

## A Teaching Case Using the Elements of the Foreign Corrupt Practices Act (FCPA)

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### Introduction

The Foreign Corrupt Practices Act (FCPA) was enacted in 1977 and included major provisions related to specification of what constituted anti-bribery violations, as well as requirements for recording accounting transactions. The anti-bribery provision made it illegal to provide money or other gifts to foreign officials at any level if the money or gifts were intended to influence a business-related decision (such as bids for property, permits, etc.) in other countries. With the amendment in 1998, the anti-bribery provisions extended application of these provisions not just to U.S. citizens involved in the business and certain foreign issuers of securities, but also to foreign firms or third parties who facilitate corrupt payments (DOJ, 2015). A response that bribery and corruption is part of the “culture” or is necessary to do business in a foreign country is not an acceptable defense (Clayton, 2011).

The accounting provisions require Securities Exchange Commission (SEC)-reporting companies to maintain adequate records of transactions (which in theory would require disclosure of all payments made to anyone working with the company either in the U.S. or abroad). The accounting provisions also require the company maintain an internal control system (which should monitor the afore-mentioned payments and activities of the business). The FCPA changed requirements for accounting systems and reporting significantly, resulting in the development of frameworks such as the COSO and influenced legislation such as section 404 of the Sarbanes-Oxley Act. With the recent attention focused on FCPA enforcement, a larger number of SEC and Department of Justice (DOJ) actions have been reported in the last few years. Many online resources are available for review of current and past cases such as the SEC Enforcement Action website (<https://www.sec.gov/spotlight/fcpa/fcpa-cases.shtml>) and DOJ FCPA Related Enforcement Action website (<https://www.justice.gov/criminal-fraud/case/related-enforcement-actions/2016>). Blogs such as the FCPA Blog (<http://www.fcpablog.com>) provide updated information on in-process actions, as well as “FCPA-related fugitives”, pending sentences, and dismissals. With the increase in both numbers of cases and the total amounts of fines, companies (and their compliance departments) should be implementing programs that are proactive (e.g., having governance processes that encourage compliance with ABAC issues), reactive (e.g., having an incident reporting procedure for potential violations), and continuously updated as the law is changed/updated (Frey, 2017).

As our graduates enter the market and are employed by multinational companies, or by companies who do business with organizations in other countries, they need to be aware of the implications of the FCPA—specifically, how this activity affects accounting records, and how violations of the FCPA and other anti-bribery/anti-corruption acts (ABACs) can affect the business. In the fraud examination course at our university, we have a section (and related assignment) that requires the students to research (a desired learning outcome for the course) and then answer questions related to the ABACs enforced in the U.S. (refer to Appendix A). The web research assignment is quite lengthy, and this case was developed to encourage the students to think about how ABACs (specifically, the FCPA) would affect the business dealings of a large multi-national company. It has also been used as a supplement to discussion of the background and development of the COSO framework in our graduate accounting information systems (AIS) course. The case is meant to be short in length and not especially detailed; its focus is discussion of ABAC issues and application of the information collected for the assignment in Appendix A or from review of the FCPA legislation.

## **The Case**

### ***Is There a Violation Here?***

Jones and Mazola, a U.S.-based company that designs and manufactures various types of firearms, formed an international sales team to bid on contracts to supply firearms and supplies to military and law enforcement agencies outside the U.S. Starting in 2007, the staff engaged in efforts to secure contracts in various countries. They followed the customs of the countries in question and provided gifts to government officials in countries in Africa, Indonesia, and Eastern Europe. Usually, Jones and Mazola's sales staff would retain a third-party agent in the country to help work with local officials during the bidding process. For example, in one case, Becca (head of the sales for Europe and Asia) authorized their third-party agent, Jeff, in Pakistan to provide more than US\$19,000 worth of guns to Pakistani police officials as gifts, with an agreement to provide additional cash payments. In addition, Jeff provided travel expenses for ten Pakistani police officials to travel to the training facility where the firearms were being demonstrated. This training facility included resort-style accommodations for one week; during the week, the officials were expected to attend four hours of classes.

The efforts in Pakistan resulted in sales for Jones and Mazola from a contract that netted the company US\$150,000 in profits. The payment of money to the officials was categorized as "firearms testing costs". Again, as was typical for contracts of this nature, it was also agreed that payments above the actual testing costs would be submitted to the officials. Jamie, the VP over international sales, agreed to the inflated payments. Similar arrangements were set up for third party agents in Kenya, Kazakhstan, Ukraine, and Turkey by Mary, the section lead for international sales. Sometimes these arrangements resulted in a successful bid for a contract, other times they did not. Becca was the most successful in the group and received large bonuses for her work from Jones and Mazola.

### ***Case Questions***

1. Is there a FCPA violation here? If so, what provision(s)/section(s) is/are violated? Discuss what the FCPA prohibits and who is covered by the provisions.
2. Are there any other laws that could be invoked against Jones and Mazola?
3. Who would have enforcement authority in this case?
4. What might be Jones and Mazola's defense?
5. Who would be liable for any FCPA violations? What might help reduce charges against individuals or the company?
6. What recommendations would you make to improve the oversight of the international sales staff and have an effective compliance program?
7. If the individuals and/or company are found in violation of the FCPA, what are the criminal and civil penalty limits? Are there other potential consequences?
8. Discuss the types of resolutions the DOJ and the SEC may seek.

**References (Introduction and Case Materials)**

- Clayton, S. (2011). Top ten basics of Foreign Corrupt Practices Act compliance for the small legal department. Retrieved from: <http://www.acc.com/legalresources/publications/topten/SLD-FCPA-Compliance.cfm>
- Department of Justice. (2015). Criminal Division, Fraud Section. Retrieved from: <http://www.justice.gov/criminal-fraud/foreign-corrupt-practices-act>
- Frey, A. (2017). The DOJ expects 'third party management' from compliance programs. Retrieved from: <http://www.fcpablog.com/blog/2017/3/8/adam-frey-the-doj-expects-third-party-management-from-compli.html>
- SEC release 2014-148. SEC charges Smith and Wesson with FCPA violations. Retrieved from: <http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370542384677>

**Online resources for students and instructors to facilitate working the case:**

- SEC Enforcement Action website (<https://www.sec.gov/spotlight/fcpa/fcpa-cases.shtml>)
- DOJ FCPA Related Enforcement Action website (<https://www.justice.gov/criminal-fraud/case/related-enforcement-actions/2016>)
- The FCPA Blog (<http://www.fcpablog.com>)

## **Learning Objectives and Implementation**

Because of the recent attention prosecution and related fines that violations of the Foreign Corruption Practices Act (FCPA) have garnered, our university's graduate level fraud examination course includes an out-of-class web research assignment and in-class discussion to familiarize students with the FCPA and other related anti-corruption/anti-bribery (ABAC) legislation. To this end, a series of questions related to the ABAC legislation was developed for the students to answer prior to the class meeting about the FCPA and other related topics (UN Global Compact, COSO 2013, Dodd-Frank Whistleblower protection provisions, PCAOB AS 12 and 13). The list of questions for the assignment (which takes approximately four hours to complete) can be found in Appendix A.<sup>1</sup> For instructors wishing to use this material in conjunction with the case included here, reducing the assignment to include only the FCPA portion is sufficient for the students to have most of the information they need to complete this case. Referring the students to the FCPA website (<http://www.sec.gov/spotlight/fcpa/fcpa-resource-guide.pdf>) in lieu of having them complete the assignment in Appendix A will also help prepare them to work the case. Information used to develop the case was loosely based on the Smith and Wesson FCPA enforcement action (SEC 2014, Yahoo Finance, 2014).

### ***The Learning Objectives of this Case Are:***

1. Identify and recognize potential violations of the FCPA in the described business activities, based on information from the FCPA website: <http://www.sec.gov/spotlight/fcpa/fcpa-resource-guide.pdf>
2. Discuss potential liabilities and penalties for any violations identified in part 1.
3. Develop recommendations for control improvements to improve oversight of the Jones and Mazola international operations.
4. Participate in the class discussion of the case, or turn in the required written responses (as assigned by the instructor)

### ***Use of the Case***

While this case was written for use in a fraud examination course, this case can be used in any course that covers the FCPA and other ABAC legislation, such as courses in auditing, business law, and accounting information systems (AIS). Two instructors at our university have used this case to either supplement the web research assignment shown in Appendix A (fraud examination course), or to supplement course material covering the FCPA (AIS). We began using the case in the spring 2015 semester of the graduate fraud examination course. Based on student and instructor feedback, adjustments have been made to the case to encourage students to critically evaluate the situation described in the case.

During the four semesters the case has been used in the fraud examination course, it has been used as part of the normal class activities (three semesters) and as an extra credit assignment (two semesters). In the fraud examination course (spring 2015, fall 2015, and spring 2016 semesters), anecdotal feedback suggested the students preferred working the case to having a 90-120 minute lecture on the ABAC legislation after completion of the web research assignment (Appendix A). In addition, since they spent a lot of time on the web research assignment outside of class, the students liked being able to use their assignment responses as a reference while working the case either in class (spring and fall 2015) or as an outside assignment (spring and fall 2016). In the fall 2016 and spring 2017 semesters, a non-author instructor collected feedback after she used the case as an out of class extra credit assignment to supplement the web research assignment (which was also completed outside of class).

In the spring 2017 semester, the case was tested in a graduate AIS course to supplement material covered about the FCPA during the discussion about internal controls. The case was assigned as an out of class individual assignment. Students who provided feedback on the case received extra credit for their participation.

### ***Implementation Guidance for Use in the Fraud Examination Course***

#### **In-Class, Small Group Setting**

This case can be administered as an in-class case discussion activity in a fraud examination, AIS, or auditing course that covers the FCPA. In our fraud examination class, one week prior to working this case in class, the students downloaded

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<sup>1</sup> Responses to the web assignment questions are available from the author.

the information about the web research assignment (Appendix A).<sup>2</sup> The web research assignment prepared them for the class discussion during week seven of the fifteen-week semester (prior to the mid-term).<sup>3</sup> Students were allowed to copy/paste their responses to the web research assignment questions from the Internet sources, as the assignment was meant to help them build a “study guide”.<sup>4</sup> As mentioned before, the web research assignment takes approximately three to four hours to complete. Students uploaded their web research assignment responses prior to the beginning of class in week seven, but were instructed to bring a hard copy of their responses with them to class for use in the case discussion. Small groups of three to four students worked on the case for thirty to forty-five minutes.<sup>5</sup> A “scribe” for the group was chosen prior to working the case, but all group members were expected to participate in the group discussion. Once the groups indicated that they had completed their responses, the class discussion began. As responses were collected from the groups, the instructor wrote the responses from each group on the board. Typically, each group was required to provide one or two responses to each question during the discussion.<sup>6</sup> During the two semesters the case was used in the class by the author, this discussion took approximately thirty to forty minutes, providing an active learning environment where the students could learn from hearing each other’s responses and could apply the material they researched for the web assignment (Appendix A) prior to the class discussion.

#### Out-of-Class, Individual Assignment

When used as an out-of-class individual writing assignment, this case can be assigned with or without completion of the web research assignment. The students should be instructed to write their responses to the case out and turn them in individually. Without the web research assignment (Appendix A), the case takes about two to three hours for the students to complete, as they must research the information needed to respond to the case from the FCPA website, or other websites such as the FCPA Blog. As mentioned earlier, a non-author instructor used this case as an out of class assignment in the spring 2016 semester of the graduate-level fraud examination course to supplement the web research assignment. Anecdotal feedback was generally positive from the students, so she agreed to use the case again in the fall 2016 and spring 2017 semesters and collect formal feedback using a survey as to student enjoyment working the case, and whether they thought the case helped them identify ABAC violations (Appendix B). The case was assigned as an out-of-class assignment (i.e., non-group assignment) and students received extra credit for completing the case and the survey. Sixteen of her eighteen students responded to the case and the survey in the fall 2016 semester, five students responded to the survey in the spring 2017 semester.

#### *Implementation Guidance for the Accounting Information Systems Course (AIS)*

In the spring 2017 semester, the case was used as an extra credit, out of class individual assignment for the graduate AIS course. This class did not require the web assignment included in Appendix A, however, the FCPA is discussed extensively in this course as an introduction to the COSO 2013 framework. After discussion of the FCPA, this case was used to supplement the material covered in class. The students were provided the case materials, as well as the link the FCPA website (<http://www.sec.gov/spotlight/fcpa/fcpa-resource-guide.pdf>). The next section discusses in more detail the student survey feedback from the classes where the case was used as an individual assignment.

#### *Feedback Analysis*

##### Feedback from Students (Out-of-Class, Individual Assignment): Fraud Examination Course, Fall 2016

Using the survey found in Appendix B, feedback was collected in the fall 2016 semester from the graduate-level fraud examination class. The first six questions of the survey were based on level of agreement with statements about the case and its usefulness (0 = strongly disagree, 100 = strongly agree). The last three questions collected demographic information about the students. All sixteen students who responded to the survey were graduate accounting majors, and twelve of the sixteen were employed (eight full time and four part time). Of those employed, three said their employer did

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<sup>2</sup> To shorten this assignment for the students, the instructor can limit the assignment to the questions in Appendix A that relate to the FCPA and/or can reduce the questions in that section.

<sup>3</sup> Our university teaches the course in fifteen weekly three-hour sessions.

<sup>4</sup> Answers to the web research assignment questions are available from the author upon request.

<sup>5</sup> Cases were completed in these small, intact groups throughout the semester, so the students were accustomed to working cases in class in their groups by week seven.

<sup>6</sup> In large classes that have a large number of groups, the instructor can randomly call on groups to provide the answers.

business outside the U.S., seven said their employer did not do business outside the U.S., and two were not sure (Table I, Panel A).

Survey responses (Table I, Panel B) suggest that the students' mean agreement level regarding the realism of the case was 95.00 (100 = strongly agree). Respondents indicated their mean enjoyment level was 88.13, and that they agreed that the case helped them better understand how to identify violations of the FCPA/ABAC legislation (mean agreement = 91.25). The students noted the case helped them better understand FCPA compliance issues (mean agreement = 93.75) and challenges of working in countries lacking a strong anti-bribery culture (mean agreement = 90.63). Overall, the students agreed that cases studies such as this one can help students prepare for the business world (mean agreement = 90.63).

Feedback from Students (Out-of-Class, Individual Assignment): Fraud Examination and AIS Courses, Spring 2017 Semester

Using the same survey as the previous semester (Appendix B), a total of twelve students completed the survey (n = 7 in the graduate AIS, n = 5 in the graduate fraud examination course). Of these students, two were employed full time and four were employed part time. All twelve of the students were graduate accounting students. Three stated their employer did business outside the U.S., and two indicated that their employer did not do business outside the U.S. (Table I, Panel C).

Survey responses (Table I, Panel D) suggest that the students' mean agreement level regarding the realism of the case was 84.17 (100 = strongly agree). Respondents indicated their mean enjoyment level was 79.17, and that they agreed that the case helped them better understand how to identify violations of the FCPA/ABAC legislation (mean agreement = 85.83). The students noted the case helped them better understand compliance issues with the FCPA (mean agreement = 83.33) and the challenges of working in countries lacking a strong anti-bribery culture (mean agreement = 80.83). Overall, the students agreed that cases studies such as this one can help students prepare for the business world (mean agreement = 85.45). [see Table I, pg 918]

### **Conclusion**

Our students have responded well to the Jones and Mazola case discussion as part of the topic coverage of anti-bribery/anti-corruption (ABAC) policies and legislation. Coupled with the web research assignment found in Appendix A, the Jones and Mazola case discussed here provides students the opportunity to study a series of complex legislative actions and apply what they have learned to a short case where the situation requires an understanding of ABAC legislation. While no one expects the students to memorize all the details of the ABAC legislation, gaining a familiarity with the basic tenets of these legislative acts along with knowledge of how to find the details related to ABAC policies and legislation online could be useful to the students during their careers. Awareness and familiarity with the ABAC legislation is important to auditors, fraud examiners, regulators, business owners, and others working in the global market.

**References**

- Clayton, S. 2011. Top ten basics of Foreign Corrupt Practices Act compliance for the small legal department. Retrieved from: <http://www.acc.com/legalresources/publications/topten/SLD-FCPA-Compliance.cfm>
- Committee of Sponsoring Organizations (COSO). 2013. Executive summary. Retrieved from: [http://coso.org/documents/990025P\\_Executive\\_Summary\\_final\\_may20\\_e.pdf](http://coso.org/documents/990025P_Executive_Summary_final_may20_e.pdf)
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- Public Company Accounting Oversight Board. AS 12 “Identifying and Assessing Risks of Material Misstatement”. Retrieved from: <http://pcaobus.org/Standards/Auditing/Pages/default.aspx>
- Public Company Accounting Oversight Board. AS 13 “The Auditor’s Responses to the Risks of Material Misstatement”. Retrieved from: <http://pcaobus.org/Standards/Auditing/Pages/default.aspx>
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Appendix A<sup>7</sup>

Web Assignment Questions<sup>8</sup>

**A Resource Guide to the U.S. Foreign Corrupt Practices Act (hereafter, FCPA)**  
<http://www.sec.gov/spotlight/fcpa/fcpa-resource-guide.pdf>

1. Identify the two primary provisions of the FCPA.
2. Who enforces the FCPA?
3. Identify the "costs of corruption."
4. What events in the U.S. led to the passage of the FCPA in 1977?
5. What is the OECD and what actions did it take related to bribery?
6. Why was the FCPA amended in 1998 and what areas did the amendment address?
7. Identify the FCPA responsibilities for the:
  - a. Department of Justice
  - b. SEC
  - c. FBI, Homeland Security, IRS, Department of Treasury
  - d. Departments of Commerce and State
8. What has been the global reaction to anti-corruption efforts?
9. Identify the actions taken by the U.N. related to anti-corruption.
10. What does the FCPA prohibit (see the quote on p. 10)?
11. Who is covered by the anti-bribery provisions?
12. What is an "issuer" and a "domestic concern"?
13. Identify parties covered due to "territorial jurisdiction."
14. Does the FCPA apply to conduct inside or outside the U.S.? Explain
15. What kinds of payments does the FCPA cover? How does the "business purpose test" apply?
16. Define "corruptly".
17. Does a corruption "attempt" have to succeed to have a violation of the FCPA?
18. Define "willfully".
19. Is proof of willfulness required for a violation of the FCPA to be found?
20. Define "anything of value" and identify types of exchanges/payments which would fall into this category.
21. Read and consider the examples given in the "Hypothetical" example on p. 17–18.
22. Define "foreign official".
23. Does the FCPA apply only to high ranking employees/officials of a foreign government?
24. Does the FCPA apply to foreign governments or only to individuals?
25. What "foreign officials" are included under the FCPA (i.e., give some examples)?
26. What kinds of payments are permissible and what kinds of payments are not permissible for "third parties/intermediaries"?
27. Identify the affirmative defenses which can be made under the FCPA and define/describe each defense.
28. What are facilitating or expediting payments? Are they permissible under the FCPA?
29. Does the FCPA apply to cases involving extortion or duress? Explain.
30. What is the difference between extortion and economic coercion?
31. Can a successor company be held liable under the FCPA for acts committed by the predecessor company? Explain. If liability exists, how can the liability be mitigated?
32. Read and consider the examples given in the "hypothetical" example on p. 31–33.
33. Understand and explain the difference between "criminal liability for aiding and abetting and conspiracy" and "civil liability for aiding and abetting and causing" violations of the FCPA.
34. What is the statute of limitations for a) criminal violations and b) civil violations of the FCPA?
35. What are the two primary components of the "accounting provisions" of the FCPA? Do these components only apply to bribery related violations of the FCPA? Why or why not?

<sup>7</sup> My thanks to Mattie Porter (retired) for developing the original questions for this assignment.

<sup>8</sup> Teaching Notes for web research assignment available from the author.

36. If a company mischaracterizes (inaccurately records) a transaction, can the company be held liable under the FCPA?
37. Explain the "reasonable detail" and "reasonable assurance" requirements.
38. What is the importance of an "effective compliance program" for a company's internal control?
39. If a company's financial statements fail to appropriately report and disclose information give rise to anti-fraud and reporting violations under the FCPA or the SEC rules and regulations? Explain.
40. Briefly explain how the following SOX provisions relate to the FCPA:
  - a. SOX Section 302
  - b. SOX Section 404
  - c. SOX Section 802
41. Who is covered by the FCPA accounting provisions?
42. Can a) companies and b) individuals have criminal liability for failing to comply with the FCPA's accounting provisions? Explain.
43. Explain "conspiracy and aiding and abetting liability".
44. What are the external auditor's obligations?
45. Be able to explain how the following laws may lead to bribery or other violations:
  - a. Travel Act
  - b. Money laundering
  - c. Mail and wire fraud
  - d. Licensing, certification and reporting requirements by the U.S. Government
  - e. Tax violations
46. Identify the guidelines that will be used by the DOJ when deciding whether to open an FCPA investigation or bring charges in the case of:
  - a. An individual
  - b. A corporation
47. Under the guidelines above, what types of factors will be considered to cause the government to seek lesser charges, punishments, or forgo prosecution?
48. For the SEC, what document guides their decisions on whether to open an investigation and/or bring charges?
49. Describe briefly the benefits of self-reporting, cooperation, and remedial efforts.
50. Identify the "hallmarks" of an effective "compliance program."
51. Read and consider the examples give in the "hypothetical" examples on p. 63–65.
52. Identify the criminal penalties for FCPA violations.
53. What role does the U.S. Sentencing Guidelines play in determining penalties under the FCPA?
54. Identify the civil penalties for FCPA violations.
55. Define a) collateral consequences, b) debarment, and c) cross-debarment.
56. What is the impact of loss of export privileges?
57. What are the factors used when considering the need for a compliance monitor or independent consultant?
58. Identify the "types of resolutions" the DOJ may seek.
59. Identify the "types of resolutions" the SEC may seek.
60. Read and consider the "examples" given at the end of Chapter 7.
61. Identify the whistleblower provisions and protections available to people who report FCPA violations.
62. What is a DOJ "opinion" and what is its purpose?
63. Identify the steps in the DOJ's Opinion Procedure.
64. What was the FCPA designed to accomplish? (overall conclusion)

### **Anti-Corruption**

*United Nations Global Compact (only information on this opening page; i.e., what is it?):*

<http://www.unglobalcompact.org/AboutTheGC/index.html>

1. What is the UN Global Compact?
2. What is the purpose of this compact? (i.e., what do they hope to achieve?)
3. Is membership voluntary or required?

*United Nations Global Compact - Anti-Corruption 10<sup>th</sup> Principle (only this opening page):*  
<http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/anti-corruption.html>

1. Does the compact include “anti-corruption” as an area of concern? Why?
2. Be able to summarize why businesses need to fight corruption, including the “ethical case” and the “business case” (including the “key reasons” given).

### **Whistleblower Protection Laws**

*PowerPoint slide presentation to be posted on Class Blackboard in “Web Assignments” folder.*

1. Define the term “whistleblower”.
2. Does the whistleblower have to report the problem externally?
3. Identify the three U. S. “Acts” which provide whistleblower protection provisions.
4. Under Sarbanes Oxley
  - a. What is the audit committee’s whistleblower responsibilities?
  - b. Who is protected as a whistleblower?
  - c. What awards (rewards) are available to the whistleblower?
5. Under Dodd-Frank
  - a. What awards (rewards) are available to the whistleblower?
  - b. Be able to summarize the conditions necessary to receive an award (reward).
  - c. Be able to identify the individuals who are NOT eligible to receive an award (reward).
  - d. Be able to identify the types of retaliation actions which are illegal under Dodd-Frank.

### **COSO 2013 Framework**

*COSO 2013 Executive Summary ONLY required:*

[http://coso.org/documents/990025P\\_Executive\\_Summary\\_final\\_may20\\_e.pdf](http://coso.org/documents/990025P_Executive_Summary_final_may20_e.pdf)

*\*If above link does not work, go to the main COSO.org website and look under “What’s New” and find the information under May 14, 2013 for the link to the “Executive Summary”:* <http://coso.org/>

1. Define “internal control”, be able to identify the five fundamental concepts related to the definition, and identify the three categories of objectives.
2. Identify and understand the five components of internal control.
3. Identify the seventeen principles related to the five components of internal control (you do not have to memorize all the words but do need to demonstrate that you understand the nature of the principles related to each component).
4. Define “an effective system of internal control” and be able to identify and understand the limitations of internal control.
5. Understand the role of each of the “interested parties” and how each can utilize the guidance provided in the COSO 2013 Framework.

### **AS 12 and AS 13**

Read “AS 12 Identifying and Assessing Risks of Material Misstatement” and “AS 13 The Auditor’s Responses to the Risks of Material Misstatement”—links are on the following link to the PCAOB Auditing Standards:  
<http://pcaobus.org/Standards/Auditing/Pages/default.aspx>

### **AS 12**

1. AS 12—What is the auditor’s responsibility related to risk assessment in an audit? Is this responsibility different in an integrated audit?
2. AS 12—The standard discusses risk assessment procedures in six areas of the audit. Identify these six areas and understand in general the types of procedures the auditor should perform to acquire the understanding necessary in each of the six areas. (Hint: paragraphs 5 thru 58—you do not have to “memorize” the procedures but should

demonstrate a general understanding of the types of procedures involved.)

3. AS 12—Identify the six steps the auditor should perform to identify and assess the risks of material misstatement(s).
4. AS 12—What are the factors to be considered in determining whether an account or disclosure is “significant” or whether an assertion is “relevant?”
5. AS 12—Read paragraphs 65 to 74 carefully and be able to identify and understand the factors related to “fraud risks”, “significant risks”, and understand what the auditor should do in response to these risks.

**AS 13**

1. AS 13—How does AS 13 relate to AS 12? (i.e., what guidance does the auditor receive in AS 12 vs. AS 13?)
2. AS 13—Two types of audit responses are identified: 1) those that have an overall effect on the audit; and 2) those that involve the nature, timing, and extent of audit procedures. You should understand, in general, the types of responses appropriate in each of these two categories. (Hint: A general understanding of paragraphs 3 thru 46 and carefully read paragraphs 11 thru 15 related to “fraud risks” and “significant risks”.)
3. AS 13—Be able to differentiate between “tests of controls” and “substantive tests” and identify when substantive tests are required in response to risks and when tests of controls are required and the periods in which the tests should be performed. (Hint: see the follow-up question 4. below related to timing of tests.)
4. AS 13—Understand the period for which the auditor must obtain evidence that controls are operating effectively (i.e., timing of tests of controls) and the period for substantive tests (i.e., timing of substantive procedures).
5. AS 13—Define a “dual purpose test”.

**Appendix B**

**Survey for Feedback Collection**

**Prologue**

Please help me! [author names] would like to ask you a few questions that will help to improve the cases available for instructors to use to teach students to recognize potential violations of the Foreign Corrupt Practices Act (FCPA) and other Anti-Bribery/Anti-Corruption (ABAC) legislation. The questions in this survey will provide feedback to help in the development of cases that provide students with examples of situations where violations of these laws might occur in international business operations. The questions below will take only a few minutes of your time and the answers you give will be kept strictly confidential. Your name will not be used in any way. Also, your answering these questions is purely voluntary: (if you decide that you would rather not answer them, your grade will not be affected in any way). But I would really appreciate your help...

To give you an idea of what this research project is all about, here are the purposes of the using a case to help you recognize violations of the FCPA and other ABAC legislation:

1. Identify and recognize potential violations of the FCPA in the described business activities,
2. Discuss potential liabilities and penalties for any violations identified, and
3. Develop recommendations for control improvements to improve oversight of the international operations of the company.

I appreciate your feedback. The survey should take approximately five minutes to complete, and includes the following two pages.



**Appendix B (continued)**

7. Please indicate your classification:

- undergraduate accounting student
- graduate accounting student
- MBA student
- Other

8. Are you currently employed?

- Yes, full-time
- Yes, part-time
- No, not employed at this time (skip question 9)

9. If you are employed, does your employer do business or have clients outside the United States?

- Yes, my employer does business/has clients outside of the United States
- No, my employer only does business/has clients in the United States
- Not sure

Thank you so much for your time!

**Table I: Feedback Data: Descriptive Statistics**

**Panel A: Demographics (F2016 Fraud Examination Course)**

**n= 16 graduate accounting students**

<b>Employment</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative</b>
			<b>Percent</b>
Full-Time	8	50	50
Part-Time	4	25	75
Not employed	4	25	100
Total	16	100	

**n= 12 employed full or part-time**

Yes, employer does business outside US	3	18.75	25.00
No, employer does not do business outside US	7	43.75	83.33
Not sure if employer does business outside US	2	12.50	100.00
Total	12		

**Panel B: Mean Agreement Levels for Feedback Survey Statements (Fall 2016)**

**n = 16 responses**

	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Q1: Case provided realistic international business situation	60	100	95.00	12.11
Q2: I Enjoyed working the case	50	100	88.13	17.88
Q3: Case helped me identify FCPA/ABAC violations	40	100	91.25	19.62
Q4: Case helped me understand FCPA compliance issues	60	100	93.75	12.58
Q5: Case helped me understand challenges of business outside US	30	100	90.63	20.48
Q6: Use of cases in other classes help me be better prepared	50	100	90.63	15.26

**Students rated agreement to six statements (refer to Appendix B for exact wording of statements Q1 to Q6) on a 0 to 100 scale:**

- 0 = Strongly Disagree
- 25 = Disagree
- 50 = Neutral (neither agree nor disagree)
- 75 = Agree
- 100 = Strongly Agree

**Table I (continued)**

**Panel C: Demographics (S2017 Fraud Examination and AIS courses)**

**n= 12 graduate accounting students**

<b>Employment</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative</b>
			<b>Percent</b>
Full-Time	2	16.70	16.70
Part-Time	4	33.33	50.00
Not employed	6	50.00	50.00
Total	12	100	

**n= 6 employed full or part-time**

Yes, employer does business outside US	3	50.00	50.00
No, employer does not do business outside US	2	33.33	83.33
Not sure if employer does business outside US	1	16.70	100.00
Total	6		

**Panel D: Mean Agreement Levels for Feedback Survey Statements (Spring 2017: Fraud Examination and AIS courses)**

**n = 12 responses**

	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Q1: Case provided realistic international business situation	40	100	84.17	17.82
Q2: I Enjoyed working the case	20	100	79.17	29.06
Q3: Case helped me identify FCPA/ABAC violations	40	100	85.83	20.21
Q4: Case helped me understand FCPA compliance issues	30	100	83.33	23.48
Q5: Case helped me understand challenges of business outside US	30	100	80.83	22.75
Q6: Use of cases in other classes help me be better prepared	30	100	85.45	23.82

**Students rated agreement to six statements (refer to Appendix B for exact wording of statements Q1 to Q6) on a 0 to 100 scale:**

- 0 = Strongly Disagree
- 25 = Disagree
- 50 = Neutral (neither agree nor disagree)
- 75 = Agree
- 100 = Strongly Agree