

Buffalo

Buffalo Industry CPAs Can Benefit from Chapter Involvement

By **GREGORY J. ALTMAN**

Buffalo Chapter President

The NYSSCPA serves all its members, whether they are CPAs in public firms, private industry, government, academia or any other form of practice.

With this in mind, I'd like to remind our chapter members that I can be contacted any time and am available to talk to you.

The chapter is also fortunate to have a dedicated and hardworking board and group of committee chairs to whom people can also reach out if they need assistance.

The chapter should be viewed as a team that will succeed if our members take an active role in our committees, provide us with ideas for future continuing professional education sessions, provide feedback on past sessions or offer comments on legislation both pending and in effect. Doing so will enable us to even better fulfill our

members' needs, satisfy their interests and give our leaders a basis for policymaking.

Approximately one-third of our chapter's 1,385 members are CPAs outside of public firms. This makes the chapter's Members in Industry Committee of distinct importance locally. Being a member of this group myself, I believe we have traditionally not been as active in the chapter as these numbers would indicate.

Still, we are fortunate to have a strong and enthusiastic leader for this committee in

Anthony Agostino (aagostino@westherr.com), who has headed the group for the past few years. However, he needs the help of those Buffalo members outside of public firms to grow the industry presence in our chapter.

As a chapter, we would like to reach out

to you and encourage your involvement both within the chapter and among the leadership. With the passage of the accountancy reform law more than a year ago, CPAs in industry (as well as in government, taxation, academia, financial advisory and consulting) now have new requirements. We need to hear from you to better serve you as an organization. We need to hear from you as to what continuing professional education you want to see, how we can better demonstrate the benefits of membership and how we can expand your voice in local leadership and policymaking. The chapter can also help sort through any questions you might have in relation to the new law and assist in many ways with the issues you face as a CPA practicing in industry.

As members of the CPA profession,

those in industry have specific challenges and struggles that the Society can assist with. The profession has become more complex than ever before, and with the large number of CPAs now practicing outside of public firms, the Members in Industry Committee can be a great resource, allowing you to compare notes and develop relationships with your peers in industry as well as assisting you in overcoming common challenges.

Additionally, being an active member of this committee (or any NYSSCPA committee for that matter) will provide you with contacts engaged in all areas of practice, keep you up to date on the issues facing CPAs, and keep you aware of the diverse opportunities inherent to your profession.

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Member Gives Guidance on Detecting Audit Fraud with IT

By **CHRIS GAETANO**

Trusted Professional Staff

CPAs in the Buffalo area learned how information technology (IT) can be used to detect fraud during an audit at the local chapter's annual Summer Symposium on July 27–28.

In a session entitled "Fraud and the Computer," **Yigal Rechtman**, a member of the Technology Assurance Committee, examined how computers can both enable and detect fraud. One of the various ways that auditors can find fraud on a computer, Rechtman said, is to apply Benford's Law, which involves a computing technique long used by auditors to identify fictitious populations of numbers derived from other numbers by calculating the probability that certain numbers will appear with a certain frequency within a data set. The law states that the probability of the first left-most digit and second left-most digit in a naturally occurring large data set is inversely related to the value, according to Rechtman's presentation. For example, the left-most digit is six-plus times more likely to be "1" (30.1 percent) than "9" (4.6 percent).

Rechtman said that the use of this law can be very efficient when it comes to assessing fraud risk in an audit, especially one of small companies because the type of fraud they're at risk for, asset misappropriation, is particularly well suited to this method. He also noted that a small company's transactional base is usually very close to their profit-and-loss statements.

"So applying Benford's law is a real neat, efficient and effective way to address fraud risk in any small companies that are more or less [on a] cash basis," said Rechtman.

Rechtman's presentation also included a case study in which a firm has a borrowing base—the amount a lender is willing to advance against the dollar value of pledged collateral—for a line of credit based on inventory and accounts receivable.

In this case study, the firm's accounts receivable software allows the use of a customer code with an override of the customer's name and address, thus enabling the creation of fictitious invoices and, consequently, fictitious receivables, Rechtman said. This would, in turn, allow for a theoretically unlimited line of credit as new receivables can be created at will—fake receivables could be recorded as receipts to fake cash accounts that could be used to increase inventory and, thus, credit.

In Rechtman's case study, the firm booked multiple purchases with the same vendor-invoice number in order to throw off inspectors.

However, an auditor could find the pattern of deceit by looking at the accounts receivable data of every invoice that had a different customer name than that of the master file. The auditor could then quantify the real accounts receivable sales by constructing a database that could show multiple invoices from a fake account.

Weak passwords and access controls left an audit trail in the form of access logs in

Rechtman's fraud example. Examining these records would show that the fictitious entries were made on weekends when the office was closed and when the bookkeeper could demonstrate that he or she was on vacation. Further, he said, creating fake invoices created temporary files that could be recovered.

In general, CPAs using IT to detect fraud will tend to physically secure the electronic evidence, turn off the computers and create a bit-for-bit image of the data and memory in a manner that could withstand a legal challenge. He warned the audience to avoid tampering with the evidence by trying to recreate the fraud conditions by reference. He also said that auditors should disable remote access, re-direct e-mail accounts as necessary and appropriate, not delete user accounts, and have an employee policy at hand and legal counsel's blessing when performing an IT audit.

CPAs should also be aware of IT issues back at their firms or companies, Rechtman said. His second presentation, "10 Questions to Ask Your IT Professional," advised those in the audience to consider asking the following questions of their IT staff:

Do you have the training you need?

From worst to best, what do you consider the weak and strong spots in our IT environment?

Whom do you go to when you have different types of questions?

What is our disaster recovery plan and how are we doing with it?

How are we doing with our policies?

How do you control who has access to what, and who approves it?

What customizations and programming are done?

What is our web presence and e-mail style?

What is the time frame to carry corrective action?

How should we combine in-house knowledge with risk assessment?

Having a knowledgeable IT professional on staff is a boon for any business or CPA firm, according to Rechtman. "Real misstatements ... can be prevented if there is an understanding of IT," Rechtman said, "and that understanding can be enhanced by having an IT specialist on board."

The event also featured a generalized accounting standards update as well as a more specialized presentation on navigating the Financial Accounting Standards Board rules codification. It also included a presentation on accounting malpractice and an introduction to International Financial Reporting Standards, which Buffalo Chapter President **Gregory J. Altman** said was particularly well attended because of ongoing convergence efforts. Altman said that 28 of the 126 people who attended—a 50 percent increase from prior years that he attributed to the accountancy reform law—were CPAs working in industry.

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