End of Chapter Material

Chapter 1

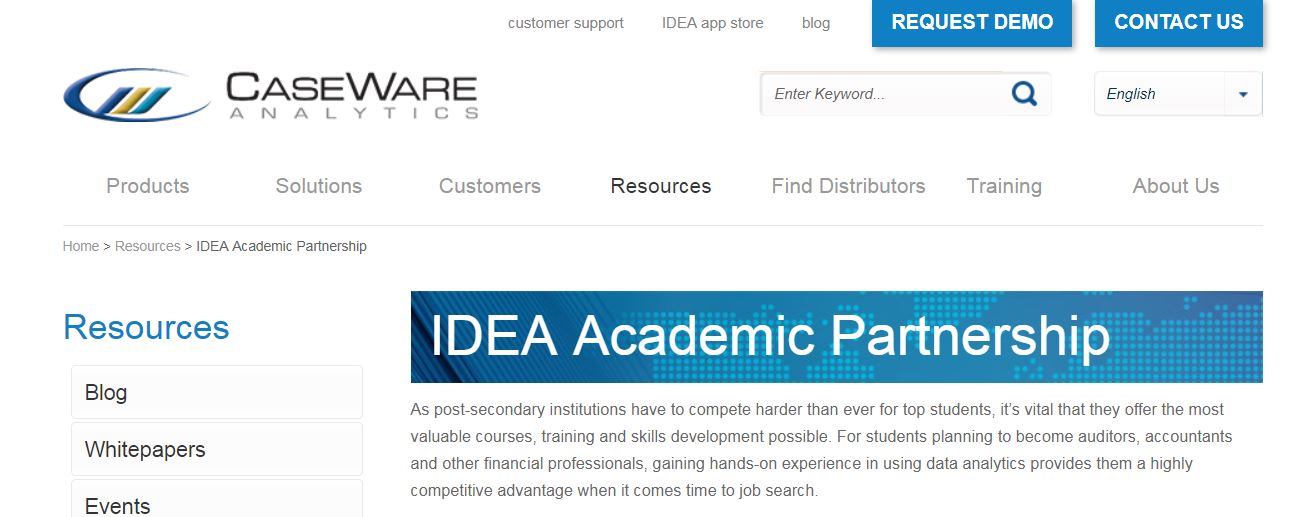


IDEA Exercises

This assignment assumes that the instructor and students have downloaded and opened the student version of IDEA.

As of the time of this writing, the web address of the IDEA Academic Partnership is the follow:

<https://www.casewareanalytics.com/idea-academic-partnership>



Professors interested in incorporating IDEA into the classroom may locate this information from IDEA directly.

IDEA Case background**.** The overall objective of the following assignments is to complete a forensic accounting / fraud examination of the payroll records related to contractors for the period January 1, 2018 through June 30, 2019. Fairmont Legal Services provides “temporary labor” services to support in-house legal council. Lawyers, employed by Fairmont, are located in the United States, Canada, England and Germany. The company started in 2017.

Fairmont Legal Services has the following accounting and payroll personnel.

* The accounting controller is Jennifer Gally and she manages the payroll master file.
* The payroll manager is Christine Alexander.
* Ms. Alexander gets payroll assistance from a general accounting clerk, Mary Perez. Ms. Perez manages the general ledger and complete almost all reconciliations.
* The accounting department has one other general accountant with no payroll duties, responsibilities nor authority, Carrie Rutten. Ms. Rutten is primarily in charge of the accounts payable, including disbursements, and accounts receivables, including collections, and well as involvement in the monthly general ledger closing and financial statement preparation.

Each week or upon completion of an assignment for a client, the contract laborers (attorneys) are paid; some some payroll disbursements are made during weekdays other than Fridays. Legal service employees who claim 80 or more hours for a payroll period require the approval of the controller prior to payment. The attorneys are treated as employees and their payroll check can be cut on any day of the week, except Saturday and Sunday. To ensure adequate supervision, review and approval of payroll processing and disbursement, Fairmont strictly requires that payroll processing occur only on Monday-Friday. FICA (social security) and Medicare are withheld from employee paychecks. The company also enrolls all employees in a 401K retirement plan. Employees can contribute up to 6% of their salary. Since company inception, only one attorney has terminated, Theresa Angelina. Ms. Theresa was one of Fairmont’s first employees and a former long-time roommate of the payroll manager.

The company also incurs payroll related (company) expenses in terms of FICA (6.2%), Medicare (1.45%) and a 6% contribution to the 401K plan (whether the employee contributes or not).

Rates paid to attorney employees range from $65 per hour to a maximum of $125 per hour with pay rates of $65, $80, $100 or $125 per hour. Client mark-up is 127.3%, including employer benefit costs.

As an example, a $65 hourly rate, plus employee expenses of 13.65 % for FICA – 6.2%, Medicare – 1.45% and 401K – 6% is a total cost to Fairmont of $73.87; the client is charged $147.74; thus, the mark-up on the base rate of $65 is 127.3% (147.74 / 65 = 2.273 minus 1 = 1.273 or 127.3%).

The company runs two payrolls, one for attorney employees who provide labor services to clients. All administrative personnel, including accounting personnel are paid as part of the administrative payroll. When payroll is disbursed, each disbursement has an ordered unique identifier called “Record.”

Known related parties: Christine Alexander has a sister who works for Fairmont as a contract lawyer, Helene Earls. Ms. Earls resides in Germany.

An examination of client profitability indicates that all clients have been billed with the appropriate mark-up. This analysis was completed on each client. Recently, two clients have complained that the costs of their services are over-budget: clients 10002 and 10008. These complaints are being handled by the sales manager and CEO and the clients seem to be very satisfied with the quality of services provided.

Assignment and Skill Summary

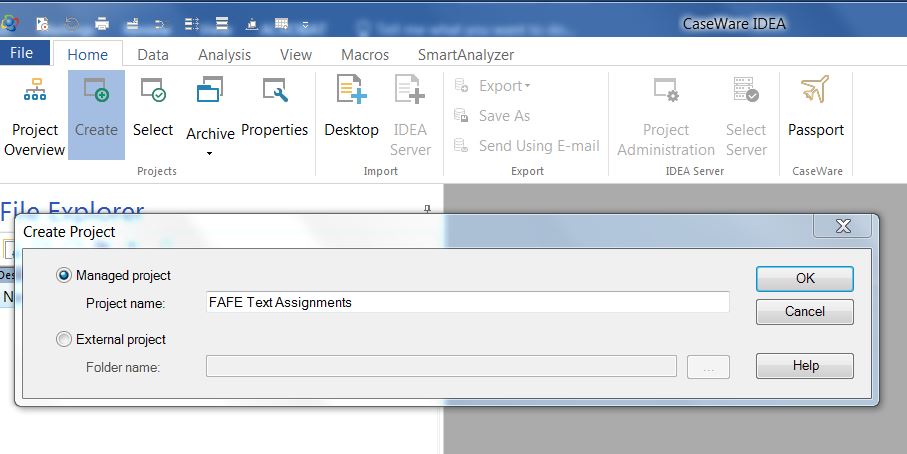
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| Chapter | Description | IDEA Skills |
| 1 | Importing data and ensuring that the file imports correctly | Creating a Project  Import a File |
| 2 | Do any accounting or payroll personnel or related parties appear on the contractor payroll? | Summarizing Data  Export a File |
| 3 | Is Fairmont in compliance with Federal withholding requirements for FICA and Medicare? | Extract: Direct  Equation Editor  Export a File |
| 4 | Is Fairmont in compliance with company policy that requires explicit approval of 80 hours or more? | Extract: Direct  Equation Editor  Sorting Data (column) |
| 5 | Does Fairmont have any duplicate payroll records? | Duplicate Key |
| 6 | Does Fairmont have any payroll processing on the weekends? | Field Statistics  Using hyper-links |
| 7 | Does Fairmont have any contactor personnel whose are being paid but are not on the payroll master file? | Import a File  Sorting Using Data-Sort  Join |
| 8 | Does Fairmont have any contactor personnel whose have terminated but are being paid through payroll (e.g., ghost employee)? | Sorting Data (column)  Extract: Key Value |
| 9 | Does Fairmont have any personnel whose last name is similar? | Summarization  Fuzzy Match  Using hyper-links |
| 10 | Is Fairmont in compliance with their payroll rates schedule: $65, $80, $100 and $125? | Summarization |
| 11 | Does the Fairmont payroll system’s company expense file match to its payroll disbursements file? | Import a File  Join |
| 12 | Does the payroll disbursements file being analyzed appear to have all of the payroll records disbursed during the period 1/3/2018 to June 28, 2019? | Gap Detection |
| 13 | The HR (human resources) department would like to identify all employees who are not withholding the maximum savings amount for the 401K retirement plan of 6%. | Virtual Data  Equation Editor  Extract: Direct  Field Statistics |
| 14 | Do the payroll hours comply with Benford’s Law? | Benford’s Law |
| 15 | Summarize forensic accounting concerns that require follow-up examination | n/a |
| 16 | Write a report | n/a |

Assignment 1

Creating a Project and Importing a File

The first step is to create a project.

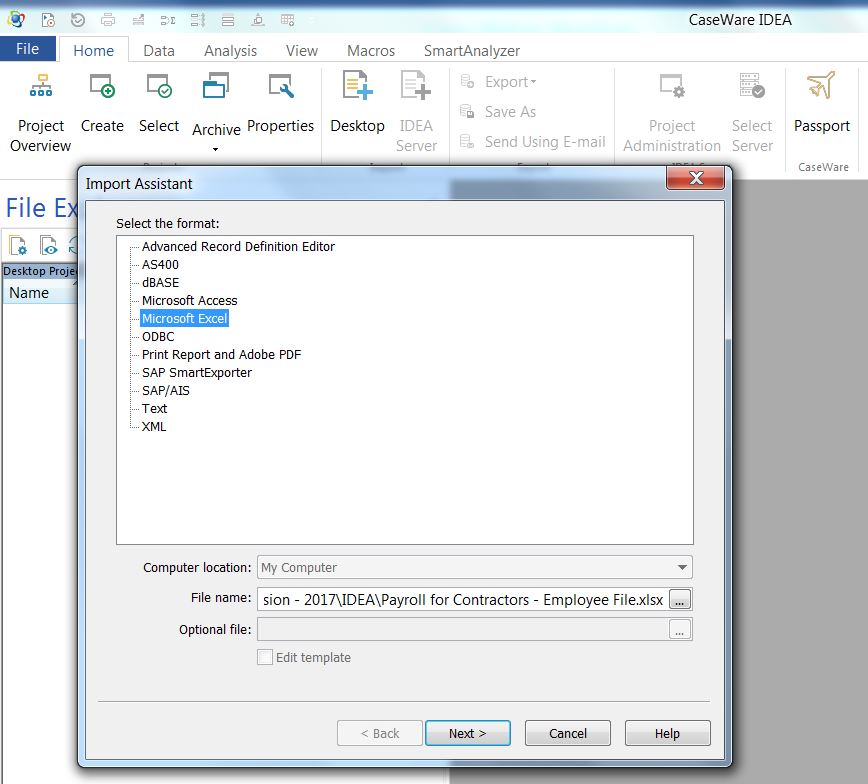
1. Open IDEA
2. Click on “Create”
3. Type in the name of the project. For the assignments associated with this text, we have selected “FAFE Text Assignments” for the project name.
4. Click “OK”



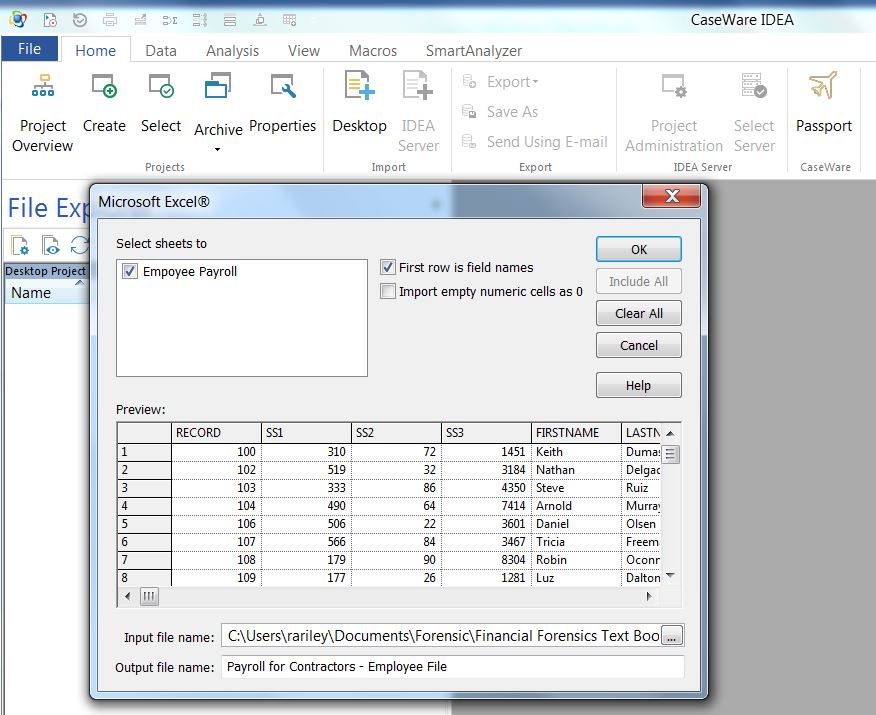
The second step is to import data.

First, import the Excel Payroll File

1. Click on “Desktop” (red box).
2. Click on “Microsoft Excel” and locate the file “Payroll for Contractors – Employee File” in the File Name area (blue oval)



1. Click on “first row is field names” box
2. Click on “Next”
3. Click “OK”



The file should have 986 records. (The importance of ensuring that data imports are complete cannot be over-emphasized).