

#13

FORENSIC ACCOUNTING

Sam Shade; FBI & CPA



CPA... Imagine the possibilities!

Learning Activity

Forensic Accounting: *Playing the roles of various characters, students pursue the possible outcomes of a fictional embezzlement case.*

Learning Objectives

1. Learn how auditors apply critical thinking skills in fraudulent situations.
2. Understand how key accounting and auditing concepts apply to the pursuit and prosecution of “white collar” crimes.
3. Identify the roles that “means, opportunity, and motive” play in a crime.

Academic Standard

“Design and implement security plans and procedures for information systems.” (NBEA)

“Describe the activities of managers and their importance to the successful operation of the organization.” (NBEA)

“Illustrate how the functions of management are implemented and explain why they are important.” (NBEA)

“Explain the role, importance, and concept of risk management.” (NBEA)

Assessment

Students will: (1) identify suspects in the case, (2) identify evidence in the case, (3) identify the “means, opportunity, and motive,” if any, for each suspect.

Business Skill

Forensic Accounting: Fraud, and in particular, employee fraud, is big business. Businesses, in focusing on these “white-collar” crimes, have turned to the accounting profession, and in particular CPAs, because of their financial skills and knowledge. The CPA is engaged to either determine the individual or individuals that have committed such a crime or, if the individuals involved have been identified, gather information and evidence to prove their innocence or guilt.

Part I

Prior to class, make copies of the 12 Role Playing Cards that comprise Activity #13.

Distribute a copy of the Topic Overview to your students and explain any terms or concepts they are unfamiliar with.

Explain that individuals involved in fraudulent activities have the *means, opportunity and motive* to do so.

- **Means:** The ability and “tools” necessary to carry out a crime.
- **Opportunity:** The time and the access to commit the act.
- **Motive:** A reason and rationale for committing the act.

PLAYING THE GAME

- Assign six students to the roles of “suspects” in the case. The six suspects are: Controller, Personnel Manager, Box Office Manager, Bookkeeper, T-Shirt Vendor, and Ticket Printer.
- Assign another four students to play the roles of “evidence” as follows: Action Arena books, Action Arena seats, IRS records, and Credit Card Receipts.

- Select a student to play **Sam Shade**, and begin role playing by giving him or her CARD #1 to read.
- Have the students vote for the **FIRST CHOICE**, which is indicated at the bottom of CARD 1. *The student playing the role of Sam Shade will follow the course of action decided by the majority of the class.* In the case of Choice #1, this means providing “Sam Shade” with the card selected by the class and taking it to either the student playing the role of Controller or the student playing the role of Personnel Manager, and acting out the dialogue indicated on the card.
- Continue having the class vote on the choices presented at the bottom of each card until six of the twelve cards have been acted out.

Students should name the Box Office Manager as the main culprit.

- **Means:** Access to tickets and knowledge of the number of seats in the arena.
- **Opportunity:** Control over tickets and sales, and access to bank accounts.
- **Motive:** On-going profit potential from every event.

Part II

- Ask students to identify “famous” corruption cases in American history. For example, *Boss Tweed and the Tweed Ring of 19th century New York City; Al Capone and the Prohibition Era; Jay Gould, Jim Fisk and the financial corruption during the Grant Administration; the Teapot Dome Scandal of the Harding Administration; the Watergate Scandal; Panamanian leader Manuel Noriega and drug trafficking; the Savings and Loan scandals of the 1980s.*
- Explain that each case required investigators to construct and follow “the paper trail” in order to identify, prosecute and convict the individuals involved.
- Assign, or have students select, a “case in corruption.” Each student, or student group, will write a case study that details the sequence of events that led to the eventual conviction of the individuals involved and, using presentation aides, such as a flow-chart, present the findings to the class.

Procedure

Overview

Fraud, and in particular, employee fraud, is big business. In fact, despite overall crime in the United States declining, advancements in technology and automation have resulted in an increase in the number of fraud and fraud-related cases. A 1998 survey conducted by the accounting firm KPMG reported that each incident of employee fraud results, on average, in a loss of \$116,000. Businesses are therefore focusing on these “white-collar” crimes and the potential for employees to engage in fraudulent activities, and have turned to the accounting profession, and in particular **Certified Public Accountants (CPAs)**, because of their financial skills and knowledge.

Fraud accounting, which is more formally referred to as forensic accounting, entails the CPA searching for evidence of “white-collar” criminal conduct. The CPA’s task is to either determine the individual or individuals that have committed such a crime or, if the individuals involved have been identified, gather information and evidence to prove their innocence or guilt. As such, a CPA specializing in the field of forensic accounting often assists legal professionals in the litigation process.

Examples of cases which required a CPA specializing in forensic accounting include (1) determining whether a high-level executive was filing false expense accounts, (2) discovering that a company’s controller was converting company assets into cash for his personal use, (3) verifying that an attorney misused clients’ funds for personal use, (4) proving that a cashier stole thousands of dollars in one year from a cash system considered to be sophisticated and technologically advanced, (5) testifying that a company used misleading

accounting practices to inflate profit figures, and (6) investigating instances of bribery and corruption.

A solid, fundamental knowledge of accounting is necessary to pursue a career in forensic accounting. CPAs, however, often complete the requirements for becoming a **Certified Fraud Examiner (CFE)**, thus providing them with a competitive edge. Upon completion of the CFE program, CPAs gain additional knowledge and investigative skills in the areas of fraud prevention and detection.

In order to achieve the CFE designation, an individual must be of high moral character, meet minimum education and experience requirements, pass the CFE examination, maintain required continuing professional education, and abide by the Bylaws and Code of Professional Ethics of the Association of Certified Fraud Examiners.

To learn more about forensic accounting and becoming a CFE, visit the Association of Certified Fraud Examiners at www.cfenet.com. In addition, you can visit the **American Institute of CPAs (AICPA)** at www.aicpa.org and search on keyword “fraud.”



Sam Shade, FBI and CPA: Role Playing Cards

CARD-1:

Start Sam: Hi, Samantha Shade here. But you can call me Sam, or you can call me Mantha, or you can call me Sammy. Whatever. I'm a CPA, and a Special Agent for the FBI. My specialty? White Collar crime. I call them thugs in ties. Pretty boy crooks in tasseled loafers. Always good for a few mind games. It was Monday morning. I was in hopes of receiving some seriously overdue accounts receivable, and searching for the true meaning of nail polish, when the phone rang. It was the boss, in a lather as usual, ready to toss me one hot potato. Seems that Action Arena, this town's big Kahuna for sports and concerts, had a teensy problemo—a little embezzlement action going on. Our job. First find MOM. Don't look so puzzled greenhorn, that's MOM as in Means, Opportunity, and Motive. Together maybe we can set a little trap and catch this rat in a grey flannel suit. I said take a breath bossman. I'm on the case. So who should we see first?

The Controller or the **Personnel Manager?**

(Class votes)

IF "Controller"—Read Card 2;

IF "Personnel Manager"—Read Card 3

CARD-2:

Interview Controller Sam: First stop, Action Arena to see the whites of their eyes. The controller was ready to throw himself out a second story window. I told him to relax. Now tell Sammy and my partners here all about it.

Controller: All of a sudden we figured out we were taking in more cash at the Box Office than we'd ever been showing. We had no idea where the money came from, what happened to it, and why it never showed up on the box office records.

Sam: Maybe we should meet with the box office manager.

Controller: He's on vacation.

Sam: So what do we have? Mysterious extra cash. Mysterious disappearing extra cash. I thought it was time to get a little up close and personal with Action Arena's books in person, or interview the new bookkeeper and get an outsider's take on the numbers?

(Class votes)

IF "Check Action Arena's Books"—Read Card 4;

IF "Interview New Bookkeeper"—Read Card 5

CARD-3:

Interview Personnel Manager Sam: First stop, Action Arena to see the whites of their eyes. The personnel manager wanted to spill her guts, about everybody right down to the mailroom.

Personnel Manager: ... then there's Steve in accounting, but he's very trustworthy. Same for Gladys, Llewellyn and Jose. Now we do have a new bookkeeper, but I mean she just got here.

Sam: I tried to get her to narrow the focus a bit. In the most polite way possible I said, "Let's cut to the chase sister."

Personnel Manager: You know there is one guy who always seems a little shady. Ah, no offense.

Sam: Happens all the time. Who's that?

Personnel Manager: The Box Office manager.

Sam: Where's his office?

Personnel Manager: Oh, he's on vacation.

Sam: Personnel manager says Box Office manager is not exactly Eagle Scout material. I thought it was time to get a little up close and personal with Action Arena's books. So what should we do next: check over Action Arena's books in person, or interview the new bookkeeper and get an outsider's take on the numbers?

(Class votes)

IF "Check Action Arena's Books"—Read Card 4;

IF "Interview New Bookkeeper"—Read Card 5

CARD-7:

Look into Big Events T-shirts

Sam: The T-shirt vendor was pretty busy. I tried to keep his attention as best I could. Do you work for Big Events T-shirts?

Vendor: I never heard of Big Events T-shirts. I'm an independent company—The Shirt Off My Back T-shirts, yes that's me. I've got an exclusive right to sell at the arena. The Box Office manager got that deal for me. I'd do anything for him. Excuse me I've got to get back to work. Get your T-shirts here!

Sam: Action Arena does not do business with Big Events T-shirts. So why are they paying them so much? And what does the Box Office manager have to do with it? There something stinky going on here, and I'm not talking about my feet or yours. So what do we do next? Check out IRS records for Big Events T-shirts...Or follow the scent through credit card records of the Box Office Manager?

(Class votes)

IF "Check IRS Records for Big Events T-shirts"—Read Card 9;

IF "Check Credit Card Records"—Read Card 8

CARD-8:

Check credit card reports

Sam: Mr. B.O. had expensive taste. I found out his yearly salary was \$55,000. But he certainly lived higher than your average American citizen. B.O. loves the high Hawaiian lifestyle. Must be where he's on vacation. Time to regroup back at headquarters.

Sam: I was telling the boss the latest when he surprised me with some news of his own. He found out that B.O. and Big Events T-shirts were definitely linked. He also knew B.O. was riding the big waves in Hawaii, which happened to be where Big Events T-shirts was based. There's something flaky and light-breaded going on here, and I'm not talking about my mom's cooking. I told the boss we'd hop a plane to Hawaii pronto. So what do you think we should do next? Go to B.O.'s hotel? Or go to Big Events T-shirts?

(Class votes)

IF "Go to B.O.'s Hotel"—Read Card 11;

IF "Go to Big Events T-shirts"—Read Card 12

CARD-9:

Check IRS records Sam: There was a D.B.A. (Doing Business As) form and a federal ID number for Big Events T-shirts. So the company was officially registered. But they had defaulted on sales tax payments. Most importantly, the whole shebang was registered in Hawaii by none other than B.O. himself. It was time for me to regroup back at headquarters.

Sam: Big Events T-shirts is in Hawaii, and owned by the Box Office manager.

Sam: I was telling the boss the latest when he surprised me with some news of his own. He found out that B.O. and Big Events T-shirts were definitely linked. He also knew B.O. was riding the big waves in Hawaii, which happened to be where Big Events T-shirts was based. There's something flaky and light-breaded going on here, and I'm not talking about my mom's cooking. I told the boss we'd hop a plane to Hawaii pronto. So what do you think we should do next?

(Class votes)

IF "Go to the Hotel"—Read Card 11;

IF "Go to Big Events T-shirts"—Read Card 12

CARD-4:

Check Action Arena's Books Sam: I had a sneaky suspicion there was something smelly in the Box Office. And I'm not talking about the nacho cheese sauce either. Basketball game, Box Office intake, \$1 million dollars. Bank deposits \$1,050,000. Big Events T-shirt check, \$50,000. Hockey game, Box Office intake \$800,000. Bank deposits, \$840,000. Big Events T-shirts check, \$40,000. Something fishy is going on. And I'm not talking about the clam chowder. The bank statement shows a deposit of \$630,000 for the Smashing Zucchini concert. I know that pretzels are overpriced, but still. Just one day after the concert a \$30,000 check is made out to Big Events T-shirts. Coincidence or psychic phenomena? You be the judge. The Box Office earns 5% more than records show. The extra cash seems to be going to Big Events T-shirts. That could be our means. So what do you think we should do next? Investigate procedures in the ticket printing office or look into this company called Big Events T-shirts?

(Class votes)

IF "See the Printer"—Read Card 6;

IF "Investigate Big Event T-shirts"—Read Card 7

CARD-5:

Interview Bookkeeper Sam: The bookkeeper was prone to histrionics. I tried to get her to focus. I told her to give us the low down.

Bookkeeper: There were so many piled-up papers when I got here. Three unopened bank statements, an electric bill, and this notice saying I could have already won \$10 million dollars. Well, the bank statements are usually handled by the Box Office manager, we call him B.O. for short, but he's away on vacation, so I opened them, and there's money in there that's not showing up on the Box Office bank statements. With almost every event we seem to be making an extra \$30,000, \$40,000 or \$50,000. And the funny thing is each of those amounts is exactly the same amount made out to a company called Big Event T-shirts. And I can't find their invoices anywhere.

Sam: The Box Office earned more than the records show. The extra cash seems to be going to Big Events T-shirts. That establishes the means. So what do you think we should do next? Investigate procedures in the ticket printing office. Or look into this company Big Events T-shirts.

(Class votes)

IF "See the Printer"—Read Card 6;

IF "Look into Big Events T-shirts"—Read Card 7

CARD-6:

See the Printer Sam: The ticket printer was a little reluctant to talk. I tried to put the pressure on. Ever been to Sing Sing?

Printer: Ah, ah, no.

Sam: Then tell me, how many seats do you sell tickets for?

Printer: It depends. For your concerts you get 18,000 seats. For your basketball game, you got 19,000 seats. And for your hockey game you got 20,000 seats.

Sam: 20,000—that's the max?

Printer: What, you want to count 'em?

Sam: What about the Box Office manager?

Printer: B.O.

Sam: Not today.

Printer: No, I mean Box Office manager, that's his name, B.O. He's on vacation.

Sam: The ticket printer said seats sold in the arena go to 20,000 max. There's something stinky going on here, and I'm not talking about my feet or yours. We need to dig deeper. So what do we do next? Get the actual count of seats in the arena...Or look closely into information regarding the Box Office manager—like his credit card records?

(Class votes)

IF "Check Credit Card Records"—Read Card 8;

IF "Confirm Arena Seat Count"—Read Card 10

CARD-10:

Count Seats in arena Sam: It took some time and some doing, but we got every last seat counted in the arena's maximum configuration. When we saw the results, we knew we had found the key—the largest amount of tickets Action Arena sells per event is 20,000. But the maximum number of seats in the place is 21,000.

Sam: The arena has 1,000 more seats than anyone suspected...Anyone, that is, except for the embezzler. Time to regroup back at headquarters.

Sam: I was telling the boss the latest when he surprised me with some news of his own. He found out that B.O. and Big Events T-shirts were definitely linked. He also knew B.O. was riding the big waves in Hawaii, which happened to be where Big Events T-shirts was based. There's something flaky and light-breaded going on here, and I'm not talking about my mom's cooking. I told the boss we'd hop a plane to Hawaii pronto. So what do you think we should do next?

(Class votes)

IF "Go to the Hotel"—Read Card 11;

IF "Go to Big Events T-shirts"—Read Card 12

CARD-11:

Go to hotel Sam: It wasn't hard to trace his trail. We checked into the most expensive hotel in Hawaii—The Blue Sea Resort, and then just followed the scent. We found him immediately, sunbathing on the beach. B.O. we're hauling you in for embezzlement, extortion, tax evasion and frankly, resisting deodorant.

Box Office Manager: If one more person calls me B.O., I'm going to make mincemeat out of him, starting with that ticket printer. He's in on this too. I give him a cut from every event. How else would I get the tickets printed for those extra one thousand seats no one knows about?

Sam: Thanks for the tip, bub. OK now pipe down, you'll have to tell it to the judge.

END-OF-GAME

CARD-12:

Go to Big Events T-shirts Sam: Got the address for Big Events T-shirts. Nothing there but an old, hot, empty warehouse. The air was arid, extra dry. The perfect way to stop B.O. We found him hiding in a corner. B.O., we're bringing you in on charges of extortion, embezzlement and tax evasion.

Box Office Manager: You can't pin this one on me. It's Big City Construction you should be looking for. They built the arena with 21,000 seats. We've been splitting the extra income for the last two years. You've got to go after those guys.

Sam: Thanks for the tip. Come on, B.O., there'll be plenty of time for showers where you're going.

END-OF-GAME