PacificCPE

COURSE
21753B

Forensic Accounting: Case Planning and Risk-Based Analysis

A strong forensic investigation never starts with data — it starts with a plan. This module walks through how to build a focused Data Sleuth case plan and apply risk-based analysis to direct your efforts toward the areas of greatest concern. You'll learn how to prioritize resources, surface red flags early, and bring a clear analytical framework to even the most complex engagements. The result is a smarter, more disciplined approach to forensic planning that improves both efficiency and outcomes.

CREDIT HOURS 2 | FIELD OF STUDY ACCOUNTING | EXAM QUESTIONS 10

Start Course ↓ | Final Exam Copy ↓

LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall the steps that comprise the Data Sleuth case planning flowchart.
- Recall the primary reason why forensic accountants are commonly hired.
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Chapter 1: THE DATA SLEUTH CASE PLAN

Chapter Objective

After completing this chapter, you should be able to:

- Recall the steps that comprise the Data Sleuth case planning flowchart.

An attorney asked to meet over lunch to discuss our firm's services, and before we had even placed our order he said, "I've hired forensic accountants before who took months to look at my client's information only to report that they found nothing. They offered no consultation or recommendations for how their review would add value to my work for the client. What do you do that they don't?"

This is not the only attorney who has asked me questions similar to this one. My explanation of our services always includes advising of our case planning process that considers the client's concerns, the attorney's legal theory, and a prioritization of investigation priorities. In doing so, we avoid chasing down every rabbit trail to try to identify all of the things someone did incorrectly. Instead, this process allows us to use data to find answers that advise whether the theory of the case can be supported based on the information reviewed. In the story of the attorney lunch, the next day, we received a referral from his office to do just that.

THE DATA SLEUTH PROCESS

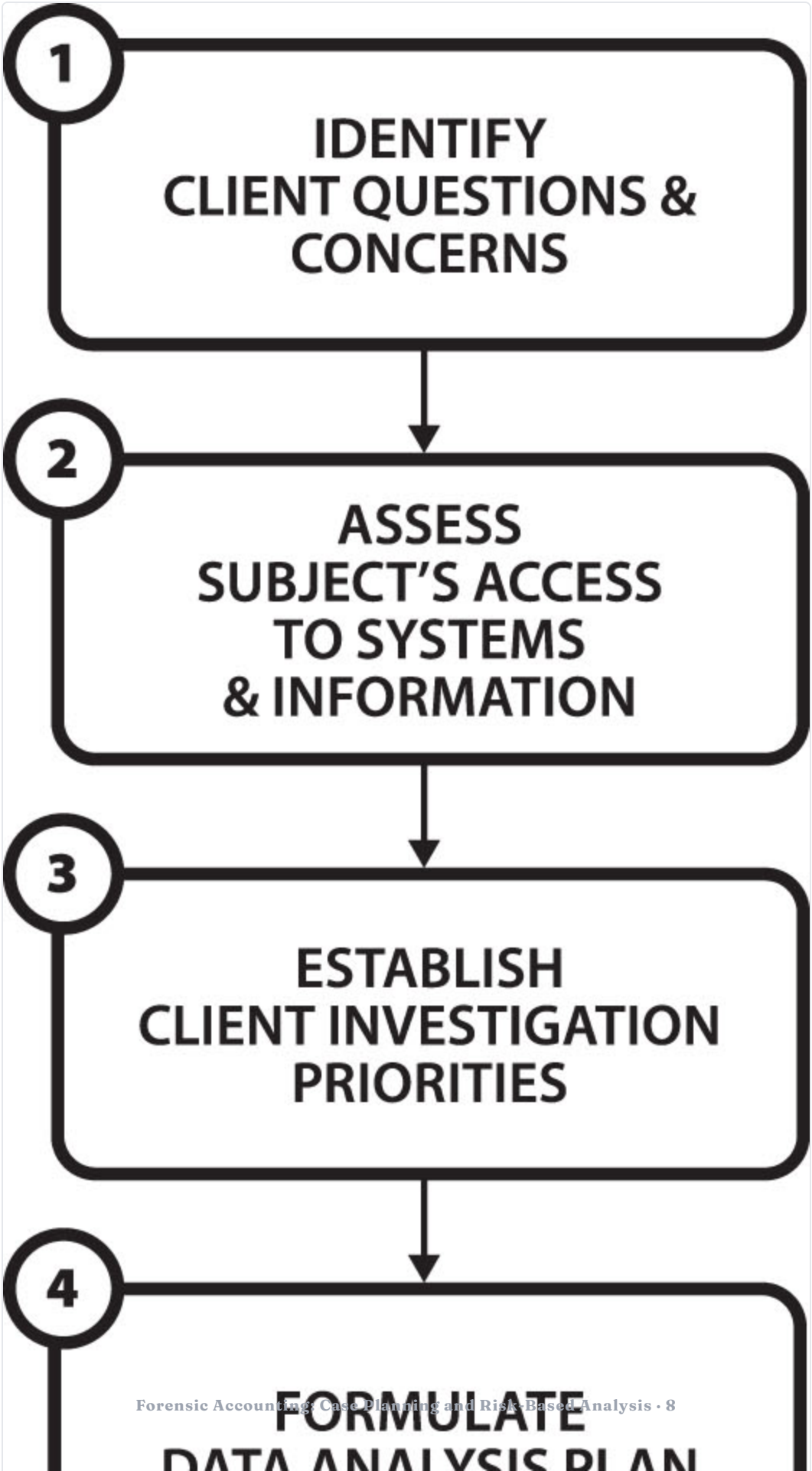
The challenge in forensic accounting and fraud investigation engagements is that the client story, business, and data sources are always different. At first glance, these types of engagements appear to have little continuity and to require a custom approach. However, almost all financial transactions are reported on some type of account statement: a bank statement, a credit card statement, a brokerage statement, and so forth. By combining these third-party statements with business records – and personal financial records, in divorce or estate cases – most engagements can follow a structured process that will provide reliable results to the client.

The Data Sleuth Process was created to focus on the client's concerns, efficiency and accuracy in data analysis, the best evidence available, and clear communication. With these process goals in mind, the specific steps are then dependent on the types of data sources available and the analyses that can be performed using the data. Figure 6.1 illustrates the Data Sleuth Process case planning steps to be covered in this chapter.

Within this chapter, practical applications and implementation of the Data Sleuth Process case planning process will be explained and demonstrated using the following case example. Although

this case involves duplicate payroll, the same process goals and implementation steps can be applied and adapted to most common forensic accounting and fraud investigation engagements.

FIGURE 6.1 DATA SLEUTH PROCESS CASE PLANNING STEPS FLOWCHART.


1
IDENTIFY CLIENT QUESTIONS & CONCERNS
2
ASSESS SUBJECT'S ACCESS TO SYSTEMS & INFORMATION
3
ESTABLISH CLIENT INVESTIGATION PRIORITIES
4
FORMULATE

The Case of the Duplicate Payroll

Stacey ensured she was the first person to arrive at the office daily. She started the coffee, rummaged through the previous day's mail, and familiarized herself with the boss's schedule. When her boss, George, strolled in later in the morning, he could simply start his calls with a fresh cup of coffee and get to work. With George happily busy, Stacey dutifully began her bookkeeping tasks – paying bills, running payroll, filing taxes, and tracking everything in the accounting system.

Several years of this routine passed when Stacey's mom, her best friend and long-time roommate, passed away. Even after the time off for bereavement, Stacey's grief was unbearable. She struggled to arrive at work on time, let alone early, and when she was at work, she took care of the bare minimum and passed the time by buying oddities and knickknacks online. She eventually became reactive and performed tasks only at the deadline when George yelled at her; the majority of her time at work was spent online shopping. Stacey began ignoring the negative balance and overdraft charges in her checking account. Shopping was the only thing that numbed the pain of the grief.

On one such occasion, when George was yelling at her to process payroll as it was nearly the end of payday, he told her to learn how to pay an out-of-state employee through direct deposit instead of the usual mailing of a paper check so he could receive his pay on the same day as the local employees. Stacey set up the direct deposit as requested, and while she was at it, set up her own direct deposit profile in the system as well. She considered removing her paper check from the stack for George to sign that day but, thinking of her negative bank account balance, decided against it—it would only be this one time.

Stacey's "one-time" duplicate payroll turned into four years. George was working countless hours on client projects but was unable to hire additional help because the business was not making money. He had even stopped paying himself two years prior. Stacey was on vacation when payroll needed to be issued. As if he needed another task to complete, George logged into the accounting software to print checks and submit the out-of-state employee's payroll in Stacey's absence. It was then that he noticed Stacey's name on both a check to be printed and a direct deposit profile. The amounts to be paid on both payment types were identical, and suddenly, it all made sense. Outraged, he called Stacey and told her not to return to work after vacation.

THE CLIENT'S INVESTIGATION PRIORITIES

When money goes missing, one apparently obvious way for an investigator to begin is by interviewing the client and reviewing the paper documentation the client believes is important. However, as explained in greater detail in Chapter 1 of course 21752B, this manual approach has several issues, including potential bias and an incomplete loss calculation.

When investigating cases like George and Stacey's story, the first step in the Data Sleuth Process is to understand the client's concerns and to identify the investigation priorities. These priorities are

created by listening to the client's communication of the events that transpired and the issues they observed. As they are sharing their stories, area(s) of concern can be recognized. These areas of concern can then be translated into investigation priorities. For example, the top investigation priorities detected in the initial consultation with George were to:

- Quantify the amount of money overpaid to Stacey through payroll
- Identify any other areas where Stacey may have stolen money and quantify accordingly

EVALUATE THE SUBJECT'S ACCESS THROUGH RISK-BASED ANALYSIS

When a client has just discovered fraud and emotions are running high, it is easy to see how the areas of client concern – and the time and budget required to address them – can quickly multiply. This is where the investigator's understanding of fraud risk can improve the efficiency of the investigation. For each investigation priority, an evaluation of the subject's access to the client's financial systems and information must be performed. If the subject does not have access that would give her the opportunity to steal funds, the likelihood that the client's allegation will be substantiated with further analysis is greatly reduced.

In the initial client consultation, as George explained the circumstances surrounding his discovery, he was overwhelmed with the seemingly infinite number of ways Stacey could have stolen from him. One such example was his concern that she could have diverted customer payments to her personal bank account. As part of the consultation, George was asked about the client billing and payment receipt process. He advised that:

- Stacey prepared the client invoices, but George reviewed, approved, and submitted the invoices to the clients for payment.
- Due to the nature of the business, client invoices were charged against a client-approved project budget.
- The clients served by George's business paid invoices via ACH directly to the business bank account.
- George received email confirmations of the payments, which he then forwarded to Stacey to mark the client invoice as paid in the accounting system.

Although the diversion of customer payments was a concern, talking with George about his business process in relation to Stacey's access allowed him to realize the risk of theft in this area was low. It was then determined that the area of customer payments was not going to be an investigation priority – unless evidence uncovered later in the process suggested otherwise.

However, if the subject did have access to the systems and information that provided the opportunity to steal funds, understanding the subject's level of access to the systems and information is necessary to prepare an investigative plan. With this understanding, the preferred data sources and resulting data analysis procedures will be identified based on the subject's access.