Fraud and Financial Reporting

Course Outline

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This course is designed for upper level undergraduate and graduate business students with a background in accounting. In addition to introductory level accounting, students should have taken or have significant job experience in at least basic financial analysis.

The objective of this course is to introduce fundamental methods for detecting the presence of fraud and other financial misstatements in companies. It covers methods for investors and other external parties in detecting problem companies using a variety of external information sources, and for directors, creditors, and auditors to detect such problems using both external and internal information and analysis.

The course will consist of a combination of illustrative and real-world cases, lectures, and presentations by forensic accounting experts. There is no textbook. Readings will be distributed prior to each class, and can be found online at http://fraudcourse.wsom.org.

Students will be evaluated as follows: attend class assiduously and participate regularly (10%), complete cases and other written assignments (40%), and take one comprehensive examination (50%). Laptop computers are recommended – we’ll use them in nearly every class.

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<th>Class</th>
<th>Topic</th>
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<th>Assignments</th>
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| 1     | - Introduction to Course  
|       | - Extent and Nature of  
|       | Fraud and Financial    
|       | Misstatement           | - Basic Definitions  
|       | - A history of Fraud   
|       | and Financial Wrong-   
|       | Doing in America.      | - Organize small groups to  
|       | - Address earnings     
|       | management and SEC     | - SEC litigation cases.    |  
|       | litigation cases.      | BETWEEN SESSIONS 1 and 2,  
|       |                       | - Complete your assessment  
|       |                       | of how your group’s companies’ frauds  
|       |                       | occurred, the motivations of the  
|       |                       | perpetrators, red flags and  
|       |                       | evidence, why they weren’t  
|       |                       | detected, the damage caused, and  
|       |                       | how they might have been  
|       |                       | avoided. Submit your group’s work  
|       |                       | as a written report after you  
|       |                       | present it, next class.        |
| 2     | The Why’s of Financial  
|       | Misstatements and      | - Discussion of earnings  
|       | Fraud                   | management, fraud, and SEC  
|       |                        | litigation cases.           |  
|       |                        | - Managerial Incentives for  
|       |                        | accounting deception and  
|       |                        | fraud.                      |  
|       |                        | - Conditions which make it  
|       |                        | possible for such deception  
|       |                        | and fraud to occur.         |  
|       |                        | - Conditions that cause    
|       |                        | deceptions and frauds to    
|       |                        | come unraveled.             |  
|       |                        | BETWEEN SESSIONS 2 and 3   
|       |                        | - Search the internet for    
|       |                        | information on Enron, WorldCom., or other   
|       |                        | recent example of accounting  
|       |                        | deception. How were managers  
|       |                        | compensated? What were the  
|       |                        | earnings and stock price    
|       |                        | histories in the years prior to the accounting  
|       |                        | deceptions.                 |   |
| Session | Topic | Activities | Between Sessions
|---------|-------|-----------|-------------------|
| 3       | Spotting Companies in Trouble | - In class discussion of incentives and conditions of accounting disasters.  
- What are the qualitative characteristics of companies in trouble — ones that are likely to be involved in accounting irregularities.  
- What are the quantitative characteristics of such companies. | 3 and 4  
- Review news reports, analysts comments, and annual report Notes, MDA, & other narrative materials for the assigned companies for evidence of trouble ahead.  
- Read the distributed material on financial distress analysis. Complete the assigned financial distress analysis for the assigned companies. What are the limitations of quantitative financial distress analysis? |
| 4       | Detecting Fraud and Financial Misstatements Using Financial Analysis | - In class discussion of characteristics of companies in trouble.  
"Cooking the Books": This video by the ACFE is designed to educate viewers about fraud detection. It highlights three of the largest financial statement frauds of the 20th Century, taped on location with the actual people involved. | 4 and 5  
- Read the distributed material on methods of accounting irregularities – of “cooking the books”. Analyze the company cases distributed. Describe in detail the specific accounting used by the company to deceive investors or creditors. |
| 5       | The Symptoms of Fraud and Financial Misstatement – The Evidence Gathering Process | - Discussion of accounting methods  
- Presentation by speaker “Investigating Fraud” | 5 and 6  
- Study a major fraud case, and the investigations in the case the revealed wrong-doing. |
| 6       | Major Cases – WorldCom, Enron, and others. | - Submit and briefly discuss session 5 assignment.  
- General discussion of a large number of high-profile cases of accounting irregularities involving major companies. | 6 and 7  
- Read and complete the WorldCom and Enron cases. |
| 7       | Responsibilities of Management, Board of Directors, and Auditors in Preventing and Detecting Fraud and Other Financial Wrong-Doing | - Discuss Worldcom and Enron cases.  
- Presentation by speaker on the role of auditors, management, and the board in preventing and detecting financial misstatements and fraud.  
- Review Sarbanes-Oxley provisions | 7 and 8  
- Complete the comprehensive analysis of Red Warrior Inc. |
| Final Class | Final Examination | - Comprehensive exam | Submit Red Warrior Case |