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THE FRAUD BEAT/CAREER DEVELOPMENT

Sleuthing careers bring CPAs personal and professional satisfaction.

The Fraud Examiners

BY JOSEPH T. WELLS

Becoming a fraud examiner—a.k.a. a financial detective—is not for everyone. Detectives—either in law enforcement or in the private sector—typically have distinct personality traits: They're as good with people as they are with numbers and they are inclined to be aggressive rather than shy and retiring. This helps them achieve success in adversarial situations where confrontation is endemic to their work. For people with these qualities and the proper qualifications, career opportunities are plentiful. Three successful CPAs who possess both talk about their careers as fraud examiners.

Tom Golden, who heads PricewaterhouseCoopers's Midwest investigations practice in Chicago, assesses the field: "Companies know fraud is epidemic—the phone is ringing off the hook. We have doubled the number of examiners in the past year, and we're still growing. There is no end in sight." Robert J. Lindquist, senior managing director for Citigate Global Intelligence & Security in Washington, D.C., agrees and adds, "For those professionals who wish to excel, this field has much opportunity." And according to Debbie Cutler, a partner with Kramer, Love and Cutler in New York City: "Clearly, the CPA's role in combating fraud has increased due to recent corporate scandals and media attention. There is growth in this area as companies implement internal control systems and look for ways to reduce fraud."

As the career paths of these CPAs affirm, becoming an antifraud expert doesn't take months—it takes years. Formal education in the fraud examination field is new and limited—but growing. Until four years ago, only 19 colleges out of 900 offered a class in fraud examination. That number now exceeds 150, with 200 more schools planning to add a course shortly. But for the time being, it is necessary for most budding fraud examiners to learn this craft on the job.

Lindquist says interested CPAs should learn about the legal aspects of fraud. "It is important to understand exactly what constitutes fraud," he says, "which includes practical knowledge of the legal system and concepts such as the elements of the offense, what constitutes proof, *mens rea* (intent) and completeness of evidence."

Both Lindquist and Cutler say antifraud education and training will include interviewing skills. According to Cutler: "Conducting proper interviews is a large part of being an effective fraud examiner. It is hard to overemphasize the importance of this skill."

Golden says that CPAs interested in doing fraud work must commit to the time demands of the training, get the proper education, pursue the certified fraud examiner (CFE) designation and make their interest in the field known to their employer. "Becoming a fraud examiner is not something that should be pursued part-time," Golden says. "There are a lot of 'wanna-bes' who think the work sounds interesting, but they haven't acquired the background to differentiate themselves. In my office at PwC, we won't hire CPAs for this field unless they also are CFEs or are working to acquire the designation."

Certification, however, is only one facet of becoming a fraud expert. Many employers believe the most attractive job candidates are CPAs with many interrelated skills. The pros recommend CPAs have at least two years of solid auditing experience, obtain the CFE designation and then work for a law enforcement agency. Working on complex fraud cases in law enforcement for several years offers an invaluable learning experience that could place someone ahead of other applicants when he or she returns to the private sector in this increasingly competitive field. Here are the personal and private- and public-sector experiences that led these three CPAs to professional fulfillment.

MR. PROFESSIONAL SKEPTIC

Golden, as a junior auditor, looked again at the file folder. "Although it was labeled 'Complaints,' that was a vast understatement," he said. "The file contained hundreds of hate letters concerning the client I was helping to audit."

Golden had discovered the file when he examined the company's lease contracts receivable

LARRY EVANS/BLACK STAR

Tom Golden's investigative flair surfaced when he saw hundreds of unrecorded complaint letters during an audit.

(LCRs). "There was letter after letter from customers proclaiming the company's product was inferior and demanding their contracts be terminated," Golden said.

The problem was that none of the contracts had been canceled or removed from the LCRs, and none of the same complaints had shown up in the hundreds of positive confirmations that had been sent out earlier. "I knew something was terribly wrong," he said. He was right. After comparing the complaint letters to the confirmation list, he discovered that the client's personnel had surreptitiously gained access to the auditors' computerized confirmation list and altered it, making sure that none of the complaining customers were selected for confirmation.

As a result of Golden's initial discovery, the auditors were able to determine that $11 million in leases probably were not collectable. "For a company with $7 million in reported pretax income, it was a material amount," said Golden. The auditors required the company to restate its financials, doubtlessly averting a multimillion-dollar lawsuit from investors and creditors. Believing they could not rely on the client's integrity, the audit firm resigned. Ultimately, the company failed.

"This case taught me a valuable lesson that has stayed with me throughout my career," Golden said. "My mother raised me to trust everyone, but she wasn't an auditor." After experiencing his first fraud, Golden was hooked. He began asking his superiors to assign him suspected fraud cases and gradually acquired experience.

Golden, now a seasoned veteran who has investigated hundreds of frauds, says auditors must adopt a simple and powerful philosophy: Trust but verify. "Most clients are honest, but not all. The only way auditors can effectively do their jobs is by being professionally skeptical."

MS. PERRY MASON

Perhaps Debbie Cutler was born to be a fraud examiner. "When I was young, my family referred to me as Perry Mason," she said. "I was a very inquisitive child who wouldn't give up until I got the answers." It was happenstance that led her to combine her natural talents with her accounting degree.

"I'd spent 10 years in public accounting performing traditional audit work," Cutler said. "One day a partner invited me to help investigate an accounting malpractice case that included fraud allegations against a U.S. senator. I jumped at the chance, and as it turned out, I loved the work."

That was 15 years ago. As Golden did, Cutler started making it known within her firm that she was interested in fraud assignments. She took fraud-related continuing professional education and eventually obtained her CFE designation. Debbie now spends nearly half of her time working on fraud cases. "For me, investigating fraud is a very challenging and rewarding occupation. I like the fact that you are dealing with people in difficult situations, and no two cases are exactly the same."

In one of her investigations, a software developer in Texas received a tip that a recently hired accounting department manager was on parole for embezzling more than $1 million from his previous employer. "The software company wrongly presumed that since the new employee had been recommended by an executive search firm he had been thoroughly checked," Cutler said. Alarmed to discover that he hadn't been, the company ordered an internal audit.

"The company examined cash disbursements, bank reconciliations and accounts receivable, but were looking only for transactions that had been already recorded on the books," Cutler said. "Company personnel also interviewed a number of employees in the accounting department but they didn't ask the right questions." Concerned about the employee's background and sensing they had missed something, the company brought in Cutler to take a fresh look. She reinterviewed the same workers and made a key finding when she asked whether the employee had ever handled duties outside the scope of his job description. "One person in the accounting department told me that when she was on vacation, the suspect had volunteered to make up the bank deposits."

With that single piece of information, Cutler uncovered the scheme in a matter of hours by comparing the types of bank deposits normally made with the ones the suspect handled. She discovered that, during the time he was making the deposits, the amounts dropped substantially. "He had stolen a number of travel rebate checks made payable to the company, forged his employer's endorsement and deposited the proceeds in the bank where his brother—not coincidentally—was working at the time," Cutler said. The evidence was sufficient to put the embezzler back in jail.

"There are two valuable lessons to be learned from this case," she observed. "First, employers can't always assume the people they hire are honest. When someone is responsible for handling company assets, his or her background should be carefully checked. Second, not all fraud can be uncovered by examining the books and records. You also have to be trained to ask the right questions."

MR. FORENSIC ACCOUNTING

Robert Lindquist of Citigate Global Intelligence & Security is a veteran of at least 2,000 cases in a career spanning three decades. His investigations have taken him to far-flung locations such as China, the Caribbean, Europe, South America and Africa.

Lindquist became an expert the same way many of the field's pioneers did—by learning on the job. As both Cutler and Golden did, he received a fraud assignment early in his career, discovered he had a flair for the work and pursued it as a career path. In a case that marked a high point in his career as a fraud examiner, the government of Trinidad hired Lindquist to investigate the business dealings of John H. O'Halloran, a former cabinet minister. But there was one major problem to recovering any ill-gotten gains: O'Halloran—widely known as "Mr. Ten Percent" for the kickbacks he allegedly demanded in exchange for government contracts—was long dead.

The crafty politician had managed to leave nothing in his name, so there were no assets for the government to repatriate. That didn't stop Lindquist and his team, however. After finding and documenting that O'Halloran had accepted bribes, they went after the companies that had paid them. They sued one American company in a U.S. court and were ultimately successful in recovering $7 million for Trinidad. "This represented the first time a foreign country succeeded in a bribery lawsuit against a U.S. entity in U.S. courts," Lindquist said.

SAGE ADVICE FOR CPAs

As in any professional endeavor, there are downsides to being an antifraud expert: Cutler is disappointed that many corporations still don't want to admit they have fraud problems, Lindquist tires of constant travel and Golden feels frustration when fraudsters get off scot-free.

Yet, even though they have different experiences, the advice of these CPA/CFEs is remarkably consistent. They agree that when gathering evidence, fraud examiners and auditors need to trust their instincts and check out their suspicions. Professional skepticism is really an enhancement of the "sixth sense." It will help CPAs identify the classic warning signs or red flags of fraud, including how devious people act. In short, these pros think auditors need to be more skeptical. Considering the multibillion-dollar financial frauds that have recently plagued corporate America, their opinions constitute sound advice.

All agree that growing demand for antifraud experts justifies the time and effort required to join the field. Says Golden: "I feel I am doing something really worthwhile that goes beyond the financial successes I have gained for my family and me. I'm catching the bad guys—and I love it!" ■

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