Professor: Seymour Jones

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.

Grading Policy:

Your course grade will reflect the following emphases:

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

Required References:

FORENSIC ACCOUNTING AND FINANCIAL STATEMENT FRAUD  
Spring 2010

Topical Outline

2/10/10 (W 6 to 9 P.M.)
  **Session 1.** 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.  

(Read Chapter 1)

2/17/10 (W 6 to 9 P.M.)
  **Session 2.** Fraud schemes and earnings management. Methods of concealment:  
  withholding evidence, misrepresentations, false documents, collusion, top  
  management overriding internal control systems. (ZZZ Best Case)

(Read Chapter 3)

2/24/10 (W 6 to 9 P.M.)
  **Session 3.** 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. (Furniture Case)

(Read Chapter 4, Sections 4001-4041)

3/3/10 (W 6 to 9 P.M.)
  **Session 4.** Identifying fraud schemes:

  (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;
misappropriation of assets: unrecorded sales, fraudulent disbursements (improper controls), theft of company checks, payroll fraud, theft of inventory, excessive write-downs and related tax implications.

*(Read Chapter 4, Sections 4051-4241 and Chapters 5 and 6)*

3/10/10 (W 6 to 9 P.M.)
**Session 5.** Identifying fraud schemes, continued; anatomy of a fraud investigation (Guest speaker, Ted Martens)

3/24/10 (W 6 to 9 P.M.)
**Session 6.** Litigation support: expert witness testimony methods, techniques, rules of evidence, report requirements, damage calculations.

*(Read Chapters 8 and 9)*

3/31/10 (W 6 to 9 P.M.)
**Session 7.** MIDTERM

4/7/10 (R 6 to 9 P.M.)
**Session 8.** Litigation support (continued)

*(Read Chapter 10 and New Jersey Law article distributed)*

4/14/10 (W 6 to 9 P.M.)
**Session 9.** Money laundering and the bank secrecy act: current reporting requirements by regulators. (Guest speaker, Joe Peters)

*(Read Chapter 7)*

4/21/10 (W 6 to 9 P.M.)
**Session 10.** Internal control (prevention of fraud): control environment, accounting systems, monitoring, segregation of duties, application controls. Requirements of Section 404 of the Sarbanes-Oxley Act.

*(Read materials distributed)*

4/28/10 (W 6 to 9 P.M.)
**Session 11.** Computer fraud (Guest speaker, Dave Berg)

5/5/10 (W 6 to 9 P.M.)
**Session 12.** FINAL EXAM