

E&Y CARAT NEWS BRIEFS

Ernst & Young Center for Auditing Research and Advanced Technology (E&Y CARAT)
Division of Accounting and Information Systems, School of Business
The University of Kansas, Lawrence, KS 66045

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DIRECTOR'S NOTE

We have had an exciting semester at the Ernst & Young Center for Auditing Research and Advanced Technology (E&Y CARAT). Under the Ernst & Young Student Fellowship program, the E&Y CARAT has awarded seven fellowships during the 1996-1997 academic year, five with \$2,500 for a two-semester period and two with \$1,250 for one semester. These fellowships have been awarded to students majoring in accounting and/or management information systems. The selection criteria for the award are based on the academic performance and extracurricular activities of the student. The Director of E&Y CARAT, in consultation with the Associate Dean of Academic Affairs, selects the names for the award. I am pleased to inform you that we have awarded these fellowships to students whose interests are varied from auditing and systems to tax. These students work with E&Y Faculty Mentors on their research projects.

Rajendra P. Srivastava Ernst & Young Professor and Director, E&Y CARAT



The E&Y Faculty Mentors are selected from a pool of business school faculty based on the quality of their research proposals that they submit to E&Y CARAT and on how well their research proposals meet the mission of the Center. Current E&Y Student Fellows and their respective E&Y Faculty Mentors are: (1) Justin Johnson & Professor Kay Nelson, (2) Mike Leshchiner & Professor Mike Ettredge, (3) Lisa Xun Lu & Professor Allen Ford, (4) Mike Roessler & Professor Ken Cogger, (5) Brent Sharpless & Professor Kay Nelson, (6) Amy Shiraki & Professor Raj Srivastava, and (7) Ruben Sigala & Professor Joe Coate.

Under the E&Y Distinguished Visiting Scholar Program, Professor Miklos Vasarhelyi, KPMG Peat Marwick Professor, and Professor Alex Kogan, both at Rutgers University spent several days in February 1997 at the E&Y CARAT in a "brainstorming" session to identify auditing and systems-related issues pertaining to electronic commerce. Professor Miklos Vasarhelyi has an M.S. degree in MIS from MIT and PhD in accounting from UCLA. Before joining Rutgers University, he was on the faculty at Columbia University and also worked with Bell Labs for more than ten years on "continuous audit."

Professor Vasarhelyi has published extensively in the area of "continuous audit" and electronic commerce. Professor Kogan has a PhD in computer science and teaches accounting information systems at Rutgers University. He has published numerous articles on data security in electronic commerce. We at the E&Y CARAT are very excited about this collaboration. Already we have several projects under way. In particular, Professor Kay Nelson of the School of Business, University of Kansas, and I are working with Professors Vasarhelyi and Kogan on "Intelligent Agents for Analytical Procedures in Auditing." We hope to present our preliminary results on May 15 at the E&Y Research Workshop. Professor Theodore J. Mock, Arthur Andersen Alumni Professor at the University of Southern California, and Professor Arnold Wright, Arthur Andersen Professor at Boston College, will be visiting the Center from May 10-16. We are working on several research projects related to audit judgment and audit risk model. Again, we are very excited about this collaboration too. These individuals are the world leaders in their respective fields of research. We will be presenting some of the findings on May 15 at the E&Y Research Workshop. See more on this workshop on the next page.

Also, we have organized several research seminars through the E&Y CARAT for the exchange of ideas. A schedule of various seminars is given in this newsletter. Overall, we have had a successful semester and a busy one. I thank the Ernst & Young Foundation and individual supporters for their generosity that is making all this happen. I would encourage you to visit our home page at <http://stat1.cc.ukans.edu/~srivasta> and provide your comments.

Highlights of E&Y CARAT'S Activities

- **Ernst & Young Visiting Scholars at the E&Y CARAT, February 20-23, 1997, and May 11-16, 1997:** Professor Miklos Vasarhelyi, KPMG Peat Marwick Professor, Rutgers University, and Professor Alex Kogan, also at Rutgers University, spent several days (Feb. 20-23) at the Center in a "brainstorming" session. I want to thank my colleagues for an enthusiastic participation. Professor Theodore J. Mock, Arthur Andersen Alumni Professor at the University of Southern California, and Professor, Arnold Wright, Arthur Andersen Professor at Boston College, will be visiting the E&Y CARAT during May 11-16, 1997. Professor Peter Gillett, Associate Professor at the Rutgers University, will be visiting from May 10-20, 1997.
- **Teleconference Held on March 6, 1997:** Bruce Bublitz, Jim Searing, Raj Srivastava, Bill Taylor, and John Wilgers discussed the progress of current projects and their plans for future projects of the Center in a one-hour teleconference.

- **Director Presented Papers at Conferences:** Rajendra Srivastava, Ernst & Young Professor, presented the following papers at the respective conferences: (1) "Emerging Trends in Auditing Research" at the *Third International Accounting Research Conference*, Calcutta, India, January 4-5, 1997, (2) "A Framework for Harmonizing Financial Statement User Needs with Accounting and Auditing Standards" at the University of Seigen, Germany, January 17, 1997, (3) "Multiple Hypotheses Evaluation in Auditing: A Bayesian Perspective" at Boston College, March 16, 1997, and (4) "Evidential Reasoning Under Uncertainty Using Belief Functions: A Structural Analysis of Audit Evidence" at the British Accounting Association National Conference, March 24-26, 1997, Birmingham, UK.
- **Ernst & Young Research Workshop, May 15, 1997:** The E&Y CARAT is arranging a one-day research workshop on May 15, 1997, starting 8:30 AM. The purpose of the workshop is to provide a forum for E&Y Student Fellows, E&Y Faculty Mentors, E&Y Visiting Scholars, and other associates to present their research work to E&Y people and the School of Business faculty (Please see the attached program).

The E&Y CARAT has been arranging two research workshops to be given every Friday for sharing and exchanging research ideas among the faculty and Ph. D. students. The abstracts of the papers are available on the home page at URL: <http://stat1.cc.ukans.edu/~srivasta>. Here are the details of the seminars:

10:30 - 12:00 in 407 Summerfield Hall

- 1/24: Chris Roesmer, PROS Strategic Solutions, Houston TX. "Bond Ratings: Effectiveness of a Combination Neural Net/Dempster-Shafer."
- 1/31: Dave Lowell, Strategic Decisions Group, Menlo Park, CA. "Sensitivity to Relevance in Influence Diagrams."
- 2/7: Rajendra Srivastava, "Multiple Hypotheses Evaluation in Auditing: A Bayesian Perspective."
- 2/14: VK Narayanan, KU Business School, "A Primer on Causal Maps."
- 2/21: Miklos A. Vasarhelyi, Rutgers University, "Towards Intelligent Agents in Accounting: Background and Potential."
- 2/28: Prof. Kay Nelson & Sucheta Nadkarni, KU Business School, "Toward a Ground Theory of Software Maintainer Expertise: A Causal Mapping Approach."
- 3/07: Po-Lung Yu, Carl A. Scupin Distinguished Professor of Management Science & Technology, "Habitual Domains: Stealth Software for Effective Decision Making."
- 3/14: John Charnes, KU Business School, Associate Professor of Management Science & Technology, "Modeling Drug Development Decisions in the Pharmaceutical Industry."
- 3/21: John Butler PhD Candidate, Department of Management Science and Information Systems University of Texas at Austin, "Modeling Organizations with Artificial Adaptive Systems."
- 4/04: James E. Smith, Associate Professor, Fuqua School of Business, Duke University, Durham, NC, "Options in the Real World: Lessons Learned in Evaluating Oil and Gas Investments."
- 4/11: Sheldon H. Jacobson, Associate Professor, Department of Industrial and Systems Engineering Virginia Polytechnic Institute and State University, "A Mathematical Model for Assessing the Temporal Association Between Health Disorders and Medical Treatments."
- 4/18: Kenneth O. Cogger, Professor of Management Science & Technology, "Virtually Everything You Need to Know for Data Analysis with Adaptive Logic Networks."
- 4/25: Kathleen M. Carley, Associate Professor Department of Social and Decision Sciences, Carnegie-Mellon University., "Organizational Adaptation. "
- 5/02: Sucheta Nadkarni, KU Business School, "The Design of Organizational Form for the Early Stages of a Space Station Program: A Multi-Theoretic Perspective."

1:30 - 3:00 PM in 506 Summerfield Hall

- 1/24: Margaret Reed, University of Kansas, "The Interaction of Earnings Management and Tax Incentives: An Empirical Analysis of R&D Expenditures"
- 1/31: James Waegelien, University of Kansas, "Characteristics of Firms Adopting Short-Term Bonus Plans"
- 2/3: Kelly Welch, Faculty Candidate in Finance, "Bankruptcy, Debtors' Prison, and Collateral in Optimal Debt Contracts." This workshop is scheduled from 1:45-3:15 PM on Monday in Stockton Room, SU.
- 2/7: Kathleen Petrie, Faculty Candidate in Finance.
- 2/21: Mike Ettredge, University of Kansas, "The Effects of the External Accountant's Review on the Timing of Adjustments to Quarterly Earnings."
- 2/28: Ken Mackenzie, University of Kansas, "Framework for Managing Risky Situations."
- 3/7: Joe Fisher, James R. Frederickson, and Sean Peffer. "The Budget Process: An Empirical Investigation of the Effects of Negotiation."
- 3/14: Vernon J. Richardson, Ph.D Student, University of Illinois at Urbana-Champaign. "An Empirical Investigation of the Relationship Between Information Asymmetry and Earnings Management."
- 3/17: Karla Johnstone, University of Connecticut Accounting Candidate. "Risk, Strategy, and the Client Acceptance Decision."
- 3/23: Manuel Garcia-Ayuso, and Juan Monterrey, Universidad de Sevilla, "An empirical evaluation of abnormal earnings."
- 4/4: Doug Houston, University of Kansas, "Market Valuation and Strategic Disinvestment in Regulatory Assets Evidence from U.S. Electric Utilities in Transition to Competitive Markets."
- 4/11: Sue Sholtz, University of Southern California, Auditor Litigation Risk and Auditor Resignations: Some Empirical Evidence."
- 4/25: Kissan Joseph, University of Kansas, Empowerment and Incentives in Sales Organizations: An Agency-Theoretic Perspective."