DIRECTOR’S NOTE

With the generous support of the E&Y Foundation and the members of the "E&Y Family," we continue to make progress towards our goals and objectives. We are proud to host distinguished visiting scholars from various professional and educational institutions. Professor Mark Nigrini of St. Mary’s University in Halifax, Canada visited KU during the period of Nov. 13-15. For those who do not know Professor Nigrini, he has worked on detecting fraud and other irregularities in accounting data using Benford’s Law (distribution of digits). Additionally, Professor Theodore Mock, Arthur Andersen Alumni Professor, University of Southern California, and Professor Arnold Wright, Arthur Andersen Professor, Boston College, visited the E&Y CARAT last year. Both of these distinguished scholars have been working with the Center on several research projects that deal with audit decision making using uncertain items evidence. The E&Y Distinguished Visiting Scholar Program is working very well and it is helping us meet our objectives and mission. I would like to thank the E&Y Foundation and individual donors for their support.

Additional E&Y CARAT activities include the awarding of six fellowships, under the E&Y Student Fellowship and Faculty Mentor Program. These fellowships provide financial support of $2,500 per year to undergraduate and graduate students and allow them to work alongside E&Y Faculty Mentors. This is a special year for the fellowship program. In addition to two fellowships from the E&Y CARAT budget, we have created two new fellowships, resulting from direct donor contributions. Furthermore, two additional fellowships have been made possible as a result of last year’s surplus. Again, I would like to thank the E&Y Foundation and the individual donors for their support of the fellowship program. It is helping all of the parties involved: the students, the faculty mentors, and the Center.

1996-97 E&Y Student Fellows were selected in October. New Fellows include Justin Johnson, Michael Lechshiner, Lisa Xun Lu, (Fellow for Fall ’96 semester), Michael Roessler, Amy Shiraki, and Ruben Sigala. Students are pursuing various research and work activities with E&Y Fellow Mentors which include Prof. Joe Coate, Prof. Ken Cogger, Prof. Mike Ettredge, Prof. Allen Ford, and Prof. Kay Nelson, and myself.

Recognizing the past, present, and future E&Y Faculty Mentors and Student Fellows is very important to us. For the 1995-96 academic year, William Lewis, Jr. and Ashok Fichadia were selected as E&Y MS Research Assistants. Will Lewis worked with Faculty Mentor Prof. Kay Nelson and Ashok Fichadia worked with Faculty Mentor Ken Cogger. Additionally, Peter Gillett was awarded the E&Y Doctoral Fellowship for the 1995-96 academic year.

1996-97 E&Y Student Fellows

Justin Johnson, a second-year MBA student, is working with Prof. Kay Nelson. Justin received his undergraduate degree (B.B.A.) from Fort Hays State University, where he played varsity basketball. Currently, he is in the last year of the M.B.A. program, obtaining a concentration in Finance and Information Technology. His E&Y project consists of research and teaching. He is presently researching the viability of forming a neural network and adapting it to the University’s system. In the Spring, Justin will help teach a section of BUS 706, Management Information Systems.

Michael Lechshiner is a second-year MBA student majoring in Information Systems, with a minor in Finance and International Business. He graduated from Kiev Polytechnical Institute in 1994 with a degree in Metallurgical Sciences. Mike is working with Prof. Mike Ettredge. His research includes constructing a mathematical model and a user interface for detecting biases and irregularities in auditee data with the use of Benford’s Law. With the use of this model, auditors will be able to confirm or reject the reasonableness of the data. Furthermore, this model will direct the auditor's attention to transactions or group transactions that merit further audit attention. This tool will facilitate the detection of fraudulent transactions that are the subject of many lawsuits. Using the latest technology to audit large volumes of data will prove to be highly cost effective and efficient.

Lisa Xun Lu is in the Accounting and Information Systems Program at the University of Kansas. She will graduate in December, 1996, with a Master’s Degree in Accounting. Lisa has been working with Professor Allen Ford at the School of Business for one year as a teaching assistant for BUS 609 (Individual Income Taxation). After graduation, Lisa will join the tax consulting group of Ernst & Young LLP in Kansas City in January, 1997.
Michael Roessler is pursuing a Master in Accounting and Information Systems. He graduated from the University of Missouri with a Bachelor of Science degree in Accountancy. Presently, he is assisting Prof. Ken Cogger with an Internet page that page will use statistical techniques and analyses to help auditors determine if the managers of a company being audited are providing auditors with accurate and honest information.

Amy Shiraki is working with Prof. Rajendra Srivastava, the Director of the E&Y CARAT. Amy graduated from Cornell University in 1994. Now, she is in the second year of the KU M.B.A. program and she is pursuing a concentration in Management Information Systems. Upon graduation from the MBA program in May of 1997, Amy be an Information Technology Consultant for the Deloitte & Touche Management Consulting Group in Kansas City. Presently, she is designing the E&Y CARAT homepage and all related pages. Please visit our homepage at: http://stat1.cc.ukans.edu/~srivasta/ . Increasing the visibility of the E&Y CARAT organization is critical. An Internet homepage that contains the most up-to-date information and announcements is an effective way to communicate our activities and remain connected to professionals and scholars who are interested in our organization. In addition, Amy hopes to manage and update an additional Internet homepage -- the Auditing section of the American Auditing Association.

Ruben Sigala, a senior Business Admistrations major, is working with Prof. Joe Coate. In addition to his Business Administration major, Ruben will have a concentration in Spanish and French. Currently, he is researching personality traits of accountants. Their research includes an extensive study to determine whether there are definite personality differences between individuals in accounting occupations, employees in different accounting firms (i.e. Big Six vs. non-Big Six), and accountants in different career categories (partner to staff accountants). This analysis involves statistical regressions and interpretations, which may be useful to Human Resource Managers in determining the kinds of individuals that should be hired to their firm.

**E&Y CARAT's Research Workshop Activities:** The Ernst & Young Center for Auditing Research and Advanced Technology has been arranging two research workshops for sharing and exchanging research ideas amongst the faculty and Ph. D. students. One research workshop meets from 8:30-10:00 a.m. or Fridays, 10:30AM-12:00 Noon and is conducted in conjunction with Artificial Intelligence Seminar and the other meets from 1:30-3:20 p.m. (please note that the 11/13 presentation is on a Wed. At 4:30PM) in conjunction with Accounting and Finance Workshop. The details of the seminars are given below.

**Weds., 8:30 - 10:00 AM or Fridays, 10:30AM-12 Noon in 320 Summerfield Hall**

Aug. 28: Prakash Shenoy: Computing Marginals Using Local Computation
Sept. 4: Prakash Shenoy: A Primer on Influence Diagrams
11: Ken Cogger: Multiple Regression Using Adaptive Logic Networks
Sept. 20: Dennis Nilsson: Probabilities of Future Actions
27: Dianne Landers: Real Option Valuation Using Influence Diagrams
Oct. 4: John Charnes: On Sampling Methods for Solving Influence Diagrams
11: Raj Srivastava: An Expert System Approach to Audit Planning
18: Sucheta Nadkarni: Scenario-Based Study of Revealed Causal Maps: Linkages to Selected Demographics & Personality Variables & Mode of Instruction
25: Prakash Shenoy: A Combination of Graphical Methods for Asymmetric Decision Problems
Nov. 1: Marge Bott: Health Care Decision Making Model
8: Ken Cogger: General Statistical Theory of Adaptive Logic Networks
15: Mark Nigrini: Digital Analysis
20: Kay Nelson: Confirmatory Models with Adaptive Logic Networks
Dec. 6: Mike Ettredge: Fraud Detection Models

**Fridays, 1:30 - 3:20 PM in 426 Summerfield Hall**

Aug. 30: Margaret Reed, University of Kansas, "The Interaction of Tax Incentives and Earnings Management: An Empirical Analysis of the Determinants of R&D."
Sept. 13: Mike Ettredge, University of Kansas, "An Analysis of the Theoretical and Empirical Relation between Internal and External Audit Expenditures."
27: Paul Koch and Diane Docking, "The Robustness of Event Study Methodology When Accounting for Market Direction and Volatility."
18: Catherine Shenoy, University of Kansas, "An Empirical Investigation of Capital Expenditure Changes."
Nov. 1: Mark Hirschey and Geoff Lysaught, University of Kansas, Title to be announced.
8: Catherine Schoerrer and Joe Coate, "Career Management in Accounting Profession."
Wed. 13: Dave Stretson, Boeing, "University/Industry Research," at 4-6PM (424 SU)
15: Professor Merle Ericson, University of Chicago, "Earnings Management by Acquiring Firms in Stock for Stock Mergers."
Dec. 6: Jim Waegelin, University of Kansas, "Characteristics of Firms Adopting Short-Term Bonus Plans."