BUS 279f (2)  
**Corporate Fraud: Detection and Prevention**  
Spring 2018

Mondays, 6:30 pm – 9:20pm  
Adjunct Professor Erich Schumann  
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http://cb.hbsp.harvard.edu/cbmp/access/77820713

**OVERVIEW**

As tomorrow’s top corporate managers and partners of public accounting firms, today’s business students will be responsible and accountable for the financial reporting process on which capital and credit markets depend.

In this course, students will receive exposure to the problem of fraudulent financial reporting, including its causes, its widespread impact, and the practical, cost-effective responses that participants in the financial reporting system can and should undertake. In addition, the course deals with malicious insider threats related to information technology and analysis how companies might use blockchain technology as a tool for fraud prevention. Using actual and simulated case material, students will acquire skills needed to identify, investigate, and report findings on corporate fraud.

**Required Readings** (course pack is available through the bookstore; other materials will be handed out)

◆ A course pack consisting of business school cases, notes, and articles  
◆ **Corporate Fraud Handbook**, Joseph T. Wells (not required to acquire the book; we will use examples and cases described)  
◆ **The CERT guide to Insider Threats**, Cappelli, Moore, Trzeciak (not required to acquire the book; we will use examples and cases described)  
◆ **Blockchain Revolution**, Don and Alex Tapscott (not required to acquire the book, we will use examples and cases described)

**Prerequisites**

FIN 212a (may be taken concurrently). Recommended courses are BUS 278f (Corporate Governance) and BUS 280f (Operational Risk Management).

**Class Participation**

Lively class participation is expected of everyone and class attendance is required. Each week, there will be a business case or note assigned and every student is expected to be prepared to discuss it in detail.
**Homework (one written analyses)**

The analysis, to be done individually, is due at the start of class 4. Specific topics will be assigned during the course. The analysis is worth 30% of the final grade. The analysis is typically 3-4 pages in length.

**Final Paper**

The final paper (6 pages + exhibits) is intended to reflect the students’ ability to analyze a complex issue relating to corporate fraud. Students will be expected to examine the issue from the perspective of the various constituencies and make a set of recommendations, if appropriate. Early in the course, the instructor will provide a list of suggested topics; students may also choose their own topic, subject to the approval of the instructor. All topics are assigned on a first-come first-served basis. In all cases, topics must be approved by the start of Class 5. The paper is due at the start latest a week after class 6.

**Grading**

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<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Final Paper</td>
<td>40%</td>
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<tr>
<td>Homework (1 analysis)</td>
<td>30%</td>
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<tr>
<td>Class Participation</td>
<td>20%</td>
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<td>Final Quiz</td>
<td>10%</td>
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**Office Hours**

Students can meet with me after class or by appointment in my office in downtown Boston. To arrange for a meeting, please send me an email eschumann@globalatlanticpartners.com

**Academic Honesty**

You are expected to be honest in all your academic work. The University policy on academic honesty is distributed annually as section 5 of the Rights and Responsibilities handbook. Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University. If you have any questions about my expectations, please ask.

**Special Accommodation**

If you are a student with a documented disability on record at Brandeis and wish to have a reasonable accommodation made for you in this class, please see me immediately. Please keep in mind that reasonable accommodations are not provided retroactively.
Class 1: *Introduction to fraud and understanding the motivations to commit fraud*

Definition and introduction to Fraud; students will learn the difference between fraud and abuse, and will be introduced to situation which lead to fraud and abuse. The class will discuss the financial impact of corporate fraud and abuse to the economy.

**Required reading:**
- The 2016 Report to the Nation on Occupational Fraud and Abuse
- Chapter 1 of Corporate Fraud Handbook (will be distributed before class)
- Mapping your fraud risk  
  

Class 2: *Business fraud classification*

Definition on different type of fraud and abuse; we will discuss the different type of fraudulent activities, such as Asset Misappropriations, Bribery and Corruption, Conflicts of Interest, fraudulent statements and financial statement schemes and insider trading. At the end of the class we will have an insider quiz testing the understanding of the students.

**Required reading:**
- Handout prepared specially for this course
- Rajad Gupta  
  

Class 3: *Asset Misappropriation/ Corruption and Money Laundering*

In this class we will discuss specific examples of Asset Misappropriations, such as Skimming, Cash Larceny, Check tampering and Payroll and expense Reimbursement schemes and/or others; students will learn detection and prevention techniques for fraud activities discussed. In addition we will discuss the challenges in operating in different cultures and in which situation business manager must be aware of increased risks of bribery and corruption. Students will understand the detection and prevention techniques used and the “red flags” which might be early indicator of a bribery or corruption scheme. Finally we will discuss how fraudsters try to “legalize” the fruits of their work. Fraudsters usually use the financial network to “launder” the ill-gotten money and we will discuss how lawmakers around the globe regulate international money transfer.

**Required Reading:**
- Cases from Corporate Fraud Handbook
- FACTA regulations on Money Laundering (will be distributed before class)
- The Rise and Fall of Petrobras  
  

Class 4: *Financial Statement fraud = Cooking the Books*

In this class we will discuss fraudulent financial statement schemes and its four primary financial accounting issues - valuation and classification of unusual inventory assets, disclosure
of related party transactions, valuation of stock exchanged for rent and services and the accounting treatment of a post balance sheet date event. The case describes one of the most publicized failures in the banking industry during the nineties. The core of the problem was a misunderstanding about the accounting for a particular type of bond. But an accounting mistake, that in most circumstances, would have been fixed within a few weeks ultimately destroyed a company. All control systems failed to detect the fraud.

Required Reading:

- Toshiba: Accounting Fraud; HBS Case W 16380

Class 5: Blockchain technology – how does it work and how can it be used to prevent and/or minimize fraud attempts

The first four decades of the internet brought us e-mail, world wide web, dot coms and many more innovations which enabled many positive changes. A few years ago Satoshi developed a bitcoin model. In the class we won’t discuss bitcoin but the underlying Blockchain technology. Students we will learn about bitcoin basics. We will analyze how bitcoin and smart contracts will revolutionize technology and enable improved fraud prevention techniques.

Required Reading:

- Material will be distributed before class
- An Introduction to Blockchain UV 7356

Class 6: Cybersecurity and fraud detections for online businesses

Cybersecurity is the deliberate synergy of technologies, processes, and practices to protect information and the networks, computer systems and appliances, and programs used to collect, process, store and transport that information from attack, damage and unauthorized access. Criminals are constantly searching for creative new ways to obtain personal information and money through fraud and cybersecurity vulnerabilities. Students will be confronted with key issues business faces and learn to determine best courses of action to take to mitigate cybersecurity risk.

Required Reading:

- Material will be distributed before class
- To improve Cybersecurity – Think like a Hacker SMR 599
- Better Cybersecurity starts with Fixing your employees bad habits H0428V