



Asset misappropriation – investigating people and money?

Forensic accounting has been described as an “art and science” that investigates people and money. Forensic accountants are known for tracing funds (following the money), uncovering hidden assets and educating involved parties as to potential damages. In simple words, a forensic accountant will hunt until the money is found, make sure that money is applied to the right place, discover if money and/or assets have been hidden, or if funds or assets have landed in the lap of unintended recipients. This is why, (according to the Association of Certified Fraud Examiners - ACFE), forensic accountants are invaluable resources in the discovery and the resolution of the most common type of fraud – Asset Misappropriation. The ACFE also believes that close to 7% of an organization’s revenues can be lost to asset misappropriation. It has become a serious problem and a no win situation for all involved.

In an asset misappropriation, the perpetrator steals or misuses an organization’s belongings and resources; usually without force. Meaning, they are taken through trickery and deceit. Common asset misappropriation in a business is composed of cash and assets. Some examples are: stealing physical cash, performing fraudulent disbursements, inventory theft and misuse of assets (employees using company assets for their personal use).

The three circumstances in which most asset misappropriation occurs are:

- Before the assets are recorded in the books/records of an entity (skimming).
- While the assets are held in the entity (larceny).
- During the process of purchasing goods and services (billing process, expense reimbursement and payroll frauds).

Asset misappropriation is usually detected through:

1. Tips or complaints
2. Internal controls
3. The perpetrator turning himself/herself in
4. Assessment of “red flags”

Typically asset misappropriation will produce certain detectable symptoms. Inconsistencies and deviations in accounting, internal controls operations and behavior will produce “red flags”. Some examples of “red flags” are:

- Missing, altered, or photocopied documents
- Stale items on bank reconciliations

- Increased or excessive past due accounts
- Unexplained or confusing journal entries
- Inaccuracies in the ledger accounts
- Unexplained changes in financial statements
- Internal Control Weaknesses
- Lack of segregation of duties
- Lack of physical safeguards
- Lack of independent checks
- Lack of proper authorization on documents and records
- Overrides of existing internal controls
- Inadequate accounting system
- Company assets sold at less than market value
- Excessive number of checking accounts
- Frequent change of bank accounts
- Use of several different banks
- Significant downsizing during a healthy market
- Unexpected overdrafts or declines in cash balance
- Operating on a crisis basis
- Insufficient capital
- Dependence on only one or two products
- Frequent changes in legal counsel
- Frequent changes in executive management and directors
- High employee turnover, especially in areas that are more vulnerable to fraud
- Continuous rollover of loans
- A compensation program that is out of proportion to profits
- Unusual organizational structure
- Problems with government regulators

According to the ACFE, 44% of perpetrators live beyond their means, 33% are experiencing financial difficulties and 22% have an “unusually close relationship” with a vendor or a customer.

An entity confronting asset misappropriation should re-evaluate its internal controls. A qualified forensic accountant can recommend internal control systems that will help deter and prevent fraud schemes, and assist with establishing control environments, accounting systems, control activities, and monitoring.

Don't be a victim of your own making. Forensic accountants are specialists in demand due to their experience in investigation, detection, and quantification of losses. Consult now.