FOREWORD

Accounting fraud is everywhere.

According to the *2008 Report to the Nation on Occupational Fraud & Abuse*, prepared by the Association of Certified Fraud Examiners, organizations in the United States lose 7 percent of their annual revenues to fraud. Applied to the projected 2008 United States gross domestic product, this 7 percent figure translates to approximately $994 billion in fraud losses annually.

As a Certified Public Accountant and Certified Fraud Examiner specializing in financial litigation, I encounter fraud on a daily basis. I got into the fraud investigation business 23 years ago when I was asked to help the receiver appointed by the Securities & Exchange Commission figure out how to return what was left of $70 million stolen from 5,000 investors, mostly elderly, retired couples. The fraudsters operated a "Ponzi" scheme using the facade of a bank. Typical of Ponzi schemes, investors were offered substantial returns from fictional investments, in this case phony commodities arbitrage trading and gold mines. In fact, investors were paid “profits” using money collected from new participants, since there were no profits from actual investments. In this case the duped investors fared far better than most victims of such scams: on average we were able to return 30 cents for every dollar the victim invested.

Of course, most frauds do not involve millions of dollars. Small businesses are especially vulnerable to accounting fraud. I have lost track of the number of times I have heard the defrauded small business owner say, “I can’t believe (s)he stole the money. (S)he worked for me as my (bookkeeper, office manager, secretary, assistant, controller, …) for (5, 10, 15, 20, …) years. I trusted him (her) completely.”

Who commits accounting fraud? How much do they steal? How do they do it? How are they caught? Here are some fascinating statistics:

- The median loss caused by a financial statement fraud[*] is $2,000,000.
- The median loss caused by an occupational fraud[†] is $175,000.
- Occupational fraud is most often committed by the accounting department (29%) or upper management (18%).
- The most common occupational fraud scheme in small businesses is the submission of invoices for phony goods or services or for personal expenses (29%).
- Nearly all perpetrators are first-time offenders (93%).
- Most frauds are detected by tip (42%) or by accident (30%).
- The typical fraud lasts two years from inception to detection.

What can an employee, business owner or investor do to prevent or uncover accounting fraud? It can be hard to find out; most books about fraud are written by experts for experts. In *The Complete Guide to Spotting Accounting Fraud & Cover-Ups*, Katherine Nussberger, not a

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[*] Financial statement fraud involves the intentional misstatement or omission of material information from an organization’s financial reports.

[†] Occupational fraud involves the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.

forensic accountant but a journalist and writer, provides simple and clear explanations of important accounting fraud issues using terms easily understood by the novice. She also supplies numerous case studies, data sources, and results of surveys valuable to the professional fraud investigator.

Directed primarily at the layperson, this book provides a comprehensive overview of accounting fraud both in large corporations and in small businesses. You will learn who perpetrates accounting frauds, the different types of frauds committed, and how these frauds are accomplished. You also will learn basic steps you can take to detect fraud after it has occurred (for example, simply noticing that an employee previously in financial difficulty now appears to be living beyond his or her means) and to avoid fraud in the first place (for example, requiring that the person who signs the checks not be the person who reconciles the bank statements).

One of the most important messages of *The Complete Guide to Spotting Accounting Fraud & Cover-Ups* is that, while accounting fraud is rampant, armed with the knowledge found in this book you can protect yourself and your investments against fraud and maximize your chances of success in the dangerous world of business.

Thomas Neches, CPA, CFE
Managing Partner
Thomas Neches & Company LLP
609 South Grand Avenue, Suite 1106
Los Angeles, California 90017-3848
E-mail: tmn@thomasneches.com
Web site: www.thomasneches.com
Telephone: 213-624-8150
Facsimile: 213-624-8152
Mobile: 213-448-7750

About Thomas Neches:
Thomas Neches, managing partner of Thomas Neches & Company LLP, provides accounting, financial, business valuation and statistical analyses to assist attorneys involved in litigation. Mr. Neches has testified as an expert in state and federal courts in Arizona, California, Florida, Missouri, Nevada, New York and Oregon. He is a Certified Public Accountant, Accredited in Business Valuation, a Certified Valuation Analyst and a Certified Fraud Examiner. He received his BA in Mathematics from UC San Diego and his MS in Operations Research from UCLA.

Mr. Neches has testified to juries on behalf of both plaintiffs and defendants in antitrust, breach of contract, fraud, intellectual property, lender liability, personal injury and wrongful termination cases. Examples of the litigation issues he has addressed include lost profits, lost business value, determining a reasonable royalty and piercing the corporate veil. Representative industries include banking, entertainment, insurance, manufacturing, retail, securities and wholesale. Mr. Neches specializes in applying computer database and statistical techniques to assemble and analyze voluminous and complex data.

Mr. Neches has more than thirty years of professional experience. During the past twenty-three years he has provided litigation services exclusively. Prior to forming Thomas Neches & Company in 2000, he was Senior Partner of Simpson & Company, a firm of certified public accountants specializing in litigation services. Previously, he was a partner at Coopers & Lybrand (now known as PricewaterhouseCoopers) in its litigation services practice in Los Angeles. Prior to joining Coopers & Lybrand he was a manager in the management consulting group of Arthur Young & Company (now known as Ernst & Young), where he specialized in operations improvement, systems analysis and litigation consulting. Before that he was head of the technical staff at The Assessment Group, a consulting firm which conducted economic and cost analysis for the U.S. Navy. Mr. Neches has acted as a Judicial Arbitrator of the Superior Court of the State of California for the County of Los Angeles.

Mr. Neches is an Adjunct Professor at Loyola Law School. He has been an instructor in numerous regional and local courses on litigation services. Among other publications he has authored, Mr. Neches is the co-author of "Use of Expert Witnesses" in *Prosecuting and Defending Insurance Claims* (John Wiley & Sons, 1989).

Mr. Neches is a member of the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, the National Association of Certified Valuation Analysts, the Association of Certified Fraud Examiners, the American Statistical Association and the American Bar Association.