

Sherlock Holmes and Forensic Accounting

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Sherlock Holmes is probably the most famous forensic practitioner, being a forensic chemist.¹ Well at least Arthur Conan Doyle's writings were full of ideas on forensic chemistry! Another famous practitioner of forensic science was Quincy, a television pathologist who used autopsies and pathology to find murder clues. There are a number of CSI series today. A future television series may feature a forensic accountant as discussed in the *Dallas Times Herald*:

“Accounting +Intrigue= Lenny Cramer.”²

Most accountants are considered to be dull bean counters without many original ideas.

“After all, everyone knows that bean counters are bespectacled, pale-skinned wretches who spend mind-numbing lives in dreary cubicles poring over faint computer printouts and dusty ledgers. Right?”³ Yet within recent years a bolder accountant has evolved with a suspicious mind. This forensic accountant looks behind the facade and does not accept records at their face value. Some accounting firms have built entire practices around forensic accounting.

Executive recruiter Robert Half International reports increased client requests for CPAs with fraud examining skills and FBI experience.⁴ Some novels are using a forensic accountant as the main character.

Definition of Forensic Accounting

Forensic accounting covers two broad areas: litigation support and investigative accounting. The AICPA describes litigation services as "any professional assistance non-

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¹ S.M. Gerber, *Chemistry and Crime*, American Chemical Society, 1985, preface.

² Robert Dietz, "Accounting + Intrigue= Lenny Cramer," *Dallas Times Herald*, September 29, 1991, p. D1-1.

³ Robert Dietz, "Accounting + Intrigue= Lenny Cramer," *Dallas Times Herald*, September 29, 1991.

⁴ S.H. Collins, "Forensic Accounting Group Sets Stiff Standards," *The Practical Accountant*, October, 1991, p. 17.

lawyers provide to lawyers in the litigation process."⁵ Forensic science may be defined as the application of the laws of nature to the laws of man.⁶ "Forensic scientists examine and interpret evidence and facts in legal cases and offer expert opinions regarding their findings in courts of law."⁷ Daniel Akst and Lee Berton indicate that other accountants may look at the charts, but forensic accountants actually dig into the body.

The need for this forensic accountant is demonstrated by a passage from *The CBS*

Murders:

Margaret Barbera was very good with numbers. She could take a balance sheet, a set of account books, invoices, bills, and more, juggle and manipulate the figures and, presto, thousands became millions, losses became profits, profits became losses, sales soared or fell, whatever her employer desired, and it would take an expert auditor knowing precisely where to look and what to look for to figure out what she'd done, and even then, it still might slip by. Professor Cramer was in front of his auditing class quoting a passage from *The CBS Murders*, by Richard Hammer. [p. 67 in *Trap Doors*].

Expert Testimony

A number of articles and books can teach someone how to testify as an expert witness in the courtroom.⁸ A passage from *Accosting the Golden Spire* is informative:⁹

Lenny liked the grueling task of preparing beforehand and participating in a courtroom battle over accounting principles. There was the challenge to react and respond to the many trick questions asked by the opposing attorney. Probably the stress was not worth the daily fees he received, but he loved it. He sometimes imagined the opposing attorney to be a black-clad medieval knight

⁵ *Management Advisory Services Technical Consulting Practice Aid 7: Litigation Services*, AICPA: 1986, TCPA 7.

⁶ Geoffrey Davies, editor, *Forensic Science*, American Chemical Society, 1986, p. 13.

⁷ *Ibid*, p. 35.

⁸ See for example, B.P. Brinig, "The Art of Testifying," in *Handbook of Financial Planning for Divorce and Separation*, New York: John Wiley & Sons, 1990, pp. 84-91. D.W. Yockey, "So You Want to Be a Forensic Accountant," *Management Accounting*, November 1988, pp. 19-25; Judge J.B. Morris, "The Three Cs of Effective Expert Testimony," *Today's CPA*, May/June, 1991, pp. 48-50: The Three Cs are competency, credibility, and communication.

⁹ Crumbley, Jones, Mastrolia, *Accosting the Golden Spire*, 3rd Edition, Durham, N.C.: Carolina Academic Press, 2013.

racing toward him on horseback with a long, sharp lance. Lenny always toppled the vicious knight in his daydreams.

The job of the expert witness is to present and clarify the facts in a court battle. Federal Rules of Evidence for United States Courts and Magistrates provide the rules of evidence for the federal courts. Rule 143(a) provides that trials before the U.S. Tax Court will be conducted in accordance with the rules of evidence applicable in trials without a jury in the United States District Court for the District of Columbia.

Investigative Accountants

Although the billings rates for litigation support tend to exceed the rates in other practice areas, a more exciting area of forensic accounting is the investigative accountant or fraud auditor. The AICPA indicates that this person searches for evidence of criminal conduct or assists in the determination of, or rebuttal of, claimed damages.¹⁰ They question seemingly benign documents and look for inconsistencies.

The title of a newspaper article best describes an investigative accountant: "Detectives Hunt for Cooked Books." The article gives the reason for a forensic accounting firm, such as Smith, Sibley & Co., in Dallas, Texas:¹¹

Robbers do not need guns. Pencil and paper will do. Opportunity and greed are thievery's driving forces. Put enough zeroes behind a number, and it's amazing how flexible morals become. How many years in prison would you do to accumulate a half a billion dollars in your bank account?

What with white collar crime, Bernie Madoff, Enron, WorldCom, Rita Crundwell, Parmalat, HealthSouth, insurance scams, and computer crime, there is a need for a new breed of forensic accountants like James Smith and Ken Sibley in Dallas. With their magnifying glasses,

¹⁰ TCPA 7, *op. cit.*, note 2.

¹¹ John A. Bolt, "Detectives Hunt for Cooked Books," *BCS Eagle*, July 1, 1990, p. 2C.

computer print-outs, and calculators, this glamour profession should rate a television series such as “Designing Accountants” or “Fraud Busters.” They certainly have destroyed the green eye shade image. Robert Deitz, Executive Business Editor of the *Dallas Times Herald*, describes Lenny Cramer, an imaginary character, as follows:¹²

Meet Lenny Cramer, forensic accountant extraordinaire, a swashbuckling CPA described by one newspaper as “the Indiana Jones of the ledger set.” Cramer and his hand-held calculator are to accounting what James Bond and his high-tech arsenals are to international espionage. In fact, Cramer could teach 007 a thing or two. Lenny Cramer doesn't need high-tech trickery to uncover plots by making a fraudulent expense account or phony computer program sing.

Some Tax Forensic Accountants

Forensic accounting work is done by both IRS agents and F.B.I. agents. The FBI has a number of forensic accountants. The IRS has an advertising poster with a picture of Alphonse Capone. The poster states:

ONLY AN ACCOUNTANT COULD CATCH AL CAPONE.

Infamous mobster Al Capone wasn't easy to catch. But when Special Agents of the IRS stepped in and charged him with tax evasion, this crime czar's career came to an end. Clearly proof that sometimes only the accountant can apprehend the criminal.

If you'd like to put your accounting skills to work in a challenging and action oriented job, IRS Special Agent may be the ideal career for you. If you'd like more information just contact your local IRS office.

Be an Accountant with Conviction

¹² *Op. cit.*, note 2.

Robert G. Roche, a retired chief of the IRS Criminal Investigation Division of the IRS, gives this description of a forensic accountant:¹³

Someone who can look behind the facade--not accept the records at their face value--someone who has a suspicious mind that the documents he or she is looking at may not be what they purport to be and someone who has the expertise to go out and conduct very detailed interviews of individuals to develop the truth, especially if some are presumed to be lying.

A true-life example of an efficient Revenue Agent's forensic skills is informative:¹⁴

Revenue Agent Susan Doe was assigned a claim involving carryback losses in excess of \$1,000,000 through 1984. She quickly initiated the audit and limited the scope to the key area, bad debts. The taxpayer, an electronics export dealer to Mexico, claimed substantial bad debt losses from Mexican clients. Susan pursued the authenticity of the bad debts. She analyzed the age of the accounts and current credit standing of several large customers and found customers were still doing business with the taxpayer. The taxpayer expected payment on the accounts. Susan determined there was no fraud (the taxpayer was advised by the CPA) and proposed the disallowance of well over \$1,000,000 in bad debts which eliminated the carryback, a \$500,000 carry forward NOL and resulted in a substantial deficiency. Susan secured an agreed RAR, closing the audit very effectively and with very low time on the case.

Another IRS employee put two and two together and found a significant tax issue:¹⁵

John Smith was reviewing an estate tax return when he noted that the death certificate stated the cause of death as "gunshot." John turned to Schedule F of the Form 706 to see if there was a claim for damages listed as an asset of the estate. There being no claim, John proceeded to question the CPA representing the estate about the details of the decedent's death. It turned out that the decedent was shot by his girlfriend's wealthy and very jealous ex-husband. John asked if there was a claim or lawsuit for damages. The practitioner stated that a claim had been filed, but

¹³ R.F. Randall, "A Suspicious Mind: Profile of a Forensic Accountant," *Management Accounting*, November, 1988, p. 3.

¹⁴ *Armadillo Tales*, October, 1991, p. 10.

¹⁵ *Ibid.*

that he did not realize that some of the claimed damages might be an asset of the decedent's estate. As a result of John's association of death by gunshot with a possible cause of action for damages, a sizeable issue was raised by the IRS and agreed to by the estate.

An instructional thriller now in the sixth edition gives insight into the forensic life of an IRS Special Agent. This *Ultimate Rip-Off*¹⁶ novel combines fraud, crime, politics, and taxation in a suspense thriller that teaches principles of taxation and describes the inner working of the Internal Revenue Service. Its hero is IRS Special Agent Jeff Burke, who is assigned to find several taxpayers who are evading taxes and to bring them to justice. Somewhat like the French Inspector of Pink Panther fame, Jeff is quite lucky in spite of himself. He is the recipient of a painful softball injury and is the target of a “hit person” who specializes in exotic kills. During his search Jeff uncovers an illegal gambling ring, a money laundering scheme involving a chain of retail coin stores, a neutron bomb conspiracy, and a larcenous IRS Commissioner.

Jeff Burke's forensic skills are seen in the following passage where he discovers the over-all conspiracy:

Wait a minute,” Jeff shouted to himself. He immediately retrieved the tax return of the Martinsburg coin outlet. How can the Martinsburg shop have a net operating loss and receive a tax refund if the wholesale parent company is filing a consolidated tax return? Like a thunderbolt, the answer came to him. He almost shouted, “They can't do both! When a group of affiliated corporations files a consolidated tax return, the parent corporation files the return and receives any refund--not the individual businesses.

Wow! This company is ripping off more than two hundred million dollars a year from the government!” Jeff whispered to himself. “They're sending in double tax returns. Each outlet sends in a separate return and receives a refund. The parent corporation files a consolidated tax return and receives a refund. The parent corporation files a consolidated tax return and turns its sixty-two

¹⁶ Crumbley, Ariail, Salvador, *The Ultimate Rip-off: A Taxing Tale*, 5th Edition, Durham, N.C.: Carolina Academic Press, 2012.

million dollars taxable income into a refund of one hundred and sixty-two thousand dollars." [pp.140-141]

Fraud Detecting

A novel entitled *Accosting the Golden Spire*,¹⁷ teaches basic detecting while weaving an intricate plot of international intrigue involving sleazy financial consultants, jade merchants, hit men, and con artists who plot to steal treasures from a Burma pagoda. According to the Washington Post,¹⁸ “the hero is sort of an Indiana Jones of the Ledger set--a Wharton School of Finance professor named Lenny Cramer who uncovers a conspiracy to steal foreign government treasures.” Lenny Cramer, an imaginary forensic accountant “can sniff trouble out of a ledger more quickly than Quincy, a forensic pathologist, could detect a murder on the popular television show.”¹⁹ He testifies before Congress and appears as an expert witness in a court battle.

While he and his daughter are on a tour of Burma, he becomes enchanted by another tour member, a beautiful jeweler named Dana Scott, who also is from Philadelphia. After they return to the United States, Lenny calls Dana, stops by her shop to visit, and becomes involved in checking her books because she believes her partner is stealing from their business. Thefts, murders, and a host of underground dealings follow.

As the subplots unfold, so do the accounting precepts. An exchange between Lenny Cramer and a friendly janitor called Woody illustrates the forensic instincts:

Lenny gave part of the list to Woody and instructed him to place a check mark beside every item on the list which was purchased six months ago or more. Altogether, there were 412 items included in inventory that were at least six months old, of the 412 items, 383 were purchased from Fred Brown.

¹⁷ Crumbley, Jones, Mastrolia, *Accosting the Golden Spire*, 3rd Edition, Durham, N.C.: Carolina Academic Press, 2013.

¹⁸ Don Oldenburg, "Tax Evasion, He Wrote," *The Washington Post*, March 15, 1989, p. B-5.

¹⁹ Linda S. Wallace, "Accounting's New Chapter: Novel Seeks to Erase Staid Image," *Philadelphia Inquirer*, August 16, 1991.

"It looks like the business is being flooded by phony stuff from this Brown character," observed Woody.

"The next thing to do is to look up the invoices on these items and to see if Dana signed for them," commented Lenny.

Lenny pulled out the Fred Brown file and began to look for the invoice number which was on the inventory list. Woody checked out the signature on each one and marked off the item on the inventory list. After about an hour and a half they were finished.

"Well, Woody, what are the results?"

"The dame's name is on each one," responded Woody.

"How were you able to go through them so fast?" Lenny wondered.

"At first it took a little while to find her signature," explained Woody. "Then I found a shortcut."

"A shortcut?"

"Yeah, let me show you." Woody grabbed about ten invoices and held them up to the light. "You see, you can look through all the invoices and see that the signature matches on each one."

"Let me see that," Lenny said. "Those signatures are almost identical."

"See what I mean?" retorted Woody.

"But Woody, they are too identical. They look like they are traced. Woody, that's it? Frank has been forging Dana's name on these things."

Another adventure of Lenny Cramer appears in *Trap Doors and Trojan Horses*.²⁰ Lenny Cramer, a widower with a teenage daughter, is a forensic accountant who recently joined the accounting faculty at Georgia State University. In addition to his professorial duties he is conducting an operational audit for the world famous soft drink company, Coca-Cola. Intrigue and fraud place Lenny's life on the line as he uncovers an evil scheme to steal Coke's secret formula. The story features a variety of settings, from Atlanta to Washington, D.C. to Poland. The suspenseful story combines computers and auditing in a fashion even a novice can understand and enjoy.

Cramer and his sidekick, Slam Duncan, employ auditing and computer concepts in making real-life decisions. Along the way, business practices, political controversies, contemporary corporate planning, accounting fraud, and the lives of CPAs and their colleagues are elucidated in a way that students, instructors, and even casual readers will find gripping and informative. For example, the following two passages show some forensic techniques:

"It was simple, once I thought about it," Cramer told the Coke executive as they nibbled at their salads. "It all tied back to your accounting system. Payables to the staff...uh salary and expenses...are all processed by name, though the employee number appears on the forms. But for the computer bookkeeping, it's all done by number. So, Mr. Mays has been submitting phony expense forms for the staffers in New York and Los Angeles. When it goes on the computer, though, he inserts his employee number. The funds have been deposited directly into a separate bank account he established."

"Since employees don't get W2 forms or a Form 1099 for out-of-pocket expenses they are reimbursed, they were never aware of the scam. He was issuing two checks, one to the employee for the legitimate expenses and one to him that was direct-deposited. Mr. Mays is randomly rotating the bogus expense checks among the various out-of-town staffers. Not too sophisticated, but effective for a time."

²⁰ Crumbley, Smith, and Delaune, *Trap Doors and Trojan Horses*, Durham, N.C.: Carolina Academic Press, 2009.

"Good job, Lenny," Posey said enthusiastically. "I knew we'd gotten the right man. Any idea how much he's gotten away with?" [p.22]

Forensic Cost Accounting

The use of an imaginative novel is an ultimate extension of the scenario approach. A novel can be a series of continuous examples relating to a central theme instead of just several unrelated examples put forth as separate scenarios. In addition, students tend to relate to fictional characters in action-packed adventures. The story, along with its verbal pictures, jogs the memory more easily than gray pages of technical material alone. Proven aids in learning include the element of surprise when a learner encounters an unexpected phenomenon, and the retention of a new concept which appears in a dramatic, unusual context.

Another adventure of Lenny Crammer appears in *Costly Reflections of a Midas Mirror*.²¹ This novel mixes fraud, murder, art, ethics, and cost accounting together to get a better way of learning the accounting process. Lenny Cramer, now a professor at Columbia University, tries to help a wealthy friend of his university. As a managerial professor, he uses his forensic accounting background to solve a "whodunit" plot. Along the way, business practices and accounting concepts are elucidated in a way both students and instructors find gripping as well as informative.

The potential murders are, likewise, numerous in this fast-paced Philip Marlowe-type intrigue. Although a fundamental premise in accounting is that the reporting entity is a going-concern in the absence of evidence to the contrary, with so many murders in this plot, a liquidation assumption is more appropriate. A reader must keep sunk cost values and salability of

²¹ Crumbley, Ariail, Chenier, Smith, *Costly Reflections in a Midas Mirror*, 3rd Edition, Durham, N.C.: Carolina Academic Press, 2011.

assets in mind as one unravels the plot, rather than the traditional historical costs. The authors point out in the preface that an effective managerial accountant must be a good detective, even without the fedora and snub-nosed revolver.

This novel illustrates the talents needed by an expert witness in the courtroom:

Tomorrow I would be testifying in court for General Dynamics, providing litigation support, working in concert with high-powered lawyers, and keeping a clear-headed, unemotional bearing under intensive cross examination. My job would be to provide credible expert opinion on complex accounting issues. The opposing attorney's job would be to make me look like a lying idiot. Any anger, loss of confidence, or other emotional lapse he can drive or insult me into, will inure to his purpose. My experience as a professor would work to my favor, since my career centers around explaining complex accounting issues in clear understandable terms.

What I need to guard against is treating the jury like my students. The opposing lawyer will accuse me of grandstanding and thinking I'm back in my ivory tower. He'll try to make me look like a fool. The judge owns the courtroom. The witness is just a guest--and one that not every party appreciates.

Other Accounting-Related Novels

Moses McDonald makes his debut in another teaching novel entitled *The Bottom Line is Betrayal*.²² McDonald is a fictitious marketing professor and consultant who introduce students to various business topics, including international issues. Additionally, the book can be effectively utilized to present computer and technology issues in virtually any course.

A female accountant made her debut in 1993 in the novel *Questionable Behavior*.²³ Teal Stewart, CPA, the lead character, is an engaging intelligent professional who has a man fall dead at her feet. The financial fraud Teal uncovers challenges her professional and personal judgment,

²² Kathy Smith, Murphy Smith, and Crumbley, *The Bottom Line is Betrayal*, Durham, N.C.: Carolina Academic Press, 2014.

²³ Dayne Lamb, *Questionable Behavior*, New York: Zebra Books, 1993. Lamb is a former Price Waterhouse CPA.

and changes her life as she tracks the facts and figures from Cambridge to California in a race with a cunning killer who is trying to kill her also.

In a second novel, *A Question of Preference*,²⁴ Teal becomes involved with art and murder as she works herself up the corporate ladder of the accounting firm. A 1995 sequel *Unquestioned Loyalty*²⁵ focuses on issues encountered as a partner in a large, international accounting firm.

CONCLUSION

The message in these books is clear--the accounting profession is much better than the stereotype image most people have. An effective accountant must be bright, personable, and technically competent.²⁶ And in these novels the accountant is involved in a real adventure, and again he's (or she's) the hero! A conversation between two characters in *Trap Doors* while in Poland demonstrates the exciting and dangerous life of an accountant:

"What are you reading?" Laura asked.

"Oh, a book by Dick Francis called Risk. Here, read these two paragraphs." Laura read out loud.

Although the majority of mankind thinks of auditing accountants as dry-as-dust creatures burrowing dimly into columns of boring figures, the dishonest regard them as deadly enemies.

I have had my share of uncovering frauds. I'd lost a dozen people their jobs and set the Revenue onto others, and seen five embezzlers go to prison, and the spite in some of those eyes had been like acid.

²⁴ Dayne Lamb, *A Question of Preference*, New York: Zebra Books, 1994.

²⁵ Dayne Lamb, *Unquestioned Loyalty*, New York: Zebra Books, 1995.

²⁶ For more detail, see L.M. Smith, "A Novel Approach," *New Accountant*, December, 1991, pp. 10-12, 34.

She then asked, "English accountant. Right?"

Slam nodded. [p.142]

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