

# *So What is Forensic Accounting?*

Professor -Shilpa Patel  
Department-commerce



# This is Not Forensic Accounting





# Nor is This





# Forensic Accounting is not Internal Controls





# Caution: Controls Do Not

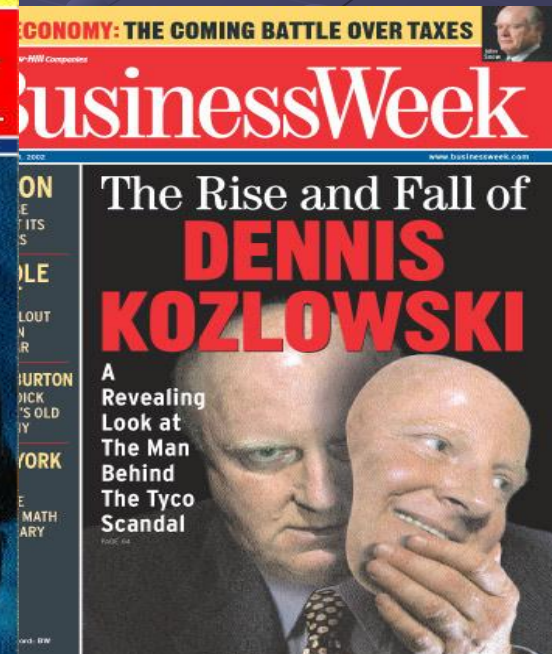
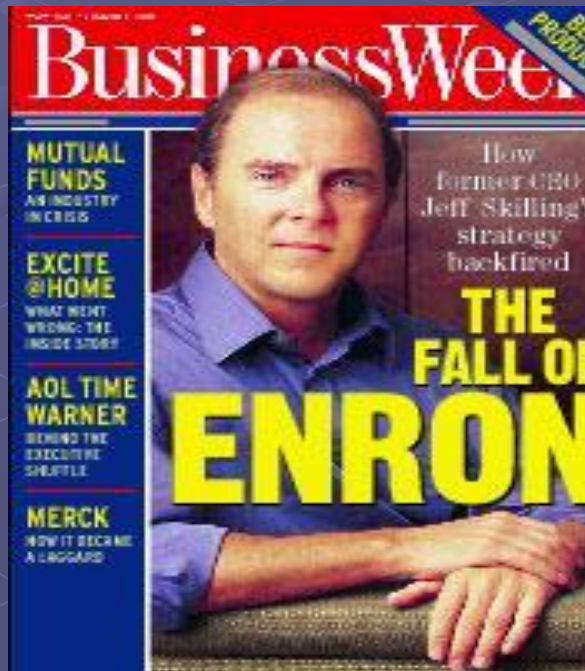
1. Guarantee fraud will not occur.
2. Guarantee errors will not occur.
3. Guarantee management will abide by controls.
4. Guarantee fraud will be detected.
5. Guarantee errors will be detected.
6. Guarantee collusion will not occur.
7. Guarantee staff will follow controls.
8. Internal controls are only responsible for detecting 20% of all known frauds.





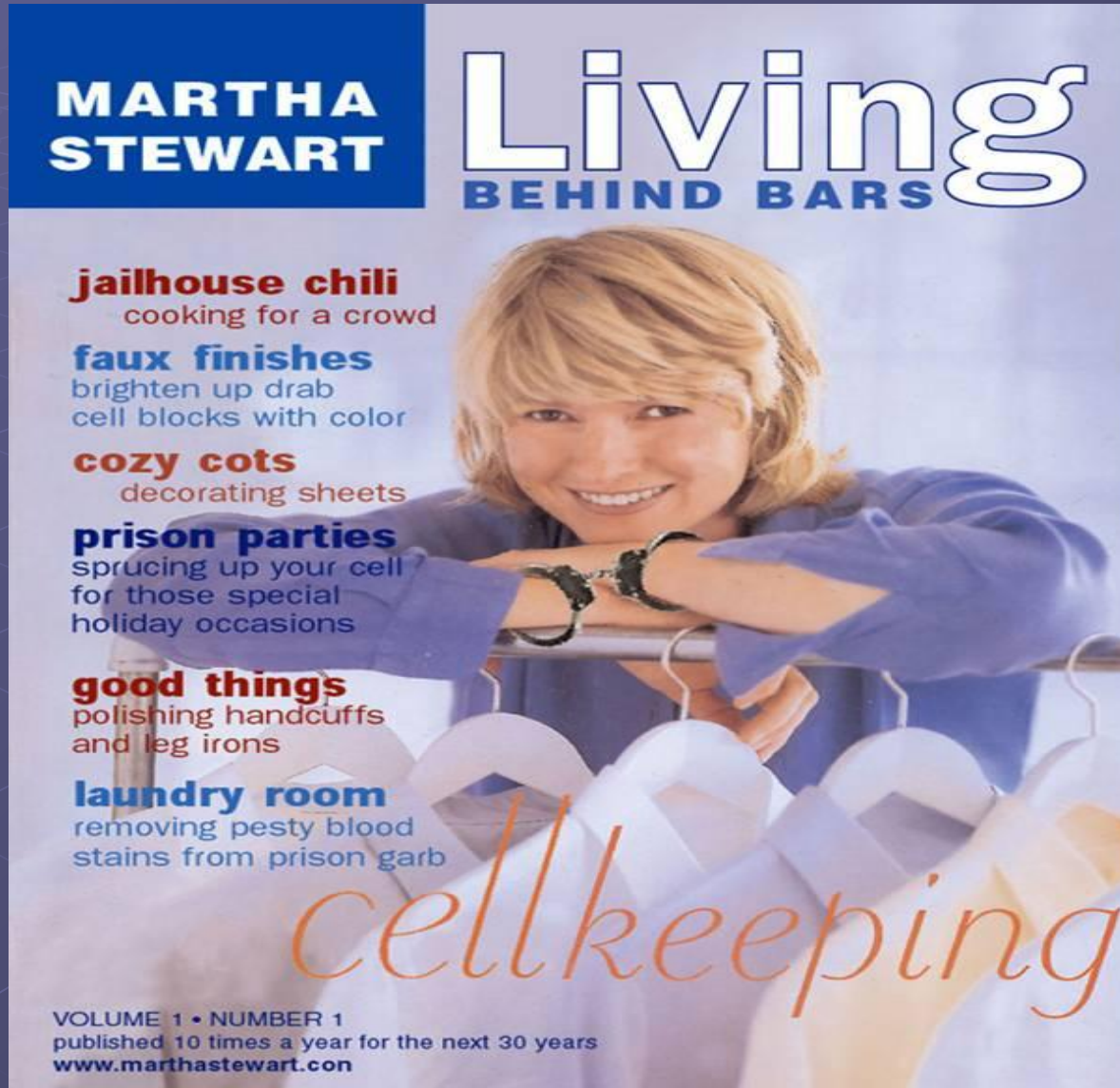
# This is Forensic Accounting

Bad News: A married white male in his 50's, with an undergraduate degree is your worst nightmare.





# Forensic Accounts Do not Discriminate





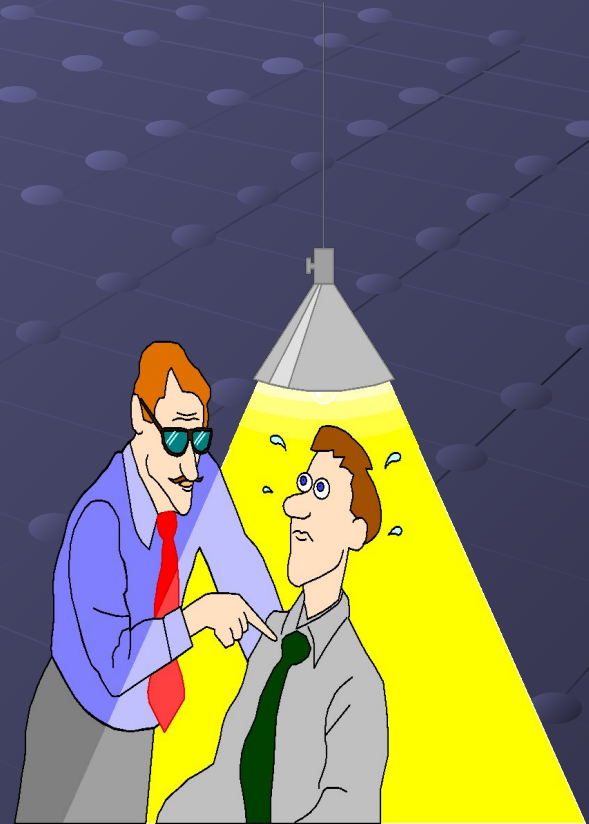
# Forensic Accounting is Examining the Dark Side





# *Forensic Accounting is....*

- The special forces of auditing, i.e., your worst nightmare. In God we trust, all others we audit!

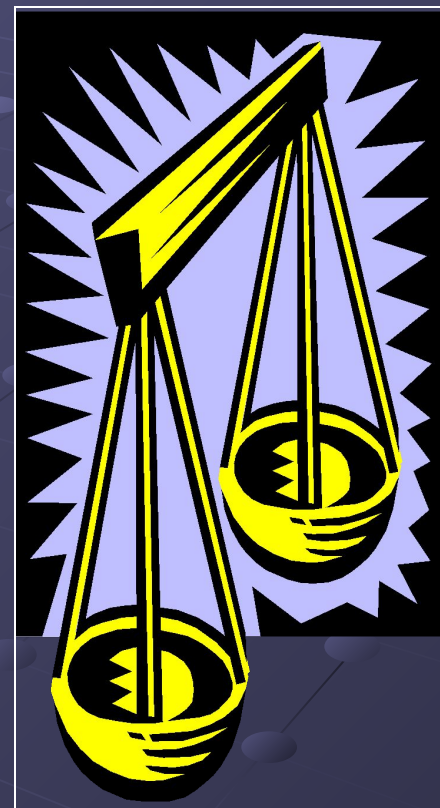




# Let's Start With the Word "Forensic"

"Forensic", by definition, means belonging to or having application in courts of law.

This definition encompasses any legal proceeding wherein judicial action is pending or has been taken by a trier of fact.





# Forensic Accounting: as Defined by the AICPA!

*“The applications of accounting principles, theories, and discipline to facts or hypotheses at issue in a legal dispute is called forensic accounting. It includes every branch of accounting knowledge.”*



The CPA. Never Underestimate The Value.<sup>®</sup>



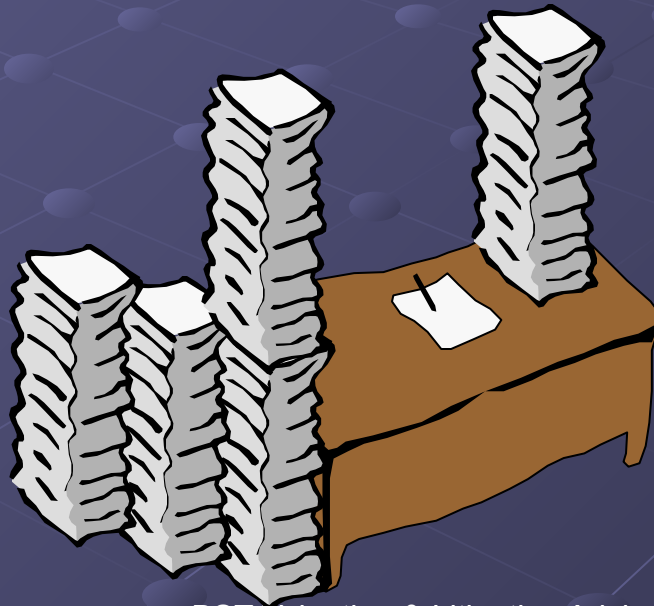
# Accounting + Auditing + Economics Statistics + Investigative Skills

Forensic CPAs require accounting, auditing, investigative skills and a working knowledge of economics and statistics to conduct their work. Of equal importance is their ability to react quickly and to communicate financial information in a clear and concise manner.



# What's Involved in Forensic Accounting?

- Data - (Lots of it!) Identify, collect, analyze, and interpret financial and non-financial data;
- Spreadsheets – Develop computerized applications to assist in the analysis & presentation of financial data;





# What's Involved in Forensic Accounting?

- Reporting - Communicate findings in the form of reports, schedules and pertinent documents;
- Courtroom - Assist in legal proceedings, including testifying in court as an expert witness and preparing visual aids to support findings and opinions.



# A Typical Forensic Accounting Practice

- Litigation Support
- Business Valuations
- Investigative Accounting
- Insurance Loss Accounting



# What is “Litigation Support”?

“Litigation Support”, includes providing accounting and financial assistance in matters involving litigation, oftentimes with issues related to the quantification of economic damages.





# Litigation Support: Engagements

- Lost Earnings in Commercial Cases – breach of contract, intellectual property, accountant's liability, business interruption claims.
- Domestic Relations – enhanced earnings capacity, tracing & apportionment of assets, hidden asset search, tax considerations.
- Lost Earnings for Individuals – personal injury, wrongful termination, wrongful death, medical malpractice.
- Pre-Trial Consulting – assistance with discovery and questions for depositions, case strategy development, settlement assistance.



# The Forensic Accountants Role

- Consultant — Advise the clients about the facts, issues and strategy of a case. Since we won't testify as an expert our work will generally be protected from discovery by the attorney work-product privilege.
- Expert — As experts we'll provide an expert opinion at trial. The forensic CPA's opinion usually relates to business issues with which the CPA is familiar because of special education, training or work experience.



# Business Valuations

Involves valuations of closely held businesses, professional practices and enhanced earnings relating to matrimonial matters, estate and gift tax planning, transactions and commercial damages.





# How About “Investigative Accounting”?

“Investigative Accounting” is quite often associated with criminal matters. Related investigations are typically focused on uncovering and quantifying misappropriated, misstated, diverted or concealed income and assets.









# Investigative Accounting: Engagements

- Employee Theft or Embezzlement
- Financial Motive in Arson Cases
- Insurance Fraud
- Bankruptcy Fraud
- Financial Statement Fraud
- Tax Fraud
- Securities Fraud





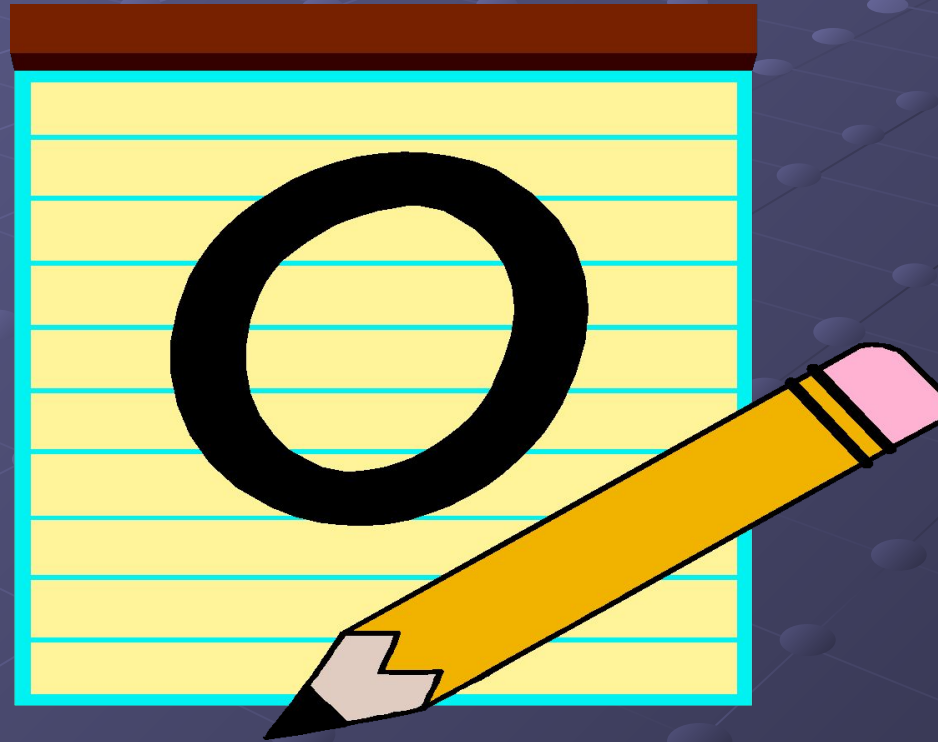
# Insurance Loss Accounting: Engagements

- Loss of Business Income
- Stock and Contents Losses
- Employee Theft & Dishonesty
- No-Fault Auto - Lost Wages
- Worker's Compensation





# The Value of Nothing





# Vendor File Does Not Contain an Address

Check #	Check Date	Check Amount	Vendor Name	Addresss
1001	1/3/2004	\$225.95	ABC Co.	6 Kitty Lane
1002	1/8/2004	\$1,212.97	SCHINDLER ELEV	
1003	1/13/2004	\$4,999.50	YORK CORP	Box 17
1004	1/18/2004	\$339.13	US FOODSERVICE CUST	1288 5th Ave
1005	1/23/2004	\$473.98	OK DEPT OF TAX	2A Oak Lane
1006	1/28/2004	\$250.81	W W GRAINGER	74 Woodlawn
1007	2/2/2004	\$504.00	LJC LIGHTING SUPPLY	2 Barber Dr
1008	2/7/2004	\$171.70	CLERK, DC SUPERIOR CT	107 Duncan Fife
1009	2/12/2004	\$225.15	ABC.Co	4 Saradale



# Digital Analysis



# Benford's Law

- Multi digit numbers beginning with 1, 2 or 3 appear more frequently than multi digit numbers beginning with 4, 5, 6, etc.
- The frequency of which these digits appear in nature was published in “The Law of Anomalous Numbers



# Percentages

## Percentages

### Digit - Position in Number

1<sup>st</sup> digit

1. 30%

2. 18%

3. 12%

4. 10%

5. 8%

6 7%

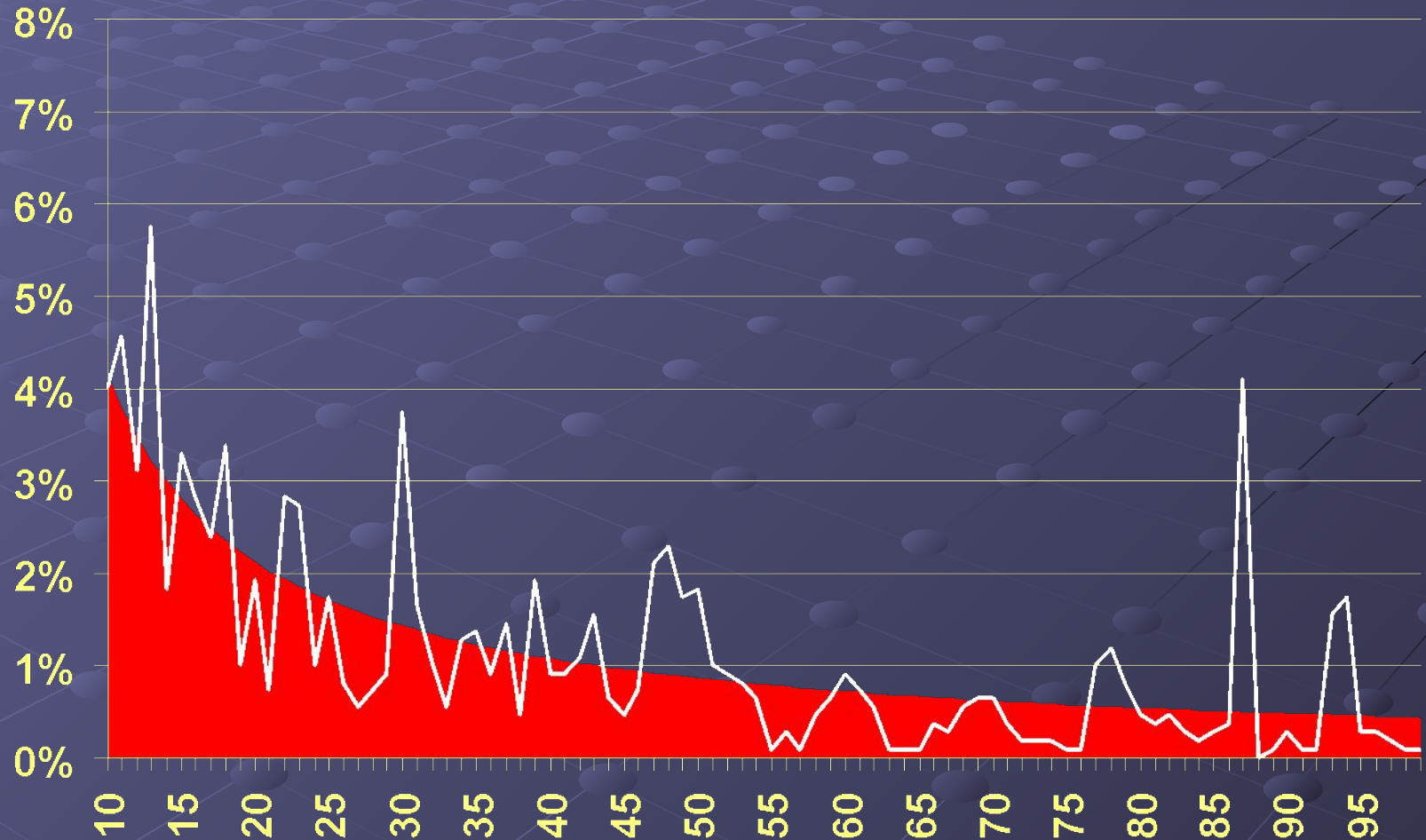


# How Does This Help Us?

- Because human choices are not random, invented numbers are unlikely to follow Benford's Law, I.e., when people invent numbers, their digit patterns (which have been artificially added to a list of true numbers) will cause the data set to appear unnatural.



# Actual First and Second Digit Frequency





# Caution

- Does not work with Lottery
- May not work for certain types of expenses in which documentation is not required for expenses under a certain category.
- Authorization Levels.





# Two or More Vendors With the Same Address

Check #	Check Date	Check Amount	Vendor Name	Addresss
1001	1/3/2004	\$225.95	ABC Co.	6 Kittv Lane
1002	1/8/2004	\$1,212.97	SCHINDLER ELEV	295 Lape Rd
1003	1/13/2004	\$4,999.50	YORK CORP	Box 17
1004	1/18/2004	\$339.13	US FOODSERVICE CUST	1288 5th Ave
1005	1/23/2004	\$473.98	OK DEPT OF TAX	2A Oak Lane
1006	1/28/2004	\$250.81	W W GRAINGER	74 Woodlawn
1007	2/2/2004	\$504.00	LJC LIGHTING SUPPLY	295 Lape Rd
1008	2/7/2004	\$171.70	CLERK, DC SUPERIOR CT	107 Duncan Fife
1009	2/12/2004	\$225.15	ABC CO.	4 Saradale



# Vendors With The Same Federal I.D. Number

Check #	Check Date	Vendor Name	Federal I.D. #	System Check	Formula
1001	1/3/2004	ABC Co.	147769783	1	=IF(D4=D5.1,"")
1006	1/8/2004	W W GRAINGER	147769783		
1005	1/13/2004	OK DEPT OF TAX	147769900		
1007	1/18/2004	LJC LIGHTING SUPPLY	148102746		
1002	1/23/2004	SCHINDLER ELEV	148199941		
1008	1/28/2004	CLERK, DC SUPERIOR CT	148532904		
Sort, then input formula					



# Employee Analysis

- Vendor address = employee address
- Tax ID # = employee social security number
- Employee telephone = Vendor telephone



**BUNTE REPUBLIK DEUTSCHLAND** FEDERAL REPUBLIC OF GERMANY  
PERSONALAUSWEIS REPUBLIQUE FEDERALE D'ALLEMAGNE  
IDENTITY CARD/CARTE D'IDENTITE ONLINEWAHN.DE  
Name/Surname/Nom **BEIDERBECK**  
Vorname/Given names/Prenoms **THORSTEN**  
Geburtsort und -ort/Date and place of birth/Date et lieu de naissance  
**05.06.71 HANNOVER**  
Staatsangehörigkeit/Nationality/ Gültig bis/Date of expiry/Date d'expiration  
Nationalité **DEUTSCH / 08.01.10**  
Unterschrift der des Inhabers/Signature of bearer/Signature du titulaire  
**T. Beiderbeck**

IDD<<BEIDERBECK<<THORSTEN<<<<<<<<<<<  
WWW.ONLINEWAHN.DE<<7106059<1001082<<



# Who Hires Forensic Accountants?

- Insurance Companies
  - District Attorneys
- Government Agencies
  - Banks
- Police Departments
- Public and Private Businesses
  - Accounting Firms





# Qualifying a Forensic CPA!

- Degree in accounting or related area
- Hands-on experience in the areas of accounting, auditing and taxation
- Has a working knowledge of statistics and economics
- Has specialized training from a quality organization with a focus on forensic accounting and fraud training
- Lastly, has on-the-job training in forensic work



# Specialized Training Opportunities

- Association of Certified Fraud Examiners (ACFE)
- NYS Society of CPAs
- AICPA Conference on Fraud & Litigation Services
- Property Loss Research Bureau (PLRB)
- American College of Forensic Examiners
- Utica College and other colleges









# Questions?

Chris Rosetti

[crosetti@bstadvisors.com](mailto:crosetti@bstadvisors.com)

BST Valuation & Litigation Advisors, LLC

26 Computer Drive West  
Albany, New York 12205

Tel: 518-459-6700 / 800-724-6700 ♦ Fax 518-459-8492

[www.bstadvisors.com](http://www.bstadvisors.com)





- Thank you