CHAPTER 2

CAREERS IN FRAUD EXAMINATION AND FINANCIAL FORENSICS

LEARNING OBJECTIVES

After reading this chapter, you should be able to

2-1 Discuss employment trends in fraud examination and financial forensics and the reasons for these trends.
2-2 Identify employment opportunities for fraud examination and financial forensics specialists and other related professions.
2-3 Define the role of fraud examination and financial forensic skills related to management and those charged with corporate governance responsibilities.
2-4 List professional organizations that support fraud examination and financial forensics professionals and their certifications.
2-5 Discuss international opportunities in fraud examination and financial forensics.
2-6 Describe the role of education in fraud examination and financial forensics.
2-7 Explain the role of research in the fraud examination and financial forensics professions.

CRITICAL THINKING EXERCISE

Why are manhole covers round?1

This critical thinking exercise is often supported with visual props such as square and round pieces of plastic containers with lids. Students are encouraged to manipulate the different shaped containers to see if they can determine the answer. This critical thinking activity demonstrates the need to experience your investigative data and evidence using all of your five senses: sight, touch, hearing, taste, and smell. While we don’t do much tasting or smelling in forensic accounting, the point is an important one. To be successful, fraud professionals and forensic accountants must immerse themselves in the evidence to answer the essential questions—who, what, where, when, how, and why—of an investigation.

As a result of highly publicized financial scandals and heightened concerns over money laundering associated with terrorism and drug trafficking, the auditor’s and accountant’s responsibility for detecting fraud within organizations has come to the forefront of the public’s awareness. Successful fraud examinations and well-executed forensic investigations may be the difference between whether perpetrators are brought to justice or allowed to remain free. In most cases, success depends upon the knowledge, skills, and abilities of the professionals conducting the work. Consequently, the demand for qualified professionals with education, training, and experience in fraud and financial forensics has increased.

The academic and professional disciplines of fraud examination and financial forensics embraces and creates opportunities in a number of related fields, including accounting, law, psychology, sociology, criminology, intelligence, information systems, computer forensics, and the greater forensic science fields. Each group of these professionals plays an important role in fraud prevention, deterrence, detection, investigation, and remediation.

BACKGROUND

Recent corporate accounting and financial scandals have led to increased legal and regulatory requirements, such as the Sarbanes–Oxley Act of 2002 and the Emergency Economic Stabilization Act of 2008 (EESA). These requirements address internal controls for detecting and deterring fraud, encourage financial statement auditors to be more aggressive in searching for fraud, and have challenged accountants, corporate governance, and other professionals to conduct fraud risk assessments to mitigate its occurrence.
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One result has been an increased demand for entry-level and seasoned practitioners. Furthermore, professionals practicing in the traditional areas of tax, audit, management, information systems, government, not-for-profit, external (independent), and internal audit are expected to have a greater understanding of fraud and financial forensics.

The threat of terror activities, public corruption, and organized criminal activities has heightened the need for professionals who are properly trained to investigate and resolve issues and allegations associated with these acts. The emphasis here is on law enforcement and pursuing criminal charges. These engagements are often associated with the Department of Justice, the Department of Homeland Security, the Bureau of Alcohol, Tobacco, Firearms and Explosives, and other federal, state, and local law enforcement agencies. These agencies use legislation, such as the USA PATRIOT (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism) Act, to focus on white-collar crime, money laundering, and terrorist financing.

There is also a growing demand for forensic and litigation advisory services related to damages, divorce, valuations, construction delays, antitrust, lost wages, business interruption, intellectual property infringement, insurance claims, environmental issues, tax evasion, wrongful death, reconstruction, and litigation consulting, to name a few.

Another area is the increasing victimization of individuals targeted in fraud schemes (e.g., identity theft). While the most common victims of such fraud are the fraudster’s family and friends, international criminal organizations have developed identity theft and similar frauds into “big business.” Raising awareness of fraud prevention techniques and assisting in remediation procedures are crucial to effectively addressing this growing problem in our global society.

The demand for students who have specialized qualifications in fraud and financial forensics has grown significantly and is likely to continue to grow. The increasing demand is creating an unprecedented opportunity for those professionals who develop the knowledge, skills, and abilities associated with fraud examination and financial forensics. For example, The Wall Street Journal stated that “forensic accounting is a particularly hot field” (CPA Recruitment Intensifies as Accounting Rules Evolve, March 22, 2005). Moreover, each of the Big 4 firms is now recruiting accounting students with some exposure to financial forensics. The need for competent staffing at the SEC, at PCAOB, and in private industry is outpacing the supply. According to author Cecily Kellogg, the anticipated growth in the field is expected to be nearly 25 percent over the next ten years. Kellogg goes on to suggest that it is hard to envision a more stable and in-demand career.

PLACES WHERE FRAUD EXAMINERS AND FINANCIAL FORENSIC SPECIALISTS WORK

Figure 2-1 captures several anticipated career paths for fraud examination and financial forensics. Identified career paths include positions at professional service firms, corporations, and government or regulatory agencies in law enforcement or legal services. Opportunities for fraud and forensic accounting professionals in professional services firms include external auditing, internal audit outsourcing, and forensic and litigation advisory services.

To become a successful professional requires additional specialized training and continuing professional development. Specialized training for entry-level staff helps them achieve the required level of competency within a specific organization. Some of the specialized training may be organization-specific, while other training may be task-specific. Further, experienced staff persons are required to maintain proficiency in a dynamic environment through continuing professional education courses.

Professional Services Firms

Fraud examiners and financial forensic specialists work in accounting and professional service firms that provide fraud deterrence, detection, investigation, and remediation services to a variety of organizations. In addition, professional service firms, specialized service, and boutique services firms provide litigation advisory services to individuals, as well as to businesses and other entities.

Public and Private Companies

Internal audit, corporate compliance, security, and internal investigation units all operate within companies and utilize the skills of the fraud examiner and the financial forensic professional.
According to the Association of Certified Fraud Examiners’ 2008 “Report to the Nation,” internal auditors discover a significantly greater percentage of fraud than external auditors do. Many internal audit departments employ certified fraud examiners (CFE) and financial forensic specialists.

Compliance and risk analysis for SOX, environmental, or health and safety (OSHA) issues are handled by professionals as part of legal and regulatory oversight to prevent misconduct, including fraud. These professionals utilize their skills in terms of compliance and risk assessment as a proactive measure against wrongdoing.

Security, loss prevention, risk management, and investigation professionals with corporations and business entities often have responsibility to protect assets and detect instances of their misuse.

Other business sectors that frequently employ fraud professionals include the insurance, real estate, banking (including investment banking), securities, money management, credit card, health care, construction, and defense contracting industries.

**Regulatory Agencies**

Regulatory agencies such the Securities and Exchange Commission (SEC), the Public Company Accounting and Oversight Board (PCAOB), and others employ professionals with specialized knowledge, skills, training, education, and experience in fraud examination and financial forensics. Other government organizations, such as the Departments of Defense, Labor, and Homeland Security, may also hire fraud and financial forensic specialists.

**Government and Nonprofits**

Government accountants and auditors work in the public sector, maintaining and examining the records of government agencies and auditing private businesses and individuals whose activities are subject to government regulations or taxation. Those employed by the federal government may work as Internal Revenue Service agents.

One of the main missions of the Internal Revenue Service (IRS) is to identify unreported or underreported taxable income and the tax-payment deficiencies related to that income. Penalties and interest levied by the IRS on delinquent tax payments have a deterrent effect on the public. Agents are typically at the front line in detecting fraudulent taxpayer activities, whether in regard to payroll taxes, excise taxes, income taxes, or any other taxes. In recent years, the IRS has devoted increasingly greater resources to develop a workforce skilled in fraud detection and remediation. After IRS agents have sufficiently identified deliberate and egregious instances of tax evasion, the cases are further pursued by IRS professionals in the Criminal Investigation Division (CID), who are more like law enforcement personnel than they are auditors.
Professionals with financial forensic and fraud examination skills may also work at federal government agencies, like the Government Accountability Office (GAO), as well as at the state or local level. They administer and formulate budgets, track costs, and analyze programs for compliance with relevant regulations. This work can have a significant impact on the public good, but it may also be very political, as well as subject to bureaucratic obstruction. Government accounting offers advancement in most organizations through a competitive process that considers education and experience. Places that hire heavily at the federal level include the Department of Defense, the GAO, and the IRS. In addition, offices of the state and local comptrollers hire individuals with accounting knowledge or experience.

Nonprofit entities may include public school systems, charities, hospitals, and other healthcare facilities. According to the ACFE 2008 RTTN, fraud schemes at nonprofit and government agencies lasted approximately two years, as compared to the eighteen months they lasted at public companies. The challenges, related to fraud examination and financial forensics, have bled over to the public sector, and many of these organizations are hiring professionals with expertise in these areas.

Law Enforcement Agencies

Law enforcement agencies like the FBI, the Bureau of Alcohol, Tobacco, Firearms and Explosives, the Postal Inspectors, and others hire forensic accountants and fraud examiners. These professionals investigate money laundering, identity theft–related fraud, arson for profit, and tax evasion.

Although the SEC is not considered to be part of our law enforcement structure because they do not have criminal prosecutorial powers, they develop criminal cases and forward them to the Department of Justice for prosecution.

FROM THE FRAUDSTER’S PERSPECTIVE

Why White-Collar Criminals Do Not Fear Today’s FBI

As the heartless, cold-blooded criminal CFO of Crazy Eddie, the Federal Bureau of Investigation was a respected adversary that filled my stomach with butterflies and caused me many sleepless nights as I feared their tenacity to successfully investigate my crimes. Unfortunately, the white-collar criminals of today have much less to fear from the FBI. According to an article in the New York Times,

The Federal Bureau of Investigation is struggling to find enough agents and resources to investigate criminal wrongdoing tied to the country’s economic crisis, according to current and former bureau officials.

The bureau slashed its criminal investigative work force to expand its national security role after the Sept. 11 attacks, shifting more than 1,800 agents, or nearly one-third of all agents in criminal programs, to terrorism and intelligence duties. Current and former officials say the cutbacks have left the bureau seriously exposed in investigating areas like white-collar crime, which has taken on urgent importance in recent weeks because of the nation’s economic woes.

The pressure on the F.B.I. has recently increased with the disclosure of criminal investigations into some of the largest players in the financial collapse, including Fannie Mae and Freddie Mac. The F.B.I. is planning to double the number of agents working financial crimes by reassigning several hundred agents amid a mood of national alarm. But some people inside and out of the Justice Department wonder where the agents will come from and whether they will be enough.

Even if the FBI doubles the number of agents working financial crimes, it does not solve the main problem of effectively investigating white-collar crime. White-collar crime investigations are often complicated cases that take long periods of time and require enormous resources—and most important, experienced agents.

Top-notch, experienced FBI agents are leaving the bureau for higher-paying private industry jobs as soon as they qualify for retirement, causing a brain drain within the FBI. As white-collar crime becomes increasingly complex, our government must revise employee retention policies to compete with the private sector.

The FBI lacks adequate legal, technological, and personnel resources to meet its responsibilities to investigate white-collar crime. According to the New York Times article:

From 2001 to 2007, the F.B.I. sought an increase of more than 1,100 agents for criminal investigations.
apart from national security. Instead, it suffered a
decrease of 132 agents, according to internal F.B.I.
figures obtained by The New York Times. During
these years, the bureau asked for an increase of $800
million, but received only $50 million more. In the
2007 budget cycle, the F.B.I. obtained money for a total
of one new agent for criminal investigations.

Too often, complicated white-collar crime investigations
fall apart because the FBI lacks experienced agents with the
patience, knowledge, and experience to put together a suc-
cessful criminal investigation. According to the New York
Times article:

In some instances, private investigative and accounting
firms are now collecting evidence, taking witness state-
mements and even testifying before grand juries, in effect
preparing courtroom-ready prosecutions they can take
to the F.B.I. or local authorities.

“Anytime you bring to the F.B.I. a case that is thor-
oughly investigated and reduce the amount of work for
investigators, the likelihood is that they will take the
case and present it for prosecution,” said Alton Siz-
more, a former F.B.I. agent who is a fraud examiner
for Forensic Strategic Solutions in Birmingham, Ala.

In other words, in order for the FBI to give serious con-
sideration to many cases, such cases must be presented to the
FBI neatly gift-wrapped and on a silver platter.

The criminals of today are elated by an underresourced
and relatively inexperienced FBI. As a result, the cancer of
white-collar crime continues to destroy the integrity of our
great capitalist economic system.

Sam E. Antar (former Crazy Eddie CFO
and a convicted felon),
Sunday, October 19, 2008.
Adapted from http://whitecollarfraud.blogspot.com.

Law Firms

Law firms often use forensic accountants to help divorcees uncover a spouse’s hidden assets and dam-
ages associated with contract disputes and tortuous interference. Most of these forensic professionals are
employed as consultants and expert witnesses, but some law firms that do a significant amount of work
in this area hire professionals to work on their staff. These forensic professionals can complete initial
investigations and develop preliminary findings before a firm’s clients incur considerable costs associated
with hiring outside consultants. Forensic accountants may uncover instances of companies cooking the
books to falsely inflate company profits, minimize losses, or divert large amounts of money to company
managers.

RELATED PROFESSIONS

Law

The forensic professional needs to know about the law as it relates to mail and wire fraud, violations of the
RICO Act (racketeering influence and corrupt organizations), money laundering, false claims, bankruptcy
fraud, tax evasion, conspiracy, and obstruction of justice. Individual rights are protected by laws governing
investigative techniques and the admissibility of evidence, including the chain of custody, search and
seizure, interviewing, and surveillance. These laws require that “probable cause” is established prior to
intrusive searches in order to comply with the statutory rules of evidence. Further, fraud examiners and
forensic professionals need to be qualified as “experts” to offer evidence at trial.

Psychology

Forensic psychology is the application of the principles of psychology to the criminal justice system. Because fraud requires intent, in some cases it is necessary for forensic psychologists to delve into the
psychological motives of white-collar criminals. These professionals must also address the legal issue of
competency and whether a defendant was sane at the time the crime occurred.

The knowledge, skills, and abilities of forensic psychologists are used in various circumstances,
such as when treating mentally ill offenders, consulting with attorneys (e.g., picking a jury), analyzing a
criminal’s mind and intent, and practicing within the civil arena. A forensic psychologist may chose to focus
her career on researching—to give only two examples—how to improve interrogation methods or how to
evaluate eyewitness testimony. Forensic psychologists have also been used to effectively design correctional
facilities. With regard to fraud and financial issues, forensic psychology can help us to understand who
commits fraud and why.
CHAPTER 2 CAREERS IN FRAUD EXAMINATION AND FINANCIAL FORENSICS

Sociology

Forensic sociology uses analysis of sociological data for decision making by the courts and other judicial agencies. The forensic sociologist may also serve as an expert witness in a court of law. Functions for these specialists include the profiling of offenders, unlawful discrimination, spousal abuse, pornography, toxic torts, and premises liability. Emphasis is given to the relationship between the standards of validity and reliability in sociology and the rules of evidence. Related to financial crimes, sociology helps us understand the context of these types of crimes. Data provided in the ACFE’s biannual “Report to the Nation” helps us put occupational fraud and related crimes into context by addressing such issues as

- Is the incidence of fraud increasing or decreasing?
- What types of fraud are being committed?
- What is the cost of fraud?
- How is fraud committed?
- How is fraud detected?
- What are the victim profiles?
- What are the perpetrator profiles?

Criminology

Criminology is the study of crime and criminals and includes theories of crime causation, crime information sources, and the behavioral aspects of criminals. Beyond examining and attempting to understand human behavior and theories of crime causation, criminology considers the various types of crimes such as white-collar crime, organizational crime, and occupational crime and concerns itself with fraud prevention and deterrence issues. One of the most important contributions of criminology to the study of fraud is criminologist Donald Cressey’s fraud triangle. Finally, criminology considers the “punishments” aspects of the remediation process.

Intelligence

When one thinks of business intelligence, developing corporate competitive intelligence systems and counterintelligence programs to prevent industrial espionage normally comes to mind. However, the prevention, deterrence, detection, and investigation of fraud is closely aligned with the skill set used by the intelligence community. Fraud examiners and forensic accountants take disparate pieces of information and pull them together into a coherent case that tells the story of who, what, when, where, how, and why. In addition, these professionals need to identify potential sources of evidence and then methodically collect that evidence for use in the case. Sources might include documents, interviews, surveillance tapes, public records, and data obtained from the Internet.

Information Systems and Computer Forensics

The impact of information systems in the areas of fraud examination and financial forensics is enormous. Information technology (IT) reaches every aspect of our lives today, and the digital environment plays a crucial role in fraud-related crimes and investigations due to the following factors:

- Increased use of information technology in business
- Large businesses centered on technology, such as Dell, IBM, Google, eBay, and Microsoft
- Increased data use by independent auditors, fraud examiners, and forensic accountants
- Increased exploitation of information technology by fraudsters and cybercriminals

IT professionals, including those with fraud and forensic accounting expertise, need to ensure that the organization’s digital environment is adequately protected. Electronic information feeding the financial reporting process needs to be timely and accurate, and reasonable controls should be in place to support organizational viability in a digital world and its associated threats and opportunities.
**Information Systems Governance and Controls** Information systems governance and controls are concerned with the prevention, deterrence, and detection of fraud in a digital environment. An organization’s information technology group must adhere to best practices consistent with those of the organization as a whole. Information Systems Audit and Control Association (ISACA) is a global organization for information governance, control, security, and audit whose information systems auditing and control standards are followed by practitioners worldwide. ISACA defines IT governance as a set of principles to assist enterprise leaders in their responsibility to ensure that (1) the organization’s information technology needs are aligned with the business’s goals and deliver value, (2) the organization’s performance is measured, (3) the organization’s resources are properly allocated, and (4) the organization’s risks are mitigated. Best practices associated with IT governance should include preventive countermeasures against fraud and cybercrime, such as continuous auditing and proactive fraud auditing.

Risk assessment is a critical aspect of good corporate governance and the same concept is applicable in an information technology environment. An IT risk assessment should identify risks associated with the digital environment. That assessment requires that IT leadership know and understand how IT prevents and detects internal and external attacks, including those associated with the commission of frauds, computer crimes, and cybercrimes. As part of that risk assessment, IT professionals need to identify and understand the ways in which IT systems are typically exploited during fraud and cybercrime, how IT systems are used to facilitate fraud concealment, and how IT security is commonly breached or circumvented.

**Cyberforensics** The increased role of information technology in fraud and cybercrime results in a corresponding increase in the need for organizational professionals with digital knowledge, skills, and abilities—in operations systems, but also in fraud, computer crime, and cybercrime. Evidence about who, what, where, when, and how often exists in digital form—in some cases, exclusively. Furthermore, most state-of-the-art digital forensics tools and techniques have come into existence in the last ten to twenty years. The pervasiveness of digital media and information in virtually every aspect of an organization’s life illustrates the increased need for cyberforensic specialists. Cyberforensics involves capture, preservation, identification, extraction, analysis, documentation, and case preparation related to digital data and events.

**Digital Evidence** Capturing electronic information is the first step in the investigation of digital evidence. Because it is possible to hinder a successful legal outcome if the legal requirements associated with digital capture are not followed, a successful cyberforensics investigation requires a professional who has the required technical background in computer technology and systems and who is also familiar with the relevant rules of the legal system and investigations. For example, turning on a confiscated computer can make all the evidence on that computer inadmissible in a courtroom, because this simple act alters the hard drive, thus breaking the chain of custody. Only those persons with specialized training, experience, and appropriate professional certifications should initially capture digital evidence.

The sources of digital evidence are evolving and expanding but include cell phones, personal digital assistants (PDAs), Blackberrys and similar phones, trinkets with digital storage (watches, USB pens, digital cameras, etc.), jump drives, media cards, e-mail, voicemail, CDs, DVDs, printer memory, RAM, slack space, removable drives, iPods/MP3 players, and XM/Sirius radio players. There are also such conventional sources as laptops, office computers, home computers and external drives, servers on the Internet that store e-mail messages, and the entity’s own servers. Special software and hardware tools are available to capture digital evidence, such as SF-5000, RoadMASSter, and write blockers.

**Electronic Detection and Investigation** Notwithstanding the utilization of traditional detection and investigation techniques applied in a digital environment, some additional tools and techniques are also important. Those tools and techniques include data mining software useful for data extraction and analysis and continuous monitoring and auditing software. Most data extraction and analysis tools can retrieve, filter, extract, sort, and analyze data from accounting databases as well as identify gaps, duplicates, missing information, and statistical anomalies.

**Cybercrime** The Department of Justice defines cybercrime as any violation of criminal law that involves knowledge of computer technology for its perpetration, investigation, or prosecution. Cybercrime knowledge, skills, and abilities include a basic understanding of the types of crimes, as well as of special laws and relevant criminal code. Some typical cybercrimes include unauthorized computer intrusion, hacking, infrastructure attacks, digital credit card theft, online/e-mail extortion, viruses, worms, identity theft, online gambling, theft of computers, online narcotic sales, cyberterrorism, and telecommunications fraud.
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Other Forensic Science Fields

Fraud examination and forensic accounting also utilize knowledge, skills, and abilities from other forensic sciences such as crime scene investigation, forensic chemistry, and biology. For example, in crime scene investigation, the investigator has three primary goals: protection of evidence (e.g., crime scene tape), preservation of evidence, and collection of evidence. Although an accounting department and the IT systems cannot be “roped off” with crime scene tape, it is important for the fraud examiner or forensic accountant to be thinking about three concepts: (1) protecting the evidence by using backup tapes of the computer system collected and protected in such a way as to be admissible in court, (2) preserving the evidence by preventing physical and electronic corruption and destruction, and (3) collecting the evidence in sufficient amounts and in a manner that protects the chain of custody. These types of lessons are routinely available from our colleagues in other forensic fields.

Related Career Titles In short, forensic accountants and fraud examiners have opportunities in a number of fields and under a number of titles wherein they combine their forensic and investigative training with other forms of expertise:

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<tr>
<th>Actuary</th>
<th>FBI Agent</th>
<th>Administrator</th>
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<tr>
<td>Internal Auditor</td>
<td>CIA Agent</td>
<td>Business Teacher</td>
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<td>Auditor</td>
<td>Financial Analyst</td>
<td>Contract Administrator</td>
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<td>Consumer Credit Officer</td>
<td>Methods/Procedures Specialist</td>
<td>Financial Investment Analyst</td>
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<td>Bank Examiner</td>
<td>Claims Adjuster</td>
<td>EDP Auditor</td>
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<td>Controller</td>
<td>Collection Agent</td>
<td>Insurance Investigator</td>
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<td>Benefits/Compensation</td>
<td>Governmental Accountant</td>
<td>Inventory Control Specialist</td>
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<td>IRS Investigator</td>
<td>Personal Financial Planner</td>
<td>IRS Investigator</td>
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<td>Budgetary Control Analyst</td>
<td>Commercial Banker</td>
<td>Property Accountant</td>
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<td>Credit and Collection</td>
<td>Industrial Accountant</td>
<td>Systems Analyst</td>
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<td>Loan Administrator</td>
<td>Plant Accountant</td>
<td>Tax Compliance Specialist</td>
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<td>Entrepreneur</td>
<td>Professor</td>
<td>Treasurer</td>
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<tr>
<td>Loan/Consumer Credit</td>
<td>Systems Analyst</td>
<td>Treasury Management Specialist</td>
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<td>Systems Accountant</td>
<td>Tax Supervisor/Auditor</td>
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<td>Chief Financial Officer</td>
<td>Budget Accountant</td>
<td>Treasury Management</td>
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<td>Accountant, Public Practice</td>
<td>Claim Adjuster/Examiner</td>
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BUSINESS ADMINISTRATION, MANAGEMENT, AND CORPORATE GOVERNANCE

FROM THE FRAUDSTER’S PERSPECTIVE

Advice to President-Elect Barack Obama from a Convicted Felon about Combating White-Collar Crime

To President-Elect Barack Obama:

While our capital markets require reform, no amount of regulation or oversight can be effective unless those persons charged with carrying it out have the proper amount of experience, knowledge, competence, and professional skepticism to successfully perform their respective jobs and responsibilities. As the cold-blooded and heartless criminal CFO of Crazy Eddie, I had no fear of oversight from outside or independent board members and our external auditors. I took advantage of their lack of requisite skills, knowledge, and experience to effectively carry out my crimes. If you want to see capitalism succeed as an engine for our future economic prosperity, I respectfully ask you to first consider the issue of competence before looking at the issue of regulation and oversight.

Window Dressing Boards of Directors

We need better standards of qualification for public company board members. Too often, company boards are packed with people with great résumés, but such persons have no specialized experience and training to effectively carry out their functions, or boards are packed with cronies of company management. Instead, we must require that board members have the proper amount of specialized education, background, and experience necessary to perform their duties effectively. We do not need well-meaning, intelligent people serving in...
positions they are not well suited for, since in many cases they make ineffective board members. The time for “window dressing” must end.

Today, too many board members are appointed for window dressing purposes only, rather than because of their specific competence to carry out their duties. Michelle Leder’s blog, Footnoted.org, once noted:

So where do former members of the House and Senate, not to mention Governors and former Cabinet members go when they exit from the political stage? Many of them wind up filling seats on boards of directors.

For example, your new Chief of Staff Rahm Emanuel was appointed by President Bill Clinton to serve on Freddie Mac’s (NYSE: FRE) board of directors after serving in Clinton’s administration. I am assuming that Mr. Emanuel took the job and served on Freddie Mac’s board from 2000 to 2001 with the best of intentions. However, like many other well-meaning but gullible board members, he found himself in the wrong place at the wrong time, in the hands of an unscrupulous management team.

According to the SEC complaint filed against Freddie Mac:

Freddie Mac misreported its net income in 2000, 2001 and 2002 by 30.5 percent, 23.9 percent and 42.9 percent, respectively. Furthermore, Freddie Mac’s senior management exerted consistent pressure to have the company report smooth and dependable earnings growth in order to present investors with the image of a company that would continue to generate predictable and growing earnings.

“As has been seen in so many cases, Freddie Mac’s departure from proper accounting practices was the result of a corporate culture that sought stable earnings growth at any cost,” said Linda Chatman Thomsen, the SEC’s Director of Enforcement. “Investors do not benefit when good corporate governance takes a back seat to a single-minded drive to achieve earnings targets.”

Rahm Emanuel was not named in the SEC’s complaint against Freddie Mac. However, in a statement before the Senate Committee on Banking, Housing, and Urban Affairs, Acting Director of the Office of Federal Housing Enterprise Oversight, James B. Lockhart III noted:

For the most part, the same long-tenured shareholder-elected Directors oversaw the same CEO, COO, and General Counsel of Freddie Mac from 1990 to 2003. The non-executive Directors allowed the past performance of those officers to color their oversight. Directors should have asked more questions, pressed harder for resolution of issues, and not automatically accepted the rationale of management for the length of time needed to address identified weaknesses and problems. The oversight exercised by the Board might have been more vigorous if there had been a regular turnover of shareholder-elected Directors or if Directors had not expected to continue to serve on the Board until the mandatory retirement age. Conversely, the terms of the presidentially appointed Directors are far too short, averaging just over 14 months, for them to play a meaningful role on the Board. The position is an anachronism that should be repealed so shareholders can elect all Directors. The Board of Directors was apprised of control weaknesses, the efforts of management to shift income into future periods and other issues that led to the restatement, but did not recognize red flags, failed to make reasonable inquiries of management, or otherwise failed in its duty to follow up on matters brought to its attention.

The problem is that intelligent and well-meaning boards of directors are often duped by unscrupulous company management teams who take advantage of their lack of requisite skills and professional cynicism.

Prospective qualified board members must know how to make effective inquiries and spot red flags. They must know how to ask questions, whom to direct their questions to, and how to handle false and misleading answers by management with effective follow-up questions. Such skills only come from adequately qualified board members who have proper training, education, and experience before they join company boards.

Lack of Truly Independent and Properly Qualified Audit Committee Members

So-called independent audit committee members of boards of directors are less independent and less competent than the external auditors whom they oversee. Too many audit committee members have no formal educational background in accounting and auditing, and no specialized training in fraud detection.

Many “independent” board members own stock and receive stock options in their respective companies, while independent external auditors cannot own stock or receive stock-based compensation from their audit clients. Owning company stock and receiving stock-based compensation provides a disincentive to independent audit committee oversight of financial reporting and can adversely affect an audit committee member’s professional skepticism. Audit committee members cannot be considered truly independent if they own company stock or receive stock-based compensation.

I suggest that our securities laws be amended to require Truly independent and adequately qualified audit committees.

Lack of Properly Trained Auditors

External auditors receive too little or no training in forensic accounting, fraud detection, or criminology. Most CPAs never take a single college-level course devoted exclusively to issues of white-collar crime or internal controls, and many important subjects covered in the CPA licensing exam are learned after graduation, in a cram CPA exam review course.

College-level accounting education needs to be reformed to teach future CPAs the necessary tools to do battle in audits against corporate crooks who take advantage of their lack of skills. We should mandate that a larger proportion of the continuing professional education required by CPAs to maintain their licenses be devoted to issues of white-collar crime and fraud detection.
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Not Enough Law Enforcement Resources Devoted to White-Collar Crime

While I never feared Crazy Eddie’s board of directors and auditors, I did fear the Securities and Exchange Commission and the Federal Bureau of Investigation. However, I doubt that many criminals have such fear for the SEC and FBI today.

Both the SEC and FBI are underresourced and overwhelmed, and as a result, they are unable to successfully investigate very many complicated white-collar crime cases unless such cases are handed to them on a silver platter by others. The most experienced SEC and FBI personnel are leaving government work for better-paying private sector jobs. Therefore, if you really want criminals to think twice before executing their crimes, I suggest that you beef up our nation’s investigative and law enforcement resources.

Our capital markets depend on the integrity of financial information that is supposed to be insured by external auditors, audit committees, and consistently effective law enforcement. Inadequately trained independent external auditors, the first line of defense for ensuring the integrity of financial reporting, are supervised by even less competent and less independent audit committees. On top of that, our regulators and law enforcement agencies lack the required resources to effectively prosecute many crimes enabled by the lack of effective audits and company oversight by boards of directors. Therefore, we face a perfect storm for disaster, as the cancer of white-collar crime destroys our economic fabric and inflicts a collective harm on our great society.

If you want capitalism to succeed as an engine of prosperity for our great nation, I ask you to heed my advice based on my experience as a cold-blooded convicted felon.

Respectfully:

Sam E. Antar (former Crazy Eddie CFO and a convicted felon)

PS: While Rahm Emanuel may not have been an effective board member of Freddie Mac, he can provide valuable insight to you about the perils of lack of effective oversight by boards of directors. After all, the wisest people are those that learn from past mistakes.

In addition, I will continue to provide you with more unsolicited advice from time to time. You can learn a lot from a convicted felon who scammed the system and took advantage of gullible human beings in ways your advisors never dreamed of.


In recent years, corporate governance, including boards of directors, audit committees, executive management, internal audit, external audit, the government, and regulators have been intensely scrutinized by those concerned with the public’s interests. Corporate governance simply means the way a corporation is governed through proper accountability for managerial and financial performance. The integrity and quality of the capital market primarily depends on the reliability, vigilance, and objectivity of corporate governance. Particularly, with respect to financial statement fraud, there has been a great deal of concern about the issue of corporate governance and accountability of publicly traded companies. The corporate governance concept has advanced from the debates on its relevance to how best to protect investor interests and effectively discharge oversight responsibility over the financial reporting process. High-profile financial statement frauds allegedly committed by major corporations such as Waste Management, Phar-Mor, ZZZZ Best, Crazy Eddie, Sunbeam, Enron, WorldCom, Adelphia, HealthSouth, Lucent, Xerox, MicroStrategy, Cendant, Rite Aid, and KnowledgeWare have renewed the interest and increasing sense of urgency about more responsible corporate governance and more reliable financial statements.

There has also been a growing awareness that corporate governance can play an important role in preventing and detecting financial statement and other types of fraud and corporate malfeasance. Management’s ethical behavior and operating style can have a significant impact on the effectiveness of corporate governance. An operating style that shows excessive risk-taking, for example, is generally a red flag for fraud.

The following outlines the basics of fraud risk management for those charged with corporate governance: the board of directors, the audit committee, management, internal auditors, and external auditors. “Managing the Business Risk of Fraud: A Practical Guide,” developed by the IIA, AICPA, and ACFE, suggests that with regard to corporate malfeasance, fraud risk management needs to include five key features:

1. A written policy that outlines the fraud risk management program
2. (Targeted) fraud risk assessment of the exposure of the organization to potential schemes that need mitigation.
3. Prevention techniques
4. Detection techniques:
   • In place in case preventative measures fail
   • In place to address unmitigated risks (where the cost of mitigation exceeds the benefits)
   • In place to address concerns over collusion and management override
5. A reporting process
Boards of Directors

One of the primary roles of the board of directors in corporate America is to create a system of checks and balances in an organization through its authority to hire and monitor management and evaluate their plans and decisions and the outcomes of their actions. The separation of ownership and control in corporations requires the board of directors to (1) safeguard assets and invested capital, (2) review and approve important management decisions, (3) assess managerial performance, and (4) allocate rewards in ways that encourage shareholder value creation.

The board of directors, as an important internal component of corporate governance, receives its authority from shareholders who use their voting rights to elect board members. The board of directors’ primary responsibility is one of gatekeeper, an ultimate internal control mechanism to protect the interests of shareholders, creditors, and other stakeholders. Therefore, one goal is to minimize the ability of management to expropriate shareholder value through financial statement and other forms of fraud and financial malfeasance.

Audit Committees

The audit committee is a subcommittee of the board of directors and has the primary responsibility of monitoring the financial reporting and auditing processes. Thus, reviewing the effectiveness of internal controls to ensure the reliability of financial reports is an essential part of the audit committee’s role. The audit committee oversees the adequacy and effectiveness of the company’s internal control structure to ensure

1. The efficiency and effectiveness of operations
2. The reliability of financial reporting
3. Compliance with applicable laws and regulations

Additionally, the audit committee is charged with addressing the risk of collusion and management override of internal controls. In February 2005, the American Institute of Certified Public Accountants (AICPA) issued a report titled “Management Override of Internal Controls: The Achilles’ Heel of Fraud Prevention.” It notes that management may override internal controls and engage in financial statement fraud by (1) recording fictitious business transactions and events or altering the timing of recognition of legitimate transactions, (2) recording and reversing biased reserves through unjustifiable estimates and judgments, and (3) changing the records and terms of significant or unusual transactions.

To be proactive, the audit committee should ensure that

• Audit committee members have knowledge, education, awareness, and sophistication concerning the various fraudulent management override and collusive schemes that may be perpetrated by management
• Both the internal and external audit groups have knowledge, education, awareness, and sophistication concerning the various fraudulent management override and collusive schemes that may be perpetrated by management
• The audit committee has reviewed the comprehensive fraud risk assessment provided by management and also considers how collusive fraud and management override schemes are mitigated and detected
• The audit committee periodically participates in continuing education programs that can prepare its members to appraise management’s fraud risk assessment
• The audit committee identifies who has the specific responsibility for the collusive and management override fraud risk assessment process: its members, the internal audit group, or the independent audit group?
• The audit committee is interacting with personnel beyond executive management and asking the tough questions of knowledgeable employees, financial managers, internal auditors, and external auditors
• The audit committee has a protocol for acting on allegations of unethical and potentially fraudulent conduct
CHAPTER 2 CAREERS IN FRAUD EXAMINATION AND FINANCIAL FORENSICS

Senior/Executive Management

Management is primarily responsible for the quality, integrity, and reliability of the financial reporting process, as well as the fair presentation of financial statements in conformity with generally accepted accounting principles (GAAP). Management is also accountable to users of financial statements, particularly investors and creditors, to ensure that published financial statements are not misleading and are free of material errors, irregularities, and fraud.

To effectively discharge its financial reporting responsibility, management should (1) identify and assess the circumstances, conditions, and factors that can lead to fraud, (2) assess and manage the risk of fraud associated with the identified circumstances, conditions, and factors, and (3) design and implement an adequate and effective internal control process for prevention and detection of fraud.

Internal Audit

Internal auditors are an important part of corporate governance and, if assigned, can be tasked and positioned to help ensure a reliable financial reporting process. Internal auditors’ day-to-day involvement with both operational and financial reporting systems and the internal control structure provides them with the opportunity to perform a thorough and timely assessment of high-risk aspects of the internal control environment and financial reporting process. However, the effectiveness of internal auditors to prevent and detect fraud depends largely on their organizational status and reporting relationships. Financial statement fraud is normally perpetrated by the top management team. As such, internal audit standards issued by the Institute of Internal Auditors (IIA) require that internal auditors be alert to the possibility of intentional wrongdoing, errors, irregularities, fraud, inefficiency, conflicts of interest, waste, and ineffectiveness in the normal course of conducting an audit. These professionals are also required to inform the appropriate authorities within the organization of any suspected wrongdoing and follow-up to ensure that proper actions are taken to correct the problem.

External (Independent) Audit

Financial statement fraud has been, and continues to be, the focus of the auditing profession. During the early 1900s, external auditors viewed the detection of fraud, particularly financial statement fraud, as the primary purpose of their financial audit. During the twentieth century, the auditing profession moved from acceptance of fraud detection as their primary responsibility to the mere expression of an opinion on the fair presentation of the financial statements. Recently, the accounting profession directly addressed the external auditor’s responsibility to detect financial statement fraud in its Statement on Auditing Standards (SAS) No. 99, titled “Consideration of Fraud in a Financial Statement Audit.” SAS No. 99 requires independent auditors to obtain information to identify financial statement fraud risks, assess those risks while taking into account the entity’s programs and controls, and respond to the results of this assessment by modifying their audit plans and programs.

Auditors in identifying and assessing the risks of material financial statement fraud should (1) make inquiries of the audit committee or other comparable committee of the board of directors, senior executives, legal counsel, chief internal auditors, and others charged with government governance within the client organization to gather sufficient information about the risk of the fraud, (2) communicate with the audit committee, management, and legal counsel about the allegations of fraud and how they are addressed, (3) consider all evidence gathered through analytical procedures that is considered unusual, unexpected, or even suspiciously normal based on the financial condition and results of the business, and (4) consider evidence gathered through the audit of internal control of financial reporting that may suggest the existence of one or more fraud risk factors, and that adequate and effective internal controls did not address and account for the detected risk. Auditors should inquire of the audit committee, management, and others charged with government governance about the entity’s antifraud policies and procedures and whether they are in writing, updated on a timely basis, implemented effectively, and enforced consistently.

Regulators and Governing Bodies

Regulatory reforms in the United States are aimed at improving the integrity, safety, and efficiency of the capital markets while maintaining their global competitiveness. Regulations should be perceived as being fair and in balance in order to inspire investor confidence. Regulations, including SOX, are aimed at protecting investors. The provisions of SOX- and SEC-related rules include strengthening the corporate
board and external auditor independence, instituting executive certifications of both financial statements and internal controls, and creating the PCAOB to oversee the accounting profession. These provisions helped to rebuild investor confidence in public financial information.

The various corporate governance participants are being held to greater levels of accountability to create an environment where the risk of fraud is mitigated, at least to levels below the materiality threshold. As such, individuals with knowledge, skills, and abilities in these areas are in demand, which has created employment opportunities for those professionals who have developed this type of expertise.

**PROFESSIONAL ORGANIZATIONS AND THEIR RELATED CERTIFICATIONS**

**Association of Certified Fraud Examiners (ACFE)**

The ACFE is the world’s premier provider of antifraud training and education. Together with its nearly 50,000 members, the ACFE is reducing business fraud worldwide and inspiring public confidence in the integrity and objectivity within the profession. The mission of the Association of Certified Fraud Examiners is to reduce the incidence of fraud and white-collar crime and to assist the membership in fraud detection and deterrence. To accomplish its mission, the ACFE:

- Provides bona fide qualifications for certified fraud examiners through administration of the CFE Examination
- Sets high standards for admission, including demonstrated competence through mandatory continuing professional education
- Requires certified fraud examiners to adhere to a strict code of professional conduct and ethics
- Serves as the international representative for certified fraud examiners to business, government, and academic institutions
- Provides leadership to inspire public confidence in the integrity, objectivity, and professionalism of certified fraud examiners

**Certified Fraud Examiner (CFE)** The ACFE established and administers the Certified Fraud Examiner (CFE) credential. The CFE credential denotes expertise in fraud prevention, detection, and deterrence. There are currently more than 20,000 CFEs worldwide. As experts in the major areas of fraud, CFEs are trained to identify the warning signs and red flags that indicate evidence of fraud and fraud risk. To become a CFE, one must pass a rigorous examination administered by the ACFE, meet specific education and professional requirements, exemplify the highest moral and ethical standards, and agree to abide by the CFE Code of Professional Ethics. A certified fraud examiner also must maintain annual CPE requirements and remain an ACFE member in good standing. The FBI officially recognizes the CFE credential as a critical skill set for its diversified hiring program, and the U.S. Department of Defense officially recognizes the CFE credential as career advancement criteria. The Forensic Audits and Special Investigations Unit (FSI) of the Government Accountability Office announced that all professionals in the FSI unit must obtain CFE credentials.

**American Institute of Certified Public Accountants (AICPA)**

The AICPA is the national professional organization for all certified public accountants. Its mission is to provide members with the resources, information, and leadership to enable them to provide valuable services in the highest professional manner to benefit the public as well as employers and clients. In fulfilling its mission, the AICPA works with state Certified Public Accountant (CPA) organizations and gives priority to those areas where public reliance on CPA skills is most significant. The CPA is still one of the most recognized and valued professional certifications of any profession and is the standard bearer for accountants working in the United States.

Furthermore, the Forensic and Valuation Services (FVS) Center of the AICPA is designed to provide CPAs with a vast array of resources, tools, and information about forensic and valuation services. The center has information and resources for the following issues:

- Analytical guidance
- Family law
CHAPTER 2 CAREERS IN FRAUD EXAMINATION AND FINANCIAL FORENSICS

- Antifraud/forensic accounting
- Laws, rules, standards, and other guidance
- Bankruptcy
- Litigation services
- Business valuation
- Practice aids and special reports
- Document retention and electronic discovery
- Practice management
- Economic damages
- Fair value for financial reporting

Accredited in Business Valuation (ABV)  The mission of the ABV credential program is to provide a community of business valuation experts with specialized access to information, education, tools, and support that enhance their ability to make a genuine difference for their clients and employers. The ABV credential program allows credentialholders to brand or position themselves as CPAs who are premier business valuation service providers. ABV credentialholders differentiate themselves by going beyond the core service of reaching a conclusion of value to also create value for clients through the strategic application of this analysis. The ABV credential program is designed to

  - Increase public awareness of the CPA as the preferred business valuation professional
  - Increase exposure for CPAs who have obtained the ABV credential
  - Enhance the quality of the business valuation services that members provide
  - Ensure the continued competitiveness of CPAs versus other valuation services providers through continuous access to a comprehensive community of resources and support
  - Increase the confidence in the quality and accuracy of business valuation services received from CPA/ABV providers

Certified Information Technology Professional (CITP)  A Certified Information Technology Professional (CITP) is a certified public accountant recognized for technology expertise and a unique ability to bridge the gap between business and technology. The CITP credential recognizes technical expertise across a wide range of business and technology practice areas. The CITP credential is predicated on the facts that in today’s complex business environment, technology plays an ever-growing role in how organizations meet their business obligations, and that no single professional has a more comprehensive understanding of those obligations than a certified public accountant. An increasingly competitive global marketplace has organizations clamoring for new technologies and the capacities, efficiencies, and advantages they afford. While IT professionals have the technical expertise necessary to ensure that technology solutions are properly deployed, they lack the CPA’s perspective and ability to understand the complicated business implications associated with technology. The CITP credential encourages and recognizes excellence in the delivery of technology-related services by CPA professionals and provides tools, training, and support to help CPAs expand their IT-related services and provide greater benefit to the business and academic communities they serve.

Certified in Financial Forensics (CFF)  In May 2008, the AICPA’s governing council authorized the creation of a new CPA specialty credential in forensic accounting. The Certified in Financial Forensics (CFF) credential combines specialized forensic accounting expertise with the core knowledge and skills that make CPAs among the most trusted business advisers. The CFF encompasses fundamental and specialized forensic accounting skills that CPA practitioners apply in a variety of service areas, including bankruptcy and insolvency, computer forensics, economic damages, family law, fraud investigations, litigation support, stakeholder disputes, and valuations. To qualify, a CPA must be an AICPA member in good standing, have at least five years’ experience practicing accounting, and meet minimum requirements in relevant business experience and continuing professional education. The objectives of the CFF credential program are to

  - Achieve public recognition of the CFF as the preferred forensic accounting professional
  - Enhance the quality of forensic services that CFFs provide
  - Increase practice development and career opportunities for CFFs
  - Promote members’ services through the Forensic and Valuation Services (FVS) Web site
FORENSIC CPA SOCIETY (FCPAS)

The Forensic CPA Society was founded July 15, 2005. The purpose of the society is to promote excellence in the forensic accounting profession. One of the ways the society has chosen to use to accomplish this is the Forensic Certified Public Accountant (FCPA) certification. The use of this designation tells the public and the business community that the holder has met certain testing and experience guidelines and has been certified not only as a CPA, but also as a forensic accountant.

**Forensic Certified Public Accountant (FCPA).** An individual must be a licensed CPA, CA (Chartered Accountant) or another country’s CPA equivalent to be eligible to take the five-part certification test and receive the FCPA designation. If an individual is a licensed CPA and a CFE, Cr.FA, or CFF, he or she is exempt from taking the certification exam and can automatically receive the FCPA. Once an individual has earned his or her FCPA, he or she must take twenty forensic accounting– or fraud-related hours of continuing professional education (CPE) each year to keep his or her membership current.

INFORMATION SYSTEMS AUDIT AND CONTROL ASSOCIATION (ISACA)

Since its inception, ISACA has become a pace-setting global organization for information governance, control, security, and audit professionals. Its IS auditing and IS control standards are followed by practitioners worldwide. Its research pinpoints professional issues challenging its constituents, and its Certified Information Systems Auditor (CISA) certification is recognized globally and has been earned by more than 60,000 professionals since inception. The Certified Information Security Manager (CISM) certification uniquely targets the information security management audience and has been earned by more than 9,000 professionals. The Certified in the Governance of Enterprise IT (CGEIT) designation promotes the advancement of professionals who wish to be recognized for their IT governance–related experience and knowledge and has been earned by more than 200 professionals. It publishes a leading technical journal in the information control field (the *Information Systems Control Journal*) and hosts a series of international conferences focusing on both technical and managerial topics pertinent to the IS assurance, control, security, and IT governance professions. Together, ISACA and its affiliated IT Governance Institute lead the information technology control community and serve its practitioners by providing the elements needed by IT professionals in an ever-changing worldwide environment.

**Certified Information Systems Analyst (CISA)** The technical skills and practices that CISA promotes and evaluates are the building blocks of success in the field. Possessing the CISA designation demonstrates proficiency and is the basis for measurement in the profession. With a growing demand for professionals possessing IS audit, control, and security skills, CISA has become a preferred certification program by individuals and organizations around the world. CISA certification signifies commitment to serving an organization and the IS audit, control, and security industry with distinction.

**Certified Information Security Manager (CISM).** The Certified Information Security Manager (CISM) certification program is developed specifically for experienced information security managers and those who have information security management responsibilities. CISM is unique in the information security credential marketplace because it is designed specifically and exclusively for individuals who have experience managing an information security program. The CISM certification measures an individual’s management experience in information security situations, not general practitioner skills. A growing number of organizations are requiring or recommending that employees become certified. For example, the U.S. Department of Defense (DoD) mandates that information assurance personnel be certified with a commercial accreditation approved by the DoD. CISM is an approved accreditation, signifying the DoD’s confidence in the credential. To help ensure success in the global marketplace, it is vital to select a certification program based on universally accepted information security management practices. CISM delivers such a program.

INSTITUTE OF INTERNAL AUDITORS (IIA)

Established in 1941, the Institute of Internal Auditors (IIA) is an international professional association of more than 150,000 members with global headquarters in Altamonte Springs, Florida. Worldwide, the IIA is recognized as the internal audit profession’s leader in certification, education, research, and technical guidance. The IIA is the internal audit profession’s global voice, recognized authority, acknowledged leader, chief advocate, and principal educator. Members work in internal auditing, risk management, governance,
internal control, information technology audit, education, and security. The mission of the IIA is to provide
dynamic leadership for the global profession of internal auditing. Although the institute does not have a
designation directly associated with fraud examination and forensic accounting, its dedication to this area
is demonstrated in its training programs, its work with the Institute for Fraud Prevention, and its leadership
in developing (along with the ACFE and AICPA) “Managing the Risk of Fraud: A Practical Guide.”

Certified Internal Auditor. The Certified Internal Auditor (CIA) designation is the only globally
accepted certification for internal auditors and remains the standard by which individuals demonstrate
their competency and professionalism in the internal auditing field. Candidates leave the program with
educational experience, information, and business tools that can be applied immediately in any organization
or business environment.

National Association of Certified Valuation Analysts (NACVA)
NACVA’s Financial Forensics Institute (FFI) was established in partnership with some of the nation’s
top authorities in forensic accounting, law, economics, valuation theory, expert witnessing, and support
fundamentals to offer practitioners comprehensive training in all facets of forensic financial consulting.
The Certified Forensic Financial Analyst (CFFA) designation offers five different pathways to acquire the
specialized training.

Financial Litigation Path. The Financial Litigation specialty program requires the five-day Litigation
Bootcamp for Financial Experts training, designed to provide participants with a foundation in the role
of a financial expert. Among other requirements, applicants must have been involved in eight different
litigation matters, for three of which the applicant gave deposition or expert testimony. (This experience
requirement can be met by attending the three-day Financial Forensics Institute-sponsored course Expert
Witness Bootcamp.)

Forensic Accounting Path. The Forensic Accounting specialty program requires attendance at the
five-day Forensic Accounting Academy, plus the three-day litigation workshop Forensics Workshop for
Financial Professionals. Among other requirements, applicants must have also been involved in ten engage-
ments or have 1,000 hours of experience in the applicable field.

Business and Intellectual Property Damages Path. The Business and Intellectual Property Damages
specialty program requires attendance at the five-day Business and Intellectual Property Damages Workshop
(BIPD), plus the three-day Forensics Workshop for Financial Professionals. Among other requirements,
applicants must have also been involved in ten engagements or have 1,000 hours of experience in the
applicable field.

Business Fraud—Deterrence, Detection, and Investigation Path. The Business Fraud Deterrence,
Detection, and Investigation specialty program requires attendance at the five-day Business Fraud—
Deterrence, Detection, and Investigation Training Center (FDDI), plus the three-day Forensics Workshop
for Financial Professionals.

Matrimonial Litigation Support Path. The Matrimonial Litigation Support specialty program requires
attendance at the five-day Matrimonial Litigation Support Workshop, plus the three-day Forensics Workshop
for Financial Professionals. Among other requirements, applicants must have also been involved in ten
engagements in the applicable field or have 1,000 hours of experience providing valuation services, 200
hours of which were in the applicable field.

NACVA also has four certifications: Accredited Valuation Analyst (AVA), Certified Forensic Financial
Analyst (CFFA), Certified in Fraud Deterrence (CFD), and Certified Valuation Analyst (CVA).

Society of Financial Examiners (SOFE)
The Society of Financial Examiners is a professional society for examiners of insurance companies, banks,
savings and loans, and credit unions. The organization has a membership of over 1,600 representing the
fifty states, the District of Columbia, Canada, Aruba, and the Netherlands Antilles. SOFE is the one
organization in which financial examiners of insurance companies, banks, savings and loans, and credit
unions come together for training and to share and exchange information on a formal and informal level.
The society was established in 1973 to establish a strict code of professional standards for members engaged
in the examination of financial institutions, to promote uniform ethical standards to engender employer and
public confidence to the degree that those interested can identify professionally qualified practitioners, and
to promote and enforce minimum requirements of conduct, training, and expertise for members engaged in
financial examination. SOFE offers three professional designations, which may be earned by completing
extensive requirements including the successful completion of a series of examinations administered by the society. The designations are Accredited Financial Examiner, Certified Financial Examiner, and Automated Examiner Specialist.

INTERNATIONAL FRAUD EXAMINATION AND FINANCIAL FORENSICS

Chartered Accountant (CA), one equivalent of the CPA around the globe, is the title used by members of certain professional accountancy associations in the British Commonwealth nations and Ireland. The term “chartered” comes from the Royal Charter granted to the world’s first professional body of accountants upon their establishment in 1854.

The Association of Certified Fraud Examiners, which administers the certified fraud examiner (CFE) credential, has international activities in more than 120 countries around the world. Other international certifications related to the fraud examination and forensic accounting specializations include the following:

- AAFM: The American Academy of Financial Management offers sixteen separate financial certifications recognized worldwide
- MFP: Master Financial Professional
- CWM: Chartered Wealth Manager
- CTEP: Chartered Trust and Estate Planner
- CAM: Chartered Asset Manager
- RFS: Registered Financial Specialist in Financial Planning
- CPM: Chartered Portfolio Manager
- RBA: Registered Business Analyst
- MFM: Master Financial Manager
- CMA: Chartered Market Analyst
- FAD: Financial Analyst Designate
- CRA: Certified Risk Analyst
- CRM: Certified in Risk Management
- CVM: Certified Valuation Manager
- CCC: Certified Cost Controller (offered in the Middle East, Europe, Asia, and Africa)
- CCA: Certified Credit Analyst (offered in Asia, the Middle East, and Africa)
- CCA: Chartered Compliance Analyst
- CITIA: Certified International Tax Analyst (for lawyers or LLM holders)
- CAMC: Certified in Risk Management (for lawyers or LLM holders)
- Ch.E: Chartered Economist (for PhDs and double master’s degree holders)
- CAPA: Certified Asset Protection Analyst

EDUCATION: BUILDING KNOWLEDGE, SKILLS, AND ABILITIES IN FRAUD EXAMINATION AND FINANCIAL FORENSICS

The progression of knowledge, skills, and abilities for fraud and forensic accounting for entry-level professionals is presented in Figure 2-2. This section and Figure 2-2 were developed with the extensive use of the DOJ’s National Institute of Justice model curriculum project “Education and Training in Fraud and Forensic Accounting: A Guide for Educational Institutions, Stakeholder Organizations, Faculty and Students” (available at www.ncjrs.gov/pdffiles1/nij/grants/217589.pdf). This project was also highlighted in the November 2008 volume of *Issues in Accounting Education*.

As noted above, fraud examination and financial forensics embraces many more disciplines than accounting. Those disciplines and professionals include the law, psychology, sociology, criminology, intelligence, information systems, computer forensics, and the greater forensic science fields. One of the
CHAPTER 2 CAREERS IN FRAUD EXAMINATION AND FINANCIAL FORENSICS

Fraud Examination and Forensic Accounting

FIGURE 2-2  Fraud Examination and Forensic Accounting: A Continuum of Knowledge, Skills, and Abilities

challenges for individuals with these backgrounds is that most fraud and financial forensics engagements require at least some knowledge of accounting, finance, and economics because of the nature of the work. Thus, the first two columns in Figure 2-2 address prerequisite accounting, auditing, and business law knowledge that is considered necessary for the fraud and financial forensics curriculum. Students with an accounting degree will have met these prerequisites as part of their degree requirements. Students who do not have an accounting degree will need to obtain the prerequisite knowledge and skills before embarking on the fraud examination and financial forensics curriculum. That prerequisite knowledge, skills, and abilities can be developed through experience, and many educational programs recognize past professional accomplishments.

Figure 2-2 depicts the continuum of knowledge development, transfer (education), and use in practice.

Prerequisite Knowledge and Skills

The knowledge and skills students should obtain when they study fraud and financial forensics include the following.6

Basic Accounting Concepts

- Key concepts of accounting such as the definitions of assets, liabilities, stockholders’ equity, revenue and expenses, revenue recognition, expense measurement, reliability, objectivity, verifiability, materiality, accruals, deferrals, etc.
- Basic financial statement presentation and appropriate disclosure
- The effects of debits and credits on account balances. This understanding is essential in identifying fraud schemes and financial statement manipulation. Students need to be able to analyze accounts (i.e., recognize a normal balance for each type of account and ascertain how a given transaction would affect each account balance) and determine whether each component has been examined directly or indirectly for under- and overstatement
- Account balance analysis for both over- and understatement
- Basic ratio analysis—students need to be able to calculate ratios and interpret the results, such as identifying trends across time and unusual variances in comparison to key industry ratios and other benchmarks (skills normally covered in entry-level accounting courses)

Basic Auditing Concepts

- The basic elements of auditing, including professional skepticism in evaluating statements or representations made
EDUCATION: BUILDING KNOWLEDGE, SKILLS, AND ABILITIES IN FRAUD EXAMINATION AND FINANCIAL FORENSICS

- Different types and quality of audit evidentiary matter and how to evaluate types of evidence (definitive, circumstantial, direct, corroborative, and conflicting)
- Relevant current accounting and auditing standards and the roles and responsibilities of standard-setting, professional, and regulatory bodies
- Organization and development of working papers

Transaction Processing Cycles and Control Environment
- Internal control concepts and an ability to recognize potential weaknesses in a company’s internal control structure
- Corporate governance and culture (e.g., tone at the top), including ethics and entity-level controls
- Operational processes and transaction flows within an organization, and tracing transactions (cash and noncash) from source documents to initial entry in the accounting system through the various subledgers and ledgers to reported financial statements. The documentation of processes and transaction flows includes both manual activities and those that incorporate automated information systems

Basic Finance and Economics
- The time value of money
- Net present value concept
- Basic working of markets
- An understanding of opportunity costs
- Valuation techniques

Business Law Concepts
- The fundamental legal principles associated with contracts, civil and criminal matters, social goals associated with the legal system, and the role of the justice system
- Securities and other laws that demonstrate how fraud and fraudulent financial reporting violate the law and how the regulatory, professional, civil, and law enforcement systems operate to prevent, detect, and deter violations
- Ethical duties and legal responsibilities associated with confidentiality

General Business Communications Skills and Business Ethics
- Communications: The second column in Figure 2-2 identifies two courses that are often included as business core or business electives: general communications and business ethics. These courses are not listed as prerequisites, but are highly recommended. Fraud and forensics professionals must have strong written and oral presentation skills. Therefore, a general communications course is extremely beneficial. Students without formal training in oral and written communication may wish to complete such a course before entering a fraud and forensics program
- Ethics: Many states specify a business ethics course as a requirement to sit for the CPA exam. Business majors are likely to have completed a business ethics course as part of their degree requirements. Because ethics is such an important part of the fraud and financial forensics curriculum, students who have the opportunity to take a business ethics course are advised to do so

Basic Computer Skills
- Familiarity with computers, computer operations, and general business software packages such as Word, WordPerfect, Excel, Quattro, and PowerPoint. Enhanced computer skills associated with Visio, IDEA, ACL, and Analysts Notebook’s I-2 are also beneficial

Exposure Material/Course
Column 3 of Figure 2-2 shows the exposure to fraud and forensic accounting topics that may be covered in an undergraduate or graduate accounting curriculum. Colleges, universities, and other curriculum providers may use this outline of topical areas as a guide to provide exposure to students by incorporating coverage in current offerings or may add a single course/training module. Some of these topics are covered briefly—for
example, as one chapter in the auditing text or one chapter in the accounting systems text. Because the coverage of these topics in traditional texts is relatively minimal, they should be reinforced and explored in greater depth as part of the fraud and forensic accounting curriculum.

In-Depth Course Material

Columns 4 and 5 of Figure 2-2 provide an overview of the model curriculum areas required for in-depth study. Entry-level fraud and forensic accounting professionals should possess knowledge, skills, and abilities in the following areas:

1. Criminology
2. The legal, regulatory, and professional environment
3. Ethics
4. Fraud and financial forensics:
   - Asset misappropriation, corruption, false representations, and other frauds
   - Financial statement fraud
   - Fraud and forensic accounting in a digital environment
5. Forensic and litigation advisory services

THE ROLE OF RESEARCH IN A PROFESSION

The long-term success of any professional endeavor is derived from three sources: research, practice, and education. Research drives professional innovation. Practitioners in the field implement the products of research (concepts, ideas, theories, and evidence) by applying, testing, and refining theory and research findings in the “real world.” Finally, educators create learning frameworks through which students benefit from the combined efforts of practice and research. For fraud examination and forensic accounting to be a viable specialization over the long term, research opportunities and recognition are required to take the profession to the highest levels possible. To date, auditing and behavioral research focusing on fraud and forensic accounting issues has been published in many journals. In other related business disciplines such as economics and finance, forensically grounded research has also been completed and published.

Descriptive research, such as the ACFE’s biannual “Report to the Nation,” has been funded and completed by such organizations as the ACFE, the AICPA, the large accounting firms, the U.S. Department of Treasury, the IRS, the ATF, the Secret Service, the U.S. Postal Service, and others. Topics have typically answered questions such as

- Is the incidence of fraud increasing, or decreasing?
- What types of fraud are being committed?
- What is the cost of fraud?
- How is fraud committed?
- How is fraud detected?
- What are the victim profiles?
- What are the perpetrator profiles?

The Institute for Fraud Prevention (IFP)

The Institute for Fraud Prevention (IFP) is a voluntary association of organizations and researchers dedicated to fraud prevention and orientated toward research and education as a basis for developing antifraud best practices.

As documented by the ACFE’s 2008 “Report to the Nation,” despite the tremendous impact fraud and corruption have on our economy, there is relatively little research available on the costs of fraud and how and why fraud occurs. Similarly, there exists no repository for gathering, storing, and disseminating fraud-related research findings and descriptive statistics. The primary goal of the IFP is to develop our
understanding of the causes and effects of fraud by serving as a catalyst for the exchange of ideas among top antifraud practitioners, government officials, and academics.

The IFP fulfills its mission in two ways. First, member organizations support research by selecting projects and providing funding, guidance, and data that will help us better understand fraud with a long-term goal of reducing its incidence and effects. Second, the IFP’s mission is to provide independent, nonpartisan expertise on antifraud policies, procedures, and best practices. The IFP was founded by the ACFE and the AICPA. A select group of intellectual partners, including the FBI, the GAO, the U.S. Postal Inspectors, the National White-Collar Crime Center (NW3C), and the Council of Better Business Bureaus, have provided guidance to the IFP.

The IFP identifies potentially fruitful research projects in the disciplines of accounting, law, psychology, sociology, criminology, intelligence, information systems, computer forensics, and the greater forensic science fields related to issues specific and unique to white-collar crime, fraud examination, and forensic accounting with a focus on antifraud efforts and best practices.

Where Are the Knowledge Frontiers?

In summer 2008, the IFP solicited white papers in several key areas in an attempt to identify the current body of knowledge:

- Financial Statement Fraud: Joseph Carcello (University of Tennessee) and Dana Hermanson (Kennesaw State University)
- The Legal Environment and White Collar Crime/Forensic Accounting: John Gill (Director of Research at the ACFE)
- White Collar Crime and Psychology, Sociology and Criminology: Sri Ramamoorti (Grant Thornton), Daven Morrison (board of the Chicago-based Information Integrity Coalition (IIC)), and Joseph Koltar (noted author)
- Fraud and Forensic Accounting in a Digital Environment: Conan Albrecht (Brigham Young University)
- Asset Misappropriation: Ethical and International Perspectives: Chad Albrecht (Utah State University), Mary-Jo Kranacher (Editor-in-Chief, CPA Journal and York College), and Steve Albrecht (Brigham Young University)

Each white paper includes a brief overview of past research (descriptive and investigative) at the beginning of the article and answers the following questions:

- What do we currently know about the topical area?
- What research has been done?
- What are the lessons that we have learned?
- What don’t we know, and what are we missing?
- What additional resources are needed to do research on the topical area (additional theory, data, subjects, research methodology, etc.)?

Each white paper also has underpinnings with practice and bridges the gap between the research findings and its implications to practitioners. These papers will help members, intellectual partners, and academics understand the knowledge frontiers as they exist. The IFP Web site, www.theifp.org, includes recent IFP studies and research, best practices, and antifraud resources for practicing professionals.

**REVIEW QUESTIONS**

2-1 According to this chapter, what employment trends are expected for professionals in the fields of fraud examination and financial forensics? Why?

2-2 What employment opportunities currently exist for fraud examiners and financial forensics specialists?

2-3 What role do fraud examination and financial forensic skills have in the corporate governance area?

2-4 Which professional organizations support fraud examination and financial forensics professionals? What certifications do they offer?
CHAPTER 2 CAREERS IN FRAUD EXAMINATION AND FINANCIAL FORENSICS

2-5 What international opportunities exist in fraud examination and financial forensics?

2-6 Other than accounting, which disciplines do fraud examination and financial forensics encompass?

ENDNOTES

1. Source unknown.
4. Figure 2-1 was developed as part of the DOJ’s National Institute of Justice model curriculum project “Education and Training in Fraud and Forensic Accounting: A Guide for Educational Institutions, Stakeholder Organizations, Faculty and Students,” www.ncjrs.gov/pdffiles1/nij/grants/217589.pdf.
6. University students who develop an early interest in fraud and forensic accounting may also want to take criminology and risk management courses to the extent that such courses are available and fit into their course of study.