

Instructional Scenario

The Fraud Triangle



Course/Duty Area: Accounting / Understanding Accounting Business Ethics

Scenario: The accounting department of St. James High School has noticed discrepancies in the Happy Hands Club's financial records. Over the past semester, several thousand dollars have gone missing. You have been hired as a forensic accountant to investigate the issue and determine how the fraud occurred.

You meet the following persons in your investigation:

- Harrison, the Treasurer: Harrison is a senior, responsible for managing the club's funds. He has been struggling with personal expenses and wants to attend an expensive college. He is the only one with access to the club's financial software.
- Jenna, the President: Jenna is focused on running the club and trusts Harrison to handle the finances. She does not regularly review financial reports.
- Club Members: They participate in fundraising activities but rarely ask how the funds are used.

You discover the following facts of the case:

- Harrison was seen making large, unexplained purchases (i.e., a new laptop, expensive clothes).
- Jenna received a call from a vendor asking why they had not yet been paid.
- Financial records show large withdrawals, labeled *miscellaneous expenses*, but no receipts are available for verification.
- Harrison has hinted that "everyone else would do it too if they were in his position."

Student Activity: Divide the students into small groups and ask them to identify how each element of the Fraud Triangle applies to the scenario.

- Pressure: What pressures might Harrison be facing that would push him toward committing fraud? (e.g., financial struggles, desire for status, peer pressure to attend college)
- Opportunity: What opportunities could allow Harrison to commit fraud? (e.g., lack of oversight from Jenna, sole access to financial records, no separation of duties)
- Rationalization: How might Harrison rationalize his fraudulent actions? (e.g., "I'll pay it back," "I deserve this," "No one is getting hurt," "Everyone does it")

After each group finishes their analysis, bring the class together for a discussion of the following:

- How could this fraud have been prevented?
- What safeguards should the club have in place to protect its funds? (e.g., having dual signatures for withdrawals, regular financial audits, separating responsibilities for handling funds and record-keeping)

Connect the scenario to real-world cases of fraud, such as the Enron Scandal or Bernie Madoff's Ponzi Scheme. Ask students to identify the Fraud Triangle in those examples. Students could also create a poster explaining the Fraud Triangle and showing how fraud can be detected or prevented in a small business or school setting.

Scenario submitted by Amy Strosnider, Sherando High School, Frederick County Public Schools