Forensic Accounting: Fighting White Collar Crime

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Abstract

The global increase in fraud has caused many people to lose trust in accountants. However, experts in the field of Forensic Accounting, such as Certified Fraud Examiners, are restoring ethics and trust by fighting to deter white-collar crimes. The most prevalent type of fraud encountered is occupational fraud. Under occupational fraud the most common and consequential schemes are asset misappropriation and fraudulent statements. Due to the rapid increase of occupational fraud, organizations have implemented anti-fraud controls. Statistics have shown that these controls have helped to decrease the likelihood of fraud. This examination of Forensic Accounting points out the importance of Certified Fraud Examiners in the economic, business, and financial fields within the International Community.

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When asked about ethical issues in the field of accounting, Raymond Reisig, both a Certified Public Accountant (CPA) and Certified Fraud Examiner (CFE), stated that ethics is the foundation which accounting stands on because “Our whole profession depends on people trusting us.” However, due to the lack of ethics in many large companies involved with fraud, the public has lost faith in the accounting profession. Hoping to restore the trust of society, many companies worldwide have incorporated Forensic Accounting into their industries. Essentially, the secret to uncovering fraud is by following a trail of money that will eventually lead to evidence that proves where the money has gone. This has been the job of Certified Fraud Examiners for years. A number of different types of frauds occur daily, but the most prevalent type of fraud that seems to catch the public’s eye is occupational fraud. Everyday, Certified Fraud Examiners are working hard to fight off occupational fraud in corporate America.

According to the Association of Certified Fraud Examiners (ACFE), occupational fraud is “the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets” (2010, p. 6). Occupational fraud has now become a global problem, which has substantially increased the demand for forensic accounting. Forensic accounting is one of the many branches in accounting; under this specific branch exists Certified Fraud Examiners. Certified Fraud Examiners are experts specifically trained to find fraud, detect the ways in which the fraud was committed, and uncover who may have committed the crime. Two of the many schemes under occupational fraud that certified fraud examiners are confronted with are asset misappropriation and fraudulent statements.

*“Report to the Nations”*, a worldwide study of 1,843 cases of occupational fraud from 2008-2009, found that in the U.S. “Asset misappropriation schemes were the most common form of fraud… representing 90% of all cases” (ACFE, 2010, p. 4). Asset misappropriations range from conspiracies like skimming, when an employee does not record a sale and instead pockets the money, to schemes like check tampering, when an employee steals blank checks from the company and writes them out to himself. However, the most common fraud is billing. Billing happens when an employee deceives his employer to make false payments by submitting invoices for fictitious goods or services. One example of this could be found in a recent report in *The New York Times.* Anita Collins, 67, who is being charged for grand larceny in the first degree, for embezzling over $ 1 million over seven years from the Archdiocese of New York. Anita was able to skillfully delude the Catholic Church by sending fictitious invoices to the Archdiocese and issuing 468 checks to accounts she controlled (Otterman 2010). Billing alone can cause an organization to lose, on average, $128,000 annually. Although Asset misappropriation is the most common type of fraud, according to *“Report to The Nations”* it is the least costly.

In contrast to asset misappropriation, fraudulent statements only made up less than 5% of all cases in the same study. However, these schemes are the most consequential, causing a median loss of more than $4 million annually (ACFE 4). Fraudulent statements involve the manipulation, falsification or alteration of accounting records, misrepresentation of financial statements, and the misapplication of accounting principles relating to amounts (Crumbley 2009). Financial statement schemes can be very hard to catch because they are buried under false numbers and fake company names. In a recent New York Times article authors Hiroko Tabuchi and Keith Bradsher revealed that in October 2011, Michael C. Woodford, former Olympus president and chief executive, exposed the corporation’s “fraudulent accounting”. The scandal covered up $1.7 billion in losses by misstating their finances on their income statements. The corporation’s former and current executives tactically buried their losses so that external auditors could never discover them (Tabuchi 2012). Due to the complexity of financial statement fraud, such as the Olympus scandal, many companies hire certified fraud examiners to investigate their financial statements when they suspect fraud is present.

Occupational fraud is hard to detect due to the fact that owners and executives commit most fraud. Take for example the case of Maria do Rosario Veiga. Ms. Veiga was an experienced auditor who had been working for the World Meteorological Organization for 4 years before she blew the whistle on their fraudulent behavior. Ms. Veiga was fired from the organization because she refused to cover- up an embezzlement scheme of 3.5 million dollars stolen by senior officials (WMO 2009). For this reason many organizations have implemented anti-fraud controls to prevent and detect fraud. Anti- fraud controls consist of controls such as hotlines, fraud training for employees, surprise audits and employee support programs. In every study since 2002, the Association of Certified Fraud Examiners have found that tips are the most common and effective way to detect fraud (ACFE 4). This study found that tips detected 40.2 percent of all cases; employees were the most common source of fraud tips (ACFE 17). Anti- fraud controls are reinforcing ethical standards in the field of accounting. A specific case study examined by CFE Tracy Coenen exemplifies the right way to deal with receiving a tip from an employee about fraud. First, the board of directors must determine that an independent investigation of the allegations should be done. After this, they seek unbiased analysis, and retain an outside counsel and a forensic accountant to investigate. Management then gathers all documents relevant to the allegations, and gives the investigator access to all employees and accounting records (Coenen 2011). Going through such procedures should be important to any company who receives a suspicious tip from an employee.

Due to the major business scandals involving asset misappropriation and fraudulent statements, it is crucial for CFEs to have a good understanding of these schemes. Examining fraud involves close examination and piecing together financial evidence to find the hidden truth behind numbers. For this reason, the requirements to become a CFE include earning a Bachelor’s Degree, passing a ten-hour exam and having at least two years of professional experience in the related field (Meservy, 2006, p. 164). Not only do these requirements prepare a CFE before going into the field of forensic accounting, but they also ensure the public that the work of a CFE is trustworthy.

Although it is very important that CFEs obtain knowledge of fraudulent behavior, it is also important that they acquire other skills as well. Many times when people hear the word “accountant” they rarely think of a person who has excellent communication and writing skills. However, this is a very misleading misconception; In fact in a survey of 725 CFEs, communication and people skills were reported as critical by 44% of the recipients (Meservey, 2006, p. 176). These skills are viewed as critical because when a fraud examiner is investigating a case, he or she must be able to speak directly with their client; A CFE must also be able to orally present their findings in a courtroom to a judge and jury in a way that is clear and easy to understand (Wells, 2009).

Along with communication and people skills, surprisingly, writing skills are also one of the most important. After a fraud examiner collects all the evidence needed, he or she must report their findings; A majority of the time these findings are reported by writing. Tracy Coenen, a fraud examiner and forensic accountant, stresses that, “The best financial expert witnesses help win cases by artfully and simply communicating the facts through written reports…” (Coenen, 2007). For this reason, a CFE must have strong writing skills. A part of effectively reporting facts is following an ethical code by remaining unbiased about the innocence or guilt of the suspect, and reporting only relevant facts. If there is a lack of clarity in the way facts are reported and communicated, not only can it cause the jury to lose trust in the CFEs findings, but essentially cause a negative outcome on a case (Coenen, 2007).

The corner stone of the accounting field is ethics. For this reason, being ethical is the most important skill a CFE should acquire. Huge fraud cases such as the collapse of Enron and WorldCom led to higher costs for products and services, mistrust in leaders and a loss in retirement funds and job security (Crumbley, 2009). This was one of the driving forces that led to the passing of the Sarbanes-Oxley Act of 2002. This act not only regulated the auditing profession but it also demonstrated to the public that accountants value ethical standards. Up until now this act is based on making “everyone responsible for fighting fraud by increasing all parties responsibilities for uncovering such fraud in every direction at every stop in the process” (Crumbley 2009). Not only has the Sarbanes-Oxley Act helped to gain the trust of the public, but CFEs have also played a huge role in this as well. The fact that the main task of a CFE is to deter and detect fraud, proves to society that the field of accounting remains ethical and fair.

Fraud has caused many people to lose their trust in accountants; however, the field of accounting is implementing many ways to reduce fraud. Forensic Accounting plays a huge role in this because Certified Fraud Examiners are being used to analyze and examine financial statements in a way that normal accountants cannot. Through excellent communication and writing skills CFEs have ultimately proven that accountants do more than just “deal with numbers”. The increase in demand for Forensic Accounting shows that our ethical standards are still our main priority. Unfortunately, occupational fraud is something that always occurs in every organization; we cannot change this. However, what forensic accounting can change is the way which society views accountants as ethical.

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