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Private Investigators With Accounting Acumen

Forensic accountants can aid attorneys in recognizing and ferreting out white-collar crime.

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FORENSIC ACCOUNTANTS, also known as investigative accountants, are bloodhounds of the bottom line. While these sleuths have emerged during the past few years in the U.S. litigation marketplace, who they are and what they do has not been so clear.

Because of television, "forensic" has become synonymous with working with corpses. It actually means "belonging to, used in or suitable to courts of law." Generally, forensic and investigative accounting is the application of financial knowledge and skills, together with investigative strategies, to unresolved financial issues arising in the legal arena.

Forensic, or investigative, accountants do not follow dutifully a preconceived format of questions and procedures. On the contrary, they apply an investigative mindset to the financial issues in question.

They are like veteran detectives. They identify the indicators, or red flags, of fraud and other financial misdeeds, combining a sense of what is not the normal course of business with an understanding of human behavior. This type of accountant is characterized by an instinctive investigative way of thinking developed through years of training. An inexperienced accountant could not unravel a complex white-collar

crime puzzle. When they are on a case, they identify and analyze relevant documents and data. They assess relationships by conducting interviews to determine what actually occurred.

An investigative accountant should possess certain professional skills, such as—in addition to accounting and business training—a basic knowledge of the legal process and related standards, knowledge of the subject matter at hand and a basic understanding of human behavior and communication skills.

White-Collar Crime Wave

Traditionally, the legal and business communities retained private investigators to assist with financial investigations. This approach, however, was limited at times, given that some PIs did not understand the nuances of financial information. In other cases, the information gathered was incomplete or misinterpreted by investigators. Clients often ended up with flawed or partial reports.

Accounting firms then became involved in financial investigations, but limitations arose from a lack of knowledge of the elements of fraud and other crimes or a failure to understand the legal process.

Today, as the cost of white-collar crime has risen in the United States to more than \$100 billion annually, and as financial matters have become increasingly complex, law firms and corporations are turning more frequently to forensic accountants to assist in the financial aspects of litigation.

Recently, for example, a Fortune 500 company suspected that a plant director and some of his senior assistants were colluding in an internal fraud involving scrap products. Management investigated internally for a year but could not act on their suspicions. During that time, the firm's internal audit produced a

favorable report on the plant's operations.

The company then retained forensic accountants. First, they brought the security and internal audit groups together to search for information that seemed consistent with the suspicions.

Within days, a series of interviews produced a document that summarized vendor bid information. The forensic accountants ran the document by the company's internal auditors. They reviewed each vendor's per-unit costs for 40 items and realized that there was a series of red flags. All the unit bids from the winning vendor ended in either a five or a zero, while the two losing vendors each had numbers such as \$1.52 and \$6.43.

Rigged Bid

The winning vendor also had underbid the other vendors by the smallest of margins on all products except those in which the winning vendor had underbid the others by approximately 25 percent. The forensic accountants' conclusion was that the winning vendor knew when to offer the company the best prices. It had all indications of a rigged bid—fraud.

The accountants subsequently interviewed an individual who acquired the actual bid submissions and who reluctantly provided documents leading to the next investigative step. The accountants discovered that the winning bidder, in collusion with the plant director and others, was involved in a scheme to remove valuable assets from the company under the guise of worthless scrap.

Throughout this investigation, the forensic accountants remained independent and objective, which contributed to their ability during interviews of critical witnesses to be viewed as non-adversarial as they proceeded to identify and secure relevant docu-

ments. A good forensic accountant resists the natural inclination to find what a client or an attorney wants to be found.

Another benefit of hiring a forensic accountant is the absence of conflict of interest. If a corporation or its attorneys engage the company's auditing firm to conduct an investigation, problems can arise. The auditors can be biased rather than objective during the engagement. The auditor later may be subpoenaed while wearing two hats—as auditor and investigative accountant—which creates difficulties in protecting privileges.

Missing Puzzle Pieces

Forensic accountants can be retained to assist with matters such as corporate litigation, investigations and white-collar defense when there are missing pieces of a puzzle to solve. The puzzle analogy often is used to explain the forensic accounting process. Like puzzle solvers, investigative accountants must find and assemble the final picture piece by piece.

A typical engagement involves five basic strategies:

- Case strategy, or describing the puzzle.
- Evidence gathering, or finding the pieces.
- Analysis, or putting the pieces together.
- Opinion and reporting, or solving the puzzle.
- Legal process, or explaining the puzzle.

Forensic accounting indeed is a new area of financial expertise. There is a growing need for investigative accountants who can determine whether a set of numbers represent fact or fiction. ■

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