



HOW A DEFENDANT WON THE LOTTERY!

The decision to hire a Forensic Accountant can be like buying a lottery ticket. Not all Forensic Accountants are equal. Not all possess the characteristics and critical success factors of an effective Forensic Accountant, such as being able to “see beyond what is immediately in front of us” utilizing a **panoramic approach**.

Traditionally, CPAs look at historical data, financial results and focus on the “fairness” of financial statement presentations. In contrast, a Forensic Accountant “follows the money”, and applies “investigative techniques” that result in a deeper look and wider look; adding a unique value for all parties involved. Forensic Accountants look at the matter as if it is a “crime scene”; often asking themselves: “what happened here before the alleged charged events?”, or “what would have happened if the alleged charged events did not take occur”?

Take for instance, a criminal litigation in South Florida that took place some 15 years ago in which the defendant was charged with money laundering by the US Government. The Government alleged that the proceeds of a criminal enterprise were laundered by the defendant through purchasing winning lottery tickets from lottery winners for cash at a discounted price. The actual winners were not reporting their cash payments on their individual tax return(s). The defendant reported the ticket winnings in his individual income tax return(s).

The Government theory was that the proceeds of the criminal enterprise were the result of the sale of narcotics from a location owned by the defendant. The location was rented out to a third party who was actually engaged in narcotics trafficking. The Government alleged that the defendant was in a business partnership with the individual renting the location from the defendant. The Government further alleged that the sale of narcotics funded the defendant’s purchase of a second home and other expensive assets.

The discovery documents provided by the Government completely omitted the business and personal financial records of the defendant. So rather than performing an exception analysis on discovery documents provided by the Government, we suggested that we perform a complete historical financial analysis of the bank accounts of the defendant and the defendant’s business as well as an investigation to determine the source of the funds used by the defendant to acquire the defendant’s home, second home, other high ticket assets, along with paying the daily/monthly living expenses of the defendant and the defendant’s family. This analysis included a number of years of the filed income tax returns of the defendant, and the defendant’s business for **comparison** with the defendant’s **cash flow**. Our analysis and related work product comparison demonstrated that all of the defendant’s disbursements, high ticket purchases and receipts were the result of legitimate sources of funds derived from the defendant’s business and from supportable loans from family members and banks. These transactions occurred prior to the year that the defendant reported lottery winnings on his personal tax return.

After one day of deliberations, the jury returned a verdict of not guilty. The defendant walked out of the courtroom a free man. Without the panoramic in-depth approach that was used, the results might have been catastrophic for the defendant. The trial judge congratulated the defendant and his defense team explaining that, under the then existing federal sentencing guidelines, a jury verdict of “guilty” would have required the judge to impose a 15 year prison sentence.

Don’t be a victim of your own making. Make sure that you identify the proper Forensic Accountant for your matter who can panoramically dig beneath the surface and find what is missing.

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