



Fraud Prevention Education in the Accounting Curriculum

BY LINDA LEE LARSON, CPA

In the last several years, the importance of preventing and detecting fraud has been brought home as never before. Articles on Enron, Tyco, WorldCom, and other accounting-related scandals have recently appeared in the pages of many newspapers and magazines, including *Strategic Finance*. Top company executives are being tried and sent to jail for “cooking the

books.” These high-profile cases have made the general public aware of the importance of proper accounting procedures and internal controls and led to the passage of the Sarbanes-Oxley Act of 2002. Therefore, education in the prevention and detection of fraud should be incorporated into the college accounting curriculum.

A massive corporate bankruptcy such as Enron can have disastrous financial ramifications on that organization’s employees, retirees, and investors. But fraud by top executives of large companies is only one example. Small businesses are also very susceptible to fraud by insiders. In a 2004 study by the Association of Certified Fraud Examiners (ACFE), small businesses reported median losses of \$98,000 at the hands of their own employees. This is often

due to the failure to implement adequate segregation of duties. The impact of such a fraud on a small business can be disastrous and shows that businesses of all sizes need employees educated in the prevention

and detection of fraud and other forms of white collar crime.

Some large companies have antifraud units either as part of or aligned with their internal audit department. Unfortunately, most companies don’t have antifraud units or forensic accountants. Some public accounting firms have established forensic accounting practices that provide a variety of services to clients to meet this need.

Although experienced forensic accountants are said to be in short supply, many colleges and universities still haven’t incorporated forensic accounting concepts into their accounting curriculum in any substantial way. A four-year college or university-level accounting curriculum often has a chapter or two on internal controls in an auditing and/or accounting information systems course, but that is typically the extent of the fraud prevention training that an accounting major will receive as an undergraduate.

The ACFE has been taking steps to help college professors in their efforts to incorporate forensic accounting into the accounting curriculum. Established in 1988 in Austin, Texas, by Joseph T. Wells, a



former auditor and FBI agent, the ACFE is a 36,000-member international professional organization dedicated to fighting fraud and white collar crime. It has local chapters, presents training seminars, has developed self-study workbooks and video courses, and offers the Certified Fraud Examiner (CFE) certification.

As part of its continuing education courses, the organization has produced a series of 11 original videos on fraud that professors may use in college-level courses on fraud examination or a related subject per the ACFE's Terms of Use. The videos contain interviews with the actual perpetrators and descriptions of what the criminal did and what could have been done to prevent the fraud. Educators may obtain these videos at a reduced cost from the ACFE. An ACFE member may also sign up (at a reduced price) for the full self-study course that is available for each video and receive CPE credits.

An accounting professor can become an ACFE Educator Associate Member for \$25 a year. Membership includes a subscription to *Fraud Magazine* and access to the entire ACFE website (www.acfe.com), which has hundreds of articles and other documents related to fraud prevention and detection. The members-only portion of the website contains an educator resources section, which includes links to syllabi, textbooks to use, and a variety of supplemental materials.

If a college or university agrees to offer a complete course on fraud examination and joins the ACFE Anti-Fraud Education Partnership, it will receive a free set of all 11 ACFE fraud videos, free syllabi and books, and a variety of other materials to assist in teaching the course.

Another alternative for educators is to incorporate a substantial fraud prevention module into one or more existing courses, such as auditing and/or accounting information systems, and incorporate the materials from the ACFE. Among the ACFE video titles that can easily be incorporated into the classroom are "Fundamentals of Computer Fraud," "The Corporate Con" (dealing with employee fraud), "How to Detect and Prevent Financial Statement Fraud" (the Crazy Eddie fraud), "Cooking the Books: What Every Accountant Should Know About Fraud" (the ZZZZ-Best, Regina, and ESM frauds—all frauds perpetrated by top executives), and "Other People's Money: The Basics of Asset Misappropriation."

Educational cases are another good way to introduce the topic of forensic accounting. Several fraud case books are available from major textbook publishers. Other cases are available from a variety of sources. A number of accounting professional publications, including the *Journal of Accountancy*, *Strategic Finance*, *The CPA Journal*, and others, have recently published articles on fraud prevention that could be used in the classroom.

If a school has an IT (or electronic data processing) audit course, the professor can incorporate the use of auditing software, including Audit Command Language by ACL Services Ltd. (www.acl.com) and/or IDEA Data Analysis Software by Audimation Services (www.audimation.com) into the course. Both vendors have materials available to assist educators. Audit software makes an excellent tool for finding irregularities in transactions that could indicate that fraud/embezzlement is taking place.

It's very important that colleges incorporate antifraud concepts into

their accounting curriculum if they want to properly prepare their students to be aware of fraud as accounting professionals. This may be accomplished either by establishing a full course in forensic accounting and/or by incorporating fraud prevention and detection concepts into one or more existing accounting courses. ■

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