



**UNIVERSITY EXAMINATIONS: 2012/2013**

**EXAMINATION FOR THE MASTERS OF SCIENCE (MSC) IN COMMERCE  
(FINANCE AND ACCOUNTING)**

**MFA 601 FORENSIC ACCOUNTING AND LEGAL ENVIRONMENT**

**DATE: APRIL, 2014**

**TIME: 3 HOURS**

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**INSTRUCTIONS: Answer Question One and Any Other Three Questions**

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**QUESTION ONE (31 MARKS)**

**Read the case provided and attempt the following questions:**

**DENTISTAR, INC.**

**GENERAL BACKGROUND**

Dentistar, Inc. ("Dentistar") was formed in 1985 to provide dental and orthodontic services to members of prepaid dental plans throughout the country. The core of the business grew out of the steel industry in the Pittsburgh area and spread through the surrounding region in support of major customers. Growth of the company, through acquisitions of similar organizations in the western, southern, and eastern portions of the United States, has been rapid.

Until recently, Dentistar's system of cash management had been operating reasonably well. However, during the last few months there have been several overdrafts in the operating bank account maintained at the West Region. Dentistar's management has requested its newly hired internal Audit Manager, Sheila Tate, to examine the issue and determine the nature and source of the overdrafts. Through discussions with corporate management, Sheila learns that the volume of manual checks processed by the West Region is greater than that of the other three regions. West Region management issues manual checks each month for two types of transactions: subscriber termination

refunds and expedited payments of operating expenditures.

## **SUBSCRIBER TERMINATION REFUNDS**

Refunds for the unused portion of their premium payments are issued to subscribers upon their request for termination from the plan. All refunds are processed at the regional office. Subscribers request a refund by either telephoning a regional member services representative or by sending a letter to the regional offices. The member services representative that handles a telephone request for termination documents various subscriber information, including the subscriber's name, address, social security number, and the appropriate plan and provider number on a Refund Request form. Refund Request forms are forwarded to Tom Swindler, West Region Finance Coordinator, for payment. Written requests are received in the mail by the West Region's executive assistant, Chris Martin, and forwarded directly to Tom Swindler for payment.

Based upon the written termination request letter received directly from the subscriber or the Refund Request form prepared by member services, Tom Swindler prepares a Request for Payment Adjustment. The primary purpose of this form is to document the calculation of the amount of refund due the subscriber. Tom reviews the status of the subscriber's policy and payment history online in Dentistar's subscriber tracking system. Tom, as well as all West Region personnel, is limited in his ability to edit the subscriber tracking system. Within the subscriber tracking system, regional personnel can only edit subscriber addresses and initiate transfers of subscribers to different dentists. All other changes to the subscriber profile are processed at the Central Region Headquarters. Based upon the information in the subscriber tracking system, Tom calculates the amount of the refund and prepares the Request for Payment Adjustment.

Tom Swindler forwards the Refund Request or subscriber letter and the Request for Payment Adjustment to Sally Trusts, West Region Director of Administration, for approval. After reviewing the forms to ensure all information has been properly documented thereon, Sally recalculates the amount of refund and approves the refund by signing the Request for Payment Adjustment. Sally does not review the information on line in the Dentistar subscriber tracking system to ensure that the data has been input on the forms correctly. Sally returns the supporting documentation and the approved refund to Tom Swindler.

Tom Swindler prepares a manual check from the approved refund package and runs the check through a check signing machine, which affixes Sally Trusts signature to the check. Sally is the only authorized check signer on the account. Historically, Sally manually signed each check; however, the rapid growth of the West Region rendered this practice impractical. The check signing

machine was purchased approximately two years ago.

Tom Swindler copies the date, payee, amount, and purpose of the disbursement from the signed check to the check stub. Tom prepares a cover letter to the subscriber and attaches the refund payment. The letter is forwarded to Jamie Snoops, the West Region receptionist, for mailing to the subscriber.

Once the refund has been authorized and the check issued to the subscriber, Tom Swindler sends a copy of the Request for Payment Adjustment to the Computer Information Systems Group at the corporate offices in Pittsburgh. Tom staples the original Refund Request or subscriber termination letter to the original Request for Payment Adjustment and files the package by date in the West Region accounting files.

The Information System Group utilizes the information from the Request for Payment Adjustment received from Tom Swindler to delete subscribers from the Dentistar subscriber tracking system. Subsequent to deleting the subscriber, the Information System Group files their copy of the Request for Payment Adjustment. Once deleted, the subscriber is removed from the providers' list of subscribers (patients) authorized to receive treatment through their office.

### **EXPEDITED OPERATING EXPENDITURES**

The West Region also issues manual checks in order to expedite payment of its operating expenses. Frequently, the West region sends surveys, comment cards, and other literature to subscribers and providers. Postage on these items is paid via a manual check issued at the Regional office. Office supplies, advertising expenses, promotional costs, and operating expenses are also frequently paid at the regional level.

All West Region personnel may request a manual check in payment of a regional operating expense by preparing a Check Request indicating the payee, amount, and reason for the request. The individual preparing the request attaches any supporting documentation, such as a vendor invoice, to the Check Request and forwards the entire package to Tom Swindler. Tom reviews the request to ensure all appropriate supporting documentation is present and forwards the Check Request package to Sally Trusts for approval. Sally reviews the package and authorizes payment by signing the check request. Sally returns the package to Tom for final issuance to the vendor.

Tom prepares a manual check and runs it through the check signing machine. The appropriate information from the signed check-date, amount, payee, and nature of payment-is copied by Tom onto the check stub. Tom gives the signed check to the West Region receptionist, Jamie Snoops, for mailing to the vendor. Tom files the approved check request and supporting documentation by payee in the West Region accounting files.

At the end of each month all the check stubs written by the West Region during the month are accumulated and sent to corporate headquarters in Pittsburgh. Accounting personnel in Pittsburgh review the check stubs and record the disbursement in Dentistar's general ledger accounting system based upon the nature of the payment noted on the stub. For example, payments to the Postmaster are recorded in the general ledger Postage Expense account. West Region personnel are not authorized to edit any of the transactions or balances recorded in the general ledger system. After the check stubs are recorded, they are placed in Dentistar's off-site storage area in Pittsburgh.

Subsequent to recording all regional manual expenditures, corporate accounting personnel prepare monthly profit and loss statements for each region. The monthly reports, compare actual profit and loss figures for the month, per the general ledger system, with the activity budgeted for the month. Budgets are prepared by corporate management at the start of each fiscal year. The budget for any particular year is typically based upon the prior year's actual result plus some factor for growth in the subscriber base and for expected inflation. The regional profit and loss reports are reviewed by corporate management as well as the Director of Administration for each region. In the West region, Sally Trusts reviews the statement and investigates any significant variations in actual results from budget.

Cancelled checks, including all manual checks written by the regions, are returned with the monthly bank statement directly to corporate accounting personnel in Pittsburgh. Corporate personnel reconcile each region's cash account on a monthly basis. In preparing the reconciliations, the accounting clerks refer to the bank statement to determine which deposits are in transit and which checks have yet to clear the bank. Because of the volume of checks each month, the cancelled checks are not used in the bank reconciliation process. However, for security, the cancelled checks are typically separated from the bank statement and placed in the general accounting storage vault at the Pittsburgh headquarters. The West Region's cash account has reconciled each month without exception. The reconciled bank statements are filed at the home office.

### **INTERVIEWS WITH WEST REGION PERSONNEL**

After learning about the subscriber termination refund and expedited operating expenditure procedures, Sheila Tate decides to conduct interviews of West Region personnel.

#### **Required:**

- (a) Using the Fraud Triangle, analyze the opportunities for fraud as highlighted in this case and recommend measures to be put in place by Dentistar to mitigate these opportunities. What could lead a Manager to commit fraud? (8 Marks)

- (b) Interviews were conducted to further understand operational procedures and policies. What is interviewing and what are the various techniques of interviewing. How should interviews be documented in this case? (7 Marks)
- (c) What additional procedures should Sheila Tate perform in her fraud investigation? (5 Marks)
- (d) What are the sources of evidence for Sheila Tate during her investigations? Highlight the rules these evidence must adhere to for it to be used in a court of Justice. (6 Marks)
- (e) If Dentistar were to institute recovery procedures against the manager involved in the reported fraud, what options are available to it to recover the misappropriated funds? (5 Marks)

## **QUESTION TWO (23 MARKS)**

- (a) With the dramatic development in the technology of computers and communications, the world has certainly benefited a lot, but the price might also be very expensive. Computer crimes are now becoming very serious problems that are costing up to billions of dollars. What is cyber crime? Briefly discuss the various types of computer crime. (10 Marks)
- (b) Briefly explain how firms or individuals should protect themselves from cyber fraud. (5 Marks)
- (c) Discuss the process that an investigator should follow in uncovering cyber crimes in e-commerce. (8 Marks)

## **QUESTION THREE (23 MARKS)**

- (a) You work for an insurance company as an investigator. One of the company's clients has been involved in an accident along Nakuru-Nairobi Highway. You have been assigned by your company to investigate who should bear the liability arising from the accident. Explain in detail the process of investigation that you should undertake to arrive at a conclusion. (9 Marks)
- (b) Using relevant examples highlight the objectives of an investigation process. (6 Marks)
- (c) What is a crime scene? Describe three ways in which an investigator documents the crime scene. (8 Marks)

## **QUESTION FOUR (23 MARKS)**

- (a) Compare and contrast interviews from interrogation as used by investigators. (8 Marks)
- (b) Discuss the various ways confiscation of proceeds of crime can be implemented in a fraud case. (10 Marks)

- (c) Witness identification and statements form the integral part of any investigation process. Explain the challenges investigators sometime face in relying on witness identification. (5 Marks)

## **QUESTION FIVE (23 MARKS)**

- (a) Legal professional privilege protects the disclosure of certain communications between a lawyer and a client. Why is it important to have legal professional privilege between a lawyer and his/her client? (9 Marks)
- (b) Highlight documents protected under the realm of legal professional privilege between a lawyer and his/her client. (6 Marks)
- (c) There are a number of exceptions to legal professional privilege, even when the dominant purpose test is satisfied. Explain these exceptions giving relevant examples. (8 Marks)

## **QUESTION SIX (23 MARKS)**

Using relevant cases in Kenya, explain the following fraud related offenses:

- (i) Theft; (2 Marks)
- (ii) Obtaining property by deception; (2 Marks)
- (iii) Obtaining a financial advantage; (3 Marks)
- (iv) False accounting; (3 Marks)
- (v) Furnishing false information; (2 Marks)
- (vi) Falsification of documents (3 Marks)
- (vii) Fraudulently inducing persons to invest money; (2 Marks)
- (viii) Secret commissions; and (3 Marks)
- (ix) Conspiracy (3 Marks)