



values

Values is an informational newsletter for attorneys who assist clients in answering valuation questions and claims adjusters who work to pay the proper amount of a claim.



Liars Figure and Figures Lie

Believe it or not, statistics show that there is a direct correlation between a grade school student's height and their score on a given spelling test. To put it bluntly, taller students are simply better spellers than shorter students. Oh sure, there are exceptions. But on the average, taller students score better. Case closed.

In 1954, Darrell Huff wrote a book called "How to Lie with Statistics". He talked about all kinds of ways numbers can be used to deceive. In it, he says "numbers, when tortured, will confess to anything."

Even in the example above, if you don't consider the fact that sixth graders tend to be taller than first graders, you might come away thinking short people are not as smart as their taller cohorts.

Numbers and statistics are used to slant stories all the time, and if you're not careful, they can tell a story that is far from the truth. Without a good understanding of how facts can be manipulated – and how to find the information you need to determine the whole story, you run the risk of being manipulated. And that's a problem if you're a lawyer or insurance company, for example, trying to make your case or determine a loss. That's exactly why experts in forensic accounting are being brought in more and more to help sort out the facts in legal cases and insurance claims. A few examples:

The Case of the Double Dipped Cigarettes

A convenience store reported a theft in the facility where it stored its stock of cigarettes, very similar to a theft they reported just a few months earlier. The insurance adjuster investigated and worked with the

store owner to resolve the claim with the insurer. Inventory records showed that the most recent loss was even larger than the first, prompting the insurance company to hire a forensic accountant to investigate further.

Based on the store's inventory and sales reports, the documentation seemed to support the loss.

However, further investigation uncovered the fact that it would not even be possible for the storage area where the theft occurred to contain the number of cigarette cases claimed in the loss.

Further investigation determined that the records showed that stolen inventory from the first claim was never removed from inventory reports. The result was an inaccurate claim that could have doubled the payment for the theft loss. Honest bookkeeping mistake? Maybe. But had the forensic accountant not thoroughly investigated the loss, the insurance company may have ended up paying significantly more than they should have.

The Hard Luck Slum Lord

An older lady caused a car accident leaving a shopping mall parking lot. Insurance info was exchanged with the man she hit and a police report was filed. The lady's insurance company was surprised when the

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An experienced forensic accountant is trained to see through misleading facts and figures. Sometimes this requires searching for or investigating information that wasn't readily provided or available.

It's important to consider a number of different angles when investigating a loss - including outside economic forces, accuracy of data provided and possible motives of the claimant.

man filed a larger claim than expected. His claim included a loss of business income – because he claimed he was no longer able to sell or rent his many properties due to injuries resulting from the accident.

The insurance company's initial request for documentation included his Schedule C – but he only provided partial tax returns. Suspicious, the insurance company looked to forensic accounting to investigate the claim.

The suspicions were warranted. Despite the fact that the man claimed his injuries prevented him from showing his various housing units to prospects, he had been able to travel around the country in his motor home after the accident. Further investigation also showed that he had also recently reached the age that he could start receiving social security benefits. Not shockingly, after reviewing copies of the man's and his much younger wife's tax returns, his income decreased significantly while his wife's Schedule C showed much higher commissions on sales of properties he owned.

After gathering ALL of the facts, the insurance company determined that they were not going to pay the insured for loss of business income that he claimed. After weighing his options, the man agreed the insurance company's calculations were correct.

The Cooperative Farm Co-ops

A grain elevator used to store corn and soybeans collapsed before fall harvest. The owners filed an insurance claim to cover the damages – and loss of business. They stated that since farmers would not be able to deliver their harvest, they would lose out a season of storing and marketing grain.

The detailed recordkeeping required of the co-op made it easy for them to estimate the value of their lost business based on historical records.

However, these estimated costs didn't take into account a number of factors that greatly affected the claim.

First, they estimated their loss based on historical volume and prices. However, good forensic accounting work determined that volume can change significantly from year-to-year based on crop yield. A more accurate estimation of yield and volume was conducted based on USDA figures for the area.

The co-op also estimated that since the price of corn and beans was almost double what it was the year before, their profit per bushel would have been double as well. However, research showed that co-ops dealing with these commodities typically maintain the same margin no matter what the price.

Finally, a little more forensic accounting work uncovered the fact that, while the co-op was not able to store grain at the damaged facility, much of the grain in the area was being re-routed to other storage facilities that the co-op owned. Because they were able to do this, the insurance company wasn't liable for all of the loss of business costs. They were only liable for the additional shipping costs to deliver the grain to the other facilities, plus the cost of what could not physically be stored at the other facilities.

The result of good forensic accounting? An adjusted claim much lower than what was originally calculated.

All three of these situations are good examples of why it's important to make sure you find and analyze all of the information available in a claim. Sometimes, like in the case of USDA figures from the example above, using information that may not seem obvious can have a big impact on calculating the actual loss in a claim.

*A good forensic accountant has the experience and training to dig until they find information they need to determine actual economic loss ...
Especially a taller one.*

Can We Help You?

Dale Cremers, Bob Holtzbauer and Roger Nearmyer have experience to help you address questions about forensic accounting. Please call for more information at 515-274-4804 or e-mail us at info@chncpa.com.

