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## The Move from Pocket Protectors to Private Eyes

By Jim McConville - 2/26/2007

BIZ SPOTLIGHT - Accounting

Once a calling limited to private eyes and federal agents, investigating episodes of finance-related fraud has blossomed into a specialty that blends the savvy of law enforcement with the number-crunching skills of the trained auditor.

So-called forensic accounting deals with tax fraud, embezzlement, contract disputes, misplaced profits, accounting malpractice, business-breakup issues and shareholder disputes. The rise of identity theft, in which criminals use other people's identifiers such as Social Security and credit card numbers for their own gain, has also given the field a boost.

Forensic accounting has grown enough to start its own trade group, the Association of Forensic Examiners. Based in Austin, Texas, it offers a test allowing members to earn the title of Certified Forensic Examiner (CFE). It was founded in 1989 and has grown to 38,000 members.

"You're seeing more demand for forensic accounting services as companies are really catching on to the growing problem of fraud," says Michael Steiner, a certified public accountant and wealth manager for Chatham's Regent Atlantic Capital.

A forensic accountant's tools include so-called data-extraction technology that allows an accountant to manipulate very large sets of financial data.

"Let's assume a company is processing a million records a year," says Darryl S. Neier, director in charge of forensic accounting and litigation support group for Livingston-based Sobel & Co. "I can take that data and bring it into a data-extraction package and do all sorts of manipulations ... to drill down to where I need to be; to look for trends, to look for things that are there and not there."

As fraud, misappropriation and other corporate shenanigans have become more complex, forensic accounting has found its niche.

"More and more, you need people to drill down deep into the numbers, and not only understand how the numbers are made up, but what is behind the numbers," Neier says. "What do the numbers really mean?"

In five years, Sobel's forensic accounting department has grown to 14 full-time accountants from two part-time workers. "I can't find enough qualified people to bring in," Neier says.

Of the 14 people in Neier's group, half have backgrounds with law-enforcement groups including the FBI, Secret Service and the Internal Revenue Service's Criminal Investigation Division.

Neier says one survey indicated that businesses typically lose about 5 percent of their annual revenues to various forms of fraud. In the United States, companies collectively lose an estimated \$65.2 billion annually.

Meanwhile, on the consumer side, the volume of personal identity theft appears to be leveling off, but has become a major source of financial concern. Nationally, last year, roughly 9.3 million Americans became victims of identity theft, according to a report compiled by the Better Business Bureau and Javelin Strategy and Research, a research firm based in Pleasanton, Calif. Javelin reported that, based on its sampling, the number of ID-theft cases dropped by more than 11 percent between 2005 and 2006.

The Federal Trade Commission also keeps numbers. It found that among the 50 states, New Jersey ranked 14th in the number of victims in 2006 with roughly 82 victims per 100,000 of the state's population. The crime topped the list of consumer complaints from New Jersey residents for the seventh year. Nationwide, the FTC recorded almost 250,000 reports in 2006, down from 255,000 in 2005.

Identity theft has become so prevalent, say forensic accountants, because computers and the Internet have made access to personal records, including banking records, easier than ever. "It's such an easy crime—you don't need to threaten anyone with violence, you don't need a weapon or a mask, or to face your victim; you just need to find out someone's date of birth and Social Security number," says Steiner.

He says his own identity was stolen in 2001, resulting in a trail of spurious loan applications. He found out what was happening when a bank called him to ask questions about a loan application he hadn't filed. It took more than three years for the police to bust the crime ring that had poached Steiner's identity.

While the number of forensic accountants working to unearth corporate fraud has quadrupled in the past five year, according to Sam Rosenfarb, managing director of RosenfarbWinters, a 70-person forensic accounting firm with offices in Roseland, Tinton Falls and New York City, there hasn't been a commensurate rise in the number of accountants specializing in identity theft.

This may be because there's more money to be made solving corporate fraud than crimes against individuals. Also, in cases of identity theft involving stolen bank or credit card funds, the involved financial companies typically use their own internal teams of investigators and forensic auditors, says accountant Joan D'Uva, a certified forensic examiner for Bridgeton-based accounting firm Amper, Politziner & Mattia.

Despite the publicity surrounding identity theft, the meat and potatoes of forensic accounting are corporate and domestic fraud cases. Approximately 70 percent of New Jersey's forensic cases are business-related; the other 30 percent is generally connected to divorce, according to Rosenfarb.

"The explosion in divorce created significant need for forensic accountants," says Rosenfarb, who estimates his firm will generate roughly \$15 million in revenues this year from its forensic-accounting cases. "Prior to the mid-'80s, the spouse who owned the assets, received those assets."

On the corporate side of the ledger, forensic accounting has increased in importance, say accounting experts, as more financial theft and fraud is committed electronically.

"Twenty-five years ago very few small businesses used computers and they relied on outside accountants to record their financial transactions," Rosenfarb says. As record keeping has become more computerized and complicated, "there are more and more sophisticated disputes that require more financial experts."

While no official statistics are kept on how much revenue forensic accountants as a group generate each year, firms that specialize in such work are seeing expansion of 25 percent to 30 percent a year, according to Rosenfarb.

Interestingly, while general accounting practices have trouble attracting and holding enough skilled workers, those in forensic accounting say the work is so compelling that people stay in their jobs. "The most significant problem facing accounting firms today is the ability to recruit and retain qualified, competent staff," says Rosenfarb. "We don't have that problem."

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