

## Feds turn to forensic accounting

*Discipline is exploding field—and popular not only for uncovering corporate crime, but also tracking terrorist activity.*

By Darrell D. Dorrell, CPA/ABV, MBA, ASA, CVA, CMA, DABFA

Last month, the FBI announced it was investigating 14 unnamed investment banks, developers, sub-prime lenders, and other companies involved in the subprime-lending mess that has left Florida with the second-highest home foreclosure rate in the country.

The accountants and investigators who are doing the investigations are part of the FBI's economic crimes unit. They use a combination of accounting and investigation tools to gather evidence against white-collar criminals, organizations that fund terrorists and even public officials who accept bribes.

When the FBI, the Department of Justice, law enforcement agencies, courts, lawyers and accountants want training in uncovering economic crimes, they are turning increasingly to forensic accountants.

### What is forensic accounting?

Forensic accounting entails doing investigatory accounting work in preparation for prosecution and/or litigation. It requires being expertly trained as a *CombatCPA*®. Too often, accountants are called to the stand by authorities and then are ripped to shreds during cross-examination. That's because CPAs, used to working largely by themselves in back rooms, are often woefully unprepared for the withering legal and technical evidentiary challenges delivered by opposing attorneys. A *CombatCPA*® is someone prepared to not only identify evidence of irregularities in financial statements and non-financial records but make a compelling case for *what that evidence points to*. In addition to analyzing where the money flows, forensic accountants need to be ready to testify as expert witnesses in civil and criminal cases that often arise from their investigations.

My firm, Financial Forensics, has been training *CombatCPA*®s for some years now, and it's very much an explosive field. Forensic accountants are often asked to investigate cases that involve forensic accounting, fraud, shareholder lawsuits, insurance claims, personal injury, business valuations and virtually any other proceedings that involve money.

Perhaps most interestingly, forensic accounting is increasingly being relied upon to identify and preempt terrorist activity.

### Follow the money

The tactic of "following the money" has a long pedigree in law enforcement as a tool to nail criminals. (After all, Al Capone was finally convicted for tax evasion using a long-standing forensic accounting technique, i.e. the net worth method!)

Forensic accountants work with government investigators to very specifically identify typical terrorist behavior patterns—certain lifestyle, target reconnoitering targets, paraphernalia acquisition, and so on—and use that to drill down on anomalies. Important anomalies to look for as a forensic accountant are not only what's in a financial record that *shouldn't* be there, but what *isn't* there that *should* be.

### What does terrorist activity look like?

One of the difficulties of tracking terrorist activity with forensic accounting is that the size of financial transfers is often very small. Terrorists can and will operate on a shoestring. The October 2000 bombing of the USS Cole, an Arleigh Burke-class US Navy destroyer, for instance, nearly sank a \$924,000,000 war ship, killed 17 and wounded 39 US Navy personnel . . . and by one estimate, incurred a total cost to terrorists of less than \$20,000.

Moreover, legitimate, quasi-legitimate and fraudulent businesses and business "fronts" can obscure funds flow, so that standard government warning signs in place today (such as the law requiring disclosure for cash transfers of more than \$10,000) don't help *CombatCPA*®s track terrorists. Retail store fronts such as restaurants deal in small sums, but large in their aggregate. Charities have been known to solicit small donations from well-meaning donors and then route them to terrorist targets.

Forensic accounting requires familiarity with *both* criminal and civil law and knowledge of what evidence is suitable for use in court.

As a result, forensic accounting has moved from looking at the ledgers alone to looking at the behavior and relationships of the people who are committing the financial crimes. This enables forensic accountants to look beyond the numbers to relationships between key players. Forensic accountants use hundreds of techniques from statistics to psychological profiles.

### Where can you learn about forensic accounting?

Our firm, Financial Forensics, in Oregon, teaches the five-day Forensic Accounting Academy™ that is part of the Certified Financial Forensic Analyst (CFFA) requirement for the National Association of Certified Valuation Analysts. NACVA also provides training to law enforcement agencies, lawyers and business managers who need to "follow the money" when they suspect money is being funneled away from legitimate activities.

According to *Accounting Today* magazine, forensic accounting and litigation support (expert testimony by forensic accountants) have become the hot accounting specialties. And the Top 100 accounting firms are seeing revenue grow from these areas.

Forensic accounting will continue to grow as the global and online economies create more conflicts over intellectual property rights, insurance claims, money laundering, terrorist funding and economic crimes. Forensic accounting is an exploding field, and certification in the field is an area accountants must explore to protect themselves. In traditional accounting, the accountants are typically either big-picture people or people who look at the details. But forensic accountants must be both.

*About the author*

Darrell Dorrell is a nationally recognized forensic accountant, who conducts both large-scale and small-scale investigation, analysis, interpretation, testimony, and much more. He has served as an expert witness and consultant in more than 500 matters, and delivered more than 100 addresses on the field of forensic accounting. Visit [www.financialforensics.com](http://www.financialforensics.com)

**For further research:**

- Financial Forensics wrote the book on following terrorist money-or at least they wrote the Bulletins for the US Department of Justice, which published the methodology. Check out: *Financial Forensics I- Counterterrorism: Conventional Tools for Unconventional Warfare, and Financial Forensics II- Forensic Accounting: Counterterrorism Tactical Weaponry*, which contains more specific forensic accounting tools, at the [Department of Justice Web site](#).
- Steven Emerson is an American investigative journalist specializing in national security, terrorism, and Islamic extremism. He is the executive director of The Investigative Project, a data-gathering center on Islamist groups, and the author of six books on terrorism and national security. One of the best is *American Jihad: The Terrorists Living Among Us* (2002).
- *The National Association of Certified Valuation Analysts (NACVA)* offers one of the only places in the nation where accountants can be certified for this sort of work through an in-depth 5-day training regimen, and leverage what they know about fraud into the more advanced specialties of forensic accounting. Check out the [NACVA Web site](#).

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