

The CSI of the Corp.

Forensic accountants book governance gains

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SANTA MONICA, Calif. (MarketWatch) -- They are the crime scene investigators of their profession. They can spot a financial violation in minutes, act on it and shut it down. More importantly, they can prevent malfeasance, or so they claim.

Forensic accountants are the new wunderkind of the financial world. Every company should have one. They should be mandatory keepers of the vault. Indeed, if a corporation doesn't have one of these risk managers overseeing or securing its operations, the company should be fined. Big time. Here's why: the biggest financial scandals in history could have been prevented had one of these specialists been on staff.

Forensic accountants employ systems and standards that keep a company and its personnel honest. They do this real-time with newfangled gadgetry and risk-management software programs that allow company executives to be alerted when an action is unauthorized or out of order. These alerts can flag computer access or even expense reports.

Tim Leech, a forensic accountant and chief methodology officer (that's a new one on me too) of Paisley Consulting in Cokato, Minn., says he has one simple objective: making sure a company has reliable financial standards.

"We set internal and external controls so that you can monitor and make sure a company is adhering to its assurance context," he says.

That, of course, needs some explaining. In interviews with Leech and several of his colleagues at other firms, I was able to piece together exactly what forensic accountants do.

Essentially, they take a company apart piece by piece and attach some type of accountability mechanism. They flag pieces, just like at a real crime scene. But instead of dusting them for prints, they attach some resolute explanation for it being there. This is all encoded in a dynamic software program. The cool thing is this can happen before a financial crime takes place.

If, for example, a forensic accountant had been in charge of internal controls at Enron, he or she would have spotted improper accounting methods well before billions in shareholder value was lost.

This begs the question of who minds the keeper. But forensic accountants today use highly complex software systems that put out alerts to senior management executives, and even directors, making it difficult to hide impropriety. Transparency, Leech reminds, is the key.

The scope of the work covers broad company policy on, for example, which countries it's allowed to do business with or in, whether it's in compliance with Occupational Safety & Health Administration rules, the Health Insurance Portability and Accountability Act and Sarbanes-Oxley. Or, even, payroll and accounts payable procedures.

So, in a micro example, a new vendor cannot be created and checks issued to that vendor by the same person. More immediately, if someone logs on to a database, an alert is automatically sent to senior executives informing them of a possible privacy violation.

A system of monitoring internal controls is something more and more Wall Street analysts should be looking for when they in turn examine a company.

Moody's, in a forward-thinking position at the time -- October 2004 -- announced that if a public company did not have internal controls in place it was going to bring them in for a ratings review. It did. The rating agency found if a company rated poorly with respect to their assurances, there was a greater than

average chance that company would experience some type of financial "incident," whether crime or violation, within five years.

This really drives the point home because risk-management systems and controls are a technological reality. People can look to them and for them in a company.

Leech, who has taken Warren Buffett's Berkshire Hathaway company to task for not investing in risk-management technology, says, "If I told you last night I brushed my teeth, and an audit finds out I lied, that is more important than the fact that I didn't brush my teeth."

Risk-management software programs and forensic accountants can uncover the overarching lie. Lying, after all, is what trips people up, from Martha Stewart to Scott Peterson, and gives investigators their first clue that something is awry.

Forensic accountants can give us the ammunition to spot these incidents ahead of time.

Sarbanes-Oxley only addresses auditing procedures. This is after-the-fact reporting. What shareholders, regulators and companies themselves need are more preventive measures.

Forensic accountants and their toolkits are a good first line of defense. Every company should have one.

<http://www.marketwatch.com/news/story.asp?guid=%7B3396FCC1-4789-42D1-B74B-C336FFF7C70C%7D>