PacificCPE

COURSE
21756B

Forensic Accounting: Applying, Expanding, and Learning From Engagements

The best way to master forensic skills is to apply them — and to study what happens when things go sideways. This capstone module offers hands-on practice with the full Data Sleuth process, takes an honest look at real-world investigations that went wrong and the lessons they offer, and explores how to grow and expand your forensic practice. If you're ready to sharpen your skills, avoid costly missteps, and take your Data Sleuth capabilities to the next level, this module delivers.

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

Start Course ↓ | Final Exam Copy ↓

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 in the Data Sleuth Case Planning process.
- Identify the primary job of the forensic investigator.
- Recognize the elements that comprise the Data Sleuth Process.

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Chapter 1: PRACTICE THE DATA SLEUTH PROCESS

Chapter Objective

After completing this chapter, you should be able to:

- Recall the steps in the Data Sleuth Case Planning process.

The most effective strategy to executing the Data Sleuth Process is through working investigations and engagements. Listening to client concerns, converting concerns into investigation priorities, understanding the subject's access to systems creating misappropriation of funds opportunities, and identifying the analysis and data necessary to answer the client questions takes practice. Practice provides the investigator with confidence that no matter the situation, if money is missing, he or she can find it. At the same time, the investigator can use the process to find the missing money to answer the client's questions regarding the method used by subjects to steal, divert, or hide funds. Using the Data Sleuth Process from the initial client inquiry to the final report, the investigator maintains objectivity, organization, and clarity when explaining the findings to the end-client and target audiences.

Working a variety of numerous cases per year may not be practical for all forensic accountants and fraud investigators, so within this chapter are two case studies with worksheets and corresponding solutions to begin the implementation of the Data Sleuth Process.

REVIEW OF THE DATA SLEUTH CASE PLAN

As a recap, the Data Sleuth Case Plan works in the following order as described in detail in Chapter 1 of course 21753B:

- Translate the client's concerns into investigation priorities
- Understand the subject's access to systems and information through risk-based analysis
- Create a Data Analysis Plan
- Identify best evidence data sources
- Request and process relevant data
- Perform relevant analyses
- Perform additional research, investigation, review, or obtain client feedback
- Consolidate and simplify findings
- Prepare a report for the target audiences

REVIEW OF DATA SLEUTH DATA PROCESSING

The Data Sleuth data processing step begins with defining a relevant period so that information is as complete as possible before beginning the processing of data. As client information is received, contemporaneously record and update the information in the Document Inventory and Account Index. Review the received information to determine what data should be included with in the scheduling of financial accounts or other data sources. When processing the data, attention to detail is encouraged to ensure consistency in the data to be used in the following analysis step.

REVIEW OF THE DATA ANALYSIS PLAN AND STANDARD DATA SLEUTH ANALYSES

To create a Data Analysis Plan, select the type of analyses that most appropriately address the client's investigation priorities. Possible analysis options to consider for the Data Analysis Plan include the following and are described in greater detail in Chapter 2 of course 21751B of course 21754B, Chapter 1 of course 21751B of course 21755B:

- **Comparative analysis.** Comparison of two data sets or two data sources that answer the questions "What happened?" and "What should have happened?"
- **Source and Use Summary**. Summary by data source, or combination of data sources, providing high-level information regarding where money came from and how it was used by payee, payor, or other description.
- **Interesting Data Findings (IDF)Analysis.** The use of standard and custom data analysis tests based on the client's concerns and investigation priorities such as:
  - □ Benford's analysis
  - □ Even-dollar amounts
  - □ Large individual payments
  - □ Month-over-month pivot tables
  - □ Detailed transactions extracted from the Source and Use Summary
  - □ Incorporating accounting records related to the IDF results
- **Risk Indicator Analysis.** The use of providing values to the results of data analysis tests to prioritize further research, inquiry, or client feedback.
- **Payroll Analysis**. The combination of data analysis tests for one data source, risk indicator analysis, and comparative analysis related to employee information and payroll data. Data analysis tests for payroll analysis can include testing for:
  - □ Number of employees
  - □ Employee records with duplicate social security numbers
  - □ Employee records without addresses
  - □ Employee records with duplicate addresses

- □ Graphing of pay date payments
- □ Even-dollar payments of net pay and expense reimbursements
- □ Days of the week
- □ Large individual payments
- □ Number of payments to employees per month

CASE STUDY 1: THE CASE OF THE DISAPPEARING BUSINESS

Eric owned a consulting business that required his exclusive expertise and time, but a few years prior, he had an opportunity to open a retail store. What started out as a small operation, which he just hoped would break even, was soon more successful than he had imagined. So successful, in fact, that it was too much for him to manage in addition to his consulting business. On July 15 of year two, he hired Mandy to run the storefront, but Eric soon realized that the operations were falling apart under her management. Eric met with Mandy to discuss terminating her employment, but Mandy detected the hints from the beginning of the conversation and suggested that her mom, Denise, manage the store so that Mandy could be demoted to a clerk position. Eric agreed to give the arrangement a try after interviewing Denise and learning about her extensive retail experience. From that day forward, the mom-daughter duo ran the store.

To keep Eric in the loop, Denise would email Eric daily with the sales for the day and attach any supplier invoices for inventory that needed to be paid. The responsibilities of the financial management of the store were delegated to Denise including:

- Daily sales deposits
- Cash drawer reconciliation
- Inventory management
- Providing timesheets to Eric for time worked by Denise and Mandy

The financial management responsibilities delegated to Eric and an external bookkeeper included:

- Payroll processing
- Vendor payments
- Bank reconciliations
- Financial statements

Denise's daily sales emails boasted of great sales almost daily, but something strange kept happening. When it was time for Eric to pay payroll, he reviewed the timesheets, entered the time to be paid into the payroll provider's website, and then double checked the retail store's bank balance online and in the accounting system prior to final authorization of payroll. He began noticing in December of year 5 that the cash balance in the bank account was barely covering payroll every two

weeks, which was their normal payroll cycle. He transferred money from the consulting business to cover the deficit the first time as he believed it was a timing difference.

Although the business had some corporate clients that they billed rather than collecting payment immediately at the point of sale in the store, this was a small percentage of the normal revenue; therefore, a timing difference resulting in an inability to pay payroll would have been doubtful. The bookkeeper prepared the clothing store financial statements on a cash basis, so revenue was recorded when received. Additionally, the financial statements were prepared from the recording of deposits and expenditures listed on the bank statements, so because of all of these things, a timing difference between the recording and collection of revenue was even more unlikely.

After transferring money to cover payroll for several pay periods, and with his consulting business taking even more of his time, Eric told Denise that he was going to close the store at the end of the month. Denise responded to the news by asking him to sell the store to her family. Wondering why Denise would want a business that was not paying all the bills, he agreed to sell the store anyway. Denise was to pay a total of $150,000 to Eric over several months. With a signed letter of intent, dated February 28 of year six, Denise provided Eric with three postdated checks for $5,000 each dated one month apart. The letter of intent was signed, and Eric deposited the first check, or so he thought. He was notified by the bank the following day that the check he deposited from Denise had been returned due to insufficient funds in her account. Eric called Denise, who apologized, saying that she forgot to move funds over from their savings account. She assured him the next one would clear her account. The next day, Eric tried to deposit the second check, and it was returned due to insufficient funds as well. Frustrated, Eric called Denise again about the returned check. She apologized again and delivered a replacement check to Eric the same day. Thinking the third time would be the charm, Eric was beyond frustrated when the check was returned for the final time.

Eric drove to the store directly from the bank after depositing the third and final insufficient funds check to evict Denise and to shut down the store for good. He could liquidate the merchandise over the next month and be finished with the unprofitable operation and drama for good. However, when he arrived, the store was uncharacteristically dark. There were no customers or any movement inside. The once carefully arranged window displays were empty. Eric cautiously approached the front door. It was locked. Pulling out his keys to open the door he saw through the front door windows what looked to be the leftovers of a robbery. Frantically, he opened the door and pulled out his phone to call Denise. The call went straight to voice mail. He did not want to believe it, but after three bounced checks, he knew in his gut – Denise had stolen the merchandise. As he walked around the disheveled space with only the rickety racks and off-season merchandise remaining, he was at a loss for words.

Acouple of days later, through a series of texts from friends, Eric learned that Denise had opened a retail store just a couple blocks south of the original store. He could not believe it, but driving past

the new location, it was true. The new retail store display windows were fully stocked and carefully assembled with Eric's merchandise and displays.

The next morning, Eric filed a police report and hired an attorney. Within a couple of days, a civil lawsuit was filed, and a forensic accountant was hired. Eric wanted to know if Denise was willing to buy a failing store and steal all of the inventory, what was really going on the entire time? More specifically, Eric wanted to know:

- If the sales were as great as Denise reported to him daily, why was there not enough money in the bank account to cover payroll?
- If Denise stole money during the period, how much had she stolen?
- How much inventory was stolen by Denise for her new store?

Case Study 1: Exercise 1

Using the details from Eric's story, and The Case of the Disappearing Business Worksheet in Table 12.1, for which a downloadable worksheet is available at www.datasleuthbook.com, identify the questions Eric wanted answered by the forensic accountant. Using information provided about Denise's responsibilities in the business, list her access to funds and systems giving her the opportunity to steal money. Eric's questions and Denise's access combined will be used to translate Eric's questions into investigation priorities. The investigation priorities will the analyses needed, which in turn narrows the data sources needed to answer Eric's questions. Finally, make sure to identify the relevant period for which all data will need to be requested.

The following section will provide guidance as you prepare a case plan for Eric. The appendix contains the recommended solution to this exercise.

- In an interview with any client, remember to inquire as to when an employee/subject was hired and when the final event or termination of employment occurred. This will often be used to determine the relevant period with occasional limitations due to the inability to obtain bank statements going back to the hiring date, the statute of limitations, or the number of years a court allows.
- Using Denise's financial management responsibilities, what opportunities to steal funds did Denise's access to systems provide? What opportunities to steal funds might exist with a mother and daughter duo running the store?
- To translate Eric's questions into actionable investigation priorities, consider the answer that you will provide assuming Eric's allegations of theft are true. It may be helpful to formulate the investigation priorities as big picture tasks. For example, if Eric wants to know how much Denise may have stolen from the business, an actionable investigation priority could be "Quantify funds the business should have received from sales."

- When describing the analysis required to perform the investigation priority, consider the brainstorming process with a comparative analysis. The filing of a civil lawsuit provides what additional analyses opportunities?
- Finally, list the data sources needed to perform the analysis. How were sales tracked? What data sources exist that the analysis, previously identified, will answer "What should have happened?" and "What happened?" What data sources became possibly available with the filing of the civil lawsuit?

TABLE 12.1 CASE PLANNING WORKSHEET EXAMPLE FOR CASE PLANNING EXERCISE 1.

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CASE OF THE DISAPPEARING BUSINESS PLANNING WORKSHEET EXERCISE 1

RELEVANT PERIOD: _____

CLIENT QUESTIONS	SUBJECT'S ACCESS	INVESTIGATION PRIORITY	ANALYSIS	DATA SOURCES

CASE STUDY 2: THE CASE OF THE SNEAKY CFO

XYZ Co. was made up of three partners who all made cash investments at the origination of XYZ. Scott was a long-time friend of one of the partners who was recommended to hire as chief financial officer. The partners agreed to hiring Scott as CFO. Scott wanted to be a partner in XYZ, but he was still recovering from significant financial issues and could not afford to purchase shares. Knowing his desire to become a partner, as part of his employment agreement, Scott was offered the position of CFO with the opportunity to earn ownership in the company. A 25% ownership was promised to