

Forensic Accountants Society of North America

FASNA FORUM

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FASNA Welcomes Newest Member, Baldwin & Associates, PLLC

We are pleased to introduce Baldwin & Associates, PLLC as the newest member of the FASNA network of accounting firms. Baldwin & Associates, PLLC, located in Richmond, Ky., can trace its roots back to 1947. The firm serves the Central Kentucky area and offers services to small and medium-sized businesses, their owners and Not-For-Profit/Governmental entities.

The firm's services include: Forensic and Litigation Services, Business Valuation, Audits, Reviews, Compilations, Peer Review, Tax Planning & Preparation, Bookkeeping, Payroll, Online Services and Employee Benefit Plan Audits. Baldwin & Associates also has large concentrations of work in construction groups, nursing homes, governmental and non-profit entities.

Billy Upchurch, CPA/ABV, CVA is one of four partners in the firm. He has completed the stringent training requirements to be a FASNA member and possesses the knowledge and skills required to service the insurance industry. Billy is accredited in Business Valuation (ABV) by the American

Institute of Certified Public Accountants and is a Certified Valuation Analyst (CVA). He has provided tax, accounting and auditing services to businesses for over 30 years and his experience includes servicing clients in banking, construction, manufacturing and not-for-profit industries.

Billy received his accounting degree from Eastern Kentucky University in 1977 and was certified in 1979. He has been interested in the forensic accounting area for many years and was delighted when his partners agreed to make a commitment of time and resources to join FASNA.

Building on core values including integrity, honesty, growth and innovation, Baldwin & Associates is dedicated to strategies that enhance the well-being and success of their people and the clients they serve. Billy Upchurch, along with his partners and colleagues at Baldwin & Associates are available to assist your needs in a wide variety of services. Additional information about Billy and the firm can be found by visiting the firm's Web site at www.baldwincpas.com.



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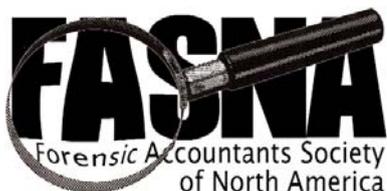
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CASEWORK EXPERIENCE

FASNA member casework includes, but is not limited to, cases involving:

- Inventory/property loss
- Employee dishonesty
- Business income loss
- Personal injury or wrongful death claims
- Truth in lending/truth in leasing
- Post judgement matters/calculations
- Loss of income/earnings
- Divorce and fidelity claims
- Business valuation
- Expert testimony
- Fraud

INDUSTRY EXPERIENCE

FASNA member experience includes, but is not limited to cases involving:

- Auto dealerships and transportation
- Colleges and universities
- Construction, contracting, and engineering
- Financial/money management, trust, and estate
- Healthcare
- State and Indian tribal government
- Insurance claims
- Manufacturing
- Real estate
- Restaurant and hotel industries
- Retailing/wholesale

Calculating Property Loss

by Roger Nearmyer, Cremers, Holtzbauer & Nearmyer, CPA, FASNA Member

Large companies often have systems and staff in place to assist in loss valuation when necessary. In smaller organizations, outside forensic accounting resources are useful in finding answers.

The starting point for an inventory property loss valuation is usually a review of inventory management processes, according to Roger Nearmyer. “We want to evaluate the level of sophistication of the inventory system being used. Can it tell us what inventory was on hand on the date of the accident so that we can easily determine what was lost? If not, we begin with a physical inventory, which may be handled by an inventory specialist company. In cases where the perishable items still on hand will not be usable for long, we’ll ask for a count of what is being discarded.”

The job is more difficult when there is nothing left. “We can’t count inventory that was destroyed by fire, of course, so we use forensic accounting to recreate the quantities from accounting records,” says Nearmyer. The task is to look at all the purchases and sales since the last physical count, and work forward to the inventory quantities that should have been on hand on the day of the loss. Merchandise that has been rendered no longer salable may be included even though it is actually still on hand.

That is not to say that simple inventory valuation is always a clear-cut matter, according to Nearmyer. The value of stale merchandise may not longer be equal to the original purchase price, particularly if items have been on hand for a period of time. Questions of fraud sometimes arise if claimants request replacement cost coverage for obsolete inventory, and insurers may reasonably ask for proof that the merchandise will actually be replaced. Otherwise, depending on policy coverages, the insurer will reimburse for actual cash value, usually the lower of cost or fair value.

When is it important to call in outside forensic expertise? When inventory is smoke - or water-damaged but not destroyed by fire, the insurer or salvage company can probably come up with accurate counts upon which to base a property loss valuation. But if an inventory value must be calculated by accounting methods rather than a physical count, it’s wise to seek professional help.

How is a property loss typically determined? In the example of a fire at a large poultry farm, owners suffered the loss of buildings, equipment and grain

elevators. The adjuster begins by obtaining photographs of the loss. Then, price quotes in the amount of approximately \$600,000 are secured for rebuilding the building and replacing the machinery. The adjuster's settlement offer is contingent upon the owners' decision to rebuild, as reimbursements for rebuilding are based on replacement value. Otherwise insureds will receive the actual cash value of the loss.

Nearmyer notes that, in this case, a business income loss valuation was also involved. The fire destroyed equipment owners used to grind feed for their poultry farm, as well as to resell, causing income loss along with the property loss; Nearmyer and other staff members assisted the insurer in determining the effect of the loss on net income and continuing expenses. (For more information about business income loss valuation, call Cremers, Holtzbauer & Nearmyer for a copy of the previous issue of Values.)



Why Call a Forensic Accountant?

Nearmyer says forensic accountants provide meaningful assistance to the insured's accountant or insurers in loss determination. "As outside professionals, we are not likely to get caught up in the emotion of the loss. It's our job to understand the business and the loss to determine whether or not payment is due under terms of the policy in force. Our role to be empathetic and provide professional assistance can be very helpful in stressful circumstances," he explains.

Forensic accountants apply accepted accounting principles from a fresh and objective point of view. Matching revenue with costs of revenues, proper expense reporting, and evaluation of ongoing accounting practices in the business operation assure that loss determinations are appropriate and consistent with coverage limits. "Sometimes we see situations in which owners have shifted expenses to a business income loss category when the property loss claims have reached the coverage maximum. We are going to be conversant on the coverages so that we can catch mistakes," says Nearmyer, who adds that such errors are more often a misunderstanding of coverage rather than an attempt to deceive.

For example: An adjuster may reimburse claimants under their property coverages for use of internal labor to aid in cleanup after an accident. If this occurs, the payroll cost must be excluded from reimbursement under business income coverage of continuing payroll.

Mistakes to Avoid in Property Loss Determination

Proper accounting treatment of damaged or destroyed inventory is a basic but avoidable error. The key is to match inventory losses with reimbursements received effectively removing the inventory from the books. Adding the lost inventory to operating expenses results in "double-dipping," which is not an acceptable accounting practice.

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