

Forensic Accounting: What Would Columbo Say?

Columbo was a Los Angeles police detective in a TV series from 1971 to 1978. The lieutenant detective was played by Peter Falk who, with his rumpled raincoat, tousled hair, and sputtering Peugeot car, solved murders by observation, inquiry, and taking notes on his pocket pad.

A little past the halfway point of each episode, Columbo would start flipping pages in his notepad, comparing current room layouts, weather patterns, interviews, etc. The second half rose to a crescendo as Columbo synthesized the facts, saw the pattern from the data and interviews, and ultimately captured the wrongdoer and solved the case.

For those of us who work with and/or rely on forensic accountants, I wonder how Columbo would rate their investigative techniques. He predates our current fascination with CSI and forensic evidence. Yet his principles were the same.

Whether it is solving murders, jewelry thefts, or white collar crime – SEC investigations and cooked books all follow the same investigation principles of observation, awareness, patience, and correlation analysis to discover what fits and what doesn't.



My father, a former Navy Captain in charge of counter intelligence, and Columbo are my idols. They lived at a time when computers were virtually unknown. Yet they understood the importance of interviews, surveillance, data collection, and analysis. Each of these men had strong personalities, minds

that were intuitive, and the patience to develop a case.

What would Columbo say of our new fads? Or of our forensic accountants who are text book trained and tested, and who possess a numerous amount of certifications after their name? Is it one's ability to pass a test that certifies one as a forensic accountant or is it experience, mentoring by an experienced investigator, and time on the street?

Despite being a CPA and holding many important certifications, I keep using one word over and over again, i.e., *investigator* rather than forensic accountant. I have found in practice that the art of investigation is the primary skill that those practicing forensic accounting must possess.

These skills are principally taught by law enforcement and the military as they develop and train their people.

When you look at the techniques applied, such as field work, surveillance, and interviewing, you realize the common denominator is that they take place at the location where the defalcation occurred or where the books were cooked.

Besides solving the puzzle it also gives a tremendous advantage to the forensic investigator when testifying. Who sounds more plausible answering the question under cross examination about unreported cash – the test taker or the investigator?

The Test Taker:

“I compared the gross profit on the financial statements to the industry gross profit and saw XYZ Inc. was 2% points below industry. I then applied 2% to the imputed sales and estimate that the unreported sales are \$125,000 per year.”

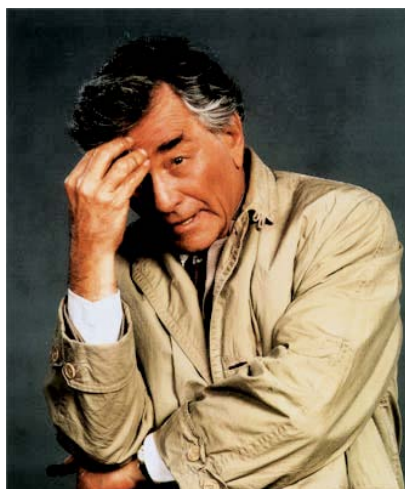
The Investigative Accountant:

“Based on my financial statement analysis and allegations, I ascertained that the gross profit and cash flow to the owner were low.

“The company’s website said that text books could be purchased at the company’s location at 999 ABC Highway, Somewhere, New Jersey. On February 14, 2007, March 17, 2007 and April 1, 2007 I posed as a student and made three purchases. In making the purchases, I observed the entire process and was told only cash payments were accepted. These are copies of the receipts for the purchases.

“On July 8, 2007, I examined the bank deposit tickets for 2005, 2006 and January to May 30, 2007. There were no cash deposits for any of the weeks in which I made purchases and there were no cash deposits in any year.

“My examination of the inventory records showed deletions for the text books I purchased. These were coded ‘G’. I totaled the G items and found the G items for 2005 were \$236,000 and for 2006 were \$240,000. For the five months of 2007 they were \$102,000. I estimate the unreported income to be about \$240,000 per year.”



Who’s more plausible? What would a judge say? What would Columbo say? Why do I like Peter Falk? Having one eye (lost at age 3), he accomplished a Certified Public Accountant designation and has a degree in Political Science from the New School For Social Research.

About the author: Martin P. Randisi is one of New York’s senior investigative accountants. He was trained by his father, an attorney and Naval Intelligence Officer. Mr. Randisi developed the present Litigation and Valuation Practice of the firm and created its Business Fraud and Investigative Group with former law enforcement personnel. Martin recently returned to the fun of field work and “action on the street” as he calls it, having left the department’s administration to his partners.