



# FORENSIC INVESTIGATIVE ANALYSIS

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**April 24, 2019 In-House Counsel Conference**

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# FRAUD STATISTICS

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# Association of CFE's Report to the Nations

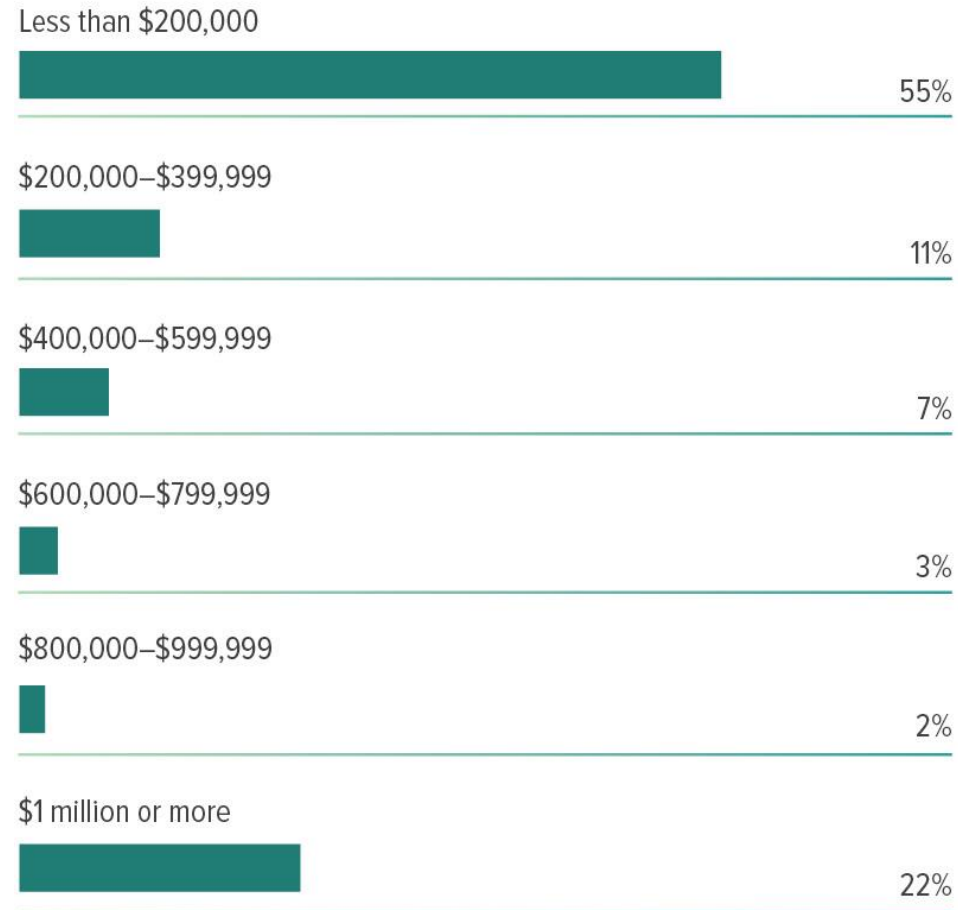
- ❑ Global fraud study on Occupational Fraud and Abuse
- ❑ Analysis of 2,690 cases of occupational fraud from January 2016 through October 2017
- ❑ Goals of report is to show:
  - ❑ Percentage of organizational revenue lost to fraud each year
  - ❑ Ways in which occupational fraud occurs
  - ❑ Characteristics of individuals who commit occupational fraud
  - ❑ Characteristics of organizations that are victimized by occupational fraud

# The Cost of Fraud

- ❑ Fraud costs organizations an estimated 5% of revenue a year, or approximately \$4 trillion worldwide.
- ❑ In just the 2,690 cases, losses exceeded \$7.1 billion in direct losses; it doesn't calculate indirect costs such as reputational harm or stakeholder relationships.
- ❑ Three general categories of occupational fraud consistent throughout time, even with change in technology:
  1. Corruption
  2. Asset Misappropriation
  3. Financial Statement Fraud

# Calculation of Losses Caused by Fraud

FIG. 2 How much does an occupational fraud cost the victim organization?



# Frequency and Median Loss of Occupational Fraud

FIG. 3 How is occupational fraud committed?

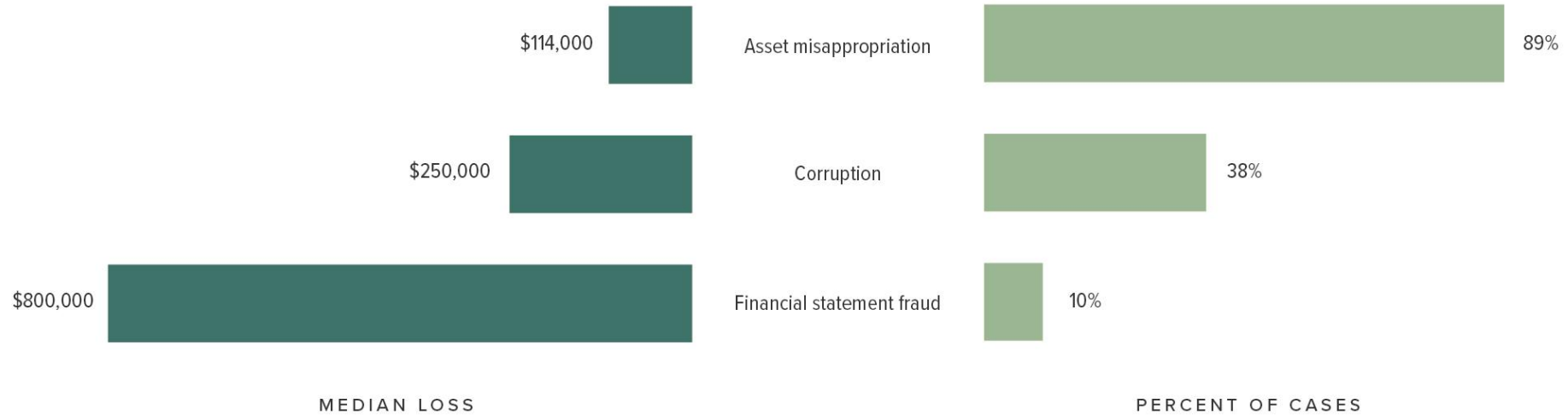


FIG. 5 How often do fraudsters commit more than one type of occupational fraud?

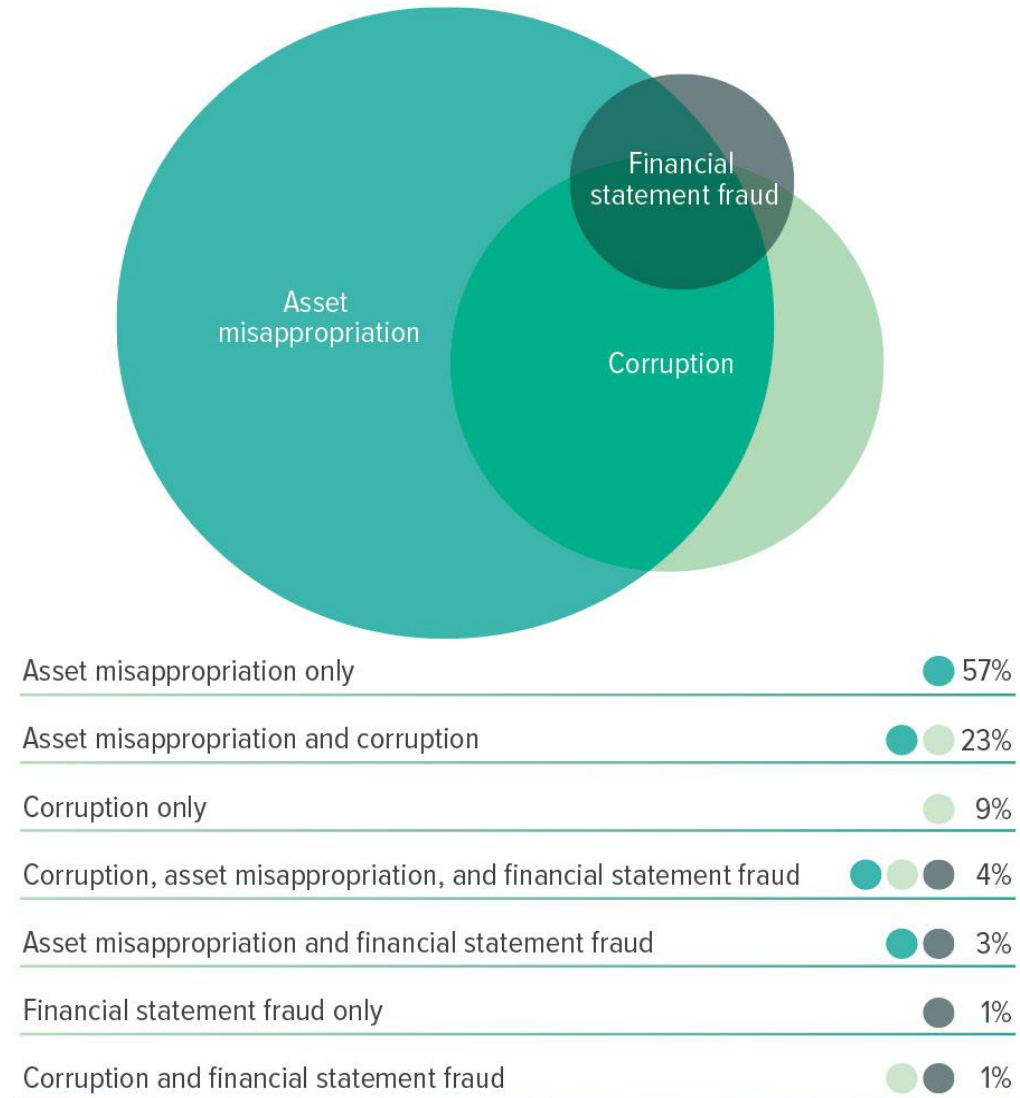
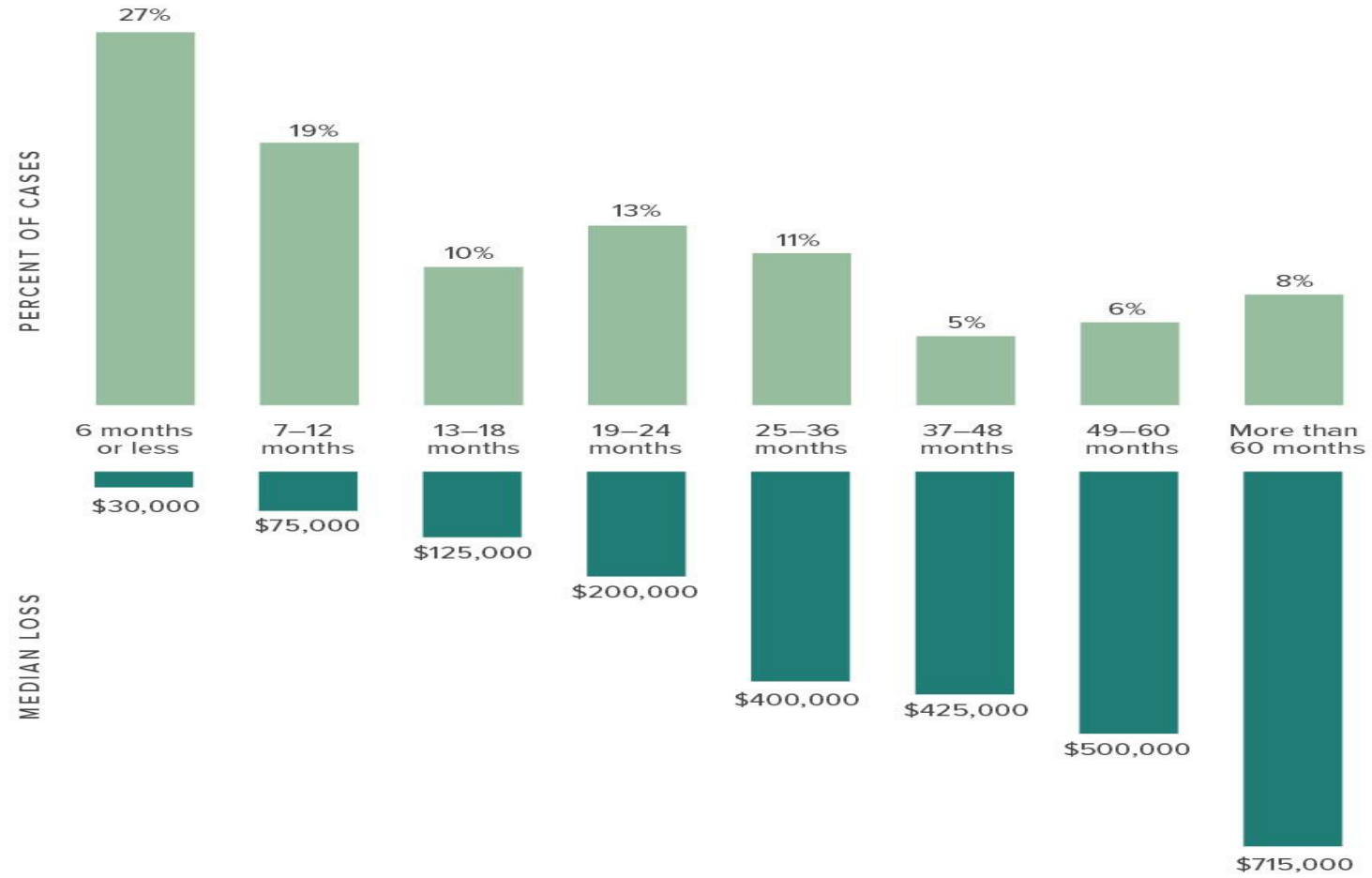


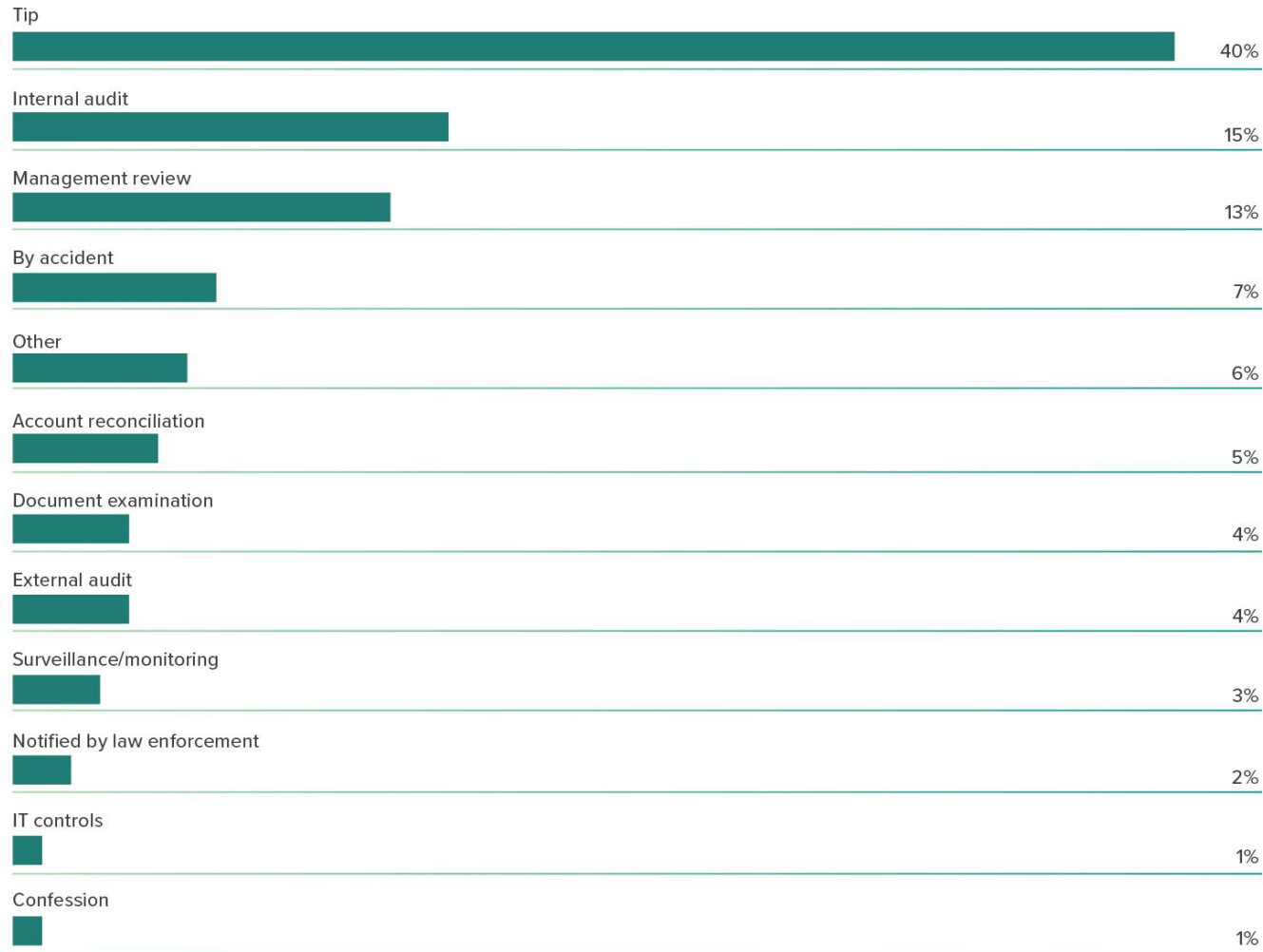
FIG. 7 How does the duration of a fraud relate to median loss?





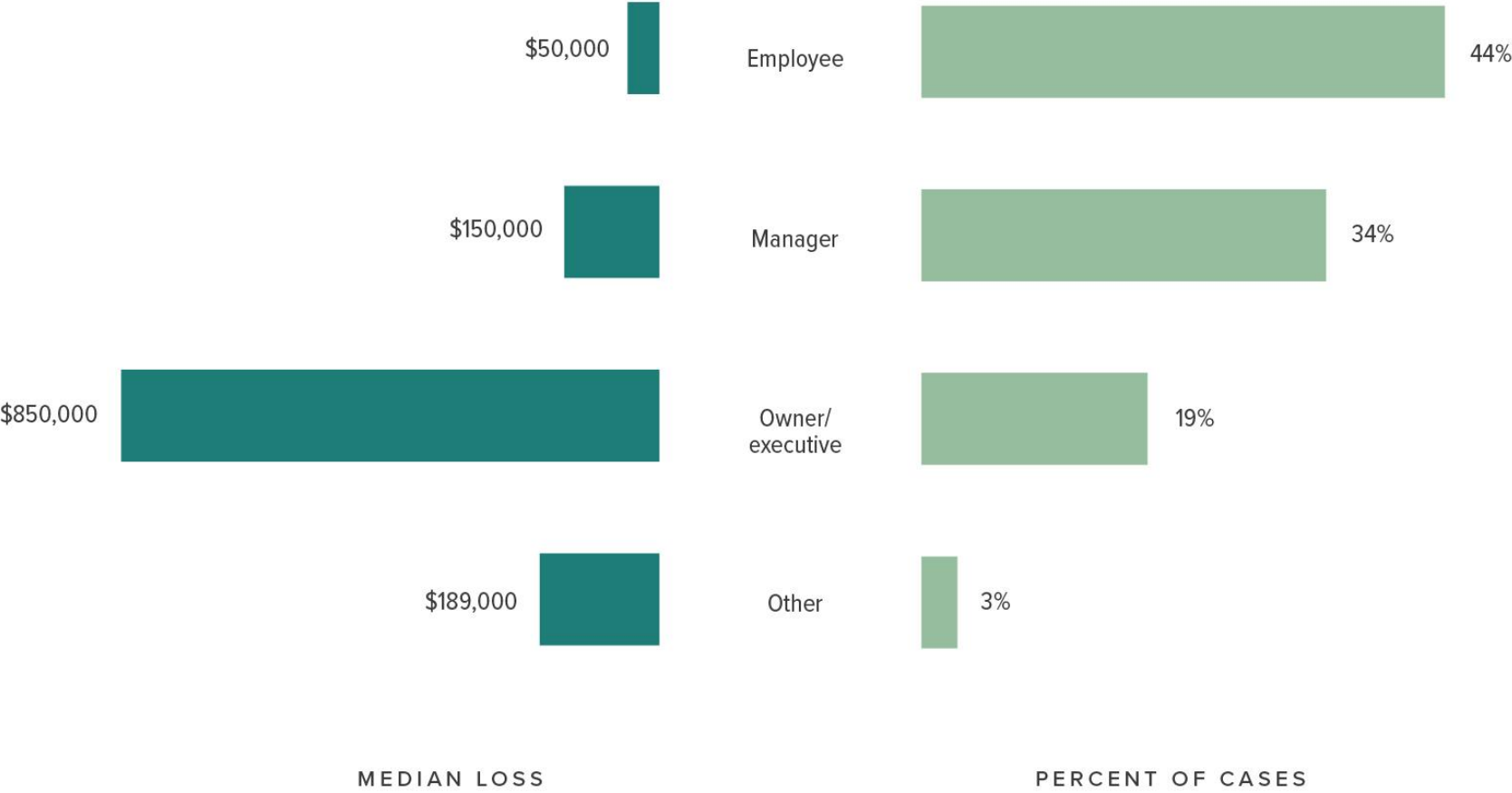
# Detection of Occupational Frauds

FIG. 9 How is occupational fraud initially detected?



# Position of Perpetrator

FIG. 24 How does the perpetrator's level of authority relate to occupational fraud?



# Fraud Triangle

## The Fraud Triangle



# Incentive / Pressure

- Incentive / Pressure
  - First leg of the fraud triangle.
  - An individual may have some financial problem and may consider committing illegal acts as a way of solving the problem.
  - Problem may be personal or professional.
  - Examples include:
    - Inability to pay bills
    - Drug or gambling addiction
    - Maintain investor confidence
    - Maintain or meet productivity targets
    - Desire for status symbols

# Opportunity

- Opportunity
  - Second leg of the fraud triangle
  - Method by which the crime can be committed
  - Must see some way the fraud perpetrator can be abuse his/her position at the company to solve the financial problem
  - A perceived low risk of being caught
  - Secretive solution since many white-collar crimes are committed to maintain social status

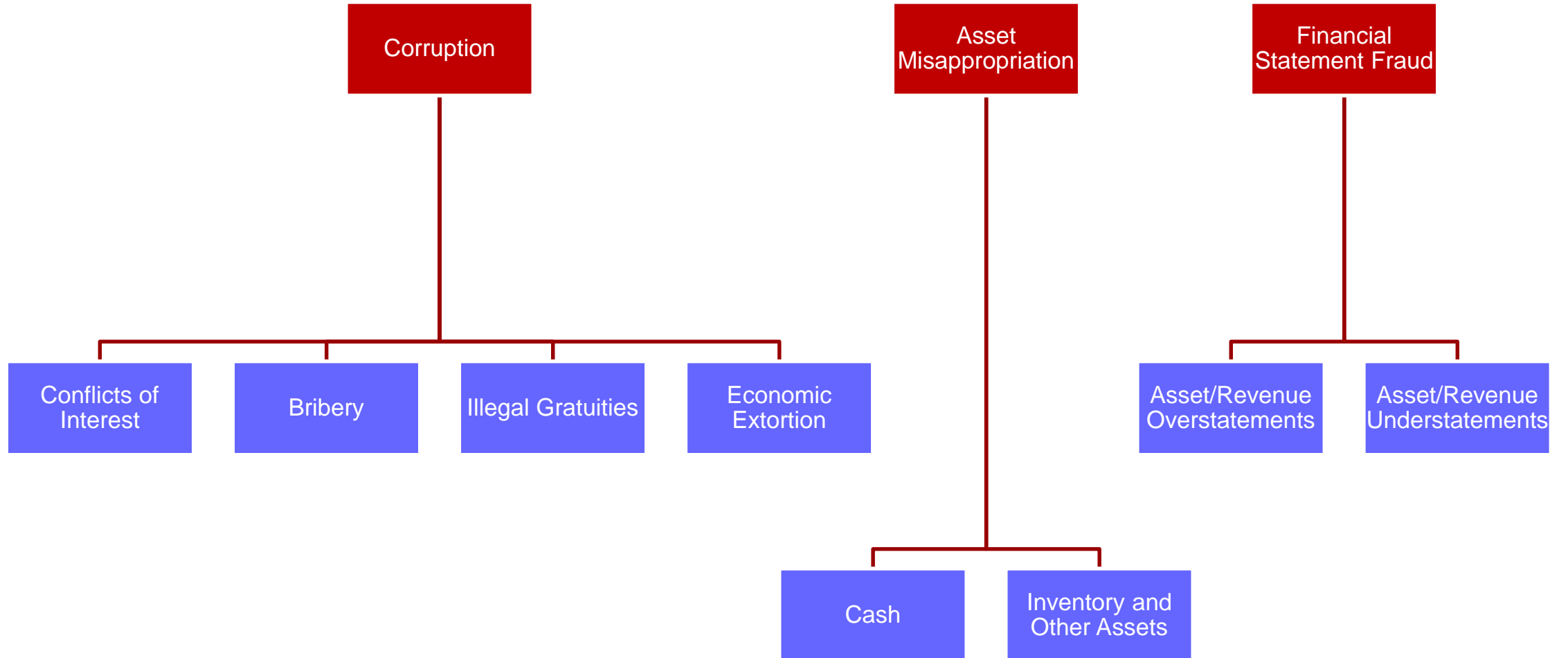
# Rationalization

- Rationalization
  - Third leg of the fraud triangle
  - Most fraud perpetrators are first-time offenders with no criminal past
  - See themselves as ordinary, honest people who are caught up in bad circumstances
  - Justifies the act to make it an acceptable behavior
  - Examples include:
    - “I was only borrowing the money”
    - “I had to steal to provide to my family”
    - “I was underpaid, my employer cheated me”
    - “My employer is dishonest to others”

# Forensic Accounting Terminology

- Internal Fraud / Occupational Fraud
  - The use of one's occupation for personal enrichment through the deliberate misuse or application of the organization's resources or asset.
  - Employee, manager or executive commits fraud against the employer
- External Fraud
  - The risk of unexpected financial, material or reputational loss as the result of fraudulent actions performed to individuals or companies outside of the firm.
  - Bid-rigging schemes, fraudulent bills for goods and services not performed, demanding bribes, etc.
- Fraud Against Individuals
  - Identify theft, Ponzi schemes, phishing schemes, etc.

# Fraud Tree





# Financial Statement Fraud

- Enacted in 1977, the Foreign Corrupt Practices Act (“FCPA”)
  - Requires companies to keep books and records: “which in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer.”
  - There is strict liability for inaccurate and insufficient books and records, which do not require materiality or scienter.

# What is Forensic Accounting?

- FORENSIC:
  - Refers to items used in debate or argument.
  - In commerce or business, things forensic are generally those things that relate to a legal forum or court.
- ACCOUNTING:
  - “The language of business”.
  - Quantifying data for financial purposes; accounting refers to many activities that relate to financial accounts.

# What is Forensic Accounting?

- The use of accounting for legal and investigative purposes.
- Integration of accounting, auditing, and investigative skills.
- Provides an accounting analysis which will form the basis of discussion, debate and dispute resolution.
- The use of intelligence-gathering techniques and accounting to develop information and opinion for use by attorneys involved in civil litigation and give trial testimony if called upon.
- Identifying, recording, settling, extracting, sorting, reporting, and verifying past financial data or other accounting activities for settling prospective legal disputes or using such past financial data for projecting future financial data to settle legal disputes.
- Encompasses both Litigation Services and Investigative Accounting.

# Need for Forensic Accountant

- Investigations
- Mergers & Acquisitions
- Litigation
- Internal Control Analyses
- Prevention and Risk Management

# Role of a Forensic Accountant

- Plan
- Analyze
- Interview witnesses
- Identify participants
- Calculate losses
- Communicate
- Serve as expert witness

# Documentation Considered

- Financial Statements (P&L's)
  - Monthly
  - Annual
  - Segmented
    - Departmental/Divisional
    - Consolidated
- Tax Returns
- Budgets/Forecasts/Projections
- General and Subsidiary Ledgers
  - Purchase Orders
- Invoices
- Contracts

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# Questions



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