

President's Notes

by Brent L. Rumbley, CFE, CPA, CISA



Our first chapter meeting was great with over 70 people in attendance, including several guests. We're off to a great start, let's keep it up!

Membership has its privileges. That is, membership within the ACFE's Middle

Tennessee Chapter. On October 13, 2005, our chapter hosted a day of free training available only to members of our chapter. Thanks to Jerry Spratt, Assistant Legislative Auditor for the Arkansas Division of Legislative Audit, for providing this excellent day of training. Although there were several people from our chapter that made this day of training happen, I would like to personally thank our Training Director, Hellens Kruszynski, for crossing all the "T's" and dotting all the "I's" that were necessary to pull off such a successful event. Didn't Hellens do a good job at finding the right people for the role playing exercises (that judge really knew how to use the gavel!) Thanks to all who volunteered! We hope to provide this member benefit in future years.

Mark your calendars! Dates for our 10th Annual Fraud Conference are March 20 and 21, 2006, and we should have the conference brochure out very soon. Our conference committee has been working hard, and has almost completed the difficult task of finding and securing the best speakers available. We are continually told that this is the best training available in this area, and this year will be no exception.

Please make plans to hear Rebecca Paul, CEO of the Tennessee Education Lottery Corporation, at our next luncheon on November 3, 2005. This will be a joint luncheon with the Nashville Association of Governmental Accountants, and will be held at the Nashville City Club, which is located on the corner of 4th and Broadway in the Suntrust Building. The member cost will be the same, but please make your reservations with Doreen Zientar by Monday, October 31. Detailed directions and other information can be found elsewhere in the newsletter.

Then on November 17th, we will be back at Scarritt-Bennett with our own Hal Wilson providing us with a very insightful presentation. I hope to see you at each of these events.

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October Speaker

Rebecca Paul President and CEO Tennessee Lottery Corporation

Rebecca Paul is a 20-year lottery industry veteran. She began her career working in local television news, advertising and promotions in Indiana and Illinois before being tapped in 1985 by former Illinois Governor James Thompson to lead the Illinois Lottery. Under her management, Illinois Lottery sales climbed to more than \$1.3 billion annually. In 1987, she moved to Florida to launch the Sunshine State's lottery where she set industry records for first-year sales. After that, she worked as a consultant, developing strategic plans and advising lotteries across the U.S. and abroad.



In 1993 Paul was tapped by the Georgia Lottery Corporation to start up the Georgia Lottery. During the first year of operation, she once again set new industry sales records. During her 10 years in the Peach State, the Georgia Lottery generated more than \$6 billion for education and funded scholarships for more than 700,000 students attending state colleges and universities and more than 500,000 four-year-olds who attended Lottery funded pre-Kindergarten programs.

The Board of Directors of the Tennessee Education Lottery Corporation selected Paul as the Tennessee Lottery's first president and CEO in September 2003. After starting ticket sales three weeks ahead of schedule on January 20, the Tennessee Lottery closed out its first fiscal year of five months and 12 days by transferring more than \$123 million to the state's education fund—roughly 40 percent more than the initial goal of \$88 million. Another \$2 million was also transferred to fund after-school programs.

Paul's resume includes a long list of lottery industry, business and civic accomplishments. In 1990, she served as President of the International Lottery Association. From 1997 to 1998, she served as president of the North American Association of State and Provincial Lotteries. She was the recipient of the 1998 Peter O'Connell Lifetime Achievement Award by the Public Gaming Research Institute. In 1999, she served as vice chairman of the Public Sector Gaming Study Commission appointed by the National Council of Legislators from Gaming States. In July 2005, she was named one of the first inductees to the Public Gaming Research Institute's Lottery Industry Hall of

Fame – established to recognize individuals who have made important contributions to the long-term growth and success of the lottery industry.

In April 2004, Business Tennessee magazine named Paul to the "Power 100," a list of Tennessee's most powerful people. In 1998, she won the Robert Todd Duncan Alumni Achievement Award from Butler University. In 1994, she was named "Entrepreneur of the Year" by the Stanford Graduate School of Business Alumni Association and won the Corporate Leadership Award from the Georgia Association of Minority Entrepreneurs. Paul is an Indianapolis native. She holds a bachelor's degree and a master's degree in education from Butler University, Indianapolis.

Member Profile

Rebecca W. Troyani, CPA, CFE



Hello. I am Rebecca W. Troyani, and I began working with the Division of State Audit in June 1997 shortly after graduating from Tennessee State University (TSU) with a Bachelor of Business Administration and a major in accounting. Before attending TSU, I received an Associates Degree from Nashville State Technical Institute and then went on to Trevecca Nazarene College. I wasn't sure when I entered Trevecca whether I would graduate, so I took most of my accounting classes there and then decided to go to TSU.

I grew up on a farm in Williamson County where I lived with my parents, one brother and three sisters. After graduating from Franklin High School, I worked for the telephone company until I got married. Shortly after the birth of my first daughter, I moved with my family to New Orleans. I worked for several years doing the payroll for a small business, but before the birth of my second child, a son, I became a stay at home mom. Before my daughter entered the first grade, we moved back to Tennessee and into the Joelton community where I still reside.

Staying home and taking care of my children was very demanding and also very rewarding. After my first two children were in school, I had another daughter. It was during her preteen years that I was divorced and started college. My youngest daughter graduated from high school the year before I graduated from college.

Member Profile (Continued)

I have been with the Division of State Audit for eight years and during that time I have become a Certified Public Accountant and a Certified Fraud Examiner. Working as an auditor has been very fulfilling and has given me the opportunity to meet many people in state government and make many friends.

During the summer I usually teach swimming and also play softball on a senior softball team. This fall I played softball on a co-ed team in our first senior co-ed league. However, the thing that I enjoy most is spending time with my nine grandchildren, three girls (Kaitlin, Alyssa, Jessica) and six boys, (Jerry, Stephen, Ryan, Jaylen, Jesse, Trey).

Case of the Month:

“Creative” Accounting Practices

Submitted by Larry Coates; Associate Member



Several years ago during a quarterly audit of trip expenditures it was discovered that one of our transport agents incurred higher motel expenses than other company transport agents for a given geographical area. Typically, the South, Southeast, and Mid-West transport trips incur motel charges that are significantly less than similar transport trips in the New England, Western, and Southwestern states.

During a cursory review it was discovered the transport agent was paying cash for his motel room (including a deposit for the telephone) upon checking into a motel; receiving a receipt for funds given to the motel clerk; and the transport agent would reconcile his trip expenditures (manifest) with this motel “receipt” (to include the deposit given to the motel and subsequently returned to the guest/employee.) This practice would produce the employee a fraudulently obtained return of \$20.00 (customarily the amount of the telephone deposit.) However, our transport agent would then begin a new trip manifest and yes, include the same motel bill as one of the first expenses incurred for this new trip manifest. The second motel receipt is the receipt that is given to guests upon checking out of the motel (less any applicable charges-telephone

calls, movies, ...etc.) This would yield the transport agent approximately \$40.00 to \$60.00 through fraud.

What about checks & balances, you ask? Yes, my employer had them in place, but no separation of responsibilities; which serves no useful purpose, right? It was discovered during the course of this event that the accounting employee responsible for auditing this transport agent’s trip expenditures was romantically involved with the transport agent and was so smitten; she refused to accept that he would participate in any fraudulent activity(s.) Additionally, the same female accounting employee would load (responsible for depositing) trip funds into transport agents COMDATA account. (COMDATA is a Brentwood, TN based company that provides funds to be transferred to drivers anywhere in North America.)

Because of these aforementioned events, my employer now has separation of responsibilities. The manifest clerk/auditor is NOT the same accounting employee loading funds into a drivers COMDATA account; the manifest clerk/auditor is NOT the same accounting employee that deposits returned trips funds; and my employer solicited a vendor that allows direct billing of motel room charges at a discounted rate to companies utilizing their service; and more importantly, transport trips end after seven days maximum with the transport agent reconciling his/her trip expenditures to prevent any future events similar to the above to include rolling funds from one manifest to another (kiting.)

Although, neither the transport agent nor the accounting employee admitted guilt, only “I guess I made a mistake,” (over and over again?) Both employees resigned immediately after being interviewed separately. Their interviews were recorded in their presence and consent, which is our standard practice. Our President & CEO at the time decided not to pursue criminal charges against either employee, even though (over \$1,000.00) there was sufficient, documented evidence to do so. Justification was good riddance and lessons learned. Both employees attempted to unsuccessfully draw unemployment compensation; and were emphatically, denied.

September Meeting Minutes

The Middle Tennessee Chapter, Association of Certified Fraud Examiners met on September 29, 2005, at Scarritt-Bennett Center. Chapter President Brent Rumbley opened the meeting and welcomed everyone to the first meeting of the 2005-2006 program year. He asked for members to introduce their guests, and made the following announcements:

- Will and Michelle Hancock are moving to Auburn, Alabama. Their loss to the chapter leaves the Treasurer and Vice-President/President-Elect positions open. Don Johnson has agreed to step in as Treasurer. The position of Vice-President/President-elect is still open.
- The Chapter's Free Day of Training is October 13 at Nashville State Community College's Clement Auditorium. Fliers are on the table, and there is a form to sign up on the chapter's web site. Please sign up and attend.
- The October chapter meeting will actually be held on November 3, and is a joint meeting with the Association of Government Accountants. Rebecca Paul, Director of the Tennessee Lottery Corporation, will be the speaker. The meeting will be held at the Nashville City Club. Parking is available at the downtown Nashville Library, and the chapter will reimburse members for the parking cost.
- The regular November chapter meeting will be back at Scarritt-Bennett Center, and will be held on November 17.
- The Fraud Conference will be held March 20 and 21, 2006. The Conference Committee has several speakers already confirmed.

Brent turned the floor over the Daniel Porter, Immediate Past-President, who presented Doreen Zientar and Fred Pasteur with ACFE fleece vests. Daniel had planned to present them last program year, but the vests did not arrive in time. The vests were in recognition of Doreen's and Fred's service to the chapter. Doreen keeps the reservations and makes the arrangements of the number of members attending meetings with Scarritt-Bennett, and Fred is well known for stepping up and saying "I'll do it!" whenever the chapter needs something done.

Brent presented Tabitha Peden with her framed CFE certificate.

Rachel Jordan introduced the speaker, Tim Reece, Special Agent, Federal Bureau of Investigation, who

spoke about his experiences as an FBI agent in dealing with fraud and other white-collar crimes. Brent Rumbley presented Mr. Reece with a proof set of coins as a speaker gift.

Rebecca Troyani won the \$25 door prize, and the meeting was adjourned.

November Speaker

Harold Wilson, CPA, CFE



Harold O. (Hal) Wilson of Nashville is a CPA, and a Certified Fraud Examiner. A former Senior CPA with KPMG, he is currently a Professor of Accounting at MTSU, and Vice President and coordinator of forensic accountancy at *Wilson & Wilson, CPAs & CFEs, PC (Nashville)*. Mr. Jim C. Wilson, MBA, CPA, CFE, (no relation) and Hal have been business associates for many years.

Dr. Wilson was founder of a CPA firm (Wilson & Frasier) and his business experience includes retail store management, owning commercial and residential rental properties, and [now inactive] life insurance and securities sales. He holds degrees from *Lipscomb University (where he started as a double-major in art and mathematics)*, the *University of Missouri*, the *University of Alabama*. After teaching at *Lipscomb* and *Vanderbilt*, he became Chairman of the Department of Accounting & Information Systems at *Middle Tennessee State* for four years. This was followed by three years as holder of the CBA Foundation's Chair at *Tennessee Tech* and being a Professor of Finance & Accounting at *Pepperdine University (Malibu)*, before returning to MTSU.

Hal has authored a number of technical articles and portions of several textbooks (e.g., *The History of the TSCPA (1896-1978)*); current teaching assignments include "Forensic Accounting & Fraud Auditing." Hal has served as treasurer of the *Tenn. Society of CPAs*, and is a past-president of the *Tenn. Society of Accounting Educators*. He is the recipient of the 2004 TSCPA Society of CPAs *Lifetime Achievement in Accounting Education Award*.

Hal's wife, Sylvia, formerly Chair of the Guidance Department at *Hillsboro Comprehensive High School*, is a past-president of the *Tennessee Counseling Association*. Both Sylvia and Hal have been visiting professors at *International Christian University (Vienna and Prague)*. They have five adult children.

News from National

Accountants Need Help Fighting War on Fraud; ACFE Founder Urges Anti-Fraud Education AUSTIN, TX – October 12, 2005

The founder and chairman of the Association of Certified Fraud Examiners (ACFE), Joseph T. Wells, CFE, CPA, fears our nation's CPAs are not trained to fight what may seem to be an intractable battle against accounting fraud.

"As a group, CPAs are neither stupid nor crooked. But the majority are still ignorant about fraud," explains Wells, considered an international authority on the topic. "That's because for the last 80 years, untrained accounting graduates have been drafted to wage war against sophisticated liars and thieves. And as multi-billion dollar accounting failures have shown, it hasn't been much of a fight."

Legislation, including Sarbanes-Oxley, has not addressed a glaring oversight in the way colleges and universities educate auditors. In a 1999 study of America's 880 accounting programs, less than three percent offered a course in fraud. The situation is not much better today improving but has a long way to go. "Just ask the people holding accounting degrees," Wells says. "'How much did you learn about fraud in college?' The shocking answer: little or nothing."

After two years in public accounting, Wells spent nearly a decade as an FBI agent. By working actual cases, it became obvious that his formal education and accounting training had left him sorely lacking, "I wouldn't have recognized a fraud because it is much more than simply numbers."

Wells says there are three reasons CPAs cannot catch all material misdeeds. The first is the dichotomy of fraud. "Trust is an essential element of business ? and an essential element of fraud," he explains. "Absent trust, it is impossible to con anyone. But absent trust, it is also impossible to conduct business." Second, fraud is a crime without unique clues, making it easy to miss. While it is hard to mistake a robbery, an embezzlement may be marked merely by numbers that don't add up.

Finally, CPAs can only audit what is presented to them. "Under-the-table deals, sham transactions

and the like can be easily concealed," Wells states. "Holding CPAs to a standard that requires them to detect all material fraud puts them in a no-win situation and they know it. Still, auditors can certainly do a much better job than they've done in the past."

History has shown that key insiders are usually the first to divulge corporate misdeeds. Sharron Watkins of Enron and Cynthia Cooper of WorldCom are only the latest in a long line of employees tarred as whistleblowers. But auditors typically react to these tips rather than seeking them out in time to avoid major financial disasters.

"Accountants don't currently learn what motivates fraudulent conduct, how to spot the signals, how to prevent fraud from occurring and much more," Wells explains. "As it stands now, auditors are fighting a war without being taught how to recognize the enemy. Until that changes, expect more heavy casualties," he warns.

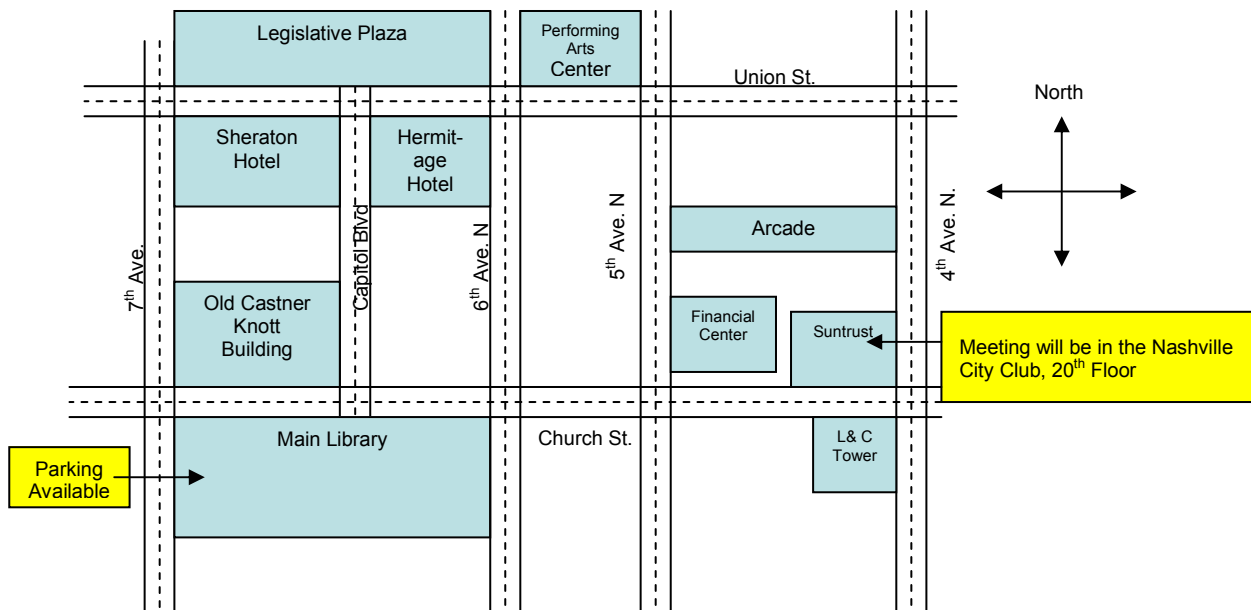
(Editor's Note: The above was reprinted from the Association of Certified Fraud Examiners' web site, www.acfe.com)



“October” Luncheon Information

★★★★Please Note!★★★★

The “October” luncheon meeting will actually be held on November 3rd so that we can meet jointly with the Association of Government Accountants (AGA). We will meet at their usual meeting place, the Nashville City Club, which is located on the 20th Floor of the SunTrust Bank Building. The Suntrust Bank Building is at the corner of 4th Avenue and Church Street in downtown Nashville. **Please note that reservations are due one day earlier than usual, no later than 9:30 a.m., October 31, 2005.** Please make your reservations through Doreen Zientar, as usual. You can reach Doreen at dzientar@deloitte.com or at 882-7179. Parking is available at the downtown library. The first hour of parking is free when you have your ticket validated at the security desk just inside the main library doors. A fee schedule for extra library parking is shown below. The chapter will reimburse reasonable parking expenses for members attending the meeting. The entrance to the library parking garage is on 7th Avenue, just South of the intersection of 7th Avenue N. and Church Street. A map is provided below to assist you in finding the meeting location.



MAIN LIBRARY PARKING RATES:

- First hour of parking: FREE
- 1 - 1.5 hours: 75¢
- 1.5 - 2 hours: \$1.50
- 2 - 2.5 hours: \$2.50
- 2.5 - 3 hours: \$3.50
- 3 - 3.5 hours: \$4.50
- More than 3.5 hours: \$5.00 (the daily maximum for those who park before 5:00 p.m. on weekdays)

Annual Conference Contest Point System

The 17th Annual ACFE Fraud Conference is scheduled to be held in New Orleans in 2006 (Please see note below regarding conference location). Once again, the Middle Tennessee Chapter will hold its annual contest to win an all-expense paid trip to the conference. You can earn points to compete for the trip according to the following schedule. Please remember that each member is responsible for accumulating his or her points and submitting the total number and the accompanying documentation at the conclusion of the contest.

<u>Category</u>	<u>Points</u>
Attending Monthly Chapter Meeting	1 point per meeting
Publish Article in Chapter Newsletter	2 points
Sponsoring a New Member	2 points per new member
Publish member profile in Chapter Newsletter	1 point
Contribution to "Been There, Said That, Done That	1 point per contribution per Month
Publication of Case Results	2 points
Participating as a speaker in the Chapter Speaker's Bureau	2 points per engagement
Publication of an article in the Association's <i>Fraud Magazine</i>	3 points
Attending the Chapter's 10 th Annual Conference	2 points
Service on Chapter Committee	2 points

The Examiner

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Chapter Officers and Board Members:

President	Brent L. Rumbley, CFE, CPA, CISA	747-5298	brent.rumbley@state.tn.us
Vice President	Fred Pasteur, CFE	741-5518	fred.pasteur@state.tn.us
Past President	Daniel Porter, CFE	741-1651	daniel.porter@state.tn.us
President Emeritus	Dennis Dycus, CPA, CFE	401-7871	dennis.dycus@state.tn.us
Treasurer	Don Johnson	253-2164	don.johnson@state.tn.us
Secretary	Beth Pendergrass, CFE, CISA, CGFM	747-5294	beth.pendergrass@state.tn.us
Training Director	Hellens Kruszynski, CFE	401-7909	hellens.kruszynski@state.tn.us
Member at Large	Bob Cleland	726-7969	bcleland@lecg.com
Member at Large	Sharon Matheny	744-4326	sharon.matheny@state.tn.us
Member at Large	Tom Mathis	425-2468	mathist@dynpsc.org

Committees

Website	Lew Robbins, CPA	747-5325	lewis.robbs@state.tn.us
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Academic/ Public Relations	Ron Hickman, CPA, CFE	532-7098	
Newsletter	Beth Pendergrass, CFE, CISA, CGFM	747-5294	beth.pendergrass@state.tn.us
Hospitality	Doreen Zientar, CIA	882-7179	dzientar@deloitte.com
Outreach	Fred Pasteur, CFE	741-5518	fred.pasteur@state.tn.us
Job Placement	Herman Statum, CFE, CPA	377-4977	hstatum@deloitte.com
Historic	Hal Wilson, CFE, CPA	898-2367	ProfDebit@juno.com

Important Meeting Information

Luncheons are \$8.00 for members who make their reservations by 9:30 a.m. on the Tuesday prior to the luncheon. For members making their reservations after that time on Tuesday, until Thursday morning, and for members who make a reservation but do not attend or call to cancel, the cost is \$12.00. Scarritt-Bennett Center charges us \$16.00 for meals when no reservation is made. Therefore, for individuals who attend without making a reservation, the cost is \$16.00. First-time guests eat free. After a guest's first visit, he or she will be charged \$12.00 for the lunch, provided he or she makes a reservation. Without a reservation, the lunch is \$16.00. Scarritt-Bennett provides excellent meals and plenty of free parking. For reservation contact Doreen Zientar at 882-7179 or by email at dzientar@deloitte.com.

Luncheon Dates

November 3, 2005 Joint with AGA
November 17, 2005
December 15, 2005
January 26, 2006
February 23, 2006
April 27, 2006
May 25, 2006

March 20-21, 2006 (Conference)

Directions to our Luncheon at the Scarritt-Bennett Center

From Downtown: Take West End Avenue south to 19th Ave. Turn left on 19th and drive to Division Street. Turn left on Division for about 100 feet, then turn back to the right on 19th Ave. Follow 19th Avenue to Grand Ave., turn left on Grand, turn right from Grand onto 18th Avenue. You will find two entrances to Scarritt-Bennett parking lots on the right just after you turn onto 18th Ave. We will be meeting in the Bennett Building in the Raintree Room on the 2nd floor. The Bennett Bldg. is about the same distance from either parking lot, toward the 19th Ave. side of the campus. Feel free to arrive early and get acquainted with the facility. If you are traveling from the south side of town, travel north on West End to 19th Ave. (You will pass the street that you used to turn on to go to the University Club.) Turn right on 19th Avenue and go to Division Street. Follow the rest of the directions from above. Visit www.scarrittbennett.org to see a map of their campus.

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