

A Case Study of the Role of the Forensic Accountant in a Legal Dispute

Thomas A. Buckhoff and Mark H. Taylor

Georgia Southern University, Statesboro, GA USA
 Creighton University, Omaha, NE USA

With increasing frequency, forensic accountants are called upon to play important roles in resolving legal disputes ranging from civil actions such as breaches of fiduciary duty to Racketeer Influenced Corrupt Organizations (RICO) Act criminal violations involving gambling, arson for profit, extortion, securities fraud, and mail fraud. In any litigation, the forensic accountant's role is to examine the financial issues relevant to the case, summarize and explain those issues to interested parties (e.g. the judge, attorneys and plaintiffs/defendants), and offer expert testimony in court, if necessary. Ultimately, the opinions of the forensic accountant must be presented in a written report that will be reviewed by the opposing parties in the dispute as well as by the judge likely to hear the case. Thus, the report supplies the basis for pre-trial settlement negotiations and in-court testimony if the case does not settle. The report's strength (or lack thereof) also influences the opposition in deciding whether to settle out of court or to 'fight' the matter in court. Consequently, the forensic accountant's report is vital to the successful resolution of a legal dispute. The purpose of this paper is to illustrate the importance and significance of the forensic accountant's report using an actual report that prompted the successful settlement of a \$1.7 million lawsuit. The paper also suggests an overall organization to such a report. Together, these illustrations will provide academics with access to an actual forensic accountant's report for purposes of instructing students in the development and use of such reports, as well as a basis for preparing such reports as opportunities to participate in similar cases arise. Suggestions for using the case as an instructional tool are provided in an appendix.

INTRODUCTION

Recent accounting frauds such as those involving Arthur Andersen, Dynegy, Enron, Global Crossing, K-Mart, Merck, Qwest, Tyco, WorldCom, and Xerox and numerous others have wiped out tens of billions of dollars in shareholder value and has placed forensic accounting and forensic accountants in the spotlight more than ever before. A feature story from *U.S. News & World Report* described forensic accountants as "the bloodhounds of book-