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### ACCOUNTING FOR TROUBLE

FINANCIAL DETECTIVES PIECE TOGETHER EVIDENCE OF CRIMES THAT BILK CORPORATIONS, GOVERNMENT AND NON-PROFITS

*Risa Brim, Herald-Leader Staff Writer*

Bart Mahan might never have known.

In fact, he was shocked when a longtime, trusted employee came to him and confessed that he and his wife had stolen from Mahan's golf-cart dealership.

"They said it had been going on for a year and a half and that they'd taken about \$800, but I assumed it was worse than they were saying, and it turned out I was right," he said.

Eventually, a team of investigators and accountants discovered that more than \$150,000 was missing. The couple was eventually placed on probation and ordered to pay \$5,000 in restitution.

Mahan's tale sounds like a ripped-from-headlines story line for one of the season's most popular television shows.

But it's reality. And in reality, each year thousands of companies, government agencies, and non-profits are bilked. An estimated \$600 billion will be embezzled this year alone.

Fraud is a driving force behind a surge in demand for **forensic** accountants: numbers sleuths who are trained to perform accounting autopsies. They dissect financial records and sniff out the deception of embezzling employees, conniving corporations, sneaky spouses and even fraudulent former governments -- and serve as expert witnesses in resulting trials.

**Forensic** accounting has become a hot profession, thanks to the wave of economic crimes, a swarm of corporate scandals, an increase in bankruptcies and occupational fraud, and dramas such as Law & Order, Crossing Jordan and CSI. On those TV shows, detectives and attorneys sometimes team up with **forensic** accountants to track down clues in financial records or to find victims and suspects.

Just ask Tim Snoddy.

"Before, I'd be on an airplane and the person sitting next to me would ask me what I did for a living, I'd say 'accounting' and the person would practically yawn," said Snoddy, a Lexington **forensic** accountant who travels weekly among his offices in Lexington, Florida and North Carolina.

"When I tell people now that I am a **forensic** accountant, they perk up and get real interested. It's in vogue now, almost sexy. It's a conversation-starter."

Snoddy, a Greenup County native and University of Kentucky graduate, got his feet wet in **forensic** accounting while working at a CPA firm in Ashland. There he handled high-stakes divorce cases and did financial-feasibility studies for health care groups.

The **forensic** experience prompted the 25-year veteran of accounting to open Snoddy Consulting in 2000. His firm takes on cases that include **forensic** work, like finding hidden assets in divorce cases; conducting business valuations for acquisitions, mergers, bankruptcy filings and insurance claims; and exposing employee embezzlement and fraud.

"It's a lot like being a detective," he said.

Other firms also are filling the niche.

James Ratley, program director for the American College of **Forensic** Examiners, said that even small CPA firms are beefing up their **forensic** services.

Last year the college began offering certification for **forensic** accountants. The organization has about 30,000 members, including accountants and government auditors and investigators.

Ratley said a growing number of larger firms, such as Ernst & Young, are expanding their **forensic** departments, and some smaller firms such as Snoddy's specialize in **forensic** accounting.

"Even before Enron, larger CPA firms started hiring people for so-called fraud squads, but back then they were more reactive," Ratley said. Now, he says, companies want measures in place "to prevent the big disasters like the ones we've seen of late."

Demand likely to grow

Larry Crumbley, editor of the Journal of **Forensic** Accounting, said the forensics field is likely to become more lucrative and is almost certain to grow.

He said highly publicized corporate scandals such as Enron and WorldCom, and resulting changes in rules on financial reporting standards to prevent "cooked books," have already increased the demand for **forensic** accountants.

"The way the rules are changing, all CPAs are going to have to adopt **forensic** techniques," said Crumbley, who is an endowed accounting professor at Louisiana State University and the author of several books on **forensic** accounting.

An increase in occupational fraud and other white-collar crimes also will drive demand for **forensic** accountants, he said. He also cited an increase in fraud against the government and non-profit agencies.

According to the Association of Certified Fraud Examiners, companies lost about \$600 billion as a result of occupational fraud and abuse. Small businesses were more vulnerable to fraud, losing about \$127,500 in the average scheme.

A report on Monster.com, an online job-search service, shows that entry-level **forensic** accountants can earn \$30,000 to \$60,000 a year, and veterans can make more than \$100,000.

Schools and other training institutions are responding to the increased demand.

The forensics classes that Crumbley teaches for the American College of **Forensic** Examiners draw about 65 CPAs.

Classes in Kentucky

Kentucky colleges are establishing **forensic** classes.

Transylvania began offering a **forensic** accounting class last year.

Accounting professor Dan Fulks, who also serves as a consultant for Snoddy's firm, said the four-week class drew 23 accounting majors. It included a 10-day trip to the Cayman Islands to study offshore banking.

Students learned how to prevent, detect and prosecute fraud and other white-collar crimes.

Eastern Kentucky University will offer a forensics class in the spring. At first only junior and senior accounting students will be able to take it, but eventually it will be offered also to MBA students, said professor Edmund Fenton.

Fenton, a CPA who became a certified **forensic** accountant this year, said the school also will offer a form of the class for law enforcement students at the ECU College of Justice and Safety.

He said the class will cover business fraud, cybercrime and related legal issues, evidence-handling, working with attorneys and testifying in court.

\$600 billion

Losses to occupational fraud and abuse. That translates to about \$4,500 per employee and 6 percent of revenues.

\$127,500

The average loss by a small business in an average fraud scheme. The average loss by a large company in a scheme is \$97,000.

7

The percentage of occupational fraudsters who were known to have prior convictions for fraud-related offenses. The typical perpetrator is a first-time offender.

80

Percentage of occupational frauds that involve asset misappropriation. Cash is the targeted asset 90 percent of the time.

\$4.25 million

The median loss per scheme in occupational frauds involving fraudulent financial statements.

\$60,000

The median loss from frauds committed by employees. Frauds committed by managers or executives cause median losses of \$250,000. When managers and employees conspire in a fraud scheme, the median loss rises to \$500,000.

50

The percentage by which organizations with fraud hotlines can cut their fraud losses. Internal and external audits and background checks also significantly reduce fraud losses.

18

How many months the average fraud scheme went on before it was detected.

27

The losses in frauds by perpetrators 60 and older are 27 times greater than the losses caused by those 25 and younger.

RISA BRIM

(1) by FRANK ANDERSON , STAFF - Three years ago, Tim Snoddy of Lexington opened Snoddy Consulting. "When I tell people now that I am a **forensic** accountant, they perk up and get real interested," he said. "It's in vogue now, almost sexy."

(2) by PHOTO ILLUSTRATION BY JANET WORNE; CRAIG JOHNSON , STAFF