



AMERICAN **BAR** ASSOCIATION

Criminal Justice Section

Criminal Justice Section Newsletter

Volume 28, No. 2 Winter 2020

Effective Use of Forensic Accountants in White Collar Crimes

By Paul Peterson

Over the past 30 years, very few career paths in accounting have evolved faster than the role of forensic accountants. In the early days when CPAs first began using the term “forensic accounting,” much of that accounting work was geared toward serving the insurance industry. This accounting specialty was borne out of the need to quantify economic losses for insurance claims as these policies became more complex and complicated. While working with insurance adjusters and claimants continues to be part of the range of services forensic accountants can provide, forensic accounting has evolved and expanded—so much so that bachelor’s degrees in forensic accounting are now offered at many universities.

With the maturing of forensic accounting over the last 3 decades, the skillsets and service offerings have dramatically grown. Today, some of the main clients and supporters of forensic accountants are attorneys, including both external and in-house counsel. And corporations across all industries now rely on forensic accounting. Corporate compliance professionals, investigative units, internal audit departments and in-house and external counsel gain value from forensic accountants’ specialized knowledge, skills and experience, as well as the technology tools they use to detect wrongdoing, uncover facts, and remediate issues to strengthen financial controls and minimize future occurrences of bad acts and crimes.

The following are the key areas where forensic accounting teams can add value during a domestic or international fraud investigation or white collar crime matter.

Books and Records Analysis

The core service offering for a forensic accountant is providing financial analysis from data extracted from a company’s books and records and other data sets related to allegations of wrongdoing. The typical first step a forensic accountant will take is to work with the internal and external attorneys and corporate stakeholders, including IT professionals, to understand where the various data sets reside and determine the best approach to obtain the data and accounting records.

Forensic accountants within large, international public accounting firms have experience working with various accounting systems used around the world, including accounting systems that are in the local language. In order to conduct dis-

creet inquiries and have full access to manipulate and query the accounting data for evidence supporting the allegations or to detect red flags, forensic accounting professionals will typically extract data sets from the local accounting system and set up the data in an independent, standalone environment. The need to understand the company’s debits and credits and accounting records will be determined by the type of fraud allegation; namely, misappropriation of assets, financial statement fraud, or corruption. For instance, if the allegation is related to payments made to specific vendors or coming out of certain expense accounts, the forensic accountant may only need to focus on and query disbursements out of specific expense accounts. Or if financial statement manipulation to increase revenues is alleged, the forensic accountant may have to understand, for example, top-sided or period-end journal entries made to inflate revenues. Top-sided journal entries are adjusting entries typically recorded in the general ledger post-consolidation, but not pushed down to the sub-ledger. In situations where corruption is at the center of the allegations, a broader population of accounting system data should be analyzed. In doing so, the forensic accountant will have visibility across various business cycles to determine how the alleged bribe payments are recorded as government enforcement agencies continue to use laws to penalize companies for improper books and records.

Big Data

These days you cannot go to a fraud or compliance-related conference without being inundated with presentations and marketing materials related to Big Data and data analytics. This is a topic that has significant implications when it comes to investigations of white collar crimes in addition to proactive measures to address fraud risks. Forensic accountants, working with their forensic technology counterparts within their firm, are leading the execution of highly sophisticated tools and processes to normalize, query, and mine the potentially relevant universe of evidence to extract pertinent insights and visually display the most meaningful results showing patterns, relationships, anomalies and connections. Data analyzed are typically not just the accounting records but may also include various internal system data sitting outside the accounting platform as well as external data sets. An important precursor to analyzing the data is confirming the completeness and accuracy of the data set and the quality of the data. If the integrity, quality, and/or completeness and accuracy of the data is determined to be lacking, the results are potentially of zero value and will require a do-over. From my experience from many analyses of data sets, up to fifty percent of the overall time spent by the forensic accounting team may be spent on the initial data integrity verification and data set-up.

Since numbers don’t lie, the forensic analysis of an accounting data set typically proves to be helpful in establishing leads.

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Whether it's leads aligned with specific allegations or leads for a proactive fraud detection engagement, the devil is in the accounting details. The leads generated from this analysis allow the forensic accountant to define mission-specific procedures that may take the form of pulling supporting documentation for accounting transactions, interviews, investigative due diligence, or e-discovery, including the review of electronic files, emails, and cell phone data.

E-discovery and Document Review

Full-service forensic accounting practices will have some level of e-discovery and document review capabilities. Though the sophistication of these capabilities may vary from firm to firm, it's always recommended that your forensic accounting team have e-discovery skills and familiarity with the e-discovery tools and techniques needed as well as the capacity to conduct efficient and effective document reviews. An initial step in many forensic investigations is identifying the employees and company files to forensically image. Forensic imaging itself is not a costly endeavor. Once imaged, the forensic accountants and attorneys determine which data sets and files should be processed and hosted for analysis and reviewed while others may be stored for preservation purposes only. The responsive documents and email/text messages identified by the forensic accounting team are usually the most valuable evidence indicating wrongdoing. Overall, forensic accountants play a crucial role during the e-discovery phase of the engagement.

Investigative Due Diligence

It is important that your forensic accounting investigation team has experienced members who can perform deep investigative due diligence on the background and history of individuals and entities. The investigated individuals are typically company employees or affiliated with a company vendor or customer involved in the allegations. Investigative due diligence procedures vary depending on the nature of the case, but the forensic accountant investigation team should have the ability to conduct extensive public records research (e.g., court filings, corporation records, etc.) as well as in-country, on-the-ground field inquiries and site visits. When developing investigative due diligence procedures, a little creativity can go a long way in uncovering facts. Value-added findings can be gleaned from properly executed investigative due diligence procedures, some key take-aways are providing insights of related parties of bad actors or from showing behavioral aspects of an individual's profile that support a history of wrongdoings or lifestyle pressures that may indicate a motive.

Interviews

Almost all white collar crimes require some level of informational meetings and interviews of company employees or other key players involved in the allegations. The purpose may

be to understand the company's business and/or accounting processes and internal controls, to corroborate stories or seek an admission of guilt. Traditionally, external counsel will lead such interviews, but the forensic accounting team will play an integral part in either covering the financial reporting and internal control related questions or providing the attorneys with information to use or be mindful of during the interview. Your forensic accountants should be experienced with either conducting interviews or supplementing the investigating attorneys' interview efforts.

Global Reach

U.S.-based companies continue to drive growth through international expansions. While venturing into foreign markets provides significant opportunities, companies often underestimate the level of risk it brings. While the degree of risk depends on a variety of factors, such as the countries touched, fraud risk inherently increases with international expansion. As international fraud and compliance matters inevitably arise within multinational corporations, it is important that your forensic accounting firm has in-country resources that are knowledgeable about the local business practices, language, laws and culture. These local forensic accounting resources are invaluable in distinguishing local customs from anomalous behavior, though both may be illegal or non-compliant with company policies.

Post-Incident Actions

At the conclusion of a fraud investigation, companies seek to put in place policies, procedures and internal controls to mitigate the risks that led to the incident in the first place. Your forensic accountant should be well equipped to perform a post-incident root cause analysis and subsequently provide suggestions to strengthen the corporate control environment of the impacted business cycle. A root cause analysis has become routine procedure; U.S. regulators are expecting companies to fully understand how the incident occurred. This analysis will drive remediation steps to prevent the incident from occurring again.

Conclusion

In white collar crimes that require independent investigative procedures, companies rely on expert external counsel and skilled forensic accountants. Navigating these matters can be complex and challenging. By partnering with credible forensic accountants and investigators that have experience with 1) performing financial analysis; 2) querying and mining big data; 3) deploying e-discovery tools for electronic file reviews; 4) conducting investigative due diligence; and 5) navigating global matters, backed by boots on the ground, the likelihood of an effective execution and comprehensive conclusion will be greatly increased.