Forensic Accounting

Tools for Financial Exploitation Investigations

Jason Olson, MBA, CPA/CFF, CFE, CFI
These seminar materials are intended to provide the seminar participants with guidance in employee theft/fraud and related ethical matters. The materials do not constitute, and should not be treated as professional advice regarding the use of any particular forensic technique or related consequences associated with any forensic technique.

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Agenda

• Background
• Definitions/Forensic Accountants & Exploitation Investigations
• Investigation Process
  • Identifying Assets
  • Obtaining & Inventorying Records
  • Examining Financial Records
  • Documenting Findings
• Case Examples
• Takeaways
Background

- Eide Bailly LLP
  - Top 25 CPA firm in the nation (Est. 1917)
  - 54,000 clients, 1,600 professionals, 26 offices in 12 states

- Forensic Services
  - Financial investigations
  - Computer forensics
  - Economic damage calculations
  - Employment background checks

For more information visit: forensics.eidebailly.com
Background

- Jason Olson
  - Forensic Accounting Partner
    - Specializes in fraud investigations and internal controls examinations
    - Over 10 years of experience
  - Certified Public Accountant (CPA)
  - Certified in Financial Forensics (CFF)
  - Certified Fraud Examiner (CFE)
  - Certified Forensic Interviewer (CFI)
Definitions

• *Elder abuse* – any knowing, intention, or negligent act by a caregiver or any other person that causes harm or a serious risk of harm to a vulnerable adult

• *Financial exploitation* – when a person misuses or takes the assets of a vulnerable adult her his/her own personal benefit
Definitions

• *Forensic accounting* - an attempt to piece together or *reconstruct a past event or events using financial information* where that reconstruction is likely *to be used in some judicial proceeding*
Financial Exploitation Video
Statistics

• Population of potential victims is growing
  • 2009 – 39.6 million people aged 65+
    • 12.9% of the US population
  • Estimated 2030 – 72.1 million people aged 65+
    • Estimated to be 19% of the US population

• Estimated 2009 annual financial loss by victims of elder financial exploitation were $2.9 billion
Vulnerability

• Many seniors have substantial assets
  • Sizeable nest eggs
  • Homes that are paid for and have appreciated significantly over time

• Social Security and disability payments are unique
  • Steady, recurring flow of funds to misappropriate
  • Economic conditions and recessions don’t affect Social Security income
Forensic Accountants & Exploitation Investigations

• What types of cases do we handle?
  • Fraud detection and investigation
  • Financial exploitation
  • Litigation support
  • Economic damage calculations

• What types of agencies have we assisted?
  • Cities
  • Sheriff’s offices
  • County Attorney’s offices
  • County Human Service Offices
  • BCI (ND)/BCA (MN)
Forensic Accountants & Exploitation Investigations

• When are our services requested?
  • Limited time/staffing issues
  • Big cases/numerous financial accounts (use of FIS)
  • In need of an expert

• How does one go about hiring us?
  • Contact us
    • We will let you know what information we need, get an engagement letter put together and request the records we need
    • Yearly contracts with some counties
Investigation Process

1. Identify the Assets
2. Obtain & Inventory Records
3. Examine Financial Records
4. Document Findings
Identifying Assets

• Identify all assets of the vulnerable adult
  • Gathering of the evidence

• How do you identify the assets?
  • Real estate
    • County tax records, closing documents, etc.
  • Financial accounts
    • Bank, investment, retirement, etc.
  • Loan Applications and Financial Statements
  • Tax Returns
Identifying Assets

• How do you identify the assets? (continued)
  • Safe deposit boxes
  • Insurance policies
  • Previous employer
    • HR documentation
  • Items at home
    • Cash, collectibles, jewelry, vehicles, etc.
  • Search of computer
    • .csv, .qbb, .qdf, .qif, .xls, .xlsx., etc.
Identifying Assets

• Determine what documents the vulnerable adult signed to place assets in someone else’s control
  • POA, signature cards

• Verify names on financial accounts
  • Signature cards

• Interview vulnerable adult, witnesses and perpetrator if possible
  • Preservation of testimony (audio/video tape)
Obtaining Records

- Obtain electronically if possible
  - Save statements as .PDF file to computer from online banking, etc.
  - Download electronic transactions to database if possible (i.e. bank transactions to Excel)
- Scan paper records
  - Make sure the pages are straight/legible
- Organize by:
  - Account
  - Date order - oldest to newest
Obtaining Records - Bank Accounts

Wells Fargo Complete Advantage Checking

**Activity summary**
- Beginning balance on 04/07: $3,185.22
- Deposits/Additions: 0,483.10
- Withdrawals/Subtractions: -458.49
- Ending balance on 05/06: $2,083.83

**Overdraft Protection**
Your account is linked to the following for Overdraft Protection:
- Savings: 0123456789
- Credit Card: 0000-0000-0000-0000
- Line of Credit: 0123456789-0000

**Interest summary**
- Interest paid this statement: $13.10
- Average collected balance: $3,562.38
- Annual percentage yield earned: 0.09%
- Interest earned this statement period: $5.25
- Interest paid this year: $103.24

**Wells Fargo Exclusive Rewards®**
- Total points available as of 04/20/2009: 9,046
- Points earned in the month of February: 732
- Points redeemed in the month of February: 100

**Transaction history**

<table>
<thead>
<tr>
<th>Date</th>
<th>Check/Debit</th>
<th>Description</th>
<th>Deposits/Additions</th>
<th>Withdrawals/Subtractions</th>
<th>Ending daily balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>04/11</td>
<td>Check 25895</td>
<td>04/11 Check</td>
<td>31.25</td>
<td></td>
<td>31.25</td>
</tr>
<tr>
<td>04/11</td>
<td>Check 25895</td>
<td>04/11 Check</td>
<td>0.00</td>
<td></td>
<td>0.00</td>
</tr>
<tr>
<td>04/12</td>
<td>ATM Withdraw</td>
<td>04/11 Cash</td>
<td>10.00</td>
<td></td>
<td>10.00</td>
</tr>
</tbody>
</table>
Obtaining Records - Bank Accounts
Obtaining Records - Bank Accounts
Obtaining Records - Bank Accounts

### Deposited Item Details

<table>
<thead>
<tr>
<th>Deposit Date</th>
<th>Description</th>
<th>Amount</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>05/11/20XX</td>
<td>ATM CHECK DEPOSIT - 321 MAIN ST, CA</td>
<td>$1,500.00</td>
<td>Posted 05/11/XX</td>
</tr>
</tbody>
</table>

### Deposit Item (1 of 1)

<table>
<thead>
<tr>
<th>Item #</th>
<th>Bank</th>
<th>Account #</th>
<th>Check #</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>05/11/XX</td>
<td>WELLS FARGO BK NA</td>
<td>XXXXXXXX6789</td>
<td>Not Available</td>
<td>$1,500.00</td>
</tr>
</tbody>
</table>

---

Henry Wells  
3215 Main St.  
Anytown, CA 12345  

Pay to the order of **Carl White**  

One thousand five hundred and no/100 Dollars  

[Signature]

Date 05/11/XX  
11-35/1210  
281
# Obtaining Records - Tax Returns

**SCHEDULE B**

*Form 1040A or 1040*

**Interest and Ordinary Dividends**

- **Department of the Treasury**
- **Internal Revenue Service**

- **Attach to Form 1040A or 1040.**
- **Information about Schedule B (Form 1040A or 1040) and its instructions is at www.irs.gov/schedules.**

### Part I

**Interest**

1. **List name of payer.** If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions on back and list this interest first. Also, show that buyer’s social security number and address.

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

2. **Add the amounts on line 1.**

3. **Excludable Interest on series EE and I U.S. savings bonds issued after 10/89.**

4. **Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a.**

### Part II

**Ordinary Dividends**

5. **List name of payer.**

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
</tr>
</tbody>
</table>
### Obtaining Records - Tax Returns

**Capital Gains and Losses**

- **Part I** Short-Term Capital Gains and Losses—Assets Held One Year or Less
  
  **1a** Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b.

  **1b** Totals for all transactions reported on Form(s) 8949 with Box A checked.

  **2** Totals for all transactions reported on Form(s) 8949 with Box B checked.

  **3** Totals for all transactions reported on Form(s) 8949 with Box C checked.

  **4** Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824.

  **5** Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.

  **6** Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions.

  **7** Net short-term capital gain or (loss). Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back.

- **Part II** Long-Term Capital Gains and Losses—Assets Held More Than One Year
  
  **d** Proceeds (sales price)

  **e** Cost (or other basis)

  **g** Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)

  **h** Gain or (loss) Subtract column (g) from column (d) and combine the result with column (g)
Obtaining Records - Tax Returns

Request for Transcript of Tax Return

Request may be rejected if the form is incomplete or illegible.

Tip. Use Form 4506-T to order a transcript or other return information free of charge. See the product list below. You can quickly request transcripts by using our automated self-help service tools. Please visit us at IRS.gov and click on "Order a Return or Account Transcript" or call 1-800-908-9946. If you need a copy of your return, use Form 4506, Request for Copy of Tax Return. There is a fee to get a copy of your return.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1a</td>
<td>Name shown on tax return. If a joint return, enter the name shown first.</td>
</tr>
<tr>
<td>1b</td>
<td>First social security number on tax return, individual taxpayer identification number, or employer identification number (see instructions)</td>
</tr>
<tr>
<td>2a</td>
<td>If a joint return, enter spouse's name shown on tax return.</td>
</tr>
<tr>
<td>2b</td>
<td>Second social security number or individual taxpayer identification number if joint tax return</td>
</tr>
<tr>
<td>3</td>
<td>Current name, address (including apt., room, or suite no.), city, state, and ZIP code (see instructions)</td>
</tr>
<tr>
<td>4</td>
<td>Previous address shown on the last return filed if different from line 3 (see instructions)</td>
</tr>
<tr>
<td>5</td>
<td>If the transcript or tax information is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number.</td>
</tr>
</tbody>
</table>

Caution. If the tax transcript is being mailed to a third party, ensure that you have filled in lines 6 through 9 before signing. Sign and date the form once you have filled in these lines. Completing these steps helps to protect your privacy. Once the IRS discloses your tax transcript to the third party listed on line 5, the IRS has no control over what the third party does with the information. If you would like to limit the third party's authority to disclose your transcript information, you can specify this limitation in your written agreement with the third party.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Transcript requested. Enter the tax form number here (1040, 1065, 1120, etc.) and check the appropriate box below. Enter only one tax form number per request.</td>
</tr>
</tbody>
</table>

a Return Transcript, which includes most of the line items of a tax return as filed with the IRS. A tax return transcript does not reflect changes made to the account after the return is processed. Transcripts are only available for the following returns: Form 1040 series, Form 1065, Form 1120, Form 1120A, Form 1120-H, Form 1120-L, and Form 1120S. Return transcripts are available for the current year...
Spot identity theft early. Review your credit reports.

Suspicious activity or accounts you don't recognize can be signs of identity theft. Review your credit reports to catch problems early.

Your credit reports matter.

- Credit reports may affect your mortgage rates, credit card approvals, apartment requests, or even your job application.
- Reviewing credit reports helps you catch signs of identity theft early.

FREE Credit Reports. Federal law allows you to:

- Get a free copy of your credit report every 12 months from each credit reporting company.
- Ensure that the information on all of your credit reports is correct and up to date.

Brought to you by

Experian

TransUnion
## Inventorizing Records

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Account No.</th>
<th>Type</th>
<th>Beginning Date</th>
<th>Balance</th>
<th>Ending Date</th>
<th>Balance</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Bank</td>
<td>1234</td>
<td>Checking</td>
<td>1/1/2011</td>
<td>$550,000.00</td>
<td>12/31/2014</td>
<td>$55,000.00</td>
<td>Missing March 2012</td>
</tr>
</tbody>
</table>
Examining Financial Records

• Bank/investment account records
  • Statements
  • Cancelled checks
  • Deposit tickets/deposited items

• What do you look for?
  • Patterns of unusual spending for vulnerable adult
  • Signatures and forged signatures
  • Purchases that do not make sense
  • Checks to cash (endorsements on back of checks)
  • Compare and contrast (spending before/after allegation)
  • Unknown accounts
  • Withdrawals/ATM withdrawals
Examining Financial Records

• Loan documentation
  • Detailed loan statements documenting loan disbursements and payments
  • Source documentation related to loan disbursements
    • Maybe advanced into a related checking account or disbursed through a cashier’s check(s)

• What to look for?
  • What was the purpose of the loan(s)?
  • Were the loan proceeds used as intended?
  • How were payments being made and by whom?
Examining Financial Records

- Credit Cards
  - Statements
  - Supporting receipts (if available)

- What to look for?
  - Patterns of unusual spending for vulnerable adult
  - Purchases that do not make sense for the vulnerable adult
  - Cash advances or ATM/cash withdrawals
  - Compare and contrast (spending before/after allegation)
Examining Financial Records

• Compare and contrast between spending from the perpetrator’s financial accounts versus vulnerable adult’s accounts to which the perpetrator has access to

• I.e. - No gas/grocery purchases from perpetrator’s accounts, however numerous gas/grocery purchases from vulnerable adult’s accounts
Documenting Findings

• Use of Microsoft Excel (or similar) to quantify type, frequency and dollar amount of fraudulent transactions
  • Consider using tables and graphs to depict fraudulent transactions
    • Visual objects are worth a thousand words
    • Seek out online training in Excel/with pivot tables
## Documenting Findings

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Name &amp; No.</th>
<th>Transaction/Check No.</th>
<th>Transaction Description</th>
<th>Memo</th>
<th>Debit Amount</th>
<th>Credit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/18/2015</td>
<td>US Bank Checking No. 1234</td>
<td>5678</td>
<td>Liz Johnson</td>
<td>Reimbursement</td>
<td>$550.00</td>
<td></td>
</tr>
<tr>
<td>6/19/2015</td>
<td>US Bank Checking No. 1234</td>
<td>-</td>
<td>Deposit</td>
<td>Liz Johnson</td>
<td>$500.00</td>
<td></td>
</tr>
<tr>
<td>6/20/2015</td>
<td>US Bank Checking No. 1234</td>
<td>-</td>
<td>US Bank Visa</td>
<td>1234 5678 9101 1121 4,328.79</td>
<td>$4,328.79</td>
<td>$500.00</td>
</tr>
</tbody>
</table>
Documenting Findings

- Narrative/report of the case and the facts identified (who, what, when, where, why and how)
  - Include charts and/or graphs when possible to summarize the financial data

- Workpapers reflecting the suspect financial transactions

- Copies of the actual financial documents to substantiate the work papers
Documenting Findings

• It is important to have as much information clearly documented and substantiated as possible
  • Victim testimony may not be reliable or possible
    • Age
    • Health
    • Mental capacity
    • Death
  • Victim may be unwilling to testify
    • Embarrassment
    • Fear of being perceived as unable to care for themselves
Investigation Process – “Old Method”
Investigation Process – “New Method”

- Paper Hardcopy
- Electronic Images PDF, JPG, TIFF, etc.
- Electronic Text File

**SCAN**
- Compression Algorithm Correction
- Auto Cropping/Image
- Image Cleaning

**OCR**
- OCR
- Index/Classification
- Archive/Storage
- Retrieval

**PARSER**
- Intelligent Parsing
- Reconciliation
- Analysis
- Graphic Visualization
- Reporting

DATA CAN BE INPUT FROM ELECTRONIC OR HARDCOPY FILES
Investigation Process – “New Method”

- Keep in mind…..issues that affect FIS
  - Poor copy/scan quality (if you can’t read it, the software can’t either)
  - Markups such as check marks, certain highlighters, pen crossing out numbers, dates, etc.
Summary of Our Process

1. Initial Meeting and Discussion
2. Receive Initial Batch of Records and Documentation
3. Examination Procedures
5. Update Client, Request Additional Records or Information
6. Provide Report to Client, Answer Questions
7. Testify (If Necessary)

**Report** – Narrative outlining the documents we examined, our procedures and our findings

**Workpapers** – Detail our findings

**Supporting Documentation** – Bank records, receipts, other documentation
Case Examples
Takeaways

• Identify assets through a variety of methods
• Start “following the money” – obtain documentation and examine the transactions
• Summarize your investigation by preparing a report with supporting workpapers and original source documents
• Forensic accountants can assist you!
Questions?

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jwolson@eidebailly.com