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# Dangerous Details That May Slither Around a Claim Unnoticed

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Stick with me on this one, I promise it has a point. Just a few years ago, German wildlife researchers discovered a new species of snake in the jungles of Borneo. Of course, it was poisonous, but that's not what really made this species different. When they picked up the snake, it was reddish brown. A few minutes later, the snake was white – matching its new, temporary habitat in the white research bucket they dropped it into. If a two-foot-long poisonous chameleon snake doesn't give you bad dreams, I don't know what will.

**So what's the point?**

The point is, things aren't always as they seem – and even if you know where to look and what to look for, you can still miss details that can come back and bite you if you're not careful. It's no different when you're dealing with things like insurance claims, fraud investigations or other legal/financial arrangements. Sometimes the important details are hidden by accident. But the tricky part is, sometimes the details are hidden intentionally. In either case, there are times when it is best to be trudging through the jungle with a forensic accountant as your guide. Some typical examples:

**Corporate Fraud**

Some studies estimate that more than 80% of companies are victims of some sort of fraud resulting from employee dishonesty. As expected, that goes up when the economy is poor (like today). From my experience, that number seems high, and I don't know if they are including the occasional employee who raids the company supply closet to restock their home office

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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

supplies. But the fact is, employee dishonesty can often be difficult to uncover because the employees involved intentionally attempt to make their dishonesty blend into the financial background.

Sometimes these activities can go uncovered for years. How does this happen? Usually a lack of good, basic checks and balances. And usually it's the result of higher-level employees – CEO, CFO, Controller, bookkeeper, etc. These are people who likely have access to financial records and the company checkbook or bank accounts. In many cases, it takes the experience of a forensic accountant to unravel the details enough to discover where and how the dishonesty is taking place.

**More often than not, it's top-level people within a company who are the cause of employee dishonesty – which some estimates show can be found in more than 80% of companies.**

### Loss of Income Claims

Here's a bold statement. I believe that any claim that involves loss of business income is a claim that should be reviewed by a forensic accountant. I can't tell you the number of times when we've seen an insurance claim that seemed to be fairly straightforward evolve into something much different upon further review. Too often, insurance companies misevaluate these claims and, in many cases, pay out more than they should because they didn't account for something correctly. I've been involved in cases where a seemingly straightforward $20,000 claim turned into a $2,000 claim after we had a chance to review some of the factors that weren't considered.

**Often overlooked factors that should always be considered in loss of business income claims include inventory, employee compensation, seasonality, sales history and the current economic environment.**

So what factors can affect a Loss of Income claim? Variations in sales. Seasonality. Economic factors. Inventory treatment. How their workers are categorized and compensated. The list goes on. Often, these are factors that can help determine the actual economic loss, but they are hidden factors that are often missed or just not understood.

### Inventory Calculations

We mentioned inventory earlier as it relates to loss of income, however, inventory can be tricky, and is often the source of discrepancy between an insurer and an insured. The most common unrealistic expectation? Insured's expecting the calculation of inventory at the sales price rather than the purchase cost. You have dealt with that and been successful in explaining why that is not appropriate.

But what about other forms of hidden actual cost of inventory? Variations in sales can be equal to volume purchase discounts. Seasonality in an industry can result in large purchases before the season starts with higher cost replacement inventory later as the season progresses. How can this be hidden? Today's point of sale systems, particularly those in "name" retailers, are automatically updated with manufacture suggested retail prices and current single item purchases.

My experience is that the inventory list is at the single item cost as opposed to the most recent bulk purchase price. You often see sales at suggested retail price, less 25% in ads. Every retailer is willing to show the customer their computer that is tied to the manufacturer because most sales are not at that price and most purchases are not at the single item cost.

In the end, without digging into the "hidden" activity of the inventory purchase cycle, you may not pay retail, but you may reimburse as much as 40% more than what the inventory actually cost.

Often, working with many, many claims can lull you into a false sense of thinking that every case looks like the next. We've found very few times when a claim doesn't have factors that make it different from others. Who knows how many people walked through the jungles of Borneo and never noticed the poisonous snake that matched the surroundings. But just like the details that go into any type of claim or investigation forensic accountants work on, the most dangerous thing is being bitten by something you never saw.

**One of the more common mistakes in calculating inventory loss is when inventory is valued at retail prices rather than the cost incurred by the insured to purchase the inventory.**

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