

What is Forensic Accounting & What do they investigate

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FORENSIC ACCOUNTING
& INVESTIGATIVE SERVICES

PEOPLE. PRINCIPLES. POSSIBILITIES.

Specialization

What is Forensic Accounting?



What is Forensic Accounting?

- Forensic Accounting utilizes accounting, auditing, and investigative skills to conduct an examination into a company's financial statements, thus providing an accounting analysis that is suitable for court.



What is Forensic Accounting?

- The essential components of forensic accounting include an attempt to piece together or reconstruct a past event or events using financial information where that reconstruction is likely to be used in some judicial proceeding (e.g., criminal court, civil court, deposition, mediation, arbitration, settlement negotiation, plea bargaining).



What is Forensic Accounting?

Forensic Accounting

Construction Claims	Environmental Claims	Estate/ Family Valuation	Fraud Investigation	Financial Contract Disputes	Government Contract Claims	Intellectual Property Infringement Damages
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Source: ACFE Presentation



What is Fraud Examination?

Fraud Examination

Fraud Prevention	Fraud Deterrence	Fraud Detection	Fraud Investigation	Fraud Loss & Cost Recovery	Anti-Fraud Controls	Anti-fraud Education & Training
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Source: ACFE Presentation



Forensic Accounting vs. Fraud Examination

Forensic Accounting

- A broad discipline applying accounting skills to legal matters in a wide range of issues
- Addresses a past event
- Uses financial information

Fraud Examination

- A focused discipline relating entirely to the issue of fraud
- Addresses past, present and future events
- Uses financial and non-financial information

Source: ACFE Presentation



Forensic Accounting vs. Fraud Examination

Forensic Accounting

- Produces information about finances
- For use in judicial proceedings

Fraud Examination

- Produces information about finances, people and their actions
- For use in business & government internal proceedings and private and judicial proceedings

Source: ACFE Presentation



Traditional Auditing vs. Fraud Examinations

<u>Issue</u>	<u>Auditing</u>	<u>Fraud Examination</u>
<i>Timing</i>	Recurring	Nonrecurring
<i>Scope</i>	General Informed personal	Specific Non-informed personal
<i>Objective</i>	Opinion	Resolve an allegation
<i>Relationship</i>	Nonadversarial	Adversarial
<i>Methodology</i>	Audit techniques	Fraud examination techniques
<i>Presumption</i>	Professional skepticism	Will be taken to trial

Source: ACFE Presentation



Reasons to pay attention to Fraud Risks

- Fraud occurs everywhere, and NO organization is immune
- Fraudsters are usually insiders
- Fraud does not discriminate
- The changing business environment
- Understanding vulnerabilities can help the organization
- Preventing fraud costs a lot less than investigating it



Demand

Why are Forensic Accountants needed?



Questions

- If you had 7 percent of your revenue at your disposal, would you have a strategy to deal with it?
 - Most will answer yes

- So what is your strategy to deal with the 7 percent of your revenue that your company loses each year to Fraud?
 - Most will answer no



Fraud Survey

- 75% of businesses are victims of fraud
- 7% of Total Revenue
- 24 months before detection
- Less than 100 employees, most vulnerable
 - Highest median loss except for companies with over 10,000 employees
 - Median loss per incident = \$200,000
- #1 Reason for Fraud?

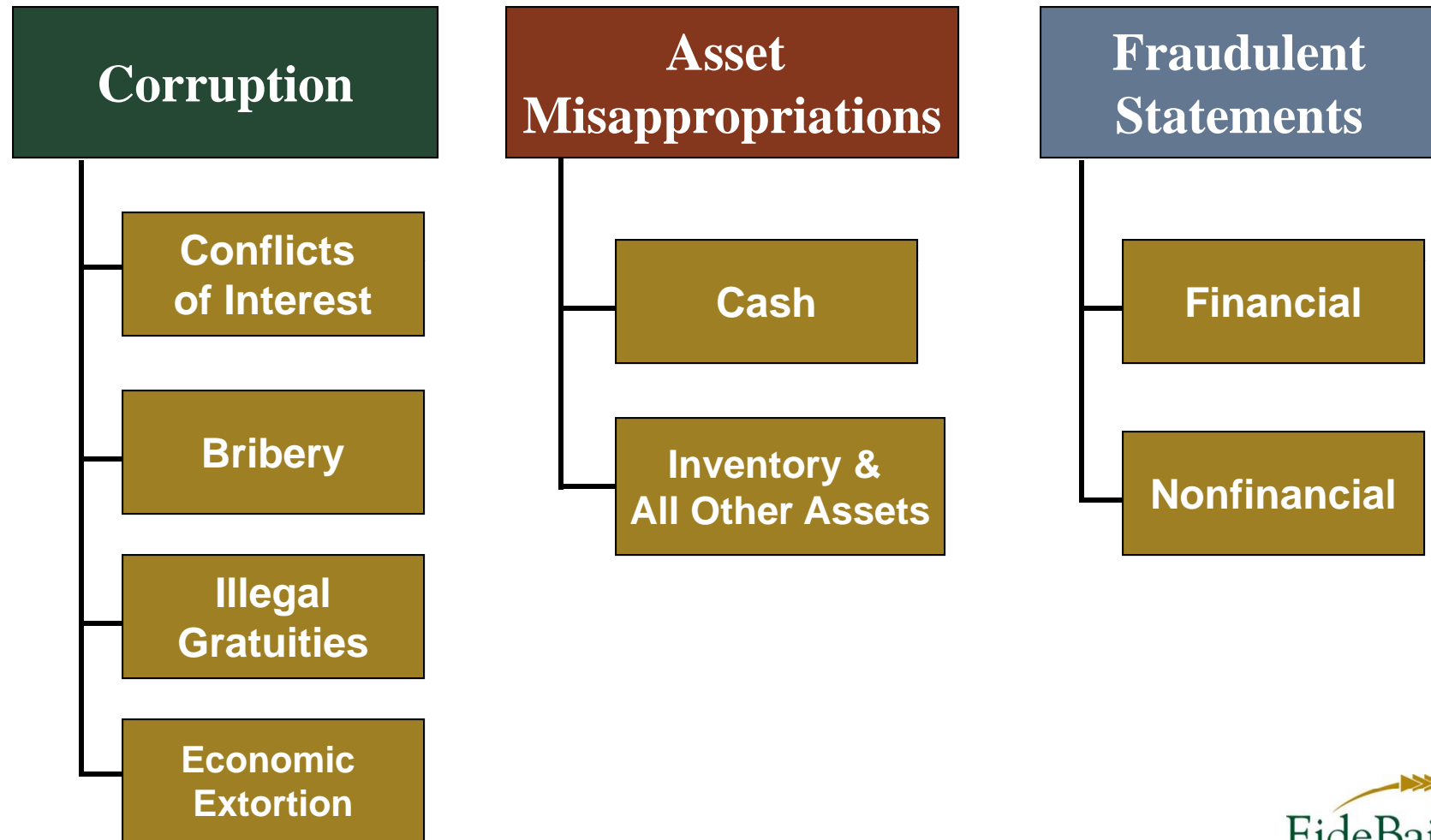


**Poor, Circumvented or Non-existent
Internal Controls**

Source: ACFE 2008 Report to the Nation



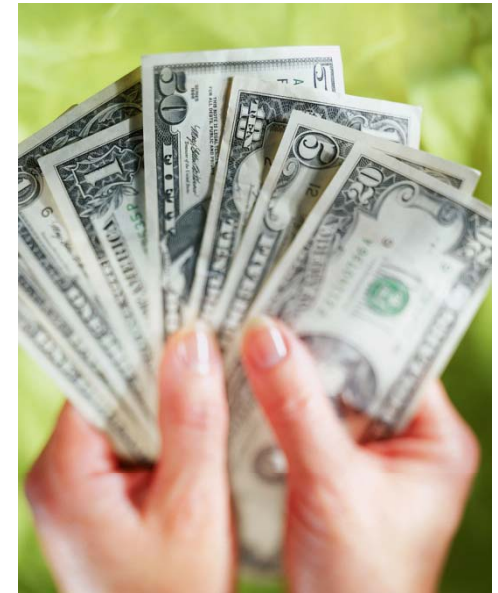
Classification of Frauds



Why are Fraud Investigations Important?

■ Median losses by type of scheme:

- *Asset theft: \$150,000*
- *Corruption: \$375,000*
- *Fraudulent statements: \$2,000,000*

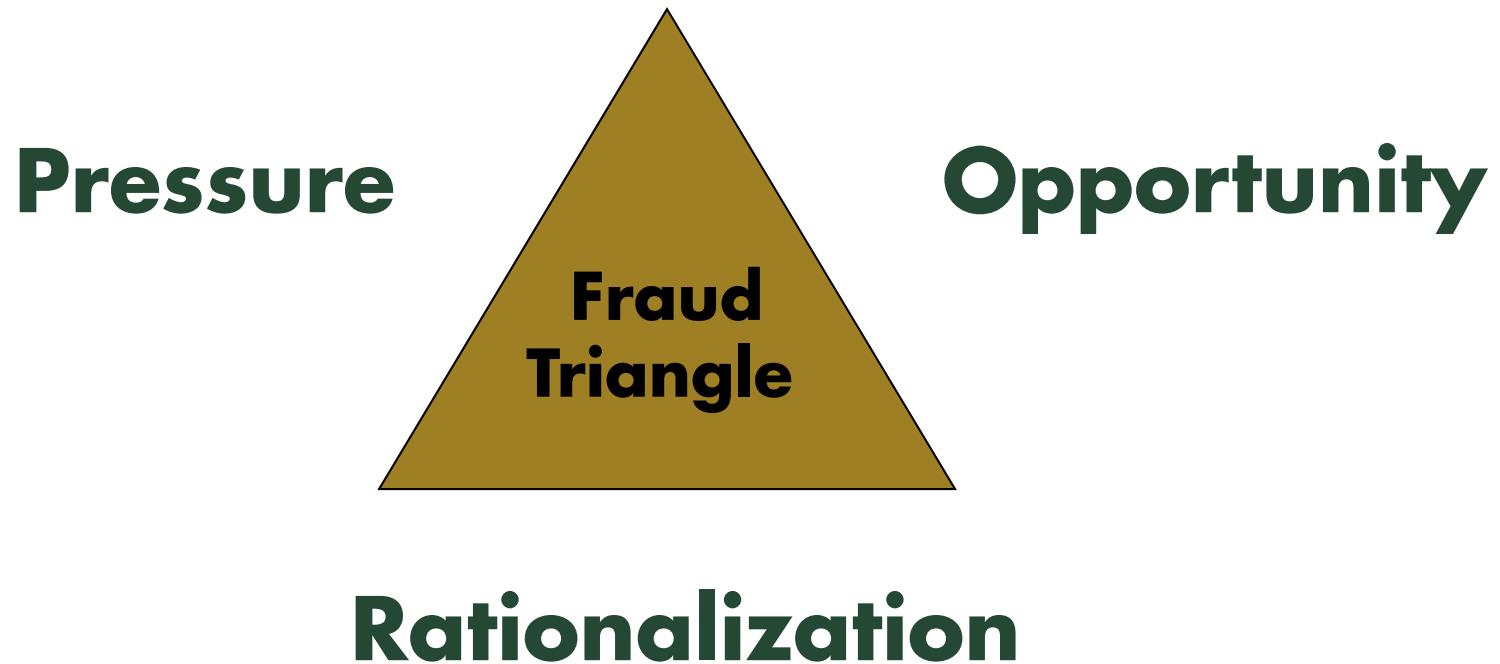


\$994 billion lost to fraud annually

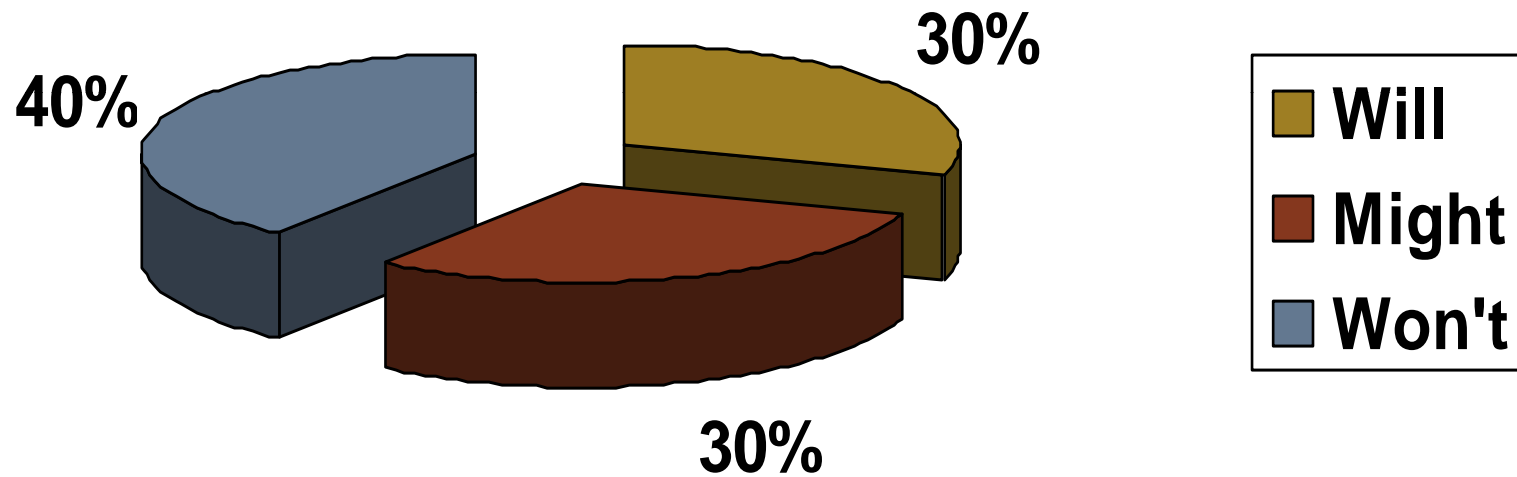
Source: ACFE 2008 Report to the Nation



Why People Steal



Will Workers Steal?



Source: Association of Certified Fraud Examiners



Typical Fraud Schemes

Internal Threats

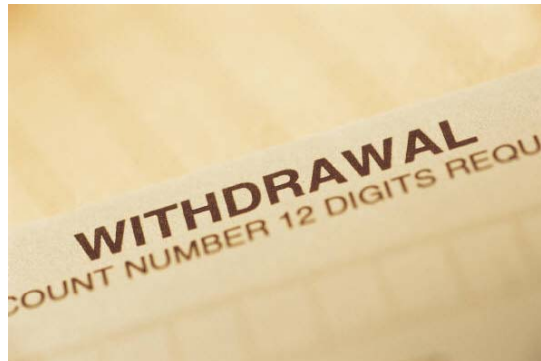


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Types of Frauds

- Off-Book Fraud
 - Taking of assets BEFORE recorded on books
- On-Book Fraud
 - Taking of assets AFTER recorded on books



Skimming

- Taking assets BEFORE recorded on the books
 - Cash receipts
 - Unrecorded sales
 - Inventory off of dock

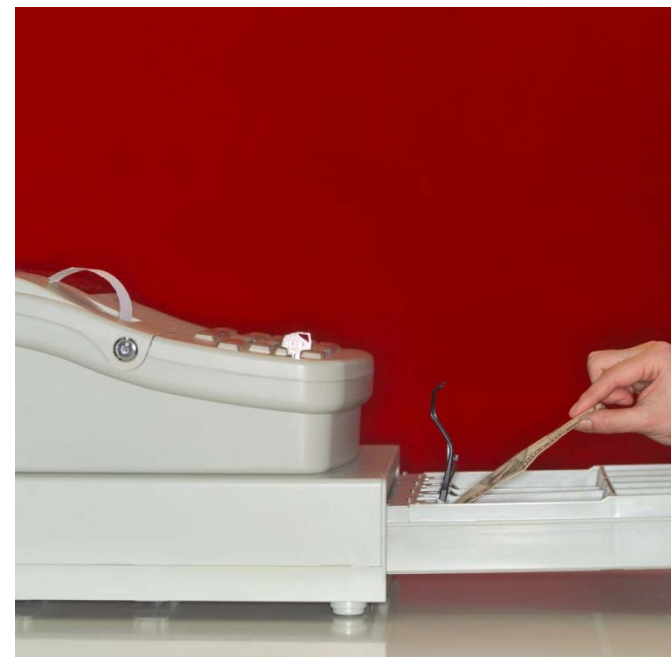


Remember: Two sides to every transaction



Case Example

- Perpetrator
 - Staff accountant of wholesale company
- Modus Operandi
 - Skimmed money from daily deposits
- Facilitation
 - Inadequate Controls
- Loss: **\$220,000**



Case Example - Invigilation

- Perpetrator
 - Staff at a strip club
- Modus Operandi
 - Unrecorded sales
- Facilitation
 - No Controls
- Result: Over \$10,000 more in sales the second week



Conversion

- Checks to cash
- Inventory to cash
- Alter payee
- Open account with similar name



Case Example

- Perpetrator
 - Bookkeeper at Health Care Facility
- Modus Operandi
 - Theft of Checks
- Facilitation
 - Inadequate Controls
- Loss: **\$320,000**



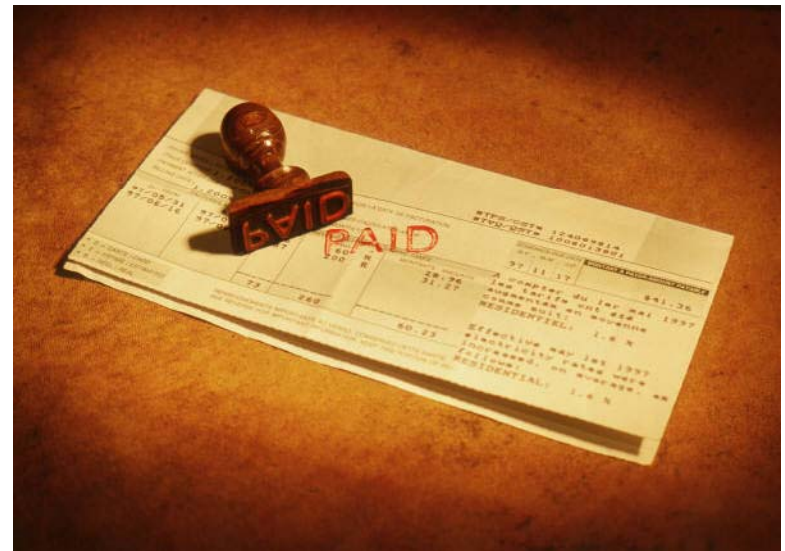
Billing

- Fictitious vendor
- Overpayment
- Pay & Return
- Personal Purchases
- Inflated Expenses



Case Example

- Perpetrator
 - AP Employee
- Modus Operandi
 - Set up a shell company, submitted fake invoices
- Facilitation
 - Inadequate Controls
- Loss: **\$170,000**



Payroll

- Ghost Employees
- Overtime
- Theft of Time



Case Example

- Perpetrator
 - Superintendent
- Modus Operandi
 - Kept employees on payroll after they were terminated
- Facilitation
 - Lack of oversight
- Loss: **\$11,000 in 3 months**



Expenses

- Unauthorized expenses
- Inflated expenses
- Fictitious receipts
- Claim others



Case Example

- Perpetrator
 - Manager
- Modus Operandi
 - Submitted invoices from fictitious hotel stays
- Facilitation
 - Lack of oversight
- Loss: **\$160,000**



False Voids

- No receipt to customers
- Transaction voided
- Receipt stapled to void report
- Cash removed



Case Example

- Perpetrator
 - Store manager
- Modus Operandi
 - Voided sales at the end of the day
- Facilitation
 - Lack of oversight
- Loss: **\$50,000**



Assistance

When are Forensic Accountants needed?



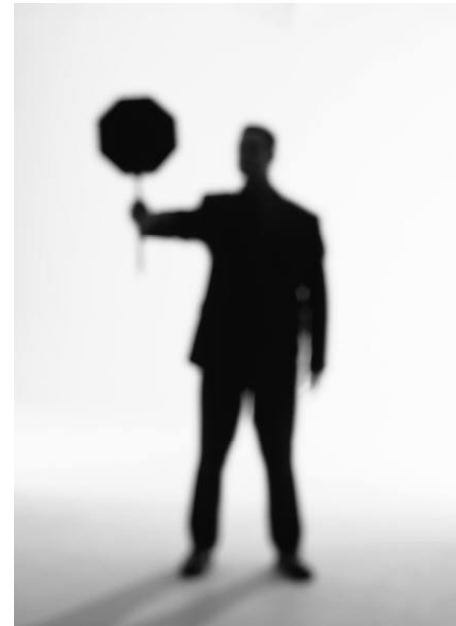
Lack of Internal Controls (fraud prevention)

Impact

- Opportunity for Theft
- Inaccurate financial statements
- Employee disregard for policies and procedures

Solution

- Review of current controls
- Implementation on controls
- Assessment of fraud risk
- Implement fraud hotline



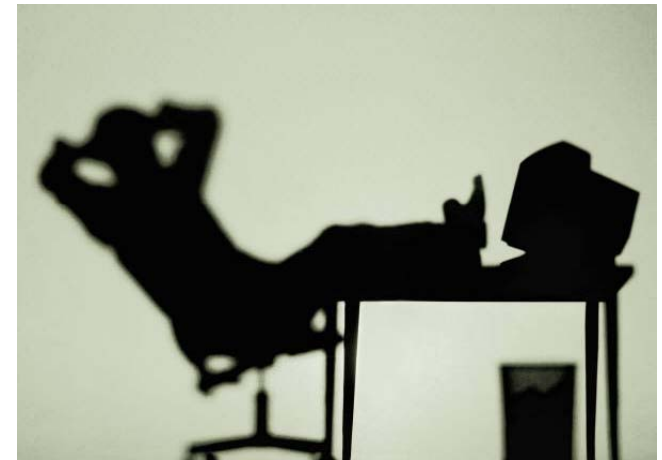
Hiring the Right People (background checks)

Impact

- Loss of productivity
- Loss of man hours
- Lawsuits and punitive damages

Solution

- Background checks
- Criminal checks for state and county
- Credit check
- Sex offender registry



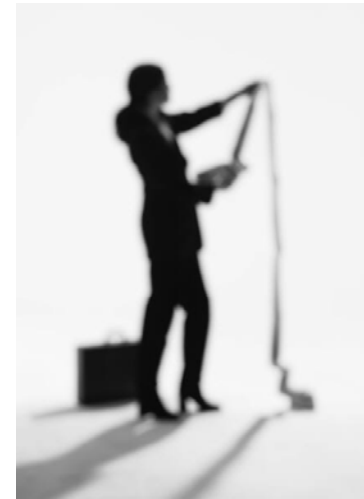
Suspicion of Fraud (fraud detection)

Impact

- Disappointment of the company's handling of situation
- Decrease in company moral
- Additional frauds perpetrated

Solution

- Resolve allegations of fraud
- Review books and records for any wrongdoing
- Interview employees



Misappropriation of Assets (fraud investigation)

Impact

- Bankruptcy
- Loss of trust
- Unrecoverable monetary loss

Solution

- Determine who is involved
- Document the fraud
- Calculate loss amount
- Provide expert testimony and reports for court



Legal Disputes (litigation support)

Impact

- Legal fees
- Loss time
- He said/she said argument

Solution

- Business Valuations
- Calculation of unreported/underreported income
- Calculation of asset misappropriation



Computer Forensics

- Data Recovery
 - Deleted or inaccessible files
- Expert Testimony
 - Data recovered is admissible in court



How can forensic accounting impact a case?

- Act as Expert Witness
- Not your everyday Accountant, looks outside the “box”
- Bring Additional Resources to the Table
- Use to asking why
- Independence



Forensic Accounting Services

- Fraud Examinations and Investigations
- Proactive Fraud Audits
- Internal Control Reviews
- Asset Discovery and Verification
- Fraud Awareness Training
- Background Checks
- Hotline
- Litigation Support for:
 - Partnership disputes
 - Professional negligence cases
 - Insolvency and bankruptcy
 - Divorce and child support



Contact Information

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