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CONDUCTING A FRAUD EXAMINATION ON YOUR FRAUD EXAMINATION STUDENTS

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ABSTRACT

The purpose of this paper is to discuss a fraud examination that occurred during a fraud examination course. The examination was not what one would first imagine. It was not an examination conducted by the students as part of the course requirements. Instead, it was an examination performed by the instructor on his students.

This paper will note how the investigation of the students relates to common components of frauds, attributes of the perpetrators, investigation methods utilized, the final resolution of this investigation, and what I might do different in future investigations.

INTRODUCTION

Many of us are aware of common fraud investigation techniques, attributes of alleged perpetrators, and how most instances of fraud are initially brought to light. The purpose of this paper is to discuss a fraud examination that occurred during a fraud examination course. The examination was not what one would first imagine. It was not an examination conducted by the students as part of the course requirements. Instead, it was an examination performed by the instructor on his students. This paper will note how the investigation of the students relates to common components of frauds, attributes of the perpetrators, investigation methods utilized, the final resolution of this investigation, and what I might do different in future investigations.

BACKGROUND

It all started out as a normal semester in my fraud examination class. While preparing to teach the fraud examination class I considered many things, including: (1) what text(s) should I use; (2) will I take advantage of the Association of Certified Fraud Examiners (ACFE) Anti-Fraud Education Partnership program; (3) will I make use of problem-based learning cases; and (4) will I utilize guest speakers?

A list of potential textbooks and instructional materials is provided by Kranacher, Morris, Pearson, and Riley (2008). Kresse (2008) describes the materials available from the ACFE Education Partnership, and how they may be utilized in a fraud related educational program. The benefits of implementing a problem-based learning case are presented in Durtschi (2003) and Dee and Durtschi (2010). Brickner, Mahoney, and

Moore (2010) discuss the benefits of applied-learning exercises via the use of the Internal Revenue Service Criminal Investigation's "Adrian Project". As in any other teaching scenario, the list of potential guest speakers is only limited by your willingness to seek them out.

During the first portion of the semester, students turned in a multitude of assignments from problem sets, to papers, to more involved cases (e.g. the Interstate Business College case [Peterson and Buckhoff, 2004]). We also had guest speakers from the FBI, a private investigations firm, and local law enforcement. The private investigator (PI) shared a story about a theft at a bank in our region. Thousands of dollars had gone missing from a teller's drawer and the bank needed help identifying the guilty party. The controls at the bank were poor and there was not adequate video coverage of the teller area. As a result, the pool of potential fraudsters was large. The PI had the bank call all employees in for a special, mandatory meeting. The meeting took place in the evening, after normal business hours. After a brief discussion, the employees were asked to complete a questionnaire. The purpose of the questionnaire was to limit the pool of suspects. Some of the questions included were:

- First, begin with the facts. Tell me what you know about this issue, in detail.
- If you were investigating, where would you look?
- List the five most important causes that would allow this to happen.
- Do you want to change any information you have already provided to us?
- Did you take the \$5,000?¹
- Did you assist someone in taking the \$5,000?
- Do you know who took the \$5,000?
- How do you feel about completing this survey?
- Should we believe your answers? If yes, why?
- What would you say if we figure out later you lied?
- What are your emotions while completing this survey?
- What should be done to the guilty person?
- If you were asked to pay back a portion of the \$5,000 – what would you say?

The PI described how the answers were used to reduce the pool of suspects, and noted how powerful exercises like this can be.

For the last fourth of the semester, the largest remaining assignment for the students was the completion of the Tallahassee BeanCounters (TBC) case (Durtschi 2003 and Dee and Durtschi 2010). The TBC is an interactive case where students request information via email to complete a fraud examination. The instructor role-plays all recipients for information requests. The TBC project was worth one-fourth of the total points for the semester. The students and I were looking forward to the TBC case as I told them I had used this case in prior semesters with great success. It had been three

¹ This is not the actual dollar value. The PI's questionnaire did use the actual dollar value.

semesters since the last time I used this case, so I did not make any modifications — this would end up being very important. The student groups were deep into their investigations when it all started to happen.

STAGES OF THE INVESTIGATION

The Tip

A group of students became concerned that someone in our class may be cheating on the TBC case. As a matter of fact, these students feared a member of their own group was possibly cheating on the TBC case. They decided to report the incident, but were not sure how to go about the reporting.² Should they send an anonymous email, leave a voice message in a disguised voice, or slip a handwritten note (in block letters of course) under my office door? Eventually, a few of the group members invited me out for a beverage. The invitation consisted of “Meet us at Buffalo Wild Wings on Wednesday night at 9:00. We have something we need to talk to you about.”

The Meeting³

I met the students at the designated time and place. We had a beverage and shared a conversation about what had been happening with our favorite sports teams. After our server returned to inquire about a second beverage, I asked my students what they wanted to talk about. After a quick glance among all the students, one student told me they had evidence that someone may be cheating on the TBC case. After a moment of silence, they said they knew who it was and how the possible cheating occurred. I raised my eyebrows, tilted my head, and made eye contact with each student. They asked if I remembered Leslie taking this class in a previous semester. I told them I recalled Leslie being in the course. The students then told me Leslie supposedly saved a lot of TBC related materials and Leslie shared them with their teammate Taylor. The group members shared that they had already confronted Taylor about receiving the materials. They told Taylor they were disappointed and that if he/she attempted to use them during the case they would drop him/her from the team. Taylor’s teammates wanted to honestly complete the case, learning as much as they could along the way. I thanked them for the information and asked if I could arrange future conversations about this issue – they agreed.

The First Questionnaire

At this point in the semester, in addition to the PI visiting class, two local law enforcement members had made presentations to our class. One of the local law enforcement personnel, Officer Jones, had visited our class for a presentation on conducting interviews and interrogations. Shortly after the tip was provided, I designed a questionnaire for the class. The primary purpose of this questionnaire was to put some of

² Detection methods for the initial discovery of occupational frauds are noted in the Association of Certified Fraud Examiners Report to the Nations on Occupational Fraud and Abuse (2012). The most common method of detection is a tip.

³ This paper will discuss only the key events in the investigation. A few details have been altered in a minor fashion, and the names of individuals have been changed to protect their identity.

the tools we had discussed into action. I believed this would be a good learning experience for the students – both the innocent and if there were any, the guilty.

I asked my students to complete the questionnaire at the beginning of a class meeting. The questionnaire noted the risks of using cases and how we could see the fraud triangle at work.⁴ (The first questionnaire is in Appendix A.) When the students were finished with the questionnaire, I collected it and continued with the material that was scheduled for the day. I did not say anything else about the questionnaire to my students. I wanted to see if someone would come forward with more information. Would others tell me they had concerns about cheating? Would the alleged cheater (Taylor) come forward? Would the provider of the information (Leslie) hear about my concerns and come forward?

The Interview of the Information Provider (Leslie)

I contacted Leslie, the alleged provider of key information about solving the TBC case. Leslie had completed the fraud examination course three semesters earlier. Leslie agreed to a meeting at my office. When Leslie arrived, I had Leslie join me in the office of our Department Chair (his office is next to mine). Leslie sat down and I verbally noted that Leslie knew everyone in the room: me, the Department Chair, and one of our business law instructors. I began the conversation with Leslie by asking a question, making a statement, and asking a second question: (1) “Do have any idea why I asked you to meet with me today?” (2) “You have initiated discussions with me this semester regarding the TBC case for the fraud examination class. You even told me you would help administer the case if I was too busy.” (3) “Did you discuss the TBC case with any students that are taking the fraud examination course in the current semester?” The answer to question (3) was, “Yes, multiple.” The conversation continued:

- Instructor: “Who initiated the discussion, you or the other parties?”
 Leslie: “The other parties.”
 Instructor: “Who are the other parties?”
 Leslie: “I do not know all of their names. Some were male, some female. It was not Taylor and Chris.”⁵
 Instructor: “What did you give to the other parties?”
 Leslie: “Email conversations and related attachments. Basically, some of the questions we asked and the responses we received.”
 Instructor: “When did you give the materials to the other parties?”
 Leslie: “Approximately 2-3 weeks ago.”
 Instructor: “How did you provide the materials?”
 Leslie: “Electronically – using my Hotmail account.”

⁴ The fraud triangle is used to describe the conditions that are usually present when a fraud occurs: opportunity, incentive/pressure, and rationalization. A discussion of the fraud triangle can be reviewed in Kranacher, Riley, and Wells (2011), pp. 203-4.

⁵ Taylor was the alleged recipient of the TBC materials. Chris was not a registered student in the course.

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- Instructor: “Why did you give TBC materials to the other party?”
Leslie: “They asked.”
Instructor: “What should your punishment be?”
Leslie: “I cannot provide an adequate answer at this time.”

Our discussion continued with Leslie acknowledging his/her actions were not appropriate. At the end of the interview, Leslie agreed to visit my classroom just before the next class started, while I was getting everything set up. Leslie would quickly survey the room, and then identify on my seating chart all of the students to which he/she offered TBC materials. The final request was that Leslie would prepare a written statement for me explaining the who/what/where/why/when/how relating to his/her providing these TBC materials to current students in the fraud examination course. The statement was also to include a suggested punishment. Finally, Leslie must sign and date the statement, and it was due by 9:00 a.m. on date X.

The Polygraph Exam

As luck would have it, Officer Jones offered to make a return visit to my class. He was wondering if the class would like a presentation on the use of polygraph exams.⁶ Officer Jones wanted to show us how the polygraph recorded reactions and how an exam would be conducted. I thought this would be a great learning experience, but did not anticipate the demonstration would have a direct impact on the outcome of my investigation of alleged cheating. I asked the students if Officer Jones should return and share his knowledge about polygraph exams and received a resounding, “Yes!”

Officer Jones asked for volunteers, some male and some female, for a mock polygraph exam. He stressed that the point of the exercise was to demonstrate how the polygraph records reactions and how an exam would be conducted; No matter what our volunteer disclosed, the answers would be meaningless. Surprisingly, the alleged guilty party was one of the volunteers, and Taylor was selected by Officer Jones for a “totally unrealistic exam” during class. After setting up Taylor and the polygraph at the front of the classroom, Officer Jones stated that he had selected six questions for use during the exam. He went over the questions before conducting the exam, and confirmed that Taylor understood the questions. The six questions (answers) were:

1. Are you sitting down? (yes)
2. Is your first name Taylor? (yes)
3. Have you ever talked bad about the instructor of this class? (no)
4. Are there any cute classmates in the room? (yes)
5. Have you ever cheated on a test? (yes)
6. Am I a boring presenter? (no)

I am of the belief that the polygraph demonstration did not have an effect on this fraud examination – there is no evidence that the exam impacted Taylor’s attitude toward confessing a wrongdoing. The primary reasons for this belief are: We all understood it

⁶ Officer Jones had no knowledge of the alleged cheating.

was not a real polygraph examination and Taylor volunteered to be an examinee. It was interesting, but not critical, that Officer Jones happened to ask about “cheating on a test” and that Taylor responded “yes.” The primary benefit of the exam was that our class came away with a better understanding of how polygraph exams are administered and how to interpret the results.

The Second Questionnaire

The final piece of evidence involving the entire class was a second questionnaire. This questionnaire focused on the improper sharing and/or use of TBC related materials. (The second questionnaire is in Appendix B.) The primary purpose of this questionnaire was to gather information regarding how many students may be involved in the alleged cheating. Were there more instances than the one I learned about in the tip? Were other students tempted without taking part in improper actions?

The second questionnaire was administered at the beginning of a scheduled break during class, just after Officer Jones completed his presentation on the polygraph exam. I handed out the questionnaire and left the classroom. Officer Jones packed up his gear while the students completed the questionnaire. After the break, I collected the completed questionnaires and continued with the remaining material scheduled for the day. Once again, I did not say anything else about the questionnaire to my students. I wanted to see if someone would come forward with more information. Would others tell me they had concerns about cheating? Would the alleged cheater (Taylor) come forward?

When class ended, I took the second questionnaire to a local restaurant and carefully read through them. The questionnaires fell into one of three groups: (1) I had no idea that any of this may have been going on; (2) I heard that someone was offered materials and may have used them; and (3) I was offered materials and I did, or did not, accept them. The most common response was that of category (1). The response of smallest frequency was category (3).

Taylor’s questionnaire noted:

- a. “I was offered information on TBC.”
- b. The materials offered were “emails and a few handouts.”
- c. Leslie offered the information and Leslie initiated the process.
- d. “NONE” of the materials were used as “I wanted to do the work on my own.”
- e. Leslie offered materials to other students and Leslie initiated the process.
- f. Taylor was not aware of any other student accepting materials from Leslie.

I wanted to give Taylor a chance to contact me. I was quite certain that I would be hearing from Taylor in the very near future.

The Interview of the Information Receiver (Taylor)

Within a short timeframe, Taylor contacted me and we agreed on a meeting time. Taylor was to stop by my office at 3:00 p.m. on Friday afternoon to discuss issues related to the TBC case. We discussed many things during the 2-hour interview. In terms of the fraud triangle,⁷ I noted that due to the length of time between my uses of the TBC case (three semesters), I thought there was a minimal risk of the opportunity to cheat. The fraud class was an elective that was not always offered in consecutive semesters and the vast majority of the students that enrolled were in their final year of classes. In addition, the author of the case and I had been periodically checking the Internet to monitor if anyone had posted answers for the case. Therefore, I was not overly concerned that a prior student would interfere with the use of the TBC case in the current semester. Regardless of my perception, cheating did occur.

We determined the perceived pressure was a result of Taylor's drive for perfection. Taylor had a stellar academic record through high school and college. Taylor was carrying an extreme course load that semester. The load was extreme in terms of the number of credits taken, and the difficulty of the individual courses. Taylor planned to graduate that semester and did not want to diminish his/her GPA. On top of the academic pressure, Taylor was also experiencing difficulties in a number of personal relationships. Taylor basically filled the role of a fraudster facing undue family and/or peer pressure. Taylor also had the common characteristic of first-time fraudsters, in that he/she was well respected in his/her community (school, peers, and athletics).

Taylor said that due to these pressures, "I slipped." Taylor was not proud of his/her actions. Taylor was adamant that while he/she accepted the inappropriate TBC materials, he/she did not make use of them. Taylor said it was important that he/she had disclosed to his/her group that he/she had the materials, and the group made it clear they wanted nothing to do with them. Taylor stated the group was instrumental in helping him/her not make use of the materials. Taylor noted that without the group's strength, he/she may have fallen prey to heavily utilizing the contraband materials, even though he/she originally accepted them thinking: "I had no intention of using the materials. I took them more as a safety net in case it came down to the wire and my group was struggling to figure out what to do next." This statement was Taylor's primary rationalization (the final component of the Fraud Triangle). Taylor noted he/she received the materials from Leslie after Leslie made the offer. Leslie cut-and-pasted information from some of his/her emails into a Word document. Leslie then transferred said information on to Taylor's jump drive.

We also discussed the two questionnaires I had the students complete. I explicitly talked to Taylor about his/her answers. Often times, the guilty party provides answers that do not provide assistance in narrowing the pool of suspects, and their answers involve relatively minor punishments for improper actions.⁸ Taylor's answers included an admission of his/her guilt, and proposed some of the most severe punishments offered by

⁷ See Kranacher *et al.* (2011), pp. 203-4.

⁸ See Kranacher *et al.* (2011), pg. 257.

his/her peers. The interview continued with a discussion about how Taylor would avoid similar outcomes in the future, and we also discussed options I had for discipline.

At the end of the interview, Taylor agreed to prepare a written statement for me explaining the who/what/where/why/when/how relating to accepting the TBC materials. The statement was also to include a suggested punishment. Taylor was to sign and date the statement and it was due by 9:00 a.m. on date Y. Before leaving, Taylor asked me if I had decided what the punishment would be. I told him/her I had not decided and planned to think about it over the weekend. I told Taylor that once he/she turned in the statement, I would tell him/her what the punishment would be.

In the end, due to the length of time it had been since Leslie was my student, Leslie did not receive an explicit penalty. Taylor received a significantly reduced grade on the TBC case. As I could not prove that Taylor or his/her team benefitted directly from the information provided by Leslie, I did not impose a stricter penalty on Taylor.

REVIEW OF THE INVESTIGATION

Looking back on this exercise, there are three things I have thought about the most. First, I was very focused on keeping my questionnaires as short as possible. This did not allow me to ask any of the “how do you feel about completing this” type of questions noted by the private investigator. As the investigation occurred in an academic environment, this type of question seemed more related to my curiosity than to actually narrowing the pool of suspects. Therefore, I did not include this type of question, and most likely would not if a similar academic issue arises in the future. I do believe there is room for improvement in the effectiveness of the existing questions. Secondly, I have pondered the patient approach I took to the investigation versus a more rapid, aggressive style of investigation. Given the academic environment, I preferred the patient approach. I believe it provided more of a teaching opportunity than a more rapid approach. Finally, I have started to teach the Wicklander-Zulawski (W-Z) method for interviews and interrogations (Zulawski and Wicklander 2002). One thing I really appreciate about the W-Z method is that they provide concrete guidance about how to conduct an accusatory interview. The interviewer is guided through a process where they do most of the talking. A brief outline of the W-Z method includes the following steps:

- Noting who we are and what we do
- Providing a list of common methods people use to cause losses
- Describing tools we use in investigations
- Providing common rationalizations for improper behavior
- Making an accusation via an assumptive question
- Developing an admission
- Properly documenting the admission

I have often wondered if I would have learned anything more from Leslie and Taylor if I had used the W-Z approach. I believe the W-Z approach would have been most beneficial if I needed a stronger method to get my two suspects to confess. As it was, I did not have a difficult time securing confessions. I believe the academic environment played to my

favor. The W-Z method would be much more beneficial if the alleged perpetrators felt more comfortable fighting against providing a confession.

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APPENDIX A (FIRST QUESTIONNAIRE)

ISSUES REGARDING THE TALLAHASSEE BEANCOUNTERS CASE:

As an educator, using cases has its risks and rewards. The rewards include putting some element of the “real world” into your educational experience. Given the Internet and/or the network of previous students who have taken this class, the risks include current students finding answers to a case without actually doing the work. We can all see the fraud triangle at work here: incentive to cheat exists; opportunity to cheat exists; rationalizing cheating can be done. In this context, answer the following questions:

1. Assume I have evidence that someone in this class has access to “the answers” for the TBC case. What types of evidence should I

attempt to gather to build my case against the alleged cheater(s)?
Be sure to mention potential sources for this evidence in your answer.

2. At what point to I approach the alleged cheater(s)?
3. In regards to this class only, what punishment should I employ?
For example: nothing, a reduced grade on this project, a score of zero on this project, a failing grade for the class, etc.
4. Outside of this class, but within the UND community, who should I share this information with?
5. Outside of the UND community, who should I share this information with? For example, if I know where they have accepted post-graduation employment, should I share this information with their future employer?

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**APPENDIX B
(SECOND QUESTIONNAIRE)
ISSUES REGARDING THE TALLAHASSEE BEANCOUNTERS CASE:**

Number	Question	Taylor's Response
1	Were you offered or did you seek out any portion of the solution or any other teams' work for the Tallahassee BeanCounters (TBC) case for Acct 494?	I was offered information on TBC.
2	Did you accept any materials that relate to the solution or any other teams' work for the TBC case? If Yes, what materials did you receive?	The materials offered were "emails and a few handouts.
3	If you answered Yes to question 1, who offered the materials and who initiated the process?	Leslie offered the information and Leslie initiated the process.
4	If you answered Yes to question 2., did you use any portion of the materials for your case?	"NONE" of the materials were used as "I wanted to do the work on my own.
5	Are you aware of any students currently enrolled in Acct 494 that were offered or sought out any portion of the solution or any other teams' work for the Tallahassee BeanCounters case for Acct 494? If Yes, who is it?	Leslie offered materials to other students and Leslie initiated the process.
6	Are you aware of any students currently enrolled in Acct 494 that accepted any materials that relate to the solution or any other teams' work for the TBC case? If Yes, who is it and what materials did they receive?	Taylor was not aware of any other student accepting materials from Leslie.
7	If you answered Yes to question 5, who provided the materials and who initiated the process	
8	If you answered Yes to question 6., did they use any portion of the materials for their case?	
