

The Violet Bay School District Deficit of 2005: Evaluating Internal Control and Identifying Risks

Laurie J. Henry, Michael E. Bitter, and Terry Kubichan

ABSTRACT: In August 2005, Violet Bay taxpayers were surprised to learn that their school system had amassed a \$7 million deficit for the 2004–2005 budget year, despite previous assurances of a surplus. Ultimately, the actual deficit was found to be \$12.1 million. A special grand jury investigation uncovered numerous internal control problems that contributed to the deficit.

This instructional case provides students the opportunity to gain a better understanding of the importance of internal control, particularly a strong control environment, through examination of the problems encountered by an actual governmental entity, renamed the Violet Bay School District. It also gives students some practical experience with tasks such as gaining an understanding of an entity and identifying its business risks, evaluation of internal control using the five components of the Committee of Sponsoring Organizations (COSO) framework, identification of fraud indicators, and consideration of the likelihood of fraud occurrence. The case also provides exposure to ethical issues.

Keywords: instructional case; internal control; control environment; risk assessment; fraud; professional ethics.

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INTRODUCTION

According to the Government Accounting Standards Board (GASB), the objective of financial reporting is to assist a government entity in fulfilling its obligation to be publicly accountable and to enable users to assess accountability (GASB 2007; Government Accountability Office [GAO] 2007). Budgeting, a process whereby government administrators forecast expected revenues and identify planned expenditures, is an integral part of accountability, and the extent to which a governmental entity adheres to its budget is a major consideration when assessing accountability.

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In August 2005, Violet Bay¹ taxpayers were informed that their school system had run a \$7 million deficit after several previous assurances that the system was fiscally sound and would finish the year with a surplus. By November 2005, an external audit determined that the actual deficit was \$12.1 million. Three months later, a special grand jury report was released describing the causes of the financial crisis and addressing the means to correct the situation. What went wrong? Place yourself in the role of an auditor or a consultant and identify the problems. As you do so, you will better appreciate the importance of internal control and will gain experience in identifying and assessing client risks.

While this case involves a governmental entity—a school district—no prior coursework in governmental accounting is required to complete case requirements. However, if you have no training in government accounting and auditing and feel it would be useful, you—just as an auditor or consultant would do in preparation for an engagement—can undertake a short continuing education course by reading the Appendix, “A Brief Introduction to School District Accounting and Reporting.”

PART I—THE BUDGET PROCESS

The Violet Bay School District (hereinafter, the “VBSD” or the “School”) provides public primary and secondary education to local students. The VBSD, with its elected 11-person School Board, is a separate legal entity, but is fiscally dependent on the City of Violet Bay (hereinafter, the “City”). The constitution and code of the state place responsibility for developing the School budget with the local School Board, and the authority and responsibility to appropriate school funds with the local government body.

Funding sources for the VBSD system include an appropriation from the City, revenues from the state (based on average daily student membership (ADM) from September to March), and federal impact funds based on the number of military dependents in the school system during the prior fiscal year (Special Grand Jury 1996).

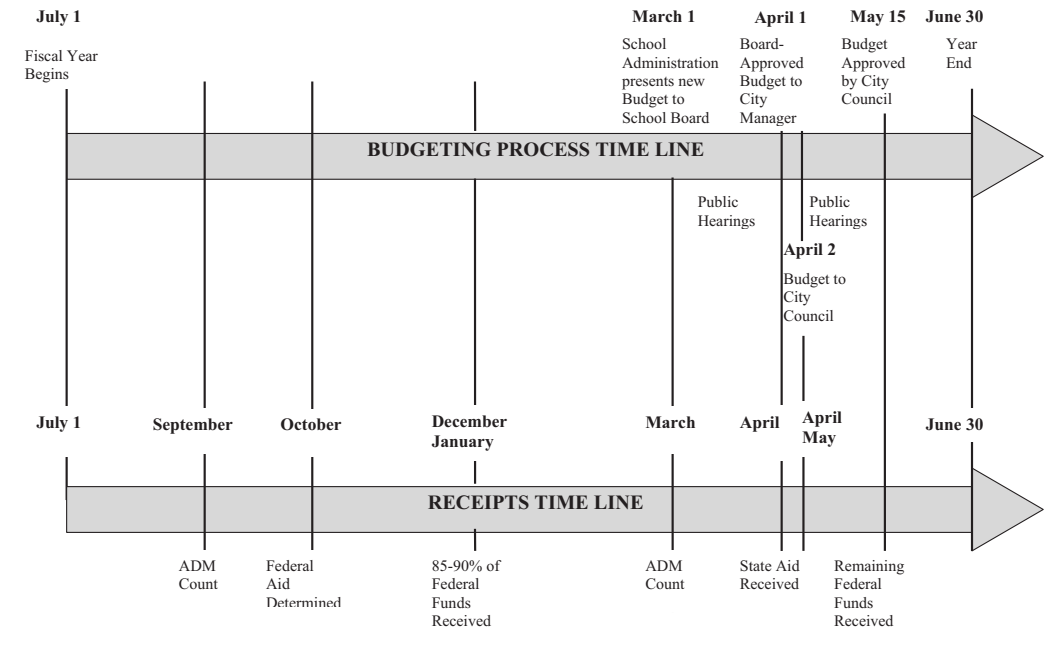
School administrators prepare the budget for the next fiscal year and present it to the School Board on or before March 1. The School Board conducts public hearings on the budget and may choose to modify the budget proposal. The major classifications and line items of the budget must receive School Board approval on or before April 1. The approved School Board budget is then forwarded to the City Manager who submits the School budget, incorporated within the City budget, to the City Council by April 2. After holding public hearings on the budget, the City Council approves the VBSD appropriation in total or by major classifications by May 15, as prescribed by the State Board of Education (City 1995). Figure 1 depicts the timing of the VBSD’s annual budget process and the inflows of state and federal funding to the VBSD.

After the City Council approves the VBSD appropriation, the Council has no authority over or oversight responsibility for School funds. Transfers of funds among the major budget classifications and line items can only be made with School Board approval. Line item transfers within major budget classifications of less than \$10,000 can be made with the approval of the Superintendent or the Superintendent’s designee, and are to be reported monthly to the School Board. Other than for certain emergency purposes, transfers of \$10,000 or more require School Board approval prior to the transfer (City Public Schools 1997).

State law assigns responsibility for a balanced budget to the School Board and Superintendent. The School District needs the consent of the City Council to overspend its budget or, by state law, there is “malfeasance in office” (Thiel and Weintraub 1995; Holden 1996).

¹ The school district name has been changed, as have the dates, building names, and the “characters” involved in the school district deficit.

FIGURE 1
VBSD Budgeting Process and External Funding Time Line



The VBSD employs an internal audit staff to confirm compliance with operating procedures. At the time of the deficit, the VBSD Internal Auditor reported jointly to the Superintendent and the School Board’s Audit Committee. The School administration was not required to share internal audit information with the City Council or City staff (Special Grand Jury 1996). Figure 2 presents the organizational structure of the VBSD at the time of the financial crisis and as it existed in 2007.

The City Finance Department issues the Comprehensive Annual Financial Report (CAFR) for the City, which includes all VBSD-related funds (City 1995). The CAFR is audited annually by a large, regional certified public accounting (CPA) firm with government auditing experience.

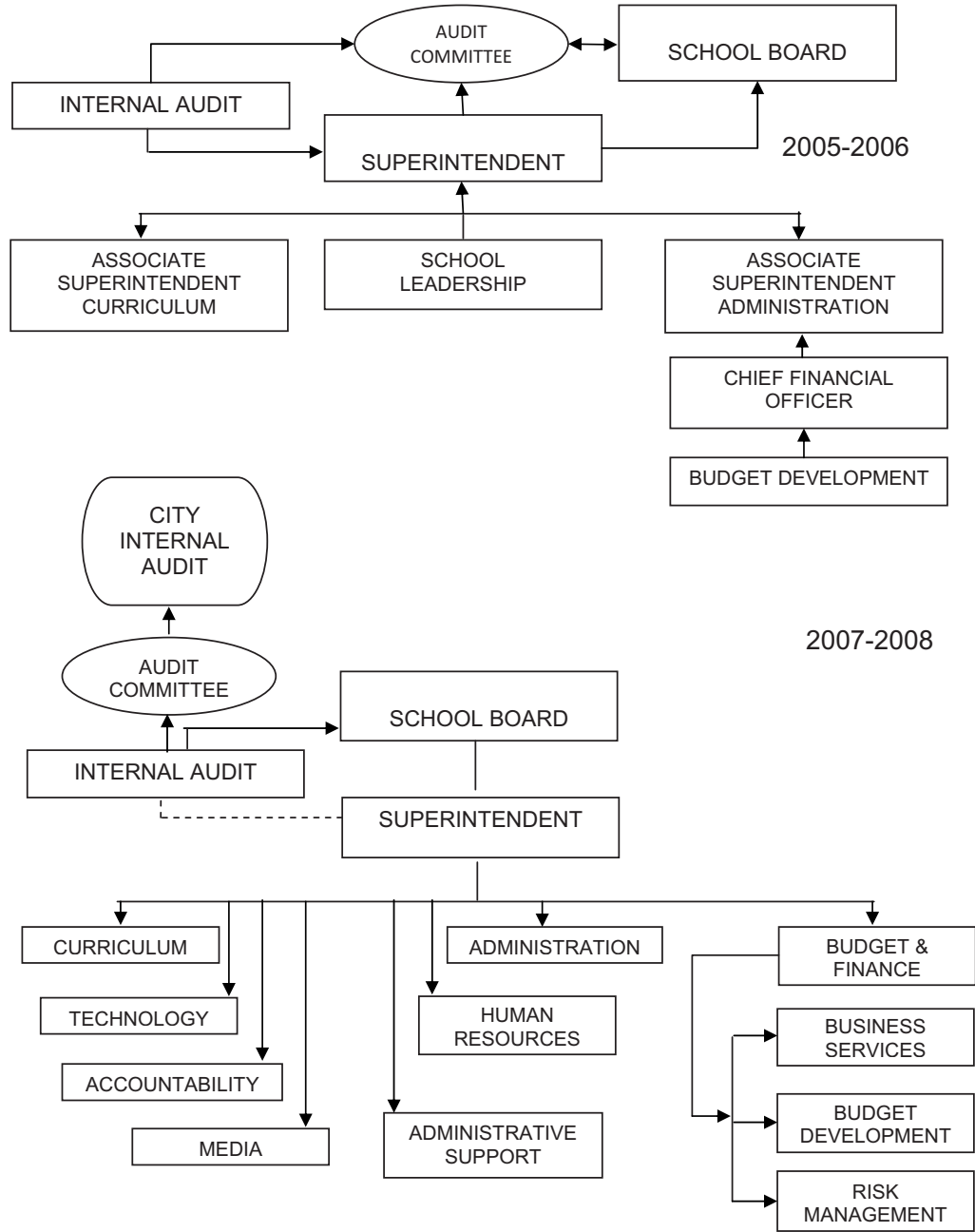
Since the VBSD receives significant federal funding, the CPA firm performs the audit under the United States Government Accountability Office’s (GAO) Government Auditing Standards (GAGAS). Per section 1.15 of GAGAS, “[f]or financial audits, GAGAS incorporate the AICPA field work and reporting standards and the related Statements on Auditing Standards (SAS) unless specifically excluded or modified by GAGAS.” Besides guidance for auditing and reporting, GAGAS incorporates guidance on auditor independence and professional competence and judgment (GAO 2007).

PART II—THE PRECURSORS OF THE BUDGET CRISIS

School Administrative Personnel Issues

Beginning in 1997 with the retirement of the Superintendent of 19 years, the VBSD underwent numerous changes in administrative personnel that helped precipitate the financial crisis of

FIGURE 2
VBSD Organizational Charts



2005. Malachi Robertson was named Director of Budget Development in 1999, reporting to the Chief Financial Officer (CFO). Prior to this appointment, he had served as a senior budget and management analyst for five years with the City.

Dr. Farley Spigot became Superintendent of the VBSD in July 2001, the fourth person to hold this position in four years. After his period as Superintendent had ended, Spigot was described as having a “dictatorial management style,” a “reckless approach to spending decisions,” and an “abhorrence for any surplus that might revert to the City” (Special Grand Jury 1996). Further, employees noted that Spigot did not like dissent from his subordinates, was uninterested in fiscal or budgetary matters, and spent tax money impulsively without regard for the budget or established procurement policies (Special Grand Jury 1996).

In 2003 there were considerable personnel changes. Dr. Jim Wednesday became Deputy Superintendent, Calvin Indiana became the Internal Auditor, and Hank Finch was named CFO. The Director of Accounting resigned (and was not replaced until January 2006) and the Associate Superintendent, who had supervised the CFO position, departed. For a summary listing of VBSD and City personnel identified in this case, see Table 1.

Fiscal Year 2003–2004—The Problems Begin

In June 2003, City and School officials met to discuss a potential crisis in educational funding for the current fiscal year. In planning for the fiscal year 2003–2004 budget, Director of Budget Development Robertson had disregarded revenue estimates made by the City’s staff, which was obviously of concern to the City.

Further, Superintendent Spigot had committed the VBSD to several unbudgeted projects. First was the lease of Festival Station, an empty mall, in August 2002, which was to be used for adult education classes. No rent was budgeted in fiscal years 2003–2004 or 2004–2005. Second, Spigot personally negotiated a janitorial service contract with KleanKommand without involving the City Office of Facilities Management or the Purchasing Department. The short-term effect of the decision was to increase expenditures for custodial services. Third, the contract for the purchase of Calliope Hall, a defunct college building, for adult education classes was executed by Spigot before the City Office of Facilities Management and the Purchasing Department had completed their study of the proposal, in accordance with normal operating procedures. These departments subsequently recommended against signing the contract.

CFO Finch communicated the possibility of a budget crisis in writing to Spigot in August 2003. During the same period, Internal Auditor Indiana forwarded an audit report to the Superintendent and the School Board Audit Committee (which consisted of Spigot, the School Board Chair, and a School Board member), with copies to Wednesday, Finch, and Robertson. The report cautioned that “adequate controls do not exist to monitor unexpended appropriations in the School Operating Fund.” It also stated that “budgetary adjustments are not reported in monthly financial reports to the School Board members.” The report listed three pages of recommendations to address these problems (Special Grand Jury 1996).

By October 2003, CFO Finch was forecasting \$7 million in budget overruns and suggested a system of additional controls needed prior to the coming year-end “to prevent the manipulations that were common at the last fiscal year-end (2002–2003)”² (Special Grand Jury 1996). CFO Finch continued to be the harbinger of bad news over the next several months. In January 2004, he informed Spigot that the ADM figures used for state and federal aid calculations were in error. By February, Finch had issued a report to Spigot detailing how the unplanned projects were wreaking

² With the concurrence of the School Board, Spigot had encumbered portions of budget surpluses for future purchases (referred to as “year-end funds”) of unbudgeted or under-budgeted items.

TABLE 1
VBSD Case “Characters”

Violet Bay School District	Title	Details
Farley Spigot	Superintendent	<ul style="list-style-type: none"> • Appointed in July 2001 • Resigned in July 2005 to take a similar position in Georgia
Malachi Robertson	Director of Budget Development Chief Financial Officer (CFO)	<ul style="list-style-type: none"> • Appointed Director of Budget Development in 1999 • Prior to employment with VBSD, worked for 5 years for the City of Violet Bay as a budget analyst • Appointed Interim CFO in August 2004 • Interim title dropped in February 2005 when Spigot consolidated the Director of Accounting and Director of Budget Development into the CFO position • In September 2005, was placed on administrative leave by interim Superintendent Wednesday • In mid-February 2006 was reinstated as Director of Budget Development on a probationary basis by the School Board • Resigned in March 2006 shortly after the Special Grand Jury Report
Hank Finch	Chief Financial Officer	<ul style="list-style-type: none"> • Appointed in 2003 • Dismissed by Spigot in August 2004 due to the large deficit in 2003–2004
Jim Wednesday	Deputy Superintendent	<ul style="list-style-type: none"> • Appointed in 2003 • Named interim Superintendent upon the resignation of Spigot in 2005 • In February 2006, resigned in protest over the reinstatement of Robertson as Director of Budget Development by the School Board
Calvin Indiana	Internal Auditor	<ul style="list-style-type: none"> • Appointed in 2003 • Resigned in April 2005 over concerns that funding would not be available to pay teachers or suppliers and to fund summer school
<hr/>		
City of Violet Bay	Title	
Howard Head	Director of Management and Budget	

havoc on the budget. At that time, he predicted an additional \$4.6 million shortfall for 2003–2004. None of this information was conveyed to the School Board. In April, the School Board adopted a \$340 million budget resolution for fiscal year 2004–2005, totally unaware of the financial difficulties in the current fiscal year. Ultimately a transfer of fiscal year 2003–2004 purchase orders worth \$2.8 million to fiscal year 2004–2005 averted a deficit. Figure 3 presents the approved VBSD budgeted and actual revenues and expenditures for fiscal year 2000–2001 through fiscal year 2006–2007.

PART III—THE FINANCIAL CRISIS ARRIVES—FISCAL YEAR 2004–2005

The fiscal year began with Internal Auditor Indiana noting mathematical errors of \$573,000 in the current year budget. Soon after this report, Superintendent Spigot dismissed CFO Finch, citing the large deficit in 2003–2004, and named Director of the Budget Robertson as interim CFO.

FIGURE 3
Violet Bay School District Financial Information

BUDGETED OPERATING REVENUES							
	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Local	\$154,786,019	\$165,520,000	\$159,167,291	\$167,899,221	\$173,464,054	\$187,768,016	\$209,671,618
Virginia	\$123,037,082	\$119,692,800	\$143,029,869	\$145,006,060	\$154,659,465	\$157,092,801	\$169,894,421
Federal	\$6,500,000	\$6,797,000	\$10,603,000	\$10,605,000	\$12,666,952	\$13,504,673	\$7,736,640
TOTAL	\$284,323,101	\$292,009,800	\$312,800,160	\$323,510,281	\$340,790,471	\$358,365,490	\$387,302,679
ACTUAL OPERATING REVENUES							
	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Local	\$142,650,381	\$165,881,917	\$163,285,930	\$176,340,530	\$174,926,143	\$187,450,670	\$205,847,251
Virginia	\$121,896,570	\$114,363,347	\$139,142,999	\$140,702,181	\$153,179,945	\$156,739,141	\$178,007,930
Federal	\$15,586,525	\$8,469,404	\$12,032,607	\$11,833,877	\$10,715,994	\$9,878,512	\$8,778,170
TOTAL	\$280,133,476	\$288,714,668	\$314,461,536	\$328,876,588	\$338,822,082	\$354,068,323	\$392,633,351
COMPARISON OF ACTUAL REVENUES TO BUDGETED REVENUES (Actual/Budget)							
	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Local	-7.84%	0.22%	2.59%	5.03%	0.84%	-0.17%	-1.82%
Virginia	-0.93%	-4.45%	-2.72%	-2.97%	-0.96%	-0.23%	4.78%
Federal	139.79%	24.61%	13.48%	11.59%	-15.40%	-26.85%	13.46%
TOTAL	-1.47%	-1.13%	0.53%	1.66%	-0.58%	-1.20%	1.38%
BUDGETED EXPENDITURES							
	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Operations	\$288,507,179	\$297,600,885	\$312,800,160	\$323,510,281	\$340,790,112	\$358,365,490	\$387,302,679
CIP	\$7,690,827	\$2,262,426	\$2,581,062	\$6,481,112	\$4,900,000	\$2,000,000	\$1,000,000
Debt Service	\$18,258,230	\$20,234,318	\$22,082,735	\$24,910,122	\$27,033,309	\$33,848,389	\$33,314,872
TOTAL	\$314,456,236	\$320,097,629	\$337,463,957	\$354,901,515	\$372,723,421	\$394,213,879	\$421,617,551
ACTUAL OPERATING EXPENDITURES							
	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Operations	\$278,724,975	\$280,153,312	\$316,495,922	\$328,876,588	\$350,629,262	\$353,587,849	\$366,553,126
COMPARISON OF ACTUAL OPERATING EXPENDITURES TO BUDGETED EXPENDITURES							
	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Actual/ Budget	-3.39%	-5.86%	1.18%	1.66%	2.89%	-1.33%	-5.36%
COMPARISON OF ACTUAL OPERATING REVENUES TO EXPENDITURES							
Revenue/ Expend	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
	0.51%	3.06%	-0.64%	0.00%	-3.37%	0.14%	7.11%

In September 2004, it was determined that, as a result of using the wrong data, Robertson had overestimated student enrollments for purposes of budgeting revenue and, therefore, there would be a shortfall in state funding. Robertson, however, had underestimated student enrollments for hiring purposes, resulting in the need to hire additional teachers that were not budgeted. During the same period, the VBSD was forced to buy out the KleanKommand contract at an additional unbudgeted cost. Internal Auditor Indiana noted an additional \$2.4 million in errors in the budget that would result in a potential deficit.

In October 2004, the City's Director of Management and Budget, Howard Head, questioned acting CFO/Director of Budget Development Robertson about his "Five-Year Forecast," and projected a deficit for subsequent years. Head specifically questioned enrollment figures and the VBSD's budget methodology. He expressed concern that historical data was not used for budget preparation and that Robertson lacked documentation of certain budget items.

Superintendent Spigot sent a memo to the School Board acknowledging the school system "lacks certain financial safeguards and did not have a sound spending plan" since Spigot began his term in 2001. At the same time, a confidential memo from Internal Auditor Indiana to Spigot and Deputy Superintendent Wednesday projected a potential deficit of \$6 million for fiscal year 2004–2005.

In November 2004, the U.S. Department of Education advised Robertson that federal aid would be approximately \$8 million, \$4 million less than the \$12 million budgeted. Upon learning

this from Robertson, Spigot responded by sending a memo to all budget unit directors ordering a delayed and limited spending plan. Despite all of this, when a School Board member predicted a possible deficit for the year at the monthly Board meeting, Robertson advised the group to expect a \$2.8 million surplus in fiscal year 2004–2005.

Spigot finally advised the School Board in December 2004 of the state revenue reduction he had first learned of in September. Late in December 2004, Internal Auditor Indiana sent an audit report to Spigot noting the impact of a miscalculation of salaries and fringe benefits in the current year budget. The School Board had approved a 4 percent raise, while the budget contained only a 3 percent increase. The audit report also noted the carryover of \$2.8 million in purchase orders from fiscal year 2003–2004 to 2004–2005, and a shortfall in special education of \$2.6 million for salaries and tuition. Further, Indiana stated that current budget practices called for the calculation of new budgets as a percentage increase over the previous year's budget, with no consideration of previous actual expenditures. Indiana stated that large transfers were not being approved by the Board and that Director of Budget Development Robertson did not inform budget managers about budget transfers that directly affected them until after the transfers occurred.

In February 2005, Spigot received another memo from Internal Auditor Indiana detailing more budget shortfalls and control problems, but the memo was not given to the Audit Committee until March. Indiana's report highlighted the following problems: no comparison of last year's actual to budgeted expenditures before planning for the next fiscal year, formal budget schedules did not total properly, purchase requisitions were processed without determining if funds were available, and Robertson ignored the need for Board approval for transfers of \$10,000 or more.

Late in February, Spigot consolidated the positions of CFO, Director of Accounting, and Director of Budget Development under the CFO title. Robertson was appointed CFO by a unanimous vote of the School Board.

In March 2005, a management letter was received from LHMB Accountants, LLC, the City's audit firm during this time, noting many of the existing financial problems detailed by Indiana and recommending methods for correcting the problems. Spigot, with Robertson's concurrence, responded to the letter, disagreeing with many of the comments and stating that "transactions were made without variance from Generally Accepted Accounting Principles" (Weintraub et al. 1995).

By April, local newspapers began carrying reports expressing concern for the VBSD spending, yet CFO Robertson presented a financial summary and analysis to the School Board at that time stating there would be no deficit at the end of the fiscal year; in fact, he predicted a \$3 million surplus. In mid-April, Internal Auditor Indiana resigned over concern that there would not be enough funds to pay teachers, pay for supplies, or pay for summer school in the current year.

In late April 2005, the School Board submitted a School Operating Budget request for fiscal year 2005–2006 of \$429 million to the City Manager. Meanwhile, working with CFO Robertson's current year actual figures, the City Director of Finance estimated a \$13.3 million deficit for fiscal year 2004–2005, which he detailed in a memo to the City Manager. During this period, Spigot was quietly interviewing for a Superintendent's post in another state. A week later, Spigot submitted his resignation, effective July 2005. Several weeks later, Deputy Superintendent Wednesday was named Interim Superintendent. Within a month of Spigot's departure, CFO Robertson reported a fiscal year 2004–2005 surplus of \$0.5 million.

Much to the surprise of the public, on August 25, 2005, School administrators announced a \$7.4 million deficit for fiscal year 2004–2005. The report maintained that half of the deficit was the result of overspending, and half resulted from state and federal funding shortfalls. The City Mayor announced the City would make up the shortfall and suggested merging the financial departments of the City and Schools for better monitoring and control. Immediately, members of the School Board claimed they were unaware of the fiscal problem.

PART IV—THE FINANCIAL CRISIS UNRAVELED

Initial Reactions—The Blame Game

By early September 2005, parties to the financial crisis were assigning responsibility for the deficit to one another. Spigot contended he was not told by Robertson how serious the problem was and that CFO Robertson was responsible for budget oversight. Although he had previously been Director of Budget Development (since 1999), Robertson stated that he “inherited the bad budget,” but had attempted to minimize the deficit.

Even though a Board member predicted a deficit as early as November 2004, the School Board maintained it was unaware of any problem until August 2005, as Robertson had never expressed any concern for a potential deficit and he continually stated the budget would balance at year-end. The Board noted that both Robertson and Spigot often answered questions with misleading information. Further, the School Board claimed the City should have noticed the problem sooner, particularly the budget line for federal funds that was \$4 million more than the Schools had ever received.

In a School Board meeting in early September, Robertson admitted presenting misleading budget information to the Board under Spigot. He stated that there was not always full disclosure of the impact of planned projects.

In mid-September, the City demanded a complete explanation of the \$7.4 million deficit before it would fund the shortage. One week later, the City received an explanation of the deficit from the Schools, admitting errors in estimates used in the budget and noting expenditures for items that had not been budgeted. Table 2 presents a summary of the explanation provided by the VBSD.

The External Audit

By late September 2005, the City Council requested that its current auditor, LHMB Accountants, LLC, perform additional audit procedures and provide observations regarding the primary

TABLE 2
VBSD Explanation of the Deficit to the City

- Federal Impact Aid was over-estimated in the budget at \$13.6 million, while actual revenues were \$8.7 million.
 - Special Education ADM compliance required 64 additional teachers at a cost of \$2.5 million. (Note: The Director of Programs for Exceptional Children later maintained only 28 teachers were hired at a cost of \$850,000).
 - In fiscal year 2004–2005, underestimated student enrollments resulted in the unexpected hiring of 34 new teachers at an additional cost of \$6.2 million.
 - State Aid was based on September ADM rather than March ADM resulting in a \$1.5 million shortfall.
 - A five-year custodial service contract with KleanKommand that was signed in 2003 was bought out in September 2004 and new custodial personnel were hired for a cost of \$1.4 million, which had not been budgeted.
 - General sloppy bookkeeping, as noted in December 2004 by Internal Auditor Indiana. These included multiple commitments of the same funds and \$2.5 million in mathematical and typographical errors in the fiscal year 2004–2005 budget.
 - Purchase orders from fiscal year 2003–2004 worth \$2.8 million were transferred to fiscal year 2004–2005.
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causes of over-expenditures in the School Operating Fund for fiscal year 2004–2005. Although the auditors were not engaged to perform a specific study of the School's internal controls, the City did ask for specific recommendations to prevent a similar situation from occurring in the future.

The initial findings suggested the basic problem was an atmosphere of trust by the School Board and the City for reports supplied by the Superintendent and CFO. LHMB found that the Mayor, Vice Mayor, and City Manager had met monthly with the Superintendent and School Board Chair and accepted assurances that school finances were under control. Basic finance department rules were violated, the internal audit memos were overlooked or ignored, and when questions were raised by the City or School Board there was no insistence that they be answered.

Through interviews with CFO Robertson, LHMB learned that bills arrived in Robertson's office with "PAY" written in bold letters by Spigot, regardless of whether there were funds in the budget. Robertson asserted that Spigot insisted on overestimating federal aid to prevent surpluses being returned to the City at year-end. Further, Robertson charged that Spigot changed budget categories after the School Board approved the budget and that Spigot had the Board approve large transfers without explaining the impact on the budget. Robertson also admitted that the system to monitor and control personnel costs was archaic. On September 26, 2005, Robertson was placed on paid administrative leave by Interim Superintendent Wednesday pending further investigation of the deficit.

On November 3, 2005, LHMB released its audit findings on the fiscal year 2004–2005 budget deficit to the City Council and School Board (Holden and Vines 1995). The audit did not attempt to explain how or why the deficit occurred. The actual deficit was determined to be \$12.1 million, not the \$7.4 million that was initially reported.

The report included the following conclusions: unrealistic assumptions were used in preparation of the operating budget; the large volume of budget transfers made budget-to-actual comparisons useless; the School Board budget was not used to evaluate or monitor actual results; payroll predictions were based on documents the administration did not understand; there was no sound method to track budget and payroll expenditures; the current reporting system made control and monitoring of personnel costs difficult; and department heads had no control over their own budgets.

It was determined that CFO Robertson made \$43 million in budget transfers in fiscal year 2004–2005. Many of the transfers were used to shift portions of the deficit to programs that legally had to be funded under federal or state mandates (such as Special Education) or those that had community support, making it politically difficult for the City Council not to fund a deficit. Further, Robertson violated or circumvented School Board policy regarding approval of transfers of more than \$10,000. In fiscal year 2004–2005, he made 21 transfers not approved by the School Board. Often, Robertson would mask a large budget transfer by authorizing multiple smaller transfers of less than \$10,000 to circumvent required School Board approval. Table 3 presents LHMB's specific findings.

These findings resulted in a total revenue adjustment of \$2,125,697 and a total expenditures adjustment of \$2,706,493. Encumbrance adjustments for fiscal year 2004–2005 funds moved to fiscal year 2005–2006 for purchase orders carried into fiscal year 2005–2006 resulted in a reduction of \$108,665. Therefore, the total audited fund deficit was determined to be \$12,058,100 (approximately 3.6 percent of the total budget) (KPMG Peat Marwick 1995).

PART V—THE AFTERMATH

Within two days of the issuance of the report, the School Board approved a payback plan for the \$12.1 million deficit to the City. The plan called for repayment of the deficit by the Schools by June 30, 2010.

TABLE 3
LHMB Accountants, LLC Special Audit Findings

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| <ul style="list-style-type: none"> • \$1,607,783 in state sales tax revenues received in August 2005 was incorrectly booked in fiscal year 2004–2005. These revenues belonged in fiscal year 2005–2006 per GASB No. 22, <i>Accounting for Taxpayer Assessed Tax Revenues in Governmental Funds</i>. • \$517,914 in summer school tuition applied to fiscal year 2004–2005 belonged in fiscal year 2005–2006. • \$2,025,000 in excess payments was made to the State Retirement System for insurance and premiums. The refund from the SRS should have been applied to fiscal year 2004–2005. | <ul style="list-style-type: none"> • \$512,515 in utility bills for fiscal year 2004–2005 was incorrectly charged to fiscal year 2005–2006. • \$270,359 in expenditures for renovations and asbestos removal belonging in the Operating Fund were incorrectly transferred to the Capital Projects Fund. • An excess transfer of \$124,553 was made from the Self-Insurance Fund to the Operating Fund (KPMG 1995). |
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Upon request of the Commonwealth’s Attorney, the Circuit Court impaneled a Special Grand Jury on December 4, 2005, to investigate the deficit. Such a body has the power to subpoena school records and current and former school personnel, the right to recommend indictments to a regular Grand Jury, and authority to issue a detailed report with suggestions for legislative remedies.

Meanwhile, Spigot was busy explaining to his new School Board that he was “out of the loop” in the Violet Bay budget process. He maintained the budget process rested with Director of Budget Development Robertson, who sent the budget directly to the School Board Budget Review Committee, and from there to the School Board. In reply, the School Board Budget Review Committee claimed it did not set the budget policy, but simply reviewed budget documents.

The Special Grand Jury Investigation

In December 2005, the Special Grand Jury (hereafter, the “Jury”) of ten members began meeting twice a week. Over the next three months, the Jury reviewed all VBSD budget preparation memos for fiscal years 2003–2004, 2004–2005, and 2005–2006; the financial statements and CAFRs for the same fiscal years; all internal audits during the period; memos to the Superintendent, Deputy Superintendent, CFO, Director of Budget Development, Internal Auditor, and members of the Audit Committee; videotapes of fiscal year 2004–2005 School Board meetings; and the testimony of 58 people.

The Jury also requested an audit report from the City’s internal auditor on VBSD budget transfers. The report concluded that there had been \$6.4 million in transfers greater than \$10,000 in 2004–2005. Further, some budget transfers approved by the Board were never made, other transfers were made without the appropriate authorization, and yet other transfers were made for amounts other than what was authorized.

In February 2006, former Superintendent Spigot appeared before the Jury for five and a half hours. He maintained his “job was only to recommend the budget, while the job of the School Board and the City Council was to approve it and appropriate the money.”

When Spigot’s former Administrative Assistant, Jane Strong, was interviewed, she stated “Dr. Spigot knew what he wanted and wasn’t much interested in opposing views. He didn’t trust the

organizational structure to give him information. He relied on the grapevine.” Strong further asserted the loss of administrative staff due to resignations and dismissals caused the loss of financial expertise and loss of internal controls over the budget.

In mid-February, while the hearings were still going on, the School Board voted seven to four to reinstate Robertson as Director of Budget Development on a probationary basis. Several Board members contended that Robertson was following Spigot’s orders and did nothing inappropriate. In reaction to the reinstatement, the seven School Board members voting in favor of Robertson’s reinstatement were recalled before the Jury to explain their actions.

The Special Grand Jury Report

On February 26, 2006, the Jury report was issued. The Jury found that the School Board, then-Superintendent Spigot, and CFO/Director of Budget Development Robertson showed a “reckless unconcern” for fiscal responsibility and that the deficit in fiscal year 2004–2005 was the result of “fiscal incompetence, capital purchases made at the whim of the Superintendent, and a naive School Board which ... apparently did not regard financial oversight as part of its responsibilities.” There was no finding of theft, fraud, or felony, only malfeasance (Special Grand Jury 1996). The report suggested that seven named School Board members resign or face prosecution for malfeasance.

The Jury noted that the organization of the financial staff made reporting difficult and monitoring of finances impossible. Spigot’s consolidation of the positions of CFO, Director of Accounting, and Director of Budget Development eliminated oversight and made it imperative that a capable person perform the job. The report described CFO/Director of Budget Development Robertson as “incompetent,” stating he “lacked the knowledge and expertise to perform either of these positions effectively.” Further, the report concluded that he “literally fabricated some numbers,” making the budget useless for planning or management (Special Grand Jury 1996).

As for the School Board, the Jury found that it ignored the warnings of former CFO Finch and former Internal Auditor Indiana, was not aggressive in questioning the budget practices of Robertson and Spigot, established an ineffectual Budget Review Committee that consulted with Spigot regarding all fiscal matters, reinstated Robertson after his suspension by Interim Superintendent Wednesday, and refused to discuss consolidation of financial record keeping with the City (Special Grand Jury 1996).

Further, the Jury noted the poor relationship between the School Board, School administration, and the City prevented communication and discussion of the VBSD financial problems. The jurors believed that the expertise of City staff may have helped remedy the fiscal year 2004–2005 problem.

The Jury recommended the following:

- The VBSD internal audit function be strengthened and the Internal Auditor report only to the School Board.
- The accounting and financial management of the VBSD be consolidated with the City.
- The Deputy Superintendent be included in the financial chain of command.
- The current law be changed to prohibit the School Board from interfering in School administrative hiring except for the positions of Superintendent, Internal Auditor, and Legal Counsel.
- The VBSD adopt all the recommendations of the LHMB audit. (Special Grand Jury 1996)

In response to the report, several of the Board members named in the report resigned immediately. Director of Budget Development Robertson stated he would not resign and still maintained he acted on orders from Spigot. In late March 2006, however, Robertson did resign. His attorney

claimed it was no longer possible for Robertson to perform his job because of his treatment by School administration. The attorney for the School Board, however, acknowledged that the Board had mustered enough votes to fire Robertson if he did not resign.

Two School Board members named in the report also refused to resign their positions. In April, the regular Grand Jury indicted these two Board members on charges of malfeasance, which carries a fine of \$250. Curiously, neither Spigot nor Robertson was indicted. In August, the trial of the two Board members started. The Board members maintained they were misled by School administrators that there was no fiscal crisis. The question to be decided by the jury was one of the degree of skill and diligence expected of School Board members. The two Board members were acquitted of malfeasance after a 90-minute jury deliberation.

EPILOGUE

In the 13-month period following the initial report of the 2004–2005 deficit, the VBSD had had three Superintendents, one special audit, two reorganizations, 23 School Board members, and one Special Grand Jury investigation (Payne 1996). In 2006, the School Board re-established the Audit Committee with the VBSD Internal Auditor reporting directly to the Committee. Further, the VBSD revised its organizational structure and adopted the recommendations of the LHMB audit report. With the prompt attention to the deficit of fiscal year 2004–2005, the VBSD ended fiscal year 2005–2006 with a \$480,538 surplus, fiscal year 2006–2007 with an \$18.9 million surplus, and fiscal year 2007–2008 with a surplus of \$14 million.

In January 2007, the Violet Bay City Council decided to give the VBSD a fixed percentage of City revenues from which it could develop its budget after the amount was determined. If the VBSD needed more funds, it could issue a special request to the City Council for a tax increase. The City believed this new formula would force the VBSD to be more fiscally responsible during its budget planning process.

CASE REQUIREMENTS AND QUESTIONS

Risk Assessment Requirements

1. During the planning process, an auditor is required to obtain an understanding of the entity to be audited and its environment, including internal control, in order to assess the business risk faced by the entity being audited (AU 314 or GAGAS 4.03). Based *solely* on what you've learned about the VBSD budget process in Part I of the case, identify and explain three case-specific practices that should be considered by the auditor when assessing risk and designing audit procedures.
2. With the importance of budgeting and the budget process to governmental entities such as the VBSD in mind, and based solely on Part II of the case, identify specific events that occurred during the 2003–2004 fiscal year that would likely *impact* your assessment of internal control (i.e., control risk) when planning the audit of the 2004–2005 fiscal year.

Control Environment/Entity Governance Requirement

1. Based on Part II of the case, describe the VBSD's Control Environment, the first component of internal control (per the Committee of Sponsoring Organizations [COSO] of the Treadway Commission's Report and referred to in AU 314), noting areas of concern that would impact the planning and conduct of the audit.

Committee of Sponsoring Organizations (COSO) Internal Control Framework's Components of Internal Control Requirements

1. Based on Part III of the case, identify three examples of Control Activities (as defined by COSO Chapter 4 and referred to in AU 314) that did not function properly and, therefore, contributed to the budget crisis of 2004–2005.
2. Two of the five interrelated components of internal control identified in COSO's *Internal Control—Integrated Framework*, Chapters 5 and 6 (and referred to in AU 314), are (1) the Information and Communication systems, and (2) Monitoring of Controls. Identify specific internal control problems experienced by the VBSD that relate to these components.

Committee of Sponsoring Organizations (COSO) Internal Control Framework Objectives Requirement

1. According to the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Report, *Internal Control—Integrated Framework*, Chapter 1 (and referred to in GAGAS 1.30 or 4.07), an entity's internal control is designed and implemented to provide reasonable assurance of achievement of three broad objectives: (1) reliability of financial reporting, (2) efficiency and effectiveness of operations, and (3) compliance with laws and regulations. How did the management of the VBSD subvert each of these objectives?

Auditor Management Letter Requirement

1. Based on the information in Parts I–IV of the case and, in particular, the audit findings, provide five specific recommendations that the auditor might make to the client, the VBSD, in a management letter.

Client Retention Evaluation Requirement

1. Auditors should periodically evaluate whether to retain a client. This decision is based on a variety of factors, some of which are not detailed in the case. However, based on the information that is provided in Parts I through V of the case (and assuming that the VBSD was audited as a separate entity), identify factors an auditor might consider that would (1) support a decision by the auditor to continue with the VBSD in 2005–2006, and (2) support a decision by the auditor to resign.

Fraud Requirements

1. Consider the three conditions usually present when a fraud occurs: incentive/pressure to perpetrate fraud, opportunity to perpetrate fraud, and attitude/rationalization to justify the fraudulent activity. Identify key indicators that fraud might have occurred in the VBSD.
2. Relying on the guidance in AU 316, would the VBSD administration's unreliable financial reporting be considered as resulting from fraud, error, or both? If you believe fraud was evident, what broad scheme(s) was/were perpetrated? How? By whom?

Ethics Questions

Think about Calvin Indiana, the Internal Auditor for the Violet Bay School District. Indiana repeatedly brought the problems with budget controls and potential budget deficits to the Superintendent's and the Audit Committee's attention and was ignored. Indiana knew that the Superintendent was not following his fiduciary responsibilities when it came to spending guidelines or reporting information to the Board and, in fact, authorized budget transfers to disguise financial problems and funding shortfalls.

1. What concerns over the budget and expenditure processes did the Internal Auditor identify in his reports?
2. Why was the Internal Auditor ineffective at being a "watch dog" for compliance with the governmental regulations and controls over the budget process?
3. Assuming he was a CPA (or Certified Internal Auditor), what part of the AICPA *Code of Professional Conduct* (or the IIA *Code of Ethics* or GAGAS, Chapter 2) is applicable to Indiana based on his knowledge of the problems and the unreported deficits?
4. The Internal Auditor reported on more than one occasion problems with the budget process to the Superintendent and Audit Committee and his reports were ignored. What ethical dilemma does this create for the Internal Auditor?
5. What parties are affected by this ethical dilemma and how are they affected?
6. What alternatives does the Internal Auditor have to resolve this dilemma, and what are the consequences of each alternative?
7. The Internal Auditor eventually resigned over his concerns. Based on the possible alternatives and consequences, what do you think Indiana should have done?

APPENDIX³

A BRIEF INTRODUCTION TO SCHOOL DISTRICT ACCOUNTING AND REPORTING

In governmental accounting, the basic financial statements contain two categories of statements: Government-Wide or District-Wide Financial Statements, and Fund Financial Statements. The District-Wide Financial Statements contain the governmental activities and business activities, but not the fiduciary activities of the school district. These statements provide both a short- and long-run view of the district. Fund Financial Statements provide only a short-run view, in more detail, of the basic educational services. There are three broad types of funds represented in the Fund Financial Statements: governmental, proprietary, and fiduciary.

A fund is a fiscal and accounting entity created by the school district for the purpose of tracking the finances of a particular activity or group of activities. School Districts create funds to demonstrate compliance with their budget or because of a legal requirement. Each fund has its own accounting equation including only the assets, liabilities, and net assets of that particular fund. For governmental funds, assets equal liabilities plus fund balance, while for proprietary and fiduciary funds, and district-wide statements, assets minus liabilities equals net assets.

Governmental funds account for the basic services of a school district that are typically financed with general taxes. They include General funds, Special Revenue funds, Debt Service funds, Capital Projects funds, and Permanent funds. The General fund accounts for the School District's day-to-day operations and for any activity not reported in the other funds. Special Revenue funds contain revenue sources legally restricted for specific purposes such as federal aid to education. Debt Service funds are used for the payment of principal and interest on the School

³ Mead 2000.

District's long-term debt. Capital Projects funds account for the flow of all resources related to the construction or acquisition of long-lived general assets used in operations. Permanent funds include resources that are legally restricted and cannot be spent on operations, but they can generate earnings that can be used to finance operations. Such a fund is used, for example, when the Parent Teacher Association donates funds to the school and stipulates that only the earnings may be used to buy band instruments.

Proprietary funds are used for services that charge a user fee and operate like a business. They include Enterprise funds and Internal Service funds. Enterprise funds provide goods or services outside the school district and charge a user fee. Internal Service funds provide goods or service to the school district for a charge.

Fiduciary funds are resources the School District holds for others. These resources are not available for the School District to spend on operations. They include Pension Trust funds, Investment Trust funds, Private-Purpose Trust funds, and Agency funds. Pension Trust funds account for resources held for members and beneficiaries of the trust plan. Investment Trust funds are used for investment pools that belong to other governments and districts. Private-Purpose Trust funds include other trust resources not included in the other fiduciary funds. Agency funds are resources held on a temporary, custodial basis for others.

Governmental accounting has two unique features: encumbrance accounting and interfund transfers. Encumbrance accounting requires the recording in governmental funds of purchase orders or contracts for goods or services when the goods or services are ordered. This commitment to pay for goods and services allows the School District to monitor its current budget more closely. The encumbrance is reversed when the goods or services are received and the expenditure is actually recorded in the funds. Goods or services that have not been received by year-end will show an outstanding encumbrance for the year, representing a commitment to pay resources from this year's budget when the goods or services are received in the next year.

Interfund transfers are a shift of resources from one fund to another fund within the School District. Some interfund transfers are reciprocal in nature, such as loans between funds that will be repaid, or operating transfers where one fund provides a service to another and receives some amount of payment for the service from the other fund. Other interfund transfers are nonreciprocal, such as an equity transfer of assets from one fund to establish a new fund or to liquidate a fund that is closing, or a reimbursement transfer to recover resources and correct the budget charges when expenditures are erroneously charged to the wrong fund.

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CASE LEARNING OBJECTIVES AND IMPLEMENTATION GUIDANCE

Learning Objectives

This instructional case provides students the opportunity to gain a better understanding of the importance of internal control, particularly a strong control environment, through examination of the problems encountered by an actual governmental entity, renamed the Violet Bay School District. It also gives students some practical experience with realistic tasks such as gaining an understanding of an entity and identifying its business risks, evaluation of internal control using the five components of the COSO Internal Control framework, identification of fraud indicators, and consideration of the likelihood of fraud occurrence. It is designed for use in an auditing course or an accounting information systems course that covers internal control and the consideration of fraud. The case also reinforces the importance of auditors or consultants not only recognizing client problems, but being able to make recommendations for improvement. Additionally, students are asked to identify factors important to the client retention decision. Ethics-related case questions can be used to focus students on the identification and evaluation of ethical issues that can arise in practice (in this case, issues relating to the VBSD's Internal Auditor).

In order to successfully complete the requirements of this case, students must be able to apply the COSO Internal Control framework and relevant professional standards (i.e., auditing, quality control, and ethical standards). More specifically, students must do the following:

- Identify client practices that will impact risk assessment and the design of audit procedures.
- Demonstrate an understanding of the three objectives of internal control by identifying instances in which management subverted these objectives.
- Identify internal control issues using the five components of internal control (as identified in the COSO's *Internal Control—Integrated Framework* and referred to in AU 314).
- Identify events that would impact assessment of internal control.
- Identify conditions indicative of potential fraud and evaluate whether fraud actually occurred.
- Provide recommendations suitable for inclusion in a management letter to the client.
- Identify factors that would likely impact the auditor's decision to retain the client.
- Identify ethical issues and address them based on an understanding of Rule 102 of the AICPA's *Code of Professional Conduct* (and/or the Institute of Internal Auditors [IIA] *Code of Ethics* and/or *Government Auditing Standards*).

For linkages of these learning objectives to specific case requirements, see Table 4.

With its *AICPA Core Competency Framework for Entry Into the Accounting Profession*, the American Institute of Certified Public Accountants (AICPA 1999) has identified a skills-based set of competencies it believes are needed by those entering the accounting profession. The competencies are arranged in three categories—functional, personal, and broad business perspective. The case addresses several of the core competencies as follows:

- Measurement (functional category)—students are required to evaluate the effectiveness of internal control utilizing the COSO's five interrelated components of internal control.
- Reporting (functional category)—students communicate their answers to case requirements in writing. The Auditor Management Letter requirement calls for students to provide specific recommendations to the client.
- Research (functional category)—to adequately complete case requirements, students must utilize the COSO Internal Control framework, AICPA auditing, quality control, and ethical standards, and/or the Institute of Internal Auditors' *Code of Ethics*, and/or the GAO's *Government Auditing Standards*.

TABLE 4
Case Learning Objectives

<u>Learning Objective</u>	<u>Case Requirement</u>	<u>Appropriate Course</u>
Identify client practices that will impact risk assessment and the design of audit procedures.	Risk Assessment #1	Audit
Demonstrate an understanding of the three objectives of internal control by identifying instances in which management subverted these objectives.	COSO ICF Objectives	Audit, AIS
Identify internal control issues using the five components of internal control.	Control Environment/Entity Governance; COSO Components #1 and #2	Audit, AIS
Identify events that would impact assessment of internal control.	Risk Assessment #2	Audit
Identify conditions indicative of potential fraud and evaluate whether fraud actually occurred.	Fraud #1 and #2	Audit, AIS
Provide recommendations suitable for inclusion in a management letter to the client.	Auditor Management Letter	Audit
Identify factors that would likely impact the auditor's decision to retain the client.	Client Retention Evaluation	Audit
Identify ethical issues and address them based on an understanding of Rule 102 of the AICPA's <i>Code of Professional Conduct</i> (or the IIA's <i>Code of Ethics</i> or GAGAS Chapter 2).	Ethics Questions #1 through #7	Audit

Audit=appropriate for an undergraduate or graduate auditing class.

AIS=appropriate for an accounting information systems class that covers internal control and accounting information systems fraud.

- Risk Analysis (functional category)—students are required to identify business risks, elements of the control environment, and events indicative of control weaknesses/ineffective control activities that would impact the audit. Students are also required to identify indicators of possible fraud.
- Industry/Sector Perspective (broad business perspective category)—the case provides students exposure to a governmental educational entity (e.g., its funding sources, its governance structure), and with an understanding of issues unique to a governmental educational entity, particularly budget-related issues.
- Legal/Regulatory Perspective (broad business perspective category)—the case provides students with some insight into the legal environment in which a governmental educational entity operates and touches on ethical issues that could impact one's CPA licensure or professional designation.
- Resource Management (broad business perspective category)—the case raises the issue of proper stewardship of taxpayer-funded resources.

- Communication (personal category)—students submit their responses to case requirements in writing (or the instructor could instead require discussion). At the option of the instructor, written submissions could be graded for organization, conciseness, clarity, and grammar in addition to content.
- Interaction (personal category)—students working in groups/teams (at the option of the instructor) will interact when formulating responses to the case requirements. Discussion of the case requirements in class also allows for student interaction.
- Problem Solving/Decision Making (personal category)—to successfully complete the case requirements, students must display effective decision-making skills, insight, and professional judgment.

For linkages of these competencies to specific case requirements, see Table 5.

Implementation Guidance

This case is designed for use in either an auditing or accounting information systems class at the undergraduate or graduate level. Students are asked to take the role of auditor or consultant in completing the case requirements.⁴ All case requirements can be completed independently of the others, so instructors may select the requirements that are most appropriate given course content

TABLE 5
AICPA Core Competencies Addressed by the Case

<u>AICPA Competency</u>	<u>AICPA Category</u>	<u>Case Coverage</u>
Measurement	Functional	Control Environment/Entity Governance; COSO Components #1 and #2
Reporting	Functional	All case requirements
Research	Functional	All case requirements except Auditor Management Letter
Risk Analysis	Functional	Risk Assessment #1 and #2; COSO Components #1 and #2; Fraud #1
Industry/Sector Perspective	Broad Business	Case context; Risk Assessment #2
Legal/Regulatory Perspective	Broad Business	Case context; COSO ICF Objectives; Ethics Questions #2–#7
Resource Management	Broad Business	Case context; COSO ICF Objectives
Communication	Personal	All case requirements
Interaction	Personal	All case requirements, if completed in groups or discussed in class
Problem-Solving/ Decision-Making	Personal	All case requirements and questions

⁴ In recent years, a number of large school districts across the nation have had notable control failures and/or frauds, highlighting the importance of forensic accountants being well versed in public sector investigations. Instructors who cover forensic accounting in their courses may instead ask their students to take the role of a forensic investigator and estimate, for example, how much money was wasted by the Superintendent. This approach was suggested by an

and the timing of the assignment. Case requirements can be assigned (or discussed) separately throughout the course or simultaneously after all the appropriate topics have been covered. If the requirements are assigned throughout the semester, the instructor could require students to respond individually or in small teams. If multiple requirements are assigned simultaneously, instructors are advised to permit students to work in teams, consistent with the approach used by public accounting and consulting firms.

The case includes 17 requirements/questions, two of which relate to risk assessment, one on the control environment/entity governance, two related to the Committee of Sponsoring Organization's (COSO) Internal Control framework's components of internal control, one on the COSO framework's objectives of internal control, one on identifying auditor management letter recommendations, one on factors relating to the client retention decision, two related to fraud, and seven dealing with ethical issues. The requirements for risk assessment relate to an auditor's understanding of the client and related risks. Three requirements (the control environment/entity governance requirement and two COSO-related requirements) relate to the five components of internal control as defined by COSO. Another requirement asks students to consider the three objectives of internal control as identified by COSO. Two requirements consider the likelihood of fraud in the VBSD. One requirement asks for management letter recommendations that an auditor might make to the client, while another focuses on the client retention decision. The seven ethics questions relate to the role of the internal auditor and the influence of the profession's ethical standards on an internal auditor's decisions.

All case requirements are appropriate for use in an auditing course.⁵ If the requirements will be assigned simultaneously, the case should be assigned after coverage of the client retention decision, audit planning (including understanding the entity and its environment and risk assessment), the components of internal control, the auditor's responsibility for fraud, and the AICPA's *Code of Professional Conduct* (or the IIA's *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*).

We expect that most auditing courses will provide little, if any, exposure to *Governmental Auditing Standards* or of the IIA's *Standards and Code of Ethics*. When this is the case, the instructor can opt to have students address the requirements solely from the perspective of AICPA *Auditing Standards* (this is the approach we chose when field-testing the case). Alternatively, the instructor could utilize the case to expose students to the additional requirements of *Governmental Auditing Standards* and/or to the IIA's *Standards and Code of Ethics* by requiring students to complete the relevant case requirements using these sources.

All case requirements, with the exception of the requirements relating to risk assessment, the auditor management letter, client retention, and ethics are appropriate for use in an accounting information systems class that covers internal control. If the requirements will be assigned simultaneously, the case should be assigned after coverage of the COSO's *Internal Control—Integrated Framework*, and accounting information systems fraud and abuse.

The instructor should introduce the case to the class (for approximately 15 minutes) when assigned. During this introduction, the instructor should provide a brief explanation of a "fund" and stress the importance of the budget to a governmental entity. The students should be assured that, while the case involves a governmental entity, no previous coursework in governmental accounting is required to complete the case. Further, this would be a good time for instructors to

anonymous reviewer. A brief list of articles, demonstrating the increasing importance of forensic accounting in the public sector, has been included later in this section. These articles could be assigned as background reading for students.

⁵ The COSO Internal Control framework objective and fraud requirements are most appropriate for students asked to assume the role of a forensic investigator.

remind students that not all accounting and auditing issues they will encounter in practice will have been covered during their academic preparation, and that students will have to refer to the professional literature or pursue continuing professional education to fill the gaps. For this case, students can learn more about school district accounting by reading the Appendix.

Students should be reminded to focus on the specifics of the case when responding to each requirement and should be instructed regarding whether they should consult *Governmental Auditing Standards* and/or the IIA's *Standards and Code of Ethics* in forming their responses. Further, students should be reminded that when a requirement references a specific part or parts of the case, their answers should be based solely on the part or parts specified. This will serve as a reminder to students that auditors and consultants typically do not perform their work with the benefit of hindsight.

The amount of time it will take students to complete the case requirements is dependent on a number of factors—the nature of the requirement itself, a student's familiarity with the related course materials (and the extent to which the student needs to review textbook materials, auditing standards, etc.), whether the student works individually or as part of a team, the thoroughness with which the student has read the case materials, and the thoroughness of the student's response. In general, the case requirements that relate only to a specific part of the case (e.g., the risk assessment requirements that relate to Part I and Part II) will take less time to complete, perhaps 30–45 minutes each. The case requirements that necessitate a review of multiple parts of the case will take longer, perhaps 60 minutes each. On average, each of the ethics questions should take about 20–30 minutes each to complete. Students who do not write well will need additional time to edit and “polish” their responses, particularly if the quality of the writing is graded.

Evidence of Efficacy and Student Feedback

This case (without the ethics questions) was first field-tested in an undergraduate introductory auditing class at a small, AACSB accounting-accredited, private university located in the American Accounting Association's (AAA) southeast region. The case was assigned during the last month of the semester-long course after all facets of the audit process had been covered. The course instructor previewed the case for approximately 15 minutes. Students, working in self-selected teams of two or three, were given two weeks to complete the case. The group approach to identifying case solutions demonstrates the “team” aspect of the audit process to students. Each team submitted a written case solution, which was worth 5 percent of each student's final grade.⁶ When the graded cases (which included constructive instructor comments on the students' answers) were returned to the students, the instructor led a discussion of the case solution for about 30 minutes that focused on areas of deficiencies in the students' responses that were noted during grading.⁷

Following submission of their written responses to the case requirements, the students were administered a brief survey consisting of 11 statements regarding the case assignment. These statements solicited information about students' interest in and understanding of the case and students' perceptions of the relevance and real-world applicability of the case requirements. Two

⁶ In hindsight, given the amount of time and effort necessary for students to complete the entire case, 5 percent was too little. Instructors should consider allocating at least 10 percent of the course grade to this assignment, assuming all requirements are assigned.

⁷ The instructor feels strongly about the value of the learning that occurs outside of class when students complete case assignments. Rather than spending significant amounts of class time discussing the solutions to each case requirement, the instructor prefers to devote limited time to discussing the issues that students found more difficult or where there was significant diversity of opinion among students. Focused classroom discussion coupled with providing written feedback on the graded cases overcomes the need to spend an inordinate amount of time discussing the case solutions in class.

additional statements examined perceptions regarding the usefulness of the case in developing teamwork skills and the overall learning experience provided by the case. Students were asked to use a five-point, Likert-type scale (ranging from one—"strongly disagree" to five—"strongly agree") to identify the extent of their agreement with each of the 11 statements. The survey was completed by 23 of the 25 students in the class. The statements and the mean response score for each are provided in Table 6. Overall, student responses were very favorable. The mean response score for ten of the 11 statements exceeded 4 ("agree"). The highest mean response (4.52) came from the following statement: "The VBSD case helped me better understand the type of 'real-world' issues faced by an auditor." The next highest mean responses came from statements relating to the "real-world" applicability of two of the case requirements.

The case was then field-tested in an undergraduate accounting information systems (AIS) class and an undergraduate auditing class at a large, AACSB accounting-accredited, public university located in the AAA's mid-Atlantic region. Students in the AIS class completed selected case requirements individually. As this class was a distance-learning course televised to a number of locations with only a single student, the instructor did not ask students to work in groups. The case was assigned eight weeks into the semester, after facets of the two internal control frameworks (COSO and COBIT) and fraud concepts had been covered. The instructor previewed the case for approximately 10 minutes and provided a written set of case instructions and an instructor-developed grading rubric so students could determine the weight assigned to the oral presentation, the quality of the writing, and the solutions to the case requirements (see Exhibits 1 and 2). Since the students completed the case on their own, the students were advised that they could ask questions of the instructor to clarify items they did not understand. Students completed five of the case requirements related to internal controls: the control environment/entity governance requirement, the three COSO-related requirements, and the first fraud requirement. Students had four weeks to complete the case. Each student submitted a written case solution. The instructor required students to submit a videotape of their oral presentation (maximum of ten minutes in length) discussing what, in general, they had learned about internal controls from the case. Although the entire case grade was worth 16 percent of the students' semester grades, only 7.5 percent of the grade was based on the actual case solutions, while the rest of the grade was based on writing and presentation skills. Graded cases were returned to the students with a more detailed instructor-developed grading rubric containing information on the expected case solutions (see Exhibit 3). Students could request additional guidance directly from the faculty member regarding the solutions.

Following submission of their written responses to the case questions, the AIS students were administered a brief survey consisting of seven statements regarding the assignment (the response scale was the same utilized in the survey administered at the first institution). The survey was completed by all 12 students in the class. Overall, student responses were again very favorable (see Table 6). The mean response score for all seven statements exceeded four ("agree"). The highest mean response came from statements relating to students' interest in the case, the perceived relevance of the case, and the real-world applicability of what the students learned about the purposes of internal control.

Students in the auditing class, a course taught to on-campus students, completed the two fraud requirements, COSO Internal Control components requirement 2, the COSO Internal Control objectives requirement, and the seven ethics questions in teams of three or four. The ethics case questions were assigned during the fourth week of class after a 15-minute introduction by the instructor and after the AICPA *Code of Professional Conduct* was reviewed. Students had three weeks to complete the ethics portion of the case and it was worth 8 percent of their grade. Graded cases were returned to the students with an instructor-developed grading rubric (see Exhibit 4).

TABLE 6
Summary of Student Survey Responses

Statement	Student Audit	Response AIS	Means Audit
1. I found the VBSD case interesting.	4.26 (.54)	4.75 (.45)	4.30 (.61)
2. I found this case to be more relevant (than other cases) because it involves real people making real decisions about a real entity, the VBSD.	4.26 (.62)	4.75 (.45)	4.15 (.60)
3. The VBSD case was understandable even though I have not had a class in governmental accounting.	4.09 (.51)	4.5 (.52)	3.92 (.86)
4. Completing the VBSD case in a team was beneficial to me in developing teamwork skills.	4.22 (.67)	NA NA	3.63 (1.04)
5. The VBSD case provided real-world applicability of what I learned in class about the three purposes of an entity's internal control.	4.35 (.57)	4.75 (.45)	4.07 (.62)
6. The VBSD case provided real-world applicability of what I learned in class about the components of an entity's internal control (e.g., control activities).	4.39 (.58)	4.42 (.90)	4.11 (.70)
7. The VBSD case provided real-world applicability of what I learned in class about risk assessment.	4.13 (.55)	NA NA	3.93 (.73)
8. The VBSD case provided real-world applicability of what I learned in class about fraud and fraud risk factors.	4.39 (.72)	4.33 (.49)	4.37 (.63)
9. The VBSD case provided real-world applicability of what I learned in class about the client retention decision periodically made by an auditor.	3.96 (.77)	NA NA	3.77 (.91)
10. The VBSD case helped me better understand the type of "real-world" issues faced by auditors.	4.52 (.51)	NA NA	4.44 (.75)
11. Overall, the VBSD case provided a beneficial learning experience.	4.35 (.49)	4.67 (.49)	4.30 (.67)
12. The VBSD case provided real-world applicability of what I learned in class about ethics.	NA	NA	4.50 (.90)
13. The VBSD case provided real-world applicability of what I learned in class about the AICPA Code of Professional Conduct.	NA	NA	4.29 (.60)
14. The VBSD case provided real-world applicability of what I learned in class about ethical dilemma problem resolution.	NA	NA	4.38 (.62)

Response Scale: 5 = strongly agree; 4 = agree; 3 = neither agree nor disagree; 2 = disagree; 1 = strongly disagree. Standard deviations are noted in parentheses.

Next, the instructor discussed the two risk assessment requirements, the control environment/entity governance requirement, COSO Internal Control components requirement 1, the auditor management letter requirement, and the client retention evaluation requirement during class to

EXHIBIT 1
Sample Case Study Instructions (Individual Assignment)

Print the Violet Bay School District Case, including the tables and figures. Read the case and complete the requirements at the end of the case. If you need clarification of something you do not understand, please feel free to contact me by telephone or by e-mail.

It is crucial that you write clearly so anyone who reads your solutions would understand what you are saying. Be sure to focus on the specifics of the case in responding to each requirement.

While the case involves a governmental entity, no coursework in governmental accounting is required to complete the case. Still if you feel you need additional information on governmental accounting, please see the Appendix.

Additionally, auditors and consultants often repeat themselves in their written descriptions of what is discovered during an audit. The same missing internal control can impact a number of areas being studied so do not be afraid to reiterate a point in your solution to other questions.

Business and academic papers are typed and double-spaced so the reviewer or faculty member can make comments at the immediate point of concern. A twelve (12) point type font is the most appropriate size for this case, and the font should not be fancy (script). Fonts such as Ariel, Times Roman, and Courier are easily read by anyone. *Do not* use bold text, italics, all capitals or underlining to highlight a point or exclamation.

I will not state the number of pages required for your solutions. Use the number of pages necessary to answer the questions, but think about how a professional might explain things. Organize your thoughts and be concise in your answers as that usually makes a report more readable. Be sure to put your answers in the same order as the questions and to staple your solutions in the upper left hand corner.

Your solutions should be handed in at the beginning of class on the date indicated in the syllabus. An example of the grade sheet is provided.

Oral Presentation

You will be responsible for doing a brief oral presentation on what you learned generally by doing the case. This is worth 10 of the 100 points. You should be very brief as I simply want to know what you learned about internal controls and about fraud. You can film yourself with a video camera, a web cam, or a cell phone. The recorded presentation should be sent with your case solution. The presentation should be no more than 10 minutes and if you do the report in a shorter period of time that is no problem. If you want to have fun with it, please feel free to do so.

enhance the students' understanding of the case and the audit-related issues. The discussion spanned three or four class periods, with each discussion lasting about 20 minutes. Students were required to participate in the class discussion of these requirements, but were not graded on their participation.

The fraud and COSO requirements were assigned during the ninth week of class after internal control, risk assessment, and fraud auditing were covered in class and the graded solutions to the seven ethics questions had been returned to the students. The students had four weeks to complete these requirements and the assignment was worth 8 percent of their grade. Graded solutions were returned to the students. The solutions to the ethics questions, the fraud requirement, and the COSO requirement were discussed in class immediately following the students' submission of their written solutions for grading.

Following submission of their written responses to the ethics questions and fraud and COSO requirements and discussion of the other case questions in class, the auditing students were administered a survey consisting of the same 11 statements regarding the assignment and that utilized the same response scale as the survey administered at the first institution. An additional

EXHIBIT 2
Sample Case Grading Rubric (Student Version)

Name _____

Oral Presentation		Presentation Value 10 points _____
minus 1-5	Describe the highlights of what you learned	
minus 1-3	Thoroughness of preparation	
minus 1-2	Confidence and style of speaker	
Paper Grammar		Grammar Value 40 points _____
4 pts	Neatness	_____
minus 1-4	Typing errors, font, spacing, on back	
6 pts	Logical Order and Binding	_____
minus 1-4	Writing poorly organized or difficult to follow	
minus 3	Not answered or bound in order	
minus 3	Not bound/stapled in some fashion	
5 pts	Readability	_____
minus 1-2	Some problems with consistency, personal pronouns, abbreviations, long sentences, repetitive words, paragraph thought, highlighting words explain technical terms	
minus 2-3	Average problems with above	
minus 4-5	Major problems with above	
25 pts	Grammar	_____
minus 5-10	Grammar Check	
minus 1-5	Phrases instead of sentences	
minus 1-2	Tense, Agreement	
minus 1-2	Articles, Conjunctions	
minus 1-2	Contractions, Percent	
minus 1-2	Then, Also, Further, Next	
minus 1-2	In, Into, Inside	
minus 1-3	Capitalization	

(continued on next page)

EXHIBIT 2 (continued)

minus 1-3	Punctuation: commas, possession, quotes
minus 1-4	Numbers, Dates, States, Form parts, Math signs, Money, Time, Fractions
minus 1-4	Hyphens, Dashes, Slashes, Parentheses, Semicolons
minus 1-4	Word Misuse _____
minus 1-2	Spelling _____
minus 1-2	Colloquial, Jokes, Ornate Words

Survey Completed	Survey Value 5 points	_____
Case Content	Content Value 45 points	_____
Entity Governance Requirement (Control Environment)	Value 12 points	_____
COSO Objectives Requirement	Value 12 points	_____
Reliability of Financial Reporting		
Efficiency and Effectiveness		
Compliance with laws/regulations		
COSO Components Requirement #1 (Control Activities)	Value 6 points	_____
COSO Components Requirement #2 (Information and Communication, Monitoring)	Value 6 points	_____
3 pts Information and Communication		
3 pts Monitoring		
Fraud Requirement #1	Value 9 points	_____
Incentive to Commit		
Opportunity to Commit		
Attitude or Rationalization		
	Total Case Score	_____



EXHIBIT 3
Sample Case Grading Rubric (Faculty Version)

Name _____		Presentation Value 10 points _____
Oral Presentation	minus 1-5 Describe the highlights of what you learned minus 1-3 Thoroughness of preparation minus 1-2 Confidence and style of speaker	
Paper Grammar	Neatness	Grammar Value 40 points _____
4 pts	minus 1-4 Typing errors, font, spacing, on back	_____
6 pts	Logical Order and Binding	_____
	minus 1-4 Writing poorly organized or difficult to follow minus 3 Not answered or bound in order minus 3 Not bound/stapled in some fashion	_____
5 pts	Readability	_____
	minus 1-2 Some problems with consistency, personal pronouns, abbreviations, long sentences, repetitive words, paragraph thought, highlighting words, explain technical terms minus 2-3 Average problems with above minus 4-5 Major problems with above	_____
25 pts	Grammar	_____
	minus 5-10 Grammar Check minus 1-5 Phrases not sentences minus 1-2 Tense, Agreement minus 1-2 Articles, Conjunctions minus 1-2 Contractions, Percent minus 1-2 Then, Also, Further, Next minus 1-2 In, Into, Inside	_____

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EXHIBIT 3 (continued)

minus 1-3	Capitalization
minus 1-3	Punctuation: commas, possession, quotes
minus 1-4	Numbers, Dates, States, Form parts, Math signs, Money, Time, Fractions
minus 1-4	Hyphens, Dashes, Slashes, Parentheses, Semicolons
minus 1-4	Word Misuse _____
minus 1-2	Spelling _____
minus 1-2	Colloquial, Jokes, Ornate Words

Survey Completed

Survey Value 5 points
Content Value 45 points

Case Content

Control Environment/Entity Governance Requirement

Value 12 points _____

Integrity and Ethical Values	1 pt	Organizational Structure	2 pts
Spigot		Internal Auditor reporting	
Commitment to Competence	3 pts	Robertson in many positions	
Changes in personnel		Assignment of Authority and Responsibility	1 pt
Robertson's calculations		Personnel gaps = no supervision	
Ignore warnings		Human Resources Policy and Practices	1 pt
Board of Directors/Audit Committee	2 pts	Spigot manipulates hiring	
Elected members without expertise		Other	1 pt
Lack of independence		External budget guidelines	
Management's Philosophy and Operating Style	1 pt		
Spigot			

Value 12 points _____

COSO Objectives (No Points Off for Misclassification)

Reliability of Financial Reporting	4 pts	Efficiency and Effectiveness—overspending	5 pts
Interfund transfers		Not follow purchasing/APay procedures	
Limited segregation of duties		Circumvent Board approval of transfers	

(continued on next page)

EXHIBIT 3 (continued)

<p>Interpret GAAP to suit Clerical errors/miscalculations Expenditures misclassified/wrong period Compliance with laws/regulations Overspent the budget violating law Bought assets and services not in budget Circumvented Board transfer approvals Robertson reclassified expenses without approval</p>	<p>3 pts</p>	<p>Dept. heads no financial info–planning Budget not actual results/assumptions Budget errors/miscalculations– Uncertain budget info system–wide Board given erroneous info for planning Archaic personnel cost system Internal auditor reporting level</p>	<p>Value 6 points _____</p>
COSO Components #1 (Only Need Three)			
<p>Authorization of Transactions and Activities Spigot—unbudgeted expenditures Board did not authorize transfers Segregation of Duties Structure fine Spigot not filling positions</p>	<p>2 pts 2 pts</p>	<p>Use/Maintenance of records/docs Missing documentation Miscalculations Independent Performance Reviews LHMB Recommendations ignored Internal Auditor memos ignored City Management and Budget Director</p>	<p>2 pts 2 pts</p>
COSO Components #2			
<p>Information and Communication Timely, but inaccurate information in system Inaccurate, misleading financial statements Financial “Highlights” to Board Math errors in budget, volume of transfers Recording items in wrong accounting period Expense miscalculations</p>	<p>3 pts</p>	<p>Monitoring Supervision Board’s trust of administrators Internal Audit Organizational structure negated Responsibility Accounting No budget to actual comparison</p>	<p>Value 6 points _____</p> <p>3 pts</p>
Fraud Requirement #1			
<p>Incentive to Commit Pressure to provide service with budget restrictions</p>	<p>2 pts</p>	<p>Opportunity to Commit Lack of controls</p>	<p>Value 9 points _____</p> <p>5 pts</p>

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EXHIBIT 3 (continued)

End-of-year funds returned to City (spend it)		Insufficient staff to segregate duties
Minimal punishment for overspending budget		Management ability to override controls
Attitude or Rationalization	2 pts	Lack of accounting expertise on Board
Spigot's disregard of reporting process		Personnel turnover
Spigot/Robertson presentation of optimistic results		

Total Case Score _____

EXHIBIT 4
Sample Case Grading Rubric—Ethics Questions

1. What concerns over the budget and expenditure process did the internal auditor identify in his reports? (5 points)
 - a. List the deficiencies.
2. Why was the internal auditor ineffective at being a “watch dog” for compliance to the governmental regulations and controls over the budget process? (5 points)
 - a. Discuss independence issues for internal auditors.
3. Assuming he was a CPA, what part of the AICPA *Code of Professional Conduct* is applicable to Indiana based on his knowledge of the problems and the unreported deficits?
 - a. Discuss rule 102 of the AICPA *Code*. (5 points)
4. The internal auditor reported on more than one occasion problems with the budget process to the Superintendent and Audit Committee and his reports were ignored. What ethical dilemma does this create for the Internal Auditor? (5 points)
 - a. Discuss whether the Internal Auditor has a responsibility to inform others of the wrong doings of which he is aware.
5. What parties are affected by this dilemma and how are they affected? (5 points)
 - a. The Internal Auditor, Superintendent, School Board, City, taxpayers, teachers and students.
6. What alternatives does the Internal Auditor have to resolve this dilemma and what are the consequences of each alternative? (5 points)
7. The Internal Auditor eventually resigned over his concerns. Based on the possible alternatives and consequences, what do you think Indiana should have done? (5 points)
8. Paper format/presentation (5 points).
 - a. Cover sheet (1 point).
 - b. Presentation style—professional looking (1 point).
 - c. Neatness—no typing errors, fonts, spacing (3 points).
9. Grammar errors (5 points).
 - a. 5 points = no errors.
 - b. 4 points = few (2 or 3) errors.
 - c. 3 points = 3–5 errors.
 - d. 2 points = 6–10 errors.
 - e. 1 point = more than 10 errors.
10. Group participation (5 points) graded by group members.
 - a. Attendance at group meetings.
 - b. Prepared at meetings.
 - c. Contributed to team effort.
 - d. Performed fair share of work.
 - e. Positive attitude.

Total score (50)

three statements about the ethics questions were also included. The survey was completed by all 27 students in the class (see Table 6). Overall, student responses continued to be favorable. The mean response score for seven of the 11 statements exceeded 4 (“agree”). The highest mean responses came from statements relating to students’ interest in the case, the perceived value of the learning experience, the “real-world” applicability of certain case requirements, and the perceived value of the case in helping the students understand the type of “real-world” issues faced by

auditors. The highest mean response (4.50) came from the following statement: “The VBSD case provided real-world applicability of what I learned in class about ethics.”

Students in all three classes were given the opportunity to add written comments to the survey. A sampling of those responses is included in Table 7. Generally, students enjoyed the case, particularly its real-world applicability. The only criticisms centered on perceived repetition in completing case requirements and the level of detail in the case. We acknowledge that information contained in the case can be used to address multiple case requirements. However, we remind students that this is reflective of practice. For example, an auditor’s evaluation of management’s integrity impacts the client acceptance/retention decision, risk assessment, internal control evaluation, and the nature and extent of substantive testing. Further, we remind them that there is not a one-to-one correspondence between audit objectives (based on management’s assertions) and audit procedures or between audit procedures and audit evidence. Often the audit evidence generated

TABLE 7
Student Written Comments on Case

Sample Responses from AIS Students

“Learning about controls and fraud from a textbook and during class lectures is beneficial, but to see these types of activities ‘in action’ by reading the VBSD case made these subjects clearer to me. This assignment will definitely help me in the future to look for both obvious and subtle clues with respect to potential control problems and the possibility of fraud.”

“I thoroughly enjoyed learning about this case because it made the theories and information we have been learning in class a little easier to understand in a real life situation. I can retain the information that we learn, but when I can see it in a real life case, I am able to comprehend it better!”

Sample Responses from Auditing Students

“The case was really beneficial by tying both [AIS] and [auditing] together. A lot of information from both of those classes applied to the case and I was able to see them both.”

“I felt that the case was very helpful in putting all of the schoolwork together into one project. I was able to use different skills that I learned throughout this course to detect, examine, and find results of how not only governmental but also corporate fraud can occur.”

“Before reading the case, I had felt a little intimidated by what appeared to be a huge packet of papers. Even before reading it, I had felt it would be rather boring. However, I felt my original expectations were far off. The case was both interesting and educational. There was nothing in the case that I feel could be considered confusing. Everything was straightforward.”

“I felt like we could apply the same answer to many different questions.”

“The case was hard to follow at first. Understanding who did what was complicated because things were happening so fast. After reading the case more than once, the case became more understandable.”

“Great case that provided just enough details and provided the team an opportunity to really delve into all the facets of internal controls.”

“The case provided insight into a real world example that applied the concepts learned in class.”

from the application of an audit procedure relates to more than one audit objective. We addressed the concerns expressed regarding the level of detail in the case by reducing the length of the case materials and by adding informative figures and tables.

Related Readings

While we did not assign any outside readings with the case, there is certainly the opportunity to do so. Instructors who wish to assign outside reading on fraud in public entities might assign *Fraud and Corruption in Public Services: A Guide to Risk and Prevention* (P. C. Jones, 2004, Gower Publishing Company). Instructors who wish to focus outside reading on the internal auditor-related ethics questions might assign *The Internal Auditor at Work: A Practical Guide to Everyday Challenges* (K. H. Spencer Pickett, 2003, Wiley Publishing), *Extraordinary Circumstances: The Journey of a Corporate Whistleblower* (Cynthia Cooper, 2009, Wiley Publishing),⁸ or *Whistleblower: Exposing Corruption in Government and Industry* (Myron Glazer and Penina Glazer, 1991, Basic Books). Instructors who ask students to assume the role of a forensic investigator in completing the case and therefore wish to assign outside reading on forensic investigations, particularly as they relate to school districts, might assign one or more of the articles identified in Exhibit 5.

TEACHING NOTES

Teaching Notes are available only to full-member subscribers to *Issues in Accounting Education* through the American Accounting Association's electronic publications system at <http://aaapubs.aip.org/tnae/>. Full-member subscribers should use their usernames and passwords for entry into the system where the Teaching notes can be reviewed and printed.

EXHIBIT 5

Sample Readings on School District Forensic Investigations

- Anonymous. 2009. State audit cites missing records and lax procedures in Keys School District. *Florida Keys Keynote, Marathon* (May 21). <http://www.allbusiness.com/education-training/education-administration/12473100-1.html>
- Ball, D. 2009. Forensic auditor starts reviewing school district credit card purchases, other finances. *McClatchy-Tribune Business News* (March 25). <http://proquest.umi.com/pdqweb?did=1668254891>
- Bovich, R. J. 2005. Technology lessons from the Roslyn School District scandal. *The CPA Journal* (October): 14–15.
- Fox, L., and L. Stahl. 2008. Audit firm faults Dallas ISD accounting policies. *McClatchy-Tribune Business News* (April 24). <http://proquest.umi.com/pdqweb?did=1467587621>
- Reich-Hale, D. 2004. Auditors target schools as new source of business for forensic accounting services. *Long Island Business News* (July 16): 1.
- Roberts, M. 2004. Fraud fight in the wild west. *Security Management* (November): 60–69.
- Sheridan, S. 2005. Sniffing out fraud: Forensic accountants dig deep. *New Jersey Business* (May 1): 40.
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⁸ The option of assigning outside reading was the idea of one of the anonymous reviewers, as was the recommendation of the book by Cynthia Cooper, the former head of internal audit at WorldCom.

If you are a full member of AAA with a subscription to *Issues in Accounting Education* and have any trouble accessing this material, then please contact the AAA headquarters office at office@aaahq.org or (941) 921-7747.

REFERENCES

American Institute of Certified Public Accountants (AICPA). 1999. *Core Competency Framework for Entry into the Accounting Profession*. New York, NY: AICPA. Available at: <http://www.aicpa.org/edu/corecomp.htm>.

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