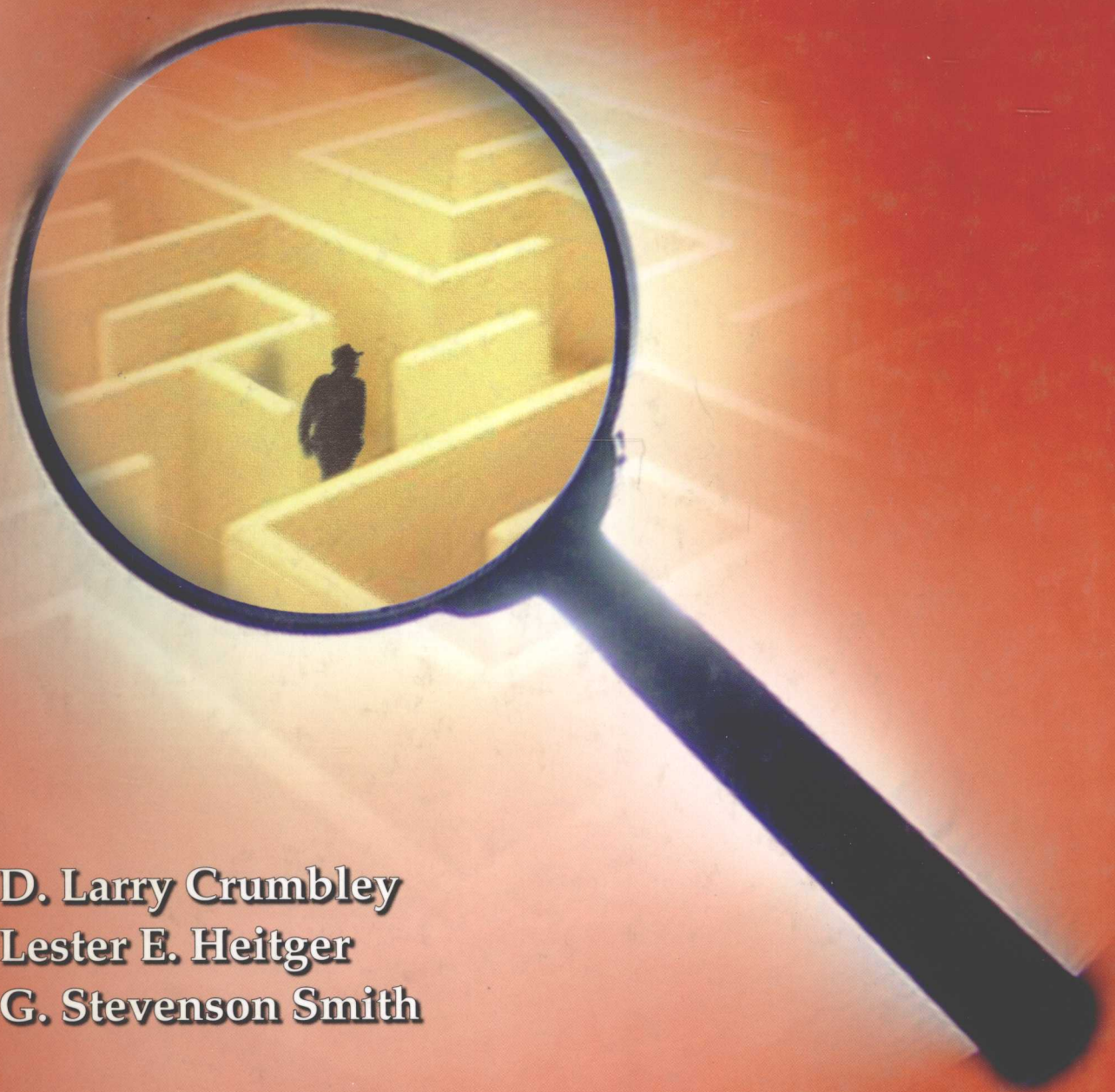


Forensic^{and} Investigative Accounting

4th Edition



D. Larry Crumbley
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FORENSIC AND INVESTIGATIVE ACCOUNTING

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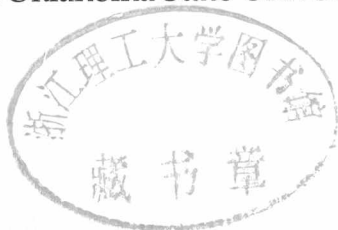
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PREFACE

Forensic and Investigative Accounting fills a void in accounting education literature by providing the first broad-based text covering all the important topics that have come to be identified with modern forensic accounting. Certainly, there are books on fraud auditing, litigation support, valuation (both damages and businesses), cybercrime and other key forensic topics, but no other text is specifically written to cover the forensic accounting waterfront. The authors hope that teachers will find *Forensic and Investigative Accounting 4th Edition* a particularly powerful teaching tool. The twin towers of forensic accounting—litigation support and investigative auditing—are covered in detail. The 4th Edition includes new fraud schemes, numerous new eyewitness and spotlight stories, and new forensic techniques and tools (e.g., financial models, new problems and cases, more behavioral aspects and information from *Managing the Business Risk of Fraud*, and Audit Standard No. 5). This edition brings the reader up to date with the latest cybercrime activity and cases, and it documents the latest corruption schemes and explains how to find and prevent them.

Today's forensic accounting teachers and students have a difficult task in studying this developing topic, but they are compensated by the fact that forensic accounting is red hot and relevant. In 2002, Congress took up the financial markets reform mantle and passed the Sarbanes-Oxley Act, which was in part designed to restore financial accountability by preventing and punishing fraud. The Act created a new independent accounting oversight group called the Public Company Accounting Oversight Board (PCAOB), subject to Securities and Exchange Commission review. Sarbanes-Oxley, recent SEC actions, initiatives starting to take shape from the PCAOB, aggressive pronouncements by the Institute of Internal Auditors and the AICPA, and new rules promulgated by the various stock exchanges have all worked to change the perception of who is responsible for detecting and fighting fraud in financial statements and throughout the corporation and other entities. External auditors, internal auditors, company management, and audit committees are all charged in one way or another with fighting fraud under new initiatives. Yet, the task of fraud detection has proven so difficult (e.g., Bernard Madoff, Sir Robert Allen Stanford, Satyam Computer Services) that the continued growth in forensic accounting specialists seems assured along with the development of the forensic accounting discipline to match wits with new advanced technological and fraud schemes. The federal government's economic stimulus and bailout programs and the shortfalls in many states' budgets should provide much work for forensic accountants.

Students and teachers alike will find that forensic accounting also is extremely interesting, and the authors of *Forensic and Investigative Ac-*



counting 4th Edition worked hard to build a sense of interest and yes, even excitement into the text. Some would argue that forensic accountants are more like “Quincy” (a once popular TV show about a crime-solving coroner) or the CSI characters than the traditional starch-collared, numbers-cruncher. Forensic accountants work on books and records, but often in the context of legal conflicts and even criminal activities.

Forensic and Investigative Accounting 4th Edition demonstrates that this developing discipline is challenging. As the text demonstrates, an effective forensic accountant needs an understanding of accounting, investigative auditing techniques, computers, criminology, and courtroom procedures. Many forensic accountants will further specialize and have varying concentrations of these five sets of knowledge and skills.

All three authors are teachers, forensic accountants, and perhaps most of all, forensic accounting fans. While there are many complex forensic issues explained in this book, the authors worked hard to try to convey to students the contemporaneous nature of forensic accounting—forensic accounting is constantly developing in the news, in the legal and regulatory system, and as part of the accounting industry.

The authors believe that forensic accounting should be fun to teach and with the many internet-related assignments in the chapter exercises, students are encouraged to continue to seek out new stories and developments as they occur. Of course, studying a discipline that is experiencing such dramatic change will be challenging. However, there are plenty of fundamental concepts and topics that require a good deal of earnest attention and concentration that will help keep both students and teachers anchored to reality.

In today’s climate all accountants—external, internal, corporate accountants and yes, the forensic-accounting specialist—must develop forensic competencies. The authors believe it will only be a matter of time before all accounting majors will take one or more forensic-type courses. The authors agree with James Gordon Brown, Prime Minister of England, that “what the use of finger prints was to the 19th century and DNA analysis was to the 20th, forensic accounting will be to the 21st century.”

August 2009

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Finally, we'd like to thank our fellow instructors who adopt this book and the students who support our efforts.

D. Larry Crumbley
Lester E. Heitger
G. Stevenson Smith

How to Use This Book

Forensic and Investigative Accounting is organized to engage students in the study of forensic accounting. Special features, end-of-chapter exercises, appendices, and a forensic glossary are provided to further assist students in the learning process.

Chapter Openings

All chapters begin with the same elements: a list of the learning objectives and an overview. This information provides a framework for understanding the material that will be studied in the chapter.

Special Features

Hundreds of forensic stories, featured factoids, and illustrations are interjected throughout the chapters.



Eyewitness features are typically descriptive short snippets expressing a forensic event, action, or slant on an issue.



Spotlight features are used to interject a longer story in the forensic news or a statement on a forensic concept.



Ethics features are used when a forensic related standard or ethics-related authority is reproduced.



Law and Order features identify a legal case or regulatory ruling.



Examples are used when a specific situation is used to illustrate an important point.

End-of-Chapter Materials

Every chapter ends with a conclusion that ties together the ideas presented in the chapter and with the chapter opening and overview help to give students a point of reference for additional study. End of chapter exercises are used to help the student assess his or her understanding of the chapter's salient points. Some will help direct the student to additional research. The exercises also provide the instructor with a ready means to evaluate student understanding of the material.

End-of-Book Materials

A special forensic glossary is offered at the end of the book that can be referenced throughout the student's reading. Appendices offer additional source materials for extended reading and research.

CONTENTS

A detailed Table of Contents for each chapter begins on page xi.

	Page
Part 1: The Field and Practice of Forensic Accounting	
Chapter 1 Introduction to Forensic and Investigative Accounting	1-1
Chapter 2 Forensic Accounting Education, Institutions, and Specialties	2-1
Part 2: Uncovering Accounting Crime	
Chapter 3 Fraudulent Financial Reporting	3-1
Chapter 4 Detecting Fraud in Financial Reporting	4-1
Chapter 5 Employee Fraud: The Misappropriation of Assets	5-1
Chapter 6 Indirect Methods of Reconstructing Income	6-1
Chapter 7 Money Laundering and Transnational Financial Flows	7-1
Part 3: Courtroom Procedures and Litigation Support	
Chapter 8 Litigation Services Provided by Accountants	8-1
Chapter 9 Proper Evidence Management	9-1
Chapter 10 Commercial Damages	10-1
Chapter 11 Litigation Support in Special Situations	11-1
Chapter 12 Computing Economic Damages	12-1
Part 4: Cybercrime	
Chapter 13 Investigation of Electronic Data: A Brief Introduction	13-1
Chapter 14 Digital Forensics Analysis	14-1
Chapter 15 Cybercrime Management: Legal Issues	15-1
Chapter 16 Cybercrime Loss Valuations	16-1
Part 5: Business Valuations	
Chapter 17 Business Valuations	17-1
Part 6: Forensic Capstone Illustration	
Chapter 18 Forensic Accounting in Action	18-1
Appendices	A-1
Glossary of Terms	G-1
Topical Index	I-1

TABLE OF CONTENTS

CHAPTER 1

INTRODUCTION TO FORENSIC AND INVESTIGATIVE ACCOUNTING

Definition and Development of Forensic Accounting

Defining Forensic Accounting	¶ 1001
Historical Roots of Accounting	¶ 1011
History of Financial Reports and Legal Challenges	¶ 1021
Threads of Forensic Accounting	¶ 1031
Accounting Literature Parallels Accounting Practice	¶ 1041
The Phrase "Forensic Accounting" Is Born	¶ 1051

Forensic Accounting and Investigative Accounting Come of Age

The Forensic Accountant Becomes an Investigator	¶ 1061
FBI and Forensics	¶ 1071
First Forensic Accounting Books in United States	¶ 1081
AICPA Practice Aid	¶ 1091
American Management Association Course	¶ 1101
The Panel on Audit Effectiveness	¶ 1111
AICPA Fraud Task Force Report	¶ 1121
Controversy Surrounding the Accountant's Role in Fraud Detection ..	¶ 1131
American Accounting Association Finally Permits a Forensic Section ..	¶ 1135
Conclusion	¶ 1141

CHAPTER 2

FORENSIC ACCOUNTING EDUCATION, INSTITUTIONS, AND SPECIALTIES

Preparing to Become a Forensic Accountant

College and University Programs	¶ 2001
Keystones of Forensic Accounting Curricula	¶ 2011
KSAs and Education of the Forensic Accountant	¶ 2021

Career Tracks in Forensic Accounting

Income Expectations for Forensic Accountants	¶ 2031
Specialties Within Forensic and Investigative Accounting	¶ 2041

Forensic Groups and Credentials

Summary of Forensic Certifications	¶ 2045
American College of Forensic Examiners	¶ 2051
Association of Certified Fraud Examiners	¶ 2061
Association of Certified Fraud Specialists	¶ 2071
Forensic Accounting Society of North America	¶ 2081
National Association of Certified Valuation Analysts	¶ 2091

National Litigation Support Services Association.....	¶ 2101
Network of Independent Forensic Accountants.....	¶ 2111
Institute of Business Appraisers.....	¶ 2121
Other Organizations Serving Forensic Practitioners.....	¶ 2131
Conclusion.....	¶ 2141

CHAPTER 3

FRAUDULENT FINANCIAL REPORTING

Importance of Transparent Financial Information

An International Problem.....	¶ 3001
Statement of Financial Accounting Concepts No. 2.....	¶ 3005

Means and Schemes of Financial Reporting Fraud

Three M's of Financial Reporting Fraud.....	¶ 3011
Abusive Schemes Involving Fraudulent Financial Reporting.....	¶ 3021
Shenanigans to Boost Earnings.....	¶ 3025

Sources of Fraudulent Financial Reporting

Internal Versus External Fraud.....	¶ 3031
-------------------------------------	--------

Motivation and Contributing Factors

Contributing Factor Model.....	¶ 3041
Risk Factor Analysis.....	¶ 3051
Internal Controls.....	¶ 3061

Incidence of Crime and Characteristics of Perpetrators

Studies of the Prevalence of Fraud in Business.....	¶ 3071
Characteristics of the White-Collar Criminal.....	¶ 3081

Earnings Management and GAAP

Flexibility of GAAP.....	¶ 3091
Restatements of Earnings.....	¶ 3101
Conclusion.....	¶ 3111

CHAPTER 4

DETECTING FRAUD IN FINANCIAL REPORTING

Definitions of Fraud

What Is Fraud?.....	¶ 4001
---------------------	--------

Responsibilities and Roles in Financial Reporting

Independent Audit Procedures and the Auditor's Role.....	¶ 4005
Internal Auditor's Procedures and Role.....	¶ 4011
Audit Committee's Role.....	¶ 4021
Board of Directors' Role.....	¶ 4026
Management Role.....	¶ 4031
Forensic Accountant's Role.....	¶ 4041

Financial Statement Fraud Categories and Red Flags

Overstated Revenues.....	¶ 4051
Management Estimates.....	¶ 4061
Pro Formas Can Mislead.....	¶ 4071

Earnings Problems: Masking Reduced Cash Flow	¶ 4081
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	¶ 4091
Excessive Debt	¶ 4101
Inventory Problems	¶ 4111
CPA Problems	¶ 4121
Sales and Expenses Problems	¶ 4131
Big Bath	¶ 4141
Balance Sheet Account Problems	¶ 4151
Pension Plan Problems	¶ 4161
Reserve Estimates	¶ 4171
Personal Piggy Bank	¶ 4181
Barter Deals	¶ 4191
Financial Fraud Detection Tools	
Interviewing Techniques	¶ 4201
Analytics	¶ 4211
Percentage Analysis	¶ 4221
Using Checklists to Help Detect Fraud	¶ 4231
Behavioral Approaches	¶ 4236
Conclusion	¶ 4241

CHAPTER 5

EMPLOYEE FRAUD: THE MISAPPROPRIATION OF ASSETS

Fraud Schemes and Their Schemers

Company Susceptibility to Fraud	¶ 5001
Employee Fraudsters	¶ 5011

Types of Misappropriations

Embezzlement	¶ 5021
Cash and Check Schemes	¶ 5031
Accounts Receivable Fraud	¶ 5041
Inventory Fraud	¶ 5051
Accounts Payable Fraud	¶ 5056
Fictitious Disbursements	¶ 5061
Walking the Walk of Fraud Detection Programs	¶ 5071

Company Fraud Prevention, Detection, and Mitigation Measures

Companies on the Front Lines in Preventing Employee Fraud	¶ 5081
---	--------

Nonprofit Entities as Special Fraud Targets

Reasons for Fraud in Not-for-Profits	¶ 5091
Prevention Programs for Not-for-Profits	¶ 5101
Fraud in Federal, State, and Local Governments	¶ 5111

When It's Time to Call in Professionals

Some Forensic Accountant's Techniques	¶ 5121
Game Theory and Strategic Reasoning	¶ 5124

Continuous Monitoring.....	¶ 5126
Some Forensic Techniques and Tools	¶ 5128
Conclusion.....	¶ 5131

CHAPTER 6

INDIRECT METHODS OF RECONSTRUCTING INCOME

Forensic Audit Approaches Used by the IRS

Minimum Income Probes	¶ 6001
Lifestyle Probes	¶ 6011
IRS's Financial Status Audits	¶ 6021

Indirect Methods

Market Segment Specialization Program.....	¶ 6031
Cash T.....	¶ 6041
Source and Application of Funds Method (Expenditure Approach)...	¶ 6051
Net Worth Method	¶ 6061
Bank Deposit Method	¶ 6071
Contract and Procurement Fraud	¶ 6081
Conclusion.....	¶ 6091

CHAPTER 7

MONEY LAUNDERING AND TRANSNATIONAL FINANCIAL FLOWS

Money Laundering: An Introduction

Legal and Illegal Laundering.....	¶ 7001
Cybercash Creates New Laundering Opportunities.....	¶ 7011
Who Uses Money Laundering Practices?	¶ 7021

Financial Institutions' Role in Money Laundering

Correspondent Banking.....	¶ 7031
Tools Banks Use to Identify Money Launderers.....	¶ 7041
Due Diligence Laws for Banks	¶ 7051
Shell Banks.....	¶ 7061

Other Businesses' Role in Money Laundering

Cash-Oriented Businesses	¶ 7071
Audit Trail for Business Money Laundering Schemes	¶ 7081

Finding Money Laundering Schemes

Likely Sources	¶ 7091
----------------------	--------

Guarding Against Money Laundering

Individual Due Diligence Using Identity Checks.....	¶ 7101
Company Due Diligence in Verification Procedures.....	¶ 7111
Trust Due Diligence Using Trust Deeds	¶ 7121
Organization-Wide Suspicious Activities	¶ 7131
The Accountant's Role as Gateway Keeper	¶ 7141
USA Patriot Act of 2001	¶ 7151
Conclusion.....	¶ 7161

CHAPTER 8**LITIGATION SERVICES PROVIDED BY ACCOUNTANTS****Litigation in the United States**

U.S. Tort Costs Climbing	¶ 8001
A Dispute Begins	¶ 8006

Types of Litigation Services Provided by Accountants

Consultant	¶ 8011
Expert Witness	¶ 8016
Masters and Special Masters.....	¶ 8021

Standards of Conduct for Performing Litigation Services

Knowledge, Skills, Experience, Training, and Education.....	¶ 8031
Professional Codes of Conduct	¶ 8041
Conflicts of Interest	¶ 8051
Written Agreement to Perform Litigation Services	¶ 8061

Becoming an Expert Witness

Expert Witnesses Distinguished from Lay Witnesses.....	¶ 8071
What Lawyers Look for in an Expert Witness.....	¶ 8081
Qualifying as an Expert Witness	¶ 8091
Court-Appointed Expert Witnesses.....	¶ 8101

Preparing to Testify as an Expert Witness

Maintaining Independence from the Client	¶ 8111
Evidence Upon Which Experts May Rely.....	¶ 8121
Use of Confidential Client Information.....	¶ 8131
Expert Reports	¶ 8141
Working Papers.....	¶ 8151
Evaluation of Other Experts	¶ 8161
Exhibits and Other Demonstrative Evidence	¶ 8171

Testifying as an Expert Witness

Testifying at a Deposition.....	¶ 8181
Preparing to Testify at Trial.....	¶ 8191
Testifying at Trial	¶ 8201

Liability of Expert Witnesses

Witness Immunity	¶ 8211
Bases for Liability	¶ 8221
Conclusion.....	¶ 8231

CHAPTER 9**PROPER EVIDENCE MANAGEMENT****Basic Rules of Evidence**

What Are the Rules of Evidence?	¶ 9001
What Is Evidence?	¶ 9011
Process for Determining the Admissibility of Evidence.....	¶ 9021
Relevance Requirement	¶ 9031
Privileged Communications	¶ 9041

Hearsay Rule	¶ 9051
Authentication Requirement	¶ 9061
Best Evidence Rule	¶ 9071
Demonstrative Evidence	¶ 9081
Special Rules for Criminal Cases.....	¶ 9091
Special Rules in Administrative Proceedings.....	¶ 9101

Management of Evidence

Maximizing Client Confidentiality	¶ 9111
Using Technology to Gather Evidence	¶ 9121
Computer Evidence	¶ 9131
Ensuring the Admissibility of Evidence in Court.....	¶ 9141
Security for Evidence and Working Papers	¶ 9151
Evidence Database	¶ 9161
Evaluating the Quality and Persuasiveness of Evidence	¶ 9171
Record Retention	¶ 9181
Chain of Custody.....	¶ 9186
Conclusion.....	¶ 9191

CHAPTER 10

COMMERCIAL DAMAGES

The Expert

Expert Witnesses' Qualifications.....	¶ 10,001
Expert Witnesses' Testimony Requirements.....	¶ 10,011

Basics of Damages Litigation

The Legal Framework of Damages.....	¶ 10,021
Two Types of Harm: Tort and Breach of Contract	¶ 10,031
Two Types of Damages: Restitution and Reliance.....	¶ 10,041

Approaches to Loss Estimation

Damages Calculation Approaches	¶ 10,051
The Lost Profits Methods	¶ 10,061
Study of Losses Process	¶ 10,071
Economic Framework for the Lost Profits Estimation Process.....	¶ 10,081

Measuring the Loss

Length of the Loss Period.....	¶ 10,091
Components of Damages	¶ 10,101
The Defendant's Damages Estimate.....	¶ 10,111
The Plaintiff's Damages Estimate	¶ 10,121
Lost Sales and Profits	¶ 10,131
Production or Other Cost Increases	¶ 10,141
Customer Ill Will and Future Lost Profits.....	¶ 10,151
Other Adverse Effects	¶ 10,161

The Expert's Journey Through the Legal System

Testimony Early in Case	¶ 10,171
Defending the Expert Report.....	¶ 10,181

Cost Behavior and Damages Calculations

Cost Behavior Defined	¶ 10,191
Common Types of Cost Behavior.....	¶ 10,201
Cost Behavior Assumptions.....	¶ 10,211
Damages Period and Discount Rate	¶ 10,221
Conclusion.....	¶ 10,231

CHAPTER 11**LITIGATION SUPPORT IN SPECIAL SITUATIONS****Antitrust Litigation**

Overview of Antitrust Laws	¶ 11,001
Role of Accountants in Antitrust Litigation.....	¶ 11,011
Actions That Constitute Predatory Pricing.....	¶ 11,021
Determining a Company's Average Variable Costs	¶ 11,031
Estimating Cost Behavior Patterns	¶ 11,041
Case Study: Coho Grocery	¶ 11,051

Federal False Claims Act Litigation

Overview of the Federal False Claims Act.....	¶ 11,061
The Accountant's Role in False Claim Act Litigation.....	¶ 11,071
Conclusion.....	¶ 11,081

CHAPTER 12**COMPUTING ECONOMIC DAMAGES****The Nature of Economic Damages**

Wrongful Discharge Case.....	¶ 12,001
Permanent Disability Case.....	¶ 12,101
Conclusion.....	¶ 12,201

CHAPTER 13**INVESTIGATION OF ELECTRONIC DATA: A BRIEF INTRODUCTION****Introduction to Electronic Evidence**

Perspectives on Investigation	¶ 13,001
Auditor's Job as Related to Computer Forensics	¶ 13,011

Computer Forensics: Electronic Evidence Collection

Can Digital Evidence Really Be Destroyed?.....	¶ 13,021
The Auditor's Computer Forensics Skill Set.....	¶ 13,031
Encase and the Forensic Environment	¶ 13,041
Collection or Seizure of Electronic Evidence.....	¶ 13,051
How Can Electronic Evidence Be Legally Collected?	¶ 13,061
Recovering Data on a Disk.....	¶ 13,065
Data Mining: Electronic Evidence Collection.....	¶ 13,067
Conclusion.....	¶ 13,071

CHAPTER 14**DIGITAL FORENSICS ANALYSIS****Sifting for Cyber Clues**

Collecting Evidence.....	¶ 14,001
Clues Versus Evidence	¶ 14,011

Technical Searches

Internet Protocols: Technical Searches Begin Here	¶ 14,021
Decoding Packet Information.....	¶ 14,031
Decoding Simple Mail Transfer Protocol (SMTP).....	¶ 14,041
Decoded IP Addresses: Tracing Tools.....	¶ 14,051
Decoded IP Addresses: Narrowing the Search	¶ 14,061
Tracing Financial Frauds to the Executive Boardroom	¶ 14,065

Due Diligence Searches

Internet Databases: Informational Searches Begin Here.....	¶ 14,071
Web Page Searches	¶ 14,081
Government Data Searches	¶ 14,091
Miscellaneous Searches	¶ 14,101
Conclusion.....	¶ 14,111

CHAPTER 15**CYBERCRIME MANAGEMENT: LEGAL ISSUES****Cybercrimes: An Introduction**

Net Frauds	¶ 15,001
Unauthorized Access to Network Assets.....	¶ 15,011
Types of Unauthorized Access	¶ 15,021

Criminality of Cybercrimes

When Is a Cybercrime Really a Cybercrime?	¶ 15,031
Legislation as Lagging Technology.....	¶ 15,041

Cybercrime Statutes

International Law	¶ 15,051
Federal Legislation.....	¶ 15,061
New Draft Federal Legislation	¶ 15,065
State Legislation.....	¶ 15,071

Guidelines for Cybercrime Management

KSAs for Fighting Cybercrime	¶ 15,081
Filing Reports of Cybercrimes	¶ 15,091
Conclusion.....	¶ 15,101

CHAPTER 16**CYBERCRIME LOSS VALUATIONS****Attacks on Tangibles and Intangibles**

Extent of the Problem.....	¶ 16,001
Statutory Loss Valuations.....	¶ 16,011
High-Tech "Tangible" Losses Attributed to Cyber Attacks.....	¶ 16,021
High-Tech Intangible Losses.....	¶ 16,031