

Forensic Accounting Fieldwork, Media and Exercises Project

Herbert Snyder

James Clifton*

One of the most difficult aspects of forensic accounting education is training students to be good investigators. Document analysis can be simulated in the classroom setting with the use of real or simulated financial statements and documents from situations in which fraud occurred. Investigative skills, in contrast, occur in real time and involve interactions with individuals such as suspects, witnesses and clients. This real-time process is more difficult to simulate in the classroom. Consequently, to enhance a student's investigative skills, the forensic accounting program at North Dakota State University (NDSU) has introduced innovation in fraud investigation classes

The innovation in North Dakota State's classes is based not only on the immersion of students in the conduct of real, supervised fraud investigations, but in the experiential training that they receive before entering into these cases which allows them to conduct meaningful investigative work in real-world situations.

The core of the innovation is a set of progressively more complex investigative exercises. These include:

- An elicitation interview conducted by each student to familiarize them with interview and listening techniques in an unstructured, non-threatening environment.
- A structured background investigation of the course instructors which requires the students to examine multiple, real-world information sources, synthesize their findings into investigative conclusions and present the results as a formal, written investigative report.

* The authors are, respectively, Associate Professor of Accounting and Assistant Professor of Accounting Practice, both at North Dakota State University.

- Structured field investigation. Students are presented with a simulated bag of trash from client and asked to deduce who in the firm is leaking information to competitors. Multiple, unconventional information sources and synthesis of diverse data are required to answer the investigative questions.
- An unstructured simulation of a fraud investigation. This assignment utilizes a video produced by the instructors which simulates a real-world fraud. Students are required to observe a workplace in which has occurred, listen to interviews of employees (played by university drama students) and examine documents. Students are required to “solve” the crime and justify their conclusions in a formal investigative report.
- A supervised fraud examination. Students complete our class by investigating suspected workplace frauds and/or creating anti-fraud plans in local organizations. As the success of the program has grown over the years, the instructors now have a number of local nonprofits who approach them requesting an investigative class team.

To date, our classes have uncovered several instances of actual financial misconduct in organizations as well contributing to better financial controls and anti-fraud programs. Students find the program improves their interview and listening skills, grasp of anti-fraud methods and interest in the material.

Developing Investigative Skills for Forensic Accounting Students

The ability to evaluate and synthesize complex materials and to communicate effectively in both writing and speech are among the skills in greatest demand by employers of accounting students (Andrews et al., 1984; Albrecht and Sack, 2000; DiGabriele, 2008). More specifically, forensic accounting students need to apply these skills in complex investigative situations by observing and listening to people, reading documents, evaluating what they observe and reaching investigative conclusions (Albrecht, *et al.*, 2006; Ramaswamy, 2005). Through the use of real-world investigative situations, immersive exercises and multi-media simulations, the NDSU forensic accounting program has made great strides in educating forensic accounting students to become professional fraud investigators.

The great difficulty facing forensic accounting investigators is that many of the skills the profession requires are not easily reproduced in the classroom. Students can practice the analysis of financial documents such as purchase orders, invoices, checks and financial statements by using copies from real or simulated fraudulent enterprises. Much of the practice of fraud investigation, however, requires interviewing, listening and observation in the field (DiGabriele, 2008). Ideally, this practice could be supplied in part by having students work in supervised fieldwork involving actual, suspected fraud. However, most students have too little skill in investigating, interviewing and listening to allow them into an investigative setting, or for them to gain much from the experience. Students need to gain basic investigative and interviewing skills (along with an understanding of the techniques by which frauds are committed) before they can be allowed to assist in real investigations (Crumbley, *et al.*, 2007).The NDSU program has been most successful and innovative through the use of increasingly complex investigative assignments to bring students to this skill level.

The fraud examination minor offered by the NDSU Accounting and Information Systems requires an immersive experience in fraud investigation which culminates in a supervised fraud investigation by students. In order to bring student investigative skills to a level where they can participate meaningfully in a fraud investigation, classroom work is integrated with a series of field exercises and simulations which gradually bring their ability to observe listen, synthesize and communicate their conclusions to professional levels. (Copies of the class materials are included as appendixes.) The exercises, in ascending order of complexity follow.

A. Elicitation interview

Elicitation is the conduct of an interview to obtain information without the subject being aware that an interview is taking place (Nolan, 1999). Although the ability to elicit information from potentially uncooperative subjects is a key skill for forensic accountants, students rarely acquire the skill before starting practice (Messmer, 2004, DiGabriele, 2008). Students at NDSU are initially schooled in elicitation techniques in the classroom and practice with each other. The exercise culminates with a live interview in the community. Students are required to find a stranger and practice information

gathering techniques. The deliverable for the assignment is a report concerning the information they gather. Students also are required to be reflective practitioners and observe and analyze what worked, what didn't, and how they felt about conducting the interview.

Most students in the class have never conducted an interview and some have never initiated a conversation with strangers. The overwhelming set of observations based on their papers is the ease with strangers will both talk and give up large amounts of personal information. In general the students leave with significantly greater self confidence as interviewers as well as better skills. A sample elicitation assignment is included in Appendix A.

B. Structured Investigation

Once students are comfortable with interviewing, they are further instructed concerning information sources and the synthesis of information. Students rarely understand how much information is publicly available or that multiple sources must be synthesized to reach a conclusion. To help them understand the process, students are presented with a simulated exercise in corporate espionage. They are provided with a literal trash bag from a firm that has been the victim of information loss and asked to determine how and why the leaks occurred.

The case involves a fictitious company (*Securitronics*). Students examine a variety of materials from the trash such as phone bills, emails and credit card receipts. Combined with outside information sources such as reverse telephone number directories and patent databases, students learn to evaluate and integrate information sources to reach a conclusion. The case has already been published and is available through the *Mountain Plains Journal of Business and Economics*. The bibliography has a full citation.

C. Structured Background Investigation

Even when students become comfortable with synthesizing materials, they continue to have problems evaluating its accuracy. This evaluation is a critical skill for forensic accountants, who are often faced with informants who lie or obscure the truth (Albrecht *et al*, 2006; DiGabriele, 2008). In this exercise, students are tasked with

answering questions concerning the background of one of the instructors. (Inasmuch as the exercise should replicate a real investigation, the instructors use themselves as subjects since it would create an invasion of privacy to subject anyone else to this scrutiny.)

Although the questions have definitive answers, they cannot be answered by consulting a single source. Students are required to use multiple sources and to reach conclusions based on their judgment. Since poorly prepared students commonly try to use the instructors' online CVs as their sole information source, these are purposely written with assertions which are untrue. The untruths can be easily discovered if several information sources are used.

The exercise began originally as an unstructured, background investigation. Over time, it became clear that students required more structure for the assignment. The investigation was subsequently modified from the creation of a general background dossier, to one which required students to express an opinion concerning the truth of a series of statements about the instructor. An example of the assignment is included in Appendix B.

D. Simulated Fraud Environment

This learning experience is possibly the most innovative aspect of the investigative training developed at NDSU. Listening and observation are among the most difficult investigative skills to develop since the information they use is ephemeral by nature. In order to deal with this problem, the instructors received a grant to produce a video that simulates a fraud. Using students from the NDSU drama department, they wrote a script and produced a video that builds on the Auditing Alchemy case originally created by Price-Waterhouse.

Students work in small groups to determine the cause of missing inventory in a manufacturing firm. Solving the case requires them to listen to a variety of people in the workplace, observe the workings of the facility's security system and combine these observations with additional information from the outside world. Students have the ability to request additional information such as credit checks and field observations of suspects. The final deliverable in the case is a written case report in which they name the

suspect, the means by which the crime occurred and the evidence for their conclusions. A link to the streaming video website is included in the bibliography.

E. Fraud Case Investigation

At the conclusion of their training, the students are finally sufficiently knowledgeable concerning both techniques of fraud and techniques for investigation. They are then assigned to investigate suspected fraudulent activities in organizations. The potential sites are always nonprofit organizations and are thoroughly vetted by the instructors prior to acceptance. The investigations are always done without pay and the ultimate disposition of the case lies with the requesting organization.

The original pool of organizations came from the local United Way. The instructors approached the director for the names of contact persons in the nonprofit community. In addition, many of the department's faculty serve on the boards of local nonprofits and have facilitated finding placements with their organizations. The biggest problem for class was not locating clients, but in developing sufficient trust with the nonprofit community regarding a potentially sensitive subject. Personal contacts on governing boards were especially useful in gaining trust.

The program has been running for more than four years and has developed a good relationship with the nonprofit community based on its earlier successes. As a result, organizations now approach the instructors during the year and request student teams. Students never confront potential criminals and are given strict and explicit instructions for dealing with any evidence of wrongdoing they uncover. To date, several frauds have been uncovered including inventory thefts, the use of company funds to pay personal expenses and billings for nonexistent purchases. Even in cases where no fraud was uncovered, agencies have greatly improved their internal controls and anti-fraud systems.

2. Educational Benefits

Educational benefits may be demonstrated in a variety of ways including student satisfaction and achievement as described in the sections below.

Student Satisfaction and Achievement

Student Evaluations

Students are highly supportive of the fraud training they receive at NDSU. Student evaluations for the advanced fraud class consistently rate their satisfaction with the course as follows (5 point scale):

Overall satisfaction with the course:	4.6
Quality of the course:	4.5
Understanding of the material:	4.6

These are well above the average for most NDSU courses, as well as those specifically in accounting. The students are graded in the course with letter grades (A, B, C, D), although the assignments themselves are awarded numerical points. The class consists primarily of undergraduate students, although MBA student sometimes enroll. Graduate students complete additional work as project managers for the field investigations.

In addition, students were specifically asked to rate their levels of expertise in several areas of fraud investigation before and after they participated in the video fraud case. While there is some question concerning whether students can adequately evaluate their own level of knowledge in an absolute level, their evaluation show an increase which is also mirrored by their increased performance on test scores. The questions together with their responses were as follows:

Please rate your level of expertise for each of the skills listed below using the following numerical scale:

1. No expertise
2. Minimal expertise
3. Moderate level of expertise
4. High level of expertise
5. Extremely high level of expertise

	Results	
	Pre-case Mean	Post-case Mean
Investigative skills	3.0	4.2
Listening skills	3.9	4.1
Ability to construct a fraud case	1.9	3.6
Overall forensic accounting skills (n-53)	3.4	4.2

Client Satisfaction

The program consistently has more requests for student investigations than it can handle. Clients are uniformly impressed by the professionalism of the students and, at least as importantly, by the demonstrable benefits of the investigations such as recovered funds and improved fraud deterrence.

Employer Satisfaction

Graduates of the program are drawn from both criminal justice and accounting. Placement with employers in law enforcement and accounting firms is at over ninety percent.

3. Adaptability by other educational institutions or to other situations

The materials used in the NDSU fraud program are easily transferable to any other forensic accounting program. All of the exercises can be integrated into most standard forensic accounting/fraud examination courses, usually with little or no modification. Several, including the structured investigation (i.e., “trash case”) and the fraud video have already been made publicly available as journal articles and/or conference presentations. The video, notably, has been made publicly available for streaming on the NDSU website at: <http://www.ag.ndsu.nodak.edu/media/accounting/alchemy.ram> (RealPlayer is required to view the video. Download available at: <http://www.real.com/>)

It is possible that real-world investigations for students may be problematic in some areas for reasons such as size of the community, legal restrictions, or lack of contacts in the community. Building relationships in an environment as potentially sensitive as fraud takes time and patience, but as the efforts at NDSU have demonstrated, such relationships are not only possible, but self-supporting over time. However, even in

cases where real-world investigations are not possible, forensic accounting instructors face the same difficulties in providing instruction for their students and the innovative exercises and simulations created at NDSU can be extremely useful in filling the gap between theory and practice in forensic accounting.

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Appendix A: Sample Elicitation Interview Assignment

You now should be aware of a number of techniques used in interviews and elicitations. This is an opportunity to see how well they work. Sometime in the next two weeks I want you to go out in the world and strike up a conversation with a stranger using one or more of the elicitation techniques you learned about in class.

You may not use anyone with whom you work, nor can you pose as an interviewer. You may not use anyone who has to talk with you as part of their job, such as a salesperson or wait staff. Extend your comfort zone. Being an investigator is not for the meek.

The assignment in this case is a report concerning which techniques you used, how, specifically you applied them and what information you were able to gather. Do not report any confidential, personal information in your write up, however, you can get bonus points (1 each for a maximum of 2 total) if you were able to discover any of the following pieces of information about your subject: date of birth, social security number, address, employer, number of children, spouse's name, mother's maiden name. In order to receive the bonus points you must describe in detail how you acquired the information for each item for which you are claiming a bonus. Do not break the law in ways such as going through the person's wallet. These must all be legal and ethical methods.

The bulk of the assignment (for the base 30 points) is a report that describes what you did in your elicitation. Specifically, it should include where and how your elicitation occurred, the specific technique(s) you used, how the elicitation progressed, what you were able to learn and your impressions concerning obtaining information from strangers. At a minimum, the report needs to be 2-3 pages or actual description and analysis. Don't try to pad the assignment. (It's obvious when you use triple spacing and 14 point type. I will take points off if you try this.) If you perform the assignment, this should be an easy minimum.

Appendix B: Sample Background Investigation Assignment

You may work alone or in pairs.

The following is a list of alleged facts concerning XXXXX

1. I am a CUCE, a CFE and a CIA.
2. I paid \$144,000.00 for my principal residence.
3. I have written 3 books.
4. I am the co- or sole holder of at least 1 patent.
5. During 2006 I grossed \$118,511 in personal income.

Your job is to verify whether the statements are true. All of the assertions have an absolute definitive answer, but you may not be able to find a single definitive source that provides you with the answer. In that case, you will need to make some investigative conclusions based on the evidence at hand that you have collected including verification with multiple sources in some instances. Be skeptical; not every statement a person makes can be trusted.

Your answer to each question must include the following:

- a. The source (s) of the information. **You must use the APA style format for any source, including those from the Internet.**
- b. The information from the source that you are using.
- c. The reasoning behind your conclusions. A simple reiteration of a source is not sufficient. I want to be able to understand your reasoning. This is especially important if you are using multiple sources and need to reason out a conclusion.
- d. Your final conclusions.

Under no circumstances may you use a paid information service such as credit agency, nor may you use any commercial or law-enforcement source such as your uncle in the state police. You may not impersonate me or otherwise pretend to be anyone you are not. You may not do anything illegal or unethical even if I failed to think of it. I am the final arbiter of what is unethical,

Grading:

Each question counts a maximum of ten points for a total assignment of fifty points. Points are added/subtracted in the following manner:

1. Failure to cite properly: minus 3 for each improper missing citation.
2. Failure to provide an explanation of what you found: minus 9
3. Illiterate writing: minimum of minus 3, but this may be more. Use the spell checker and proof-read.
4. Insufficient proof: minimum of minus 5, but may be more depending on how lazy and/or gullible you are.
6. In general, you may lose points for simply not thinking through what you're saying or not thinking enough. This is not an assignment which can be completed by copying information off the internet and filling in the blanks. You must evaluate and verify your sources. Ultimately, you need to make a good case for your conclusions, so the quality of your writing and reasoning will be a major factor in the grade.

A well-reasoned and well-researched conclusion will receive a minimum of six points regardless of whether it's correct.

Note that while it is possible to lose more than ten points on a question, the most that will be taken off is ten. That is, you can't do worse on each of the five questions than to get zero.

Anyone who can confirm where I graduated from high school earns 4 bonus points.

The opinions of the authors are not necessarily those of Louisiana State University, the E.J. Ourso College of business, the LSU Accounting Department, Roosevelt University, the Senior Editor, or the Editor.