



Fraud Squad
As Financial Scandals Mount,
Forensic Accounting Becomes Hot Area

By Catherine Valenti

April 10 — With a virtual media cottage industry blooming on the corpse of bankrupt Enron and its complicated array of alleged financial shenanigans, could it be just a matter of time before some television executive plots a new drama starring ... forensic accountants?

A caricature of Larry Crumbley, a forensic accountant who writes suspense novels about the profession. (Larry Crumbley)

You can almost hear the pitch now: "It's like *Quincy*, only with balance sheets instead of cadavers!"

OK, maybe you won't see droves of shows portraying financial detectives wooing beautiful women aboard a boat à la the opening montage from the '70s NBC hit about a medical examiner named Quincy, starring Jack Klugman.

But forensic accountants are becoming the rising stars of their profession as more and more companies seek to avoid becoming the next Enron.

Like detectives in green eye shades, forensic accountants bring a healthy dose of suspicion to their jobs, along with a willingness to look beyond normal channels to get to the bottom of a situation. Forensic accountants might have to do everything from sorting through computer files to detecting falsified records. In short, anything that can help detect financial wrongdoing.

Crumbley, P.I.

One example is Larry Crumbley, an accounting professor at Louisiana State University in Baton Rouge and editor of the *Journal of Forensic Accounting*. Crumbley started working in the field in the late '80s and has been called upon as an expert witness in trials over the years.

A specialist in the oil and gas industry, Crumbley's testimony has sometimes been used to prove whether or not a company is really a Ponzi scheme in disguise; that is, an investment swindle in which early investors are paid off with funds raised by later investors.

And many of the cases in which forensic accountants get involved, says Crumbley, are civil suits in which one side is trying to assess how much money the other side has.

"You can have a divorce and one of the partners tries to hide their assets, and the attorney will hire a forensic accountant to come in and try to find the assets," he explains.

Crumbley has also written 12 novels chronicling the adventures of forensic accountants that he uses to teach forensic accounting methods in his classes. His latest novel, entitled *The Big "R": An Internal Auditing Action Adventure*, tells the story of a certified internal auditor, a forensic accountant and an FBI agent who work together to find serial killers that strike at baseball parks.

The novel "mixes baseball, auditing, serial killers, fraud, risks, chemical and biological agents, and scuba diving to get a better way of learning internal auditing," reads the blurb on Crumbley's Web site.

Growing Field

Forensic accounting is hardly new, but accounting and security firms alike have stepped up their efforts to use the discipline in recent years.

Banks, insurance companies, police forces and government agencies typically use forensic accountants to track criminal acts *after* they've been committed. But industry insiders say they expect more companies to use them as *preventative* measures as the demand for financial transparency increases in the wake of the recent accounting scandals.

Risk consulting firm Kroll Worldwide, for example, now has more than 300 professionals specializing in forensic accounting compared to around two dozen in 1998. Larger firms like PricewaterhouseCoopers are also reporting an increased interest in these services from clients. Indeed, *U.S. News & World Report* recently named forensic accountant as one of the most secure career tracks over the next few years.

"There's more prevention at this point, which is something I haven't seen in the past," says Tedd Avey, president of Kroll's forensic, investigations, business intelligence consulting group, who has been working in forensic accounting since 1975. "We've had many clients do total business controls including security and fraud prevention in their business. A few years ago, many companies just wouldn't pay attention to that."

Push for Professional Degrees

Most professionals who have been working in the field for a number of years are certified public accountants who have learned forensic techniques simply through working on cases.

But in more recent years, some professional organizations dedicated to forensic accounting have sprung up and are offering certification in the field.

The Austin, Texas-based Association of Certified Fraud Examiners, or ACFE, was started in 1988 and offers a certified fraud examiner designation. The American Board of Forensic Accountants, founded more recently, in 1997, also offers its own certified forensic accountant credential.

In addition, the ACFE is working to add fraud examination classes to the curriculum of university and college-level accounting programs.

Still, only a handful of schools in the United States offer forensic accounting classes as part of their programs, says ACFE's special projects coordinator, Helen Clem.

"It has increasingly become recognized that forensic accountants have an arsenal of skill sets that are different from those of a regular financial statement auditor," says Harvey Kelly, the partner who heads up PricewaterhouseCoopers' corporate investigations practice.

"It's a totally different type of work that we do," adds Alan Zysman, a forensic accountant with investigative and forensic accounting firm BDO Hayes Smith in Toronto. "When you're doing auditing work, you're working within the guidelines of the institution and following accepted procedures. ... In forensic work, a lot of it is much less defined in terms of what you do and how you do it."

Basic Training

For its part, the American Institute of Certified Public Accountants has proposed expanded fraud guidance for auditors to follow so they can improve their ability to detect fraudulent practices like putting fictitious entries in financial statements or misstating revenue.

"The bottom line is, any firm that does audits of financial statements could quickly do what's needed to do the forensic accounting work," says Al Anderson, the institute's senior vice president of member and public interest. "Forensic accounting to some extent is a bit easier because they've identified a problem."

Many forensic accountants agree that it's probably just a matter of time before their methods are used in all auditing practices.

"I think that we're going to be forced to put all of these forensic techniques into audit programs," agrees Crumbley. "It's going to be second nature."