. Develop an understanding of and experience in using some important and common evaluative methods used in fraud investigation to assess whether there is a heightened likelihood of fraud.
5. Develop business decision-making and problem-solving skills through the use of problems and cases.
6. Survey financial ratios and other tools for financial statement analysis in searching for financial statement irregularities.
7. Learn about the roles of persons or groups involved in fraud investigation, fraud prevention, anti-fraud policy development, and fraud prosecution.
8. Understand particular areas where fraud commonly occurs and learn specific fraud detection methods for those situations.
9. Learn how computers are used to commit fraud or to detect fraud.
10. Understand the nature of fraud prosecutions, the legal process for fraud prosecutions, and how to maintain and safeguard evidence for prosecution.
11. Understand the nature of fraud examination and the interviewing process in gathering and evaluating evidence.
12. Apply the knowledge, tools and methods of fraud detection to a practical case.
13. Learn about the role of the Association of Certified Fraud Examiners in promoting the field of forensic accounting.

III. Format:

Format:

Forensic Accounting will be a new course for all students, but it will require only a basic understanding of the accounting process and financial statements. The graduate student will not need to be an accountant to perform well in the course. It is recommended, however, that non-accountants with little knowledge of accounting find a study partner who has a good knowledge of accounting and financial statements. The format for the course is basically lecture, but there will be regular seminar meetings in which the fraud examination principles are applied through case studies. From time-to-time the professor will require the students to work an assignment from the textbook for discussion at the next class.

Questions and comments are encouraged in class. The professor likes dialog in his classes for several reasons. First, it assures him that his students are listening and learning the material. Second, it builds greater interest and enthusiasm in the class material. Third, student dialog and participation gives the professor more energy. Last, as graduate business students you must learn to reason and converse in a business setting with peers and superiors. This builds experience and confidence in relating to others and in expressing one's ideas. Class discussion will be open and sometimes frank. Be courteous to your fellow students. Do not monopolize all of the discussion, but do not shy away from discussion. Participate fully. Be forewarned, however, the professor has a sense of humor, and he uses it! Have some fun in class.

Communication: If the professor needs to communicate with students, this will usually be through the University's e-mail. Unless the professor is instructed otherwise, e-mails will be sent to the student's University e-mail account. The professor has set up this course on Blackboard which will assist with document delivery and communication.

Cellular phones/Pagers: Cellular phones and pagers should be switched off (not "vibrate") unless the student has a real, pressing need to receive an anticipated call during class. If a student believes he or she has such a need, the student should contact the professor prior to class and explain the nature of the need. The professor will make a decision regarding whether to allow the student to maintain an active cellular phone/pager based upon the nature of the student's expressed need. Cellular phone conversations, if allowed, must be taken outside the classroom when class is in session.

Laptop Computers: The student is encouraged to bring and use a laptop computer in class. However, the use of a laptop is allowed only so long as such use does not become a distraction to the user or others (e.g., excessive noise, computer games, social network use, e-mail use, Internet use not related to a specific course activity, etc.) and as long as use does not create a hazard (e.g., extension cord in the aisle, etc.). Neither the FEBA, the University nor the professor assume any responsibility for loss or damage to computer equipment brought by any student.

Audio/Video Recording: No audio or video recording of classroom activity is permitted without the professor's prior approval. This prohibition includes cellular phone camera functions, laptop computer audio or video functions, and all other digital or analog recording equipment. The professor maintains a right of privacy and copyrights on his course materials and lectures. These should not be infringed upon by any student.

V. Course Requirements:

Attendance: Since this course requires learning foundational concepts and applying and building upon them throughout this course, attendance and homework assignments are very important. A student will not be able to "cram" for the midterm and final examinations with much success. The student is expected to attend every class. Non-attendance will be penalized as follows: (a) first absence—no penalty, (b) second to fifth absence—20 points each deducted from the student's total accumulated points for the course, and (c) sixth absence—automatic failure in the course. The professor *will not warn* the student when attendance has been so

deficient that failure based on lack of attendance is likely. Make-up exams and quizzes will not be given except for extraordinary circumstances.

Course readings and assignments:

(a) **Required text:** *Fraud Examination*, Albrecht, Albrecht, Albrecht and Zimbelman, 3rd Edition (International Version), South-Western/Cengage Learning (2009), ISBN 0-324-56084-8.

(b) **Background readings and supplements:** Additional reading materials will be made available to students either as handouts in class, materials on Blackboard, or available online. Chapter outlines of the PowerPoint presentations are available on the McGraw-Hill/Irwin Web site for the textbook. The professor will not distribute copies of the presentations. They are the students' responsibility. Rather than purchasing a student study guide for the textbook, the student should make use of on-line supplemental materials, such as self tests.

(c) **Assignments:** Weekly assignments in addition to the posted reading assignments may be made by the professor. Weekly reading assignments are posted on the attached tentative schedule. Homework should be completed as directed for discussion at the next class.

V. Grading Procedures:

1. **Total Points:** Grades will be determined based on the student's percentage score on the following grade components:

	<u>Points</u>
Midterm Exam	100
Final Exam	100
Group Fraud Case	100
Short paper	50
Class Participation and Preparation	<u>50</u>
Total Points	400

2. **Grading Scale:**

<u>Final Grade</u>	<u>Percentage</u>
5	94 - 100
4	87 - 94
3	80 - 87
2	73 - 80
1	Below 73

3. **Examinations:** There will be two in-class written examinations in this course both of equal weight. The final exam will not be comprehensive and will cover only the material covered since the midterm examination. The examinations will include an objective questions (multiple choice questions) and discussion questions to test the student's knowledge of the subject matter covered in lectures, the readings, and case analyses. Cell phones are not permitted at the examinations.
4. **Participation and Preparation:** The student is expected to attend class, be prepared, and contribute to class discussions. A portion of the grade is based on this effort. A student will not be given points for just attending class. Recall a penalty system has been established for failure to attend class. This grade is based on what the student does *in class*.
5. **Short Paper:** The student will be required to write a short paper on a fraud case. The paper should be about five pages in length describing the parties involved, the fraudulent activities, how the fraud was concealed, how it was discovered, what steps should have been taken to prevent the fraud, and the final legal disposition in the case. Each student must present his or her case in class during one of the last three class periods.
6. **Group Fraud Case:** Students will be assigned to teams based on interest in working together and on individual skills and knowledge to analyze a representative fraud case. Each student must actively participate in the group case study. Each student must prepare a peer evaluation for each member of the group including him or herself. The professor will adjust an individual's group grade based on how much the individual's average score differs from the mean peer evaluation score for the group. The student within the group that is rated substantially higher than the mean score for the group will receive additional points and the student with a substantially lower score will have points deducted.

VI. Academic Integrity

Each student in this course is expected to abide by the University's Code of Academic Integrity. Any work submitted by a student in this course for academic credit will be the student's own work.

You are encouraged to study together and to discuss information and concepts covered in lecture and the sections with other students. You can give "consulting" help to or receive "consulting" help from such students. However, this permissible cooperation should never involve one student having possession of a copy of all or part of work done by someone else, in the form of an email, an email attachment file, a diskette or other electronic data storage medium, or a hard copy.

Should copying occur, both the student who copied work from another student and the student who gave material to be copied will both automatically receive a zero for the

assignment. Penalty for violation of this Code can also be extended to include failure of the course and University disciplinary action.

During examinations, you must do your own work. Talking or discussion is not permitted during the examinations, nor comparing papers, copying from others, or collaborating in any way. Any collaborative behavior during the examinations will result in failure on the examination, and may further lead to failure in the course and University disciplinary action.

VII. Accommodations for students with disabilities

In compliance with the University policy and equal access laws, the professor is available to discuss appropriate academic accommodations that may be required for any student with a disability.

VIII. Tentative Course Schedule: Note the following course schedule may change as deemed necessary by the professor.

Forensic Accounting
Dr. A. David Austill
Tentative Schedule—Winter Semester 2010

October 12, 2010

Description: The material in this class is intended to give you an overview of fraud, its nature and the nature of fraud perpetrators. You will be introduced to a new discipline within accounting and business—fraud prevention, investigation and consulting. As fraud is a growth industry, so is fraud detection and prosecution. The material in this class provides the foundation for all future classes in this course.

Readings: Albrecht—Chapters 1 and 2 (pp 3-67); Relevant portions of ACFE's Report to the Nations (<http://butest.acfe.com/rtn/rtn-2010.pdf>)

View: ACFE's Tone at the Top video (<http://www.acfe.com/video/VideoBox.asp?Video=tone-at-the-top>)

October 19, 2010

Description: The material in this class will give an overview of fraud detection and prevention. This material builds on the material from the first week. The old adage of an ounce of prevention is worth a pound of cure is applicable in fraud. We will consider the role of auditors and loss prevention personnel within an organization, codes of ethics, policies on theft and whistleblowing, treatment of employees, and creating a better culture within the organization to reduce the likelihood of fraud.

Readings: Albrecht—Chapters 3 and 4 (pp 69-130); Ed Zwirn, Sound Skepticism, Internal Auditor, February 2005, pp. 73-77); Josh Martin, Dis-sect-ing the Books, Management Review, June 1998, pp. 47-51; Roddy Allan, the human face of fraud, CAmagazine, May 2003, pp. 39-48..

October 26, 2010

Description: Following up on the previous two weeks' material we will focus on detecting fraud. Unfortunately for the organization, the fraud has already taken place and the loss has occurred. Here we go into some forensics to answer some relevant questions to the fraud: why has the fraud occurred; how could it have happened; what circumstances within the organization has changed; and have the lifestyles of employees significantly changed to warrant greater scrutiny? Data analysis software useful in fraud detection will be considered.

Readings: Albrecht—Chapters 5 and 6 (pp 131-202); Paul Brazina, On the Trail—How Financial Audits Mark the Path for Forensic Teams, Pennsylvania CPA Journal, Spring 2006, pp. 23-25; Kelly Richmond Pope and Brian Ong, Strategies for Forming an Effective Forensic Accounting Team, The CPA Journal, April 2007, pp. 64-66; Jeffrey C. Steinhoff, Forensic Auditing—A Window to Identifying and Combating Fraud, Waste and Abuse, Journal of Government Financial Management, Summer 2008, pp. 10-15; Alan Sing, Forensic accounting: looking fo clues, Australian CPA, March 1999, pp. 42-44; David Elzinga and David Ray, Ferreting Out Fraud, Security Management, February 1997, pp. 33-37.

November 2, 2010

Description: Investigating acts of theft and concealment. In this lecture we will look at employees' and other persons' theft activities of including both the taking and concealment of the taking. Specific detection and investigatory techniques will be considered to assist the victim organization. Loss prevention policies and surveillance systems will be reviewed.

Readings: Albrecht—Chapters 7 and 8 (pp. 203-248); Ivor Gottschalk, Kickback crackdown, CAmagazine, January/February 2003, pp. 43-44.

View: ACFE's How Fraud Hurts Government (<http://www.acfe.com/video/VideoBox.asp?Video=how-fraud-hurts-government>).

November 9, 2010

Description: In this lecture we will building on material from the preceding week and consider fraud committed by employees against their companies or customers, for example, misappropriations, embezzlement, fictitious disbursements, and theft of inventory. Next we will look more specifically into the fraud investigation and inquiry methodology using tools and methods common to fraud investigators. Consideration will be given to how to evaluate an individual's cash or asset situation using the Cash T, the source and application of funds method (expenditure approach), net worth method, and bank deposit method. Finally, we will consider vehicles for finding personal or financial information about an individual, his property or activities.

Readings: Albrecht—Chapters 14 and 9 (pp. 503-528; 249-270); Roddy Allan, The art of asset recovery, CAmagazine, December 2002, pp. 28-30; Crumbley, Heitger and Smith, In direct Methods of Reconstructing Income (Chapter 6), Forensic and Investigative Accounting, pp.6-1 to 30.

November 16, 2010

Description: The lecture this week goes to the heart of the fraud investigation, namely, the investigation and interview process to find evidence, to elicit confessions or corroborating evidence. We will consider the interview process and documentation of the findings. To test veracity of the examinee, certain tests may be available, including psychological tests or polygraph tests (under limited situations).

Readings: Albrecht—Chapter 10 (pp. 271-352)

November 23, 2010

Midterm Examination

November 30, 2010

Description: This lecture will be the first of three on financial statement fraud. It will primarily look at how financial statement analysis can be a useful forensic accounting tool to evaluate the likelihood of financial statement fraud or to determine what accounts might have been misstated. This lecture will provide an overview of financial statement fraud and how the Sarbanes-Oxley Act of 2002 strives to reduce such fraud. The various roles played by auditors, management, and the audit committee of a publicly-traded company will be considered.

Readings: Albrecht—Chapter 11 (pp. 355-400); Statement of Auditing Standards (SAS) 99; Michael F. Rosplock, Advanced Analytical Techniques for Performing Forensic Financial Analysis, Business Credit, June 2001, pp. 26-31; Handouts on financial statement analysis.

December 7, 2010

Description: This lecture builds on the previous week's material on financial statement fraud and more specifically looks at the sales cycle. The sales cycle related accounts which may be manipulated or misstated include revenue, accounts receivable and inventory accounts. In evaluating the financial statement items of the sales cycle we will look at relevant financial ratios and evaluative techniques, internal control weaknesses and cases involving fraud of these accounts.

Readings: Albrecht—Chapter 12 (pp. 401-446); John F. Monhemius and Kevin P. Durlin, Detecting Circular Cash Flow, Journal of Accountancy, December 2009, pp. 26-30; L.G. Weld, P.M. Bergevin, and L. Magrath, Anatomy of a Financial Fraud: A Forensic Examination of HealthSouth, The CPA Journal, October 2004, pp. 44-49.

December 14, 2010

Description: In this last lecture on financial statement fraud we will look at fraud involving understatement of liabilities, overstatement of other assets, and inadequate disclosures. Noncash transactions and off-balance sheet transactions will be considered (e.g., Enron's use of SPEs to hide contractual liabilities).

Readings: Albrecht—Chapter 13 (pp. 447-500).

December 21, 2010

Description: The lecture material this week will be lighter than for previous weeks and will focus on consumer fraud. Investment or marketing scams and theft of identification activities will be highlighted. Some of these fraudulent schemes use the Internet, some are small, and some investment pyramid schemes bilk investors out of hundreds of millions of assets (e.g., Bernard Madoff).

Readings: Albrecht—Chapter 15 (pp. 529-564).

December 28—No Class (Holiday!)

January 4, 2011

Description: The lecture covers a plethora of areas of fraud, including bankruptcy fraud, tax fraud, and fraud in divorce situations. The idea is to bring all of these areas of fraud into context in applying principles on forensic accounting already discussed. Regarding tax fraud, some of the fraud proof techniques in indirect determination of income have already been discussed.

Readings: Albrecht—Chapter 16 (pp.565-602).

Time and Date to Be Announced

Description: This lecture looks at criminal activity and money laundering. We will explore some criminal activities involving white collar fraud and how money laundering is used by the criminal element.

Readings: Crumbley et al., Chapter 7—Money Laundering and Transnational Financial Flows, pp. 7-1 to 35; Stefan Hunt, On or off book fraud, Management Accounting, November 1997; Joseph T. Wells, Follow the Greenback Road, Journal of Accountancy, November 2003, pp. 84-87).

Presentation of short papers.

January 11, 2011

Description: This lecture focuses on fraud in electronic commerce and cyber crimes. Issues in these areas involve what constitutes cyber crimes, attacks on tangible and intangible assets, American and international law on cyber crime, and systems controls that are necessary to prevent fraud in electronic commerce. We will also look at the process of collecting electronic data

Readings: Albrecht—Chapter 17 (pp. 603-620); Geoff Tyler, When computers must give up their secrets, Management Services, October 1997, pp. 30-32.

Presentation of short papers.

January 18, 2011

Description: In this lecture we will look at how to make the case against a fraud perpetrator in either a civil or criminal trial. We will look at the litigation process as it pertains to the fraud investigator and the perpetrator. Proper evidence management will be discussed to assure admissibility at trial. Finally, we will

consider forensic or fraud accounting as a career by reviewing the skill set necessary for the discipline and the types of tasks forensic accountants are asked to do.

Readings: Albrecht—Chapter 18 (623-642); Jeff Stimpson, Forensic Accounting: Exponential Growth, The Practical Accountant, February 2007, pp. 18-24; James A. DiGrabriele, An Empirical Investigation of the Relevant Skills of Forensic Accountants, Journal of Education in Business, July/August 2008, pp. 331-338.

Presentation of short papers.

Turn in and discuss the Tallahassee Beancounters Case as a group project. Turn in peer evaluations.

January 25, 2011

Final Examination