



Spring 5-23-2005

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### **Recommended Citation**

Aubry, Ann and Hanna, Jeff, "May Term Course at Illinois Wesleyan Examines Accounting Fraud" (2005). *News and Events*. 661.  
<https://digitalcommons.iwu.edu/news/661>

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## May Term Course at Illinois Wesleyan Examines Accounting Fraud

May 23, 2005

BLOOMINGTON, Ill. - Before the infamous Enron scandal took down accounting giant Arthur Anderson in the early 21st Century, there was Fred Stern & Co. - a long-forgotten name now known to students taking the Illinois Wesleyan University May Term course, "Accounting Fraud."

The rubber importer's 1925 bankruptcy (after it had falsified \$700,000 in assets to secure investment capital) resulted in the precedent-setting *Ultramares v. Touche* civil case: Familiar to students of business law, the case defined auditors' liability to those who invest in a company based on their findings.

Renewed interest in such scandals and their consequences, whether dozens or few years ago, is not lost on the course's instructor, Associate Professor of Accounting David Willis. The timeliness of the topic prompted him to develop the course for Illinois Wesleyan's May Term, a three-week session that features innovative courses emphasizing immersion in learning. Willis is using *Infectious Greed* by Frank Partnoy as the course text.

"We're looking at a number of financial and accounting scandals, problems that have occurred, to see if we can pick up some common threads," Willis said. "I'm hoping that it will help (the students) understand the difficulties that the accountants and auditors have had in catching the crooks."

Student presenters in a recent session looked for errors in the review of Fred Stern & Co.'s financial statements by the young employee of the respected Touche, Niven & Co. accounting firm, and discussed the lingering impact of the subsequent *Ultramares v. Touche*, which sued a partner for employee actions much as the post-Enron Sarbanes-Oxley Act holds chief executive officers accountable. Another group of students analyzed the 1986 scandal of ZZZZ Best Co., unusual because the carpet restoration company became publicly traded without auditors ever noticing the business was an elaborate sham, its multi-million-dollar contracts all faked. Students listed "10 red flags" the auditors allegedly overlooked.

Willis told the class he remains baffled at this company's scheming founder, who must have known his "house of cards" would fall down.

"I don't know what the lesson to learn about that is, other than you can't count on people behaving rationally," he told them. "Other lessons on auditing: Think about those warning signals."

Reflecting on the course's lessons overall, student Eileen Ouska said, "This opens your eyes to see what's happened, and learn about the red flags."

“Most of us are going to be auditors, or trying to get auditing jobs right now,” said Kristin Bandurski. “It's really helpful to know about the different things that have happened before, to catch them in the future.”

She added, “We've learned how auditors are paid by companies to do the audit, and how that becomes a problem, where you want to keep your clients, (so) you lie for them. It's kind of nice to know that problem's out there, so you can avoid it.”

To discuss the May Term course with Willis, contact Jeffery G. Hanna or Ann Aubry at (309) 556-3181.