

# BUSINESS PRESS

## When data is in disarray, it may be time to call a forensic accountant

**A**lphonse “Scarface” Capone’s conviction for tax evasion in 1931 is perhaps the first high-profile forensic accounting case. That conviction largely resulted from the efforts of Frank Wilson, a special agent with the Treasury Department’s Special Intelligence Unit, who with his agents examined close to 2 million documents from Capone’s establishments, showing money spent and revenue received. However, there was no evidence of Capone’s receipt of money contained in the documents; until notations in three bound ledgers were found. Capone was ultimately found guilty of tax evasion, receiving an 11-year prison sentence and assessed \$280,000 in fines.

As fact-finders, forensic accountants can be relied upon to work on cases in which understanding accounting principles and investigations is important, such as suspected employee embezzlement, complex commercial litigation disputes and situations in which determining the substance of business transactions matters.

The forensic accountant is part auditor, part accountant and part investigator. He or she possesses the knowledge and expertise to interpret financial statements or to work under circumstances in which financial information has been destroyed or has been tampered with, necessitating the re-creation of information to determine if inappropriate actions have taken place.



**Mike Rosten**

Guest Columnist

You should consider using forensic accountants when it is difficult to see the substance of transactions or when it’s important to know which fact-pattern is supported by underlying documentary evidence. Forensic accounting is the systematic analysis of data that may be used to confirm or rebut allegations or accepted beliefs.

Forensic accounting may be used on the following types of cases:

- Accounting investigation of businesses pursuant to divorce proceedings, to determine spouses’ income levels.

- The analysis of accounting records to calculate economic damages, which may consist of lost profits, future profits and/or excess costs incurred.

- Accounting investigation of the composition of cost pools and cost allocations in commercial lease arrangements, commonly known as common area maintenance rental.

- Accounting investigation of tenant business operations to determine whether percentage rental has been paid in accordance with lease agreement(s); such rental amounts are typically a percentage of gross receipts, less sale/use tax.

- Accounting investigation of daily sales reports and deposits pertaining to multiple decentralized retail locations, to identify missing deposits and determine personal benefits received by a perpetrator.

- Fraud investigation of current or former employees suspected of improprieties, to develop an employee-theft insurance claim.

- Accounting investigation for minority business owners who are not in control of business operations, to determine the level of benefits received, including income/cash receipts and expense/cash disbursements.

Adding a forensic/investigative accountant to your client-service team may be wise, especially when transactions are complex or voluminous. Such professionals are adept at interpreting financial documents and creating meaningful information from data that is in disarray or lacks credibility.

*Mike Rosten is a CPA and certified fraud examiner with Piercy Bowler Taylor & Kern. He can be reached at [mrosten@pbtk.com](mailto:mrosten@pbtk.com) or 702-384-1120.*