

**New York University
Stern School of Business
Spring 2014
GB10.3310.30
Forensic Accounting and Financial Statement Fraud**

Professors: Seymour Jones and Paul Zarowin
Meeting Time: Thursdays, 6:00pm-9:00pm
Room: KMC 3-60

Course Description:

The objective of the course is to impart a detailed understanding of forensic accounting with particular emphasis on the methodologies of financial statement fraud. The course is designed to demonstrate the various aspects of fraud, i.e., fraudulent financial reporting, identifying fraud schemes, including computer fraud and methods of concealment, as well as the analytical techniques in uncovering fraud and its prevention through effective internal control systems. The course also includes an analysis of the general techniques used in working in litigation support services. The course is of particular interest to the accounting profession, the world of finance and to business in general. The course content has also become of critical interest to regulators and lawmakers because of the notoriety of a series of financial scandals which have affected the entire business community.

The course will also review the new institutional structures that have been put in place by lawmakers and the accounting profession to deal with fraud and its prevention, i.e., the Sarbanes-Oxley Act and self-regulating measures adopted by the accounting profession.

Method of Instruction:

This course will use a variety of teaching methods including lectures, readings, case assignments and discussion, statement analysis and group projects.

The first half of each week's class, taught by Prof. Seymour Jones, will cover forensic accounting. There will be a midterm exam and a final exam covering that material.

The second half, taught by Prof. Paul Zarowin, will analyze an actual accounting fraud or scandal, using a Harvard case. For the case analysis, each week students will be assigned a case, with specific questions and issues to address, which will be covered in class the following week. Students are welcome and encouraged to work in groups, and each group will hand in its case analysis. In addition to the case analysis itself, class participation and discussion will be emphasized. There will be no midterm exam. The final exam will be in class. A case will be handed out the previous week, without questions, for students to study and analyze, in groups if they wish. The in class test will consist of questions about the case.

Grading Policy:

Your course grade will reflect the following emphases:

Class assignments and participation	20%	
Mid-term examination	40%	
Final examination		40%

Required References:

Crumbley, Heitger, Smith, *Forensic and Investigative Accounting, 6th Edition*, CCH Incorporated, 2013.

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Topical Outline

Wk	Date	Topic	Reading Due
1	2/13/14	Overview: Discussion of motives, methods, and financial analysis of frauds <ul style="list-style-type: none"> • What is forensic accounting? • What is financial statement fraud? • Auditing standard “Consideration of Fraud in a Financial Statement Audit” • Fundamental conditions present, warning signs and risk factors • Internal auditors assessment • External auditors guidance • Limitations of auditing • Impact of Section 404 of the Sarbanes-Oxley Act 	Chapter 1
2	2/20/14	<ul style="list-style-type: none"> • Fraud schemes and earnings management • Methods of concealment: withholding evidence, misrepresentations, false documents, collusion, top management overriding internal control systems <p><i>Case analysis: Tyco</i></p>	Chapter 3
3	2/27/14	<ul style="list-style-type: none"> • Uncovering accounting fraud: professional skepticism, investigative unpredictability, corroboration, inquiry, observation and investigation of personal and related party transactions, analytics, key financial statement ratios. • Underlying evidence vs. corroborating evidence. <p><i>Case analysis: Graves Industries</i></p>	Chapter 4, Sections 4001-4041
4	3/6/14	Identifying fraud schemes: <ul style="list-style-type: none"> (i) premature or fictitious revenue recognition: trends, side letters, channel stuffing, bill and hold, contingent sales, sham transactions, cut-off manipulation; (ii) overstatement of assets: fictitious inventory, analytical factors, manipulation of inventory counts, improper valuation of net realizable values, improper capitalization of repairs and maintenance, related party transactions (SPE’s), fictitious investments and/or improper valuation of investments. (iii) understating liabilities: increased quick and working capital ratios, increase in inventory without increase in accounts payable, off balance sheet entities (SPE’s, guarantees of debt of off balance sheet entities), unexplained gross profit improvement; (iv) misappropriation of assets: unrecorded sales, fraudulent disbursements (improper controls), theft of company checks, 	Chapter 4, Sections 4051-4241 and Chapters 5 and 6

	Date	Topic	Reading Due
		payroll fraud, theft of inventory, excessive write-downs and related tax implications. <i>Case analysis: Bausch & Lomb</i>	
5	3/13/14	Identifying fraud schemes, continued; anatomy of a fraud investigation (Guest speaker, Ted Martens) <i>Case analysis: WorldCom</i>	
6	3/27/14	MIDTERM EXAM <i>Case analysis: Bristol Myers-Squibb</i>	Chapters 8 and 9
7	4/3/14	Litigation support: expert witness testimony methods, techniques, rules of evidence, report requirements, damage calculations. <i>Case analysis: New Century Financial</i>	
8	4/10/14	Litigation support (continued) <i>Case analysis: Sino Forest</i>	Chapter 10 and New Jersey Law article distributed
9	4/17/14	Money laundering and the bank secrecy act: current reporting requirements by regulators. <i>Case analysis: Enron</i>	Chapter 7
10	4/24/14	<ul style="list-style-type: none"> • Internal control (prevention of fraud): control environment, accounting systems, monitoring, segregation of duties, application controls. • Requirements of Section 404 of the Sarbanes-Oxley Act. <i>Case analysis: Enron, cont'd</i>	Read materials distributed
11	5/1/14	Computer fraud (Guest speaker, Dave Berg) <i>Case analysis: Computer Associates</i>	
12	5/8/14	FINAL EXAM	