"CPA gumshoes accounting veterans and new grads alike join forensics crusade"

Go ahead, say it: Forensic accounting is sexy. At least, that's how those in the field describe this fast-growing niche that incorporates investigation and auditing expertise to provide analysis in a judicial setting.

"I see more general service firms saying on their Web sites, 'We do forensic accounting,'" said Howard Silverstone, CPA, FCA, CFE and co-founder of Forensic Resolutions Inc., based in Haddonfield, N.J. "Part of it I think it's because it's sexy, and part of it is because they realize there's a legitimate market for it and people really understand it enough now that they are going to be looking for people like us."

Debbie Cutler, CPA, CFE and a partner at New York-based consultancy Kramer, Love & Cutler LLP, said that interest in the forensic field has grown through a combination of the Sabanes-Oxley legislation and because more companies are looking to tighten up their internal controls. Forensic accounting, she said, also has become more well known and, yes, "sexy," because of prime-time television programs such as CSI.

"You used to go to a party and somebody asked you what you did and you said you were an accountant and they said, 'Have a nice night,'" Cutler recalled. "The reality was, we were known as the 'green eyeshades.' I would say the public understands what a forensic accountant does more than what an accountant does. It's branched out, unfortunately, because of cases like Enron and WorldCom where people have lost their own personal money."

A BOOMING BUSINESS

It's because of this growing attention that some forensic accountants say that newcomers to the accounting industry have found this niche appealing.

In fact, about 78 percent of those in Accounting Today's 2007 Top 100 Firms roster reported an increase in forensics services.

"I talk to a lot of the recruits coming through, and forensic accounting is definitely a hot topic coming out of college," said Matt Wester, a partner for litigation, valuation and bankruptcy consulting services at Hein & Associates, a Denver-based CPA and business advisory firm. "If there's one benefit to Enron and WorldCom and a lot of these high-profile frauds, it's that a lot of today's accounting students were learning about that stuff in the class and now they want to come out and work in the field."

Stefano Vranca, CPA and director of litigation support and forensic services at Los Angeles-based Stonefield Josephson, said that he would increase the staff in his department by 25 percent this year, and double it by the end of the next year to keep up with the flood of work. "We have everybody swamped," Vranca said, adding that the specialty brings in approximately 10 percent of the firm's revenue. "It's a growing niche and there's a need for expert testifiers. We're even turning work down lately that we can't take."

The growth has cracked the field of forensic accounting into smaller specializations, according to Tom Burrage, CPA, ABV, CVA and partner or Meyners Co, LLC in Alburquerque, N.M. For example, in the fraud arena, firms are focusing on asset misappropriation, fraud prevention and financial statement fraud.

"[One of the] two significant trends we're observing is a change in the federal rules of evidence that occurred in December that formalizes the process that your electronic records can be subpoenaed," said Burrage, who also chairs the Forensic Litigation Services Committee for the American Institute of CPAs. The institute is currently working on a white paper about who claims the responsibility in an organization when fraud occurs. “The other place or growth [is] increasingly attorney and the legal system are looking to CPAs to quantify things for them. [CPAs] are becoming a trusted go-to person.”

At Berdon LLP, a CPA firm with offices in Long Island and New York City, forensics accounting has become on of the fastest-growing specialty services, ranking in more then 12 percent of the firm’s roughly $73 million in revenue. According to Elliot Lesser, CPA, CFE, partner and co-director of the litigation and business valuation group specializing in forensic accounting and investigative services, there are several reasons for that rise in demand.

“ A lot of it is because of the outgrowth of Sabanes-Oxley,” he said, adding that the Securities and Exchange Commission has also brought a fair number of cases against officers and directors, barring them from being involved in public companies. “Sabanes-Oxley has made boards much more sensitive in trying to avoid wrongdoings in their corporation. They retain us to basically conduct investigations. I think the complexities of corporate transactions today brought more litigation and more forensic investigations because the world has gotten so much more complex.”

More forensic accounting firms are also offering fraud prevention and risk assessments in an effort to help companies prepare themselves, much as they would with a disaster recovery plan.

“More and more companies are asking us to help them design and implement anti-fraud programs,” said Lance Randolph, CPA, CFE and director of anti-fraud services at accounting firm consolidator CBiz, adding that the new market has aggressively emerged over the last eight to 10 months. “Fraud-prevention consulting is what I consider the growing aspect of forensic accounting.”

COMPANIES START TO GET IT

Hein & Associates also offers both a reactive and a proactive approach to fraud, and, according to Wester, there are three reasons why companies are now taking prevention measures.

“Companies are increasingly concerned about the impact on their reputation because businesses are perpetually competitive,” Wester explained.

Cost is another reason. A company may spend $50,000 to figure out that the bookkeeper stole $120,000 and now that company is out $170,000. “Is it really worth it?” Wester asked. “The money the bookkeeper stole just might not be there. You’re not looking to recovering $120,000 you might be spending $50,000 to recover $25,000. [Now] the shift has been, more often than not, that companies, instead of having us quantify the fraud, are having us come in and [are] saying, ‘Help us put in control so something like this does not happen again.’”

Wester and his colleague, Bill Evert, a partner for H&As’ business advisory services, said that companies that are interested in conducting an assessment of fraud risk should create a living document that is updated on a yearly basis.

“The proactive approach is more like an enterprise risk-management approach, where we would sit down with a company and go over all the different areas that keep upper management awake at night,” Evert said, adding that those areas are ranked by the likelihood of fraud happening and the impact on the company should it happen. “Then, by the risk assessment, you determine if you have the controls in place to cover those, and if you don't have controls, do you want to put some in place and how do you go about doing it."

CBiz's Randolph added that a centralized document of a company's plan should include an ethics policy and internal controls geared primarily for detecting and preventing fraud, such as an enhanced vendor validation process and a hotline. Randolph also urged companies to set up auditing activities to actively search for fraudulent transactions, such as data-mining accounts payable transactions to look for fraudulent vendors, and analysis of adjusting journal entries to look for financial statements schemes, and surprise audits. He said that plans should include a response protocol that encompasses evidence protection, and that companies should scrutinize the notification clauses of their crime insurance policy.

"I think public accounting firms are going to start asking for documented anti-fraud programs," Randolph said. "The public companies will see a heightened scrutiny or their anti-fraud programs from auditors, but beyond that it's just becoming a best practice, the right thing to do."

SEGREGATING DUTIES

According to Stonefield Josephson's Vranca, companies can minimize fraudulent activity by delegating responsibility to more than a few people in authority.

"I think the biggest problem is that most to the companies are not yet aware that having a segregation of duties is probable the single most important thing to avoid fraud," he said. "I think most corporations, especially small or midsized corporations, really have this problem. They have one or two employees that run one department, and that's the real problem."

Still, experts said that the fraudulent activity itself has not changed.

According to a 2006 report issued by the Association of Certified Fraud Examiners, a provider of anti-fraud training and education, asset misappropriations account for 90 percent of all occupational fraud cases. Fraudulent statements were the least common, according the study, but have the largest impact financially.

“Nothing has changes,” said Michael Kessler, CrFa, CFE and chief executive of Kessler International, a corporate investigations and forensic accounting firm based in New York. “Human nature is that crimes are committed because somebody is greedy and money is the root of all evil. I’ve done this for 35 years, and for 35 years, money has always been the ultimate cause of why people do what they do.”

While companies still face issues with trusted employees embezzling funds, other frauds are quickly emerging Kessler said that he’s seeing more of construction fraud, where bids are rigged unfairly or contracts are breached through use of substandard materials.

Wester labeled the practice of stock-option backdating the “hallmark fraud of 2006.” The process entails granting an employee a stock option that is dated prior to the actual date of the grant.

A lack of disclosure during this process, along with the possible impact on the companies’ earnings and the tax treatment of the options, have led to allegations of fraud, according to Wester.

FRAUD GOES HIGH TECH

“One of the shifts I think businesses are dealing with is the amount of electronic information,” Wester said. “Electronic commerce, electronic data is interesting because it takes the human element out of a lot of transactions. When you take the human element our of it, a lot of time it increase the risk because you just have computers taking to one another, and lost of high-volume transactions running through computers increases the risk landscape."

Conversely, advances in technology also have helped forensic accountants do their work more efficiently. Kessler pointed to link-analysis software programs that allow users to analyze large amounts of data and then illustrate them into flow charts that link people with phone numbers, places, invoices or other desired information. Data-mining tools allow a user to go into a program and input certain parameters, such as Benford's Law, which recognizes certain patterns that are indicative or fraudulent transactions.

"That's why people will come to a firm that is geared toward specifically forensic accounting, because we have all of that software your normal accountant might not want to invest in because it's thousands and thousands of dollars," Kessler said.

Berdon's Lesser said that he issues that clients bring to him are becoming increasingly more complex.

"Very few matters today are plain vanilla," he said. "It could be computer related, issues related to the Foreign Corrupt Practices Act, it could be corporations with complex transactions and trying to unwind those transactions. It's a very broad spectrum. A lot more accounting firms are developing larger specialties in these things."