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An Examination of the Professionalism of Fraud Examiners

Douglas E. Ziegenfuss

The Association of Certified Fraud Examiners (ACFE) was established in 1988 in Austin, Texas, as a for-profit organization to “reduce the incidence of fraud and white-collar crime and to assist the membership in its detection and deterrence” (ACFE, 2000). Eleven years after its birth, the ACFE has approximately 25,000 members in nearly 90 local chapters spread around the world (ACFE, 2000). The ACFE membership includes auditors, accountants, fraud investigators, loss prevention specialists, attorneys, educators, and criminologists. The ACFE maintains and promotes the Certified Fraud Examiner (CFE) designation.

The central research issue of this study is to determine whether CFEs have attained professional

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status. This designation is important given the relatively brief existence of the ACFE and the ACFE’s for-profit status. Characteristics attributed to professional groups are identified, and ACFE programs and services are evaluated to determine which of the characteristics are possessed by the ACFE. The relationship between ACFE members’ perception of the usefulness of the ACFE code of ethics and the members’ ethical perceptions and judgments are examined to determine if the ACFE Code actually influences the ethical decision-making of CFEs.

Characteristics of Professions

H. C. Wilensky, in *The Professionalism of Everyone* (1964), describes the stages that occupations undergo in attaining professional status:

- (1) the occupation is done full-time for hire;
- (2) the occupation requires specialized training, usually at a university;

- (3) the occupation’s practitioners form a professional organization;
- (4) the occupation’s practitioners agitate to win the support of law for the protection of the job territory and its sustaining code of ethics; and
- (5) the occupation’s practitioners establish a formal code of ethics to eliminate the unqualified and unscrupulous, protect clients, and emphasize the service ideal.

Indeed, Wilensky felt that the norm of selflessness is an essential mark of a profession. CFE’s and the ACFE appear to have many of these characteristics.

First, fraud examining is often a full-time job and even a career. Organizations hire fraud examiners to prevent and detect fraud and to recover lost resources. Many individuals have had careers as fraud examiners, and clearly the first characteristic is present.

Second, fraud examining requires specialized training. Evidence of this can be seen in the demand for training courses offered by the ACFE and other organizations and in the emergence of specialized courses in the curricula of some colleges and universities. Clearly, the second characteristic is present.

The third characteristic, the formation of a professional organization, is met by the ACFE. However, the fourth characteristic, "those performing the occupation agitate to win the support of law for the protection of the job territory and its sustaining code of ethics," has not been met and probably will not be met in the foreseeable future.

The last characteristic, "a formal code of ethics to eliminate the unqualified and unscrupulous, protect clients, and emphasize the service ideal," appears to have been met by the issuance of the ACFE Code of Ethics and the establishment of the ACFE Trial Board to handle allegations of code violations. An important issue that must be addressed is whether the ACFE code actually influences the ethical decision-making of CFEs. If the code does, then this characteristic is present and CFEs have attained professional status. However, if the code does not influence the ethical actions of CFEs, then this essential characteristic of professionalism is lacking and CFEs have not attained professional status.

Previous Studies

Louwens, Ponemon, and Radtke (1997) categorize previous ethical studies involving accountants as either models of ethical decision-

making or studies of accountants' ethical behavior. The instruments used in studies by Hunt and Vitell (1986) and D. R. Forsyth (1980) were appropriate for this study because

- (1) instruments have not been applied to fraud examiners;
- (2) professional organizations share common characteristics regardless of their discipline (e.g., voluntary); and
- (3) the authors are familiar with the instruments, having used them in previous studies.

At least two psychometric instruments have been developed to measure an individual's level of moral reasoning. Colby and Kohlberg (1987) developed the Moral Judgment Interview (MJI), and Rest (1979) created the Defining Issues Test (DIT). Each has its strengths and weaknesses, as well as advocates and critics. Neither was selected for this study because it was felt that a different instrument should be used for comparison purposes, namely Forsyth's (1980) two-dimensional (idealism-relativism) Ethics Position Questionnaire (EPQ).

Some of the past ethical studies have used public accountants and students as subjects but not fraud examiners. Fraud examiners differ significantly from public accountants and students. The organizational status of fraud examiners is similar to public accountants in instances in which fraud examiners are independent contractors but differ when fraud examiners are directly employed by organizations. An employee would

normally be expected to be more loyal to his or her employer organization than would a third-party contractor. The loss of a job has a greater impact on an employee's financial position than the loss of a client has on a public accounting firm with a portfolio of clients.

Membership in professional organizations such as the American Institute of Certified Public Accountants (AICPA), any of the state societies, or the ACFE is more important and vital to public accountants and independent contractor fraud examiners than to employee fraud examiners because these organizations supply many of the services supplied by employers or are services typically offered by industry groups. The former includes life, disability, and health insurance, while the latter includes affordable continuing education, professional standards, and representation before government bodies.

Proposition to be Tested

The central issue concerning the professional status of CFEs is whether the ACFE code of ethics affects the ethical perception and judgment of CFEs. Ideally, the effect of the ACFE code of ethics on CFEs' ethical decisions should be studied by observing them during their actual work experience. However, this proved impossible to arrange due to research and resource limitations. Instead, the respondents' ethical perception as a surrogate for ethical decision-making was used following the example of past business ethics studies (e.g., Singhapakdi and Vitell, 1990).

Possible intervening variables were also identified. For instance, Hunt and Vitell (1986) specified four categories of background factors for the ethical decision-making process: cultural environment, industry environment, organizational environment, and personal experience (or personal characteristics). Additional demographic variables in the present study include age, gender, experience, education, industry, etc.

Based on the line of reasoning presented above, the following research hypotheses is proposed:

H1: The ACFE code of ethics is statistically related to CFEs' ethical perceptions and judgments after controlling for intervening variables.

Operationalization

The operationalization of each variable used in the study follows.

Professional Code of Ethics

The authors listed each of the eight specific rules contained in the ACFE code of ethics (see Appendix A) and respondents were asked to rate these as guiding principles in their work. A five-point, Likert-type scale ranging from "unimportant" (score 1) to "extremely important" (score 5) measured respondents' answers. The resulting variable, ACFE Code, represents the sum of the scores on all eight questions. Accordingly, a high "ACFE code" score indicates that the respondent tends to agree with or consider the ACFE code of ethics to be important in resolving ethical

dilemmas and as possible guiding principles in his/her work and vice versa.

CFE Certification

CFE status was measured with a value of "1" if the respondent indicated he/she was a CFE or "0" if the respondent indicated he/she was not a CFE.

Personal Ethical Philosophy

Forsyth's (1980) two-dimensional (idealism-relativism) Ethics Position Questionnaire (EPQ) (see Appendix B) was used to measure respondents' personal ethical philosophy. The EPQ consists of two scales—ten items to measure idealism and ten items to measure relativism. Respondents were asked to indicate their extent of agreement or disagreement with each of the 20 items by a five-point, Likert-type scale. The respondents' Personal Ethical Philosophy, as indicated by the sum of scores on the 20 items, was then measured.

Corporate Ethical Culture

Consistent with the literature cited earlier, the ethical environment in which the management accountant works was also studied as a possible intervening variable. Corporate ethical values (CEV) were chosen as the particular dimension of ethical environment to study. Alchian and Demsetz (1972) refer to CEV as the central dimension of an organization's culture and recognize it as a powerful influence differentiating one firm from another. Hunt, Wood, and Chonko (1988), in their national study of American Marketing Association members, found a

positive relationship between corporate values and organizational commitment.

Corporate ethical values were measured using the five-item scale developed by Hunt and his colleagues (1988) (see Appendix C). The method proposed by Hunt et al. (1988) was used in computing each respondent's CEV score by totaling the respondents' responses to all five CEV statements.

Demographic Variables

Demographic information for each respondent was gathered with respect to gender, age, educational level, industry, and years of experience. A Pearson correlation analysis was performed to identify interrelationships among the independent variables. The demographic variables were highly related to age and years of experience. Consequently, these two variables were eliminated from the study.

Ethical Perceptions and Judgment

The dependent variables of this study were ethical perceptions and judgments of fraud examiners. Consistent with various business ethics studies (e.g., Singhapakdi and Vitell, 1990; 1991; Likierman, 1989; and Stanga & Turpen, 1991), members' ethical perceptions and judgments were measured using respondent responses to five scenarios involving ethical dilemmas.

The five scenarios used in this study (see Appendix D) were developed after consulting CFEs located in the Hampton Roads

**TABLE 1
DEMOGRAPHIC PROFILE OF SAMPLE**

GENDER		INDUSTRY	
Male	68%	Wholesale/Retail	24%
Female	68%	Manufacturing	2%
		Transportation/Utilities	2%
		Financial	9%
		Government	42%
		Others	21%
AGE		ANNUAL COMPENSATION	
Under 30	12%	Under \$30,000	15%
30 to 39	17%	\$30,000 to \$39,999	11%
40 to 49	36%	\$40,000 to \$49,999	11%
50 to 59	25%	\$50,000 to \$59,999	21%
60 and over	10%	\$60,000 to \$69,999	17%
		\$70,000 to \$79,999	8%
		\$80,000 to \$89,999	5%
		\$90,000 and above	12%
EDUCATION		CERTIFICATION	
High School	12%	CFE Only	23%
Bachelor Degree	57%	CFE and Other	34%
Graduate Degree	27%	Other Certification	17%
Doctorate	4%	No Certification	26%
FRAUD EXAMINING EXPERIENCE			
Fewer than 5	42%		
5 to 9	7%		
10 to 15	14%		
More than 15	37%		

area of Virginia. Each scenario contained a factual situation followed by an action statement describing the action taken by a hypothetical internal auditor. The respondent was first asked to indicate his or her degree of agreement with the action taken (ethical judgment), and then whether the respondent felt that the scenario involved an ethical situation (ethical perception). A five-point, Likert-scale was used to measure respondents' answers.

Manipulation checks of the ethical content of the scenarios were completed. That is, the respondents were asked to indicate their agreement or disagreement

with a statement that each of the five scenarios described "involves an ethical issue or problem" using a five-point scale (1 = strongly disagree, 5 = strongly agree). A major limitation of this methodology arises because a participant's response to a questionnaire differs from the actions he/she would take under actual work conditions. However, this is a common limitation in business ethics studies.

The Sample

The questionnaire used in this study was based on one used in previous studies by the author and others (Ziegenfuss, Singha-

pakdi, & Martinson, 1994; and Ziegenfuss & Singhapakdi, 1994) and administered to 114 attendees of the 1998 Williamsburg Fraud Conference sponsored by the Tidewater Chapters of the ACFE and Institute of Internal Auditors. Thus, both CFEs and non-CFEs were included in the study as were ACFE members and non-members (see Table 2). Demographic information for respondents is presented in Table 1.

Results

The central issue to be determined by the study was whether the ACFE influences the ethical perception and judgment of CFEs. First, The Wilcoxon rank-sum test (equivalent to the Mann-Whitney U-test) was used to determine the association between respondents' certification status and the importance of their perception of the ACFE code of ethics. No statistically significant relationship was found, nor was a statistically significant relationship found to exist between membership in the ACFE and respondents' perception of the importance of the ACFE code.

Additional tests were run to see if the ACFE code affected respondents' ethical perceptions and judgments. Table 3 presents the results of ten regressions, two for each of the five scenarios (one regression measured ethical perception and the other ethical decision-making). Eight of the ten regressions were statistically significant. Respondents' perceptions of the importance of the CFE code of ethics were statistically significant in seven of the regressions (at the .05 level). Certification status was significant in two regressions, and

TABLE 2
DESCRIPTIVE STATISTICS OF RESEARCH VARIABLES

Dependent Variables	MEAN	STANDARD DEVIATION	MINIMUM VALUE	MAXIMUM VALUE
Ethical Perception (Scenario 1)	2.06	1.26	1	5
Ethical Judgment (Scenario 1)	3.67	1.40	1	5
Ethical Perception (Scenario 2)	2.82	1.65	1	5
Ethical Judgment (Scenario 2)	4.29	1.29	1	5
Ethical Perception (Scenario 3)	3.41	1.34	1	5
Ethical Judgment (Scenario 3)	2.38	1.39	1	5
Ethical Perception (Scenario 4)	3.18	1.51	1	5
Ethical Judgment (Scenario 4)	3.61	1.50	1	5
Ethical Perception (Scenario 5)	3.65	1.60	1	5
Ethical Judgment (Scenario 5)	3.09	1.70	1	5
Independent Variables				
Gender	1.31	.53	0	3
ACFE Membership	1.22	.63	0	2
Certification	1.41	1.05	0	3
Industry	6.30	3.55	0	9
Personal Ethical Philosophy	2.38	1.21	1	4
ACFE Code	36.91	6.38	0	40
Corporate Ethical Values	15.49	3.62	0	24

TABLE 3
LOGISTIC REGRESSION RESULTS ETHICAL PERCEPTION AS DEPENDENT VARIABLE
(ONLY SIGNIFICANT REGRESSIONS AND VARIABLES LISTED)

VARIABLE	PARAMETER ESTIMATE	CHI-SQUARE	SIGNIFICANCE LEVEL
Scenario 1 C = .602 Chi-Square = 60.9808 Significance Level = .0003			
ACFE Code	-.1133	6.2024	.0128
Scenario 2 C = .637 Chi-Square = 69.0651 Significance Level = .0001			
Certification	.6405	7.7039	.0055
Personal Ethical Philosophy	.3505	4.6559	.0309
ACFE Code	-.1783	12.6842	.0004
Scenario 3 C = .663 Chi-Square = 71.7444 Significance Level = .0001			
Certification	-.4458	4.0826	.0433
Scenario 5 C = .626 Chi-Square = 55.2865 Significance Level = .0016			
ACFE Code	-.1163	6.7173	.0095

TABLE 4
LOGISTIC REGRESSION RESULTS ETHICAL JUDGMENT AS DEPENDENT VARIABLE
(ONLY SIGNIFICANT REGRESSIONS AND VARIABLES LISTED)

VARIABLE	PARAMETER ESTIMATE	CHI-SQUARE	SIGNIFICANCE LEVEL
Scenario 1 C = .608 Chi-Square = 47.4041 Significance Level = .0124			
ACFE Code	-.0924	4.0877	.0432
Scenario 2 C = .610 Chi-Square = 194.4673 Significance Level = .0001			
ACFE Code	-.1000	4.3768	.0364
Scenario 4 C = .613 Chi-Square = 62.7508 Significance Level = .0002			
ACFE Code	-.1139	6.4369	.0112
Scenario 5 C = .574 Chi-Square = 50.3484 Significance Level = .0059			
ACFE Code	-.0925	4.6246	.0315

personal ethical philosophy was significant in one regression.

Conclusions and Implications

This study found that the differences in the importance placed on the ACFE Code by CFEs and non-CFEs or by ACFE members and non-ACFE members were not statistically significant. However, respondents' perceptions of the importance of the ACFE code of ethics was the most statistically related variable to respondents' ethical perceptions and judgments. Although the ACFE code of ethics was not related to the respondents' certification status or ACFE membership status, the second finding still lends support to the conclusion that the ACFE code of ethics affects the ethical decision-making of fraud examiners. If this is the case, then the overall conclusion of this study is that CFEs and the ACFE have attained the status of a profession.

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APPENDIX A ACFE CODE OF ETHICS

A Certified Fraud Examiner shall, at all times, demonstrate a commitment to professionalism and diligence in the performance of his or her duties.

A Certified Fraud Examiner shall not engage in any illegal or unethical conduct, or any activity that would constitute a conflict of interest.

A Certified Fraud Examiner shall, at all times, exhibit the highest level of integrity in the performance of all professional assignments and will accept only assignments for which it can be reasonably expected that the assignment will be completed with professional competence.

A Certified Fraud Examiner will comply with the lawful orders of the courts, and will testify to matters truthfully and without bias or prejudice.

A Certified Fraud Examiner, in conducting examinations, will obtain evidence or other documentation to establish a reasonable basis for any opinion rendered. No opinion shall be expressed regarding the guilt or innocence of any person or party.

A Certified Fraud Examiner shall not reveal any confidential information obtained during a professional engagement without proper authorization.

A Certified Fraud Examiner shall reveal all material matters discovered during the course of an examination that, if omitted, could cause a distortion of the facts.

A Certified Fraud Examiner shall continually strive to increase the competence and effectiveness of professional services performed under his or her direction.

Source: ACFE (1991).

APPENDIX B ETHICS POSITION QUESTIONNAIRE

1. A person should make certain that his or her actions never intentionally hurt another even to a small degree.
2. Risks to another should never be tolerated, irrespective of how small the risks might be.
3. The existence of potential harm to others is always wrong, irrespective of the benefits to be gained.
4. One should never psychologically or physically harm another person.
5. One should not perform an action which might in any way threaten the dignity and welfare of another individual.
6. If an action could harm an innocent other, then it should not be done.
7. Deciding whether or not to perform an act by balancing the positive consequences of the act against the negative consequences of the act is immoral.
8. The dignity and welfare of people should be the most important concern of any society.
9. It is never necessary to sacrifice the welfare of others.
10. Moral actions are those which closely match ideals of the most "perfect" action.
11. There are no ethical principles that are so important that they should be a part of any code of ethics.
12. What is ethical varies from one situation and society to another.
13. Moral standards should be seen as being individualistic; what one person considers to be moral may be judged to be immoral by another person.
14. Different types of moralities cannot be compared as to "rightness."
15. Questions of what is ethical for everyone can never be resolved since what is moral or immoral is up to the individual.
16. Moral standards are simply personal rules which indicate how a person should behave and are not to be applied in making judgments of others.
17. Ethical considerations in interpersonal relations are so complex that individuals should be allowed to formulate their own individual codes.
18. Rigidly codifying an ethical position that prevents certain types of actions could stand in the way of better human relations and adjustments.
19. No rule concerning lying can be formulated; whether a lie is permissible or not permissible totally depends upon the situation.
20. Whether a lie is judged to be moral or immoral depends upon the circumstances surrounding the action.

Source: Forsyth (1980).

APPENDIX C CORPORATE ETHICAL VALUE QUESTIONNAIRE

CEV1: Managers in my company often engage in behaviors that I consider to be unethical.

CEV2: In order to succeed in my company, it is often necessary to compromise my ethics.

CEV3: Top management in my company has let it be known in no uncertain terms that unethical behaviors will not be tolerated.

CEV4: If a manager in my company is discovered to have engaged in unethical behavior that results primarily in personal gain (rather than corporate gain), he or she will be promptly reprimanded.

CEV5: If a manager in my company is discovered to have engaged in unethical behavior that results primarily in corporate gain (rather than personal gain), he or she will be promptly reprimanded.

Source: Hunt, Wood, and Chonko (1988).

APPENDIX D FRAUD EXAMINER ETHICAL SCENARIOS

SCENARIO ONE

An organization pays for a fraud examiner to attend a weeklong training course at a resort hotel. The subject being taught is a core competency of the fraud examiner's job.

Action: Instead of attending the conference one afternoon, the fraud examiner plays golf with fellow participants. Among other topics discussed during the golf outing are fraud detection techniques successfully used by the participants.

SCENARIO TWO

The son of an organization's CFO was caught embezzling \$100,000 of the organization's funds. The son paid the organization back with interest but did not lose his job and word of the embezzlement was kept secret, even from members of the audit committee of the board of directors. One year after the embezzlement, the son is promoted to the post of Regional Vice President.

Action: The fraud examiner who investigated the embezzlement and reports to the CEO sends an anonymous note to the chair of the audit committee of the board of directors.

SCENARIO THREE

An internal auditor who is also a CFE performs a routine internal audit of an organization's purchasing function. The internal auditor fails to find a kickback scheme involving several purchasing agents and a large national supplier. The scheme cost the company \$250,000 and significantly impaired its reputation when the details of the scheme were disclosed.

Action: The internal auditor had performed procedures sufficient for the objectives of a normal internal audit but not sufficient for the objectives of a fraud examination.

SCENARIO FOUR

A fraud examiner is investigating several key managers of an organization for selling trade secrets to the organization's competitors. The organization's CEO has put much pressure on the fraud examiner to catch the guilty parties and, as a consequence, the fraud examiner installs phone taps and is able to identify the guilty manager.

Action: Later, realizing that the phone taps are illegal, the fraud examiner destroys them and the tapes he made from them. However, he obtains other legal evidence of the manager's guilt and manages to have the manager fired and prosecuted.

SCENARIO FIVE

A fraud examiner is hired by the sheriff who runs the local municipal jail to investigate the embezzlement of funds at the jail's canteen. The fraud examiner does a thorough job and identifies all funds embezzled and releases a thorough report to the sheriff. The city council and mayor now want to read the report, but the sheriff who is elected and does not report to the city council or mayor refuses to release the report.

Action: Based on the sheriff's instructions, the fraud examiner refuses to allow the mayor and city council access to the report on the city jail embezzlement.

Source: Ziegenfuss (1995).