

Uncovering The Truth

Understanding the role of forensic accounting in divorce

By **JOHN M. DELGREGO** and
JOSEPH A. DECUSATI

Marital dissolution can present a complex maze of financial issues. Each party is required to disclose their income and assets; however, such reporting is not always clear cut. There can be a clear economic benefit for the "earning" spouse to minimize his or her reported income and assets. A forensic accountant with a specific background in marital dissolutions can assist in sorting through complex family finances.

The following is an overview of five common areas in which a forensic analysis may be necessary in a divorce proceeding.

Valuation Of Closely Held Business

A key component in the valuation of a closely held business is the determination of the company's true earnings. Unfortunately, the earnings as reported on the company's tax returns and financial statements do not always reflect the true operating performance of the business. Many business owners operate their companies based on their own personal needs and not necessarily the needs of hypothetical investors or employees.

As a result, a significant amount of discretionary expenses may make their way into the company checkbook. These discretionary expenses can be as simple as personal travel, meals, and gasoline or as extreme as exotic race cars, wine collections, and artwork. Identification of the personal and discretionary ex-

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penses in a closely held business is critical in determining the company's true value, as this value may be included in the couple's marital estate. Just as important, these expenses are also considered in determining a business owner's income available for support.

Post-Judgment Modification

In recent months, we have seen a meaningful increase in the number of modification engagements in the post-judgment setting. The recent economic crisis has much to blame for this trend. When presented with a motion for modification, the court will first make a determination as to whether there has been a substantial change in the finan-

cial circumstances of one or both of the parties. In making this determination, the court is limited to considering only conditions arising subsequent to the date of divorce.

Imagine that, for example, in post-judgment, the "earning" spouse decides to claim that his or her income has materially diminished. The "non-earning" spouse could test the validity of this claim through a qualified forensic analysis. Such analyses may reveal that income is being deferred or the cash flow stream is manipulated to the benefit of the "earning" spouse. As a result, the "non-earning" spouse may be able to avoid modification to the original court-ordered alimony and child support awards.

Spending And Lifestyle Analysis

The standard of living enjoyed during a marriage is an important determinant in alimony and child support. However, making that determination can often be quite difficult. In many marital dissolution cases, there are allegations of unreported income, overstated expenses, or unreported assets. A spending and lifestyle analysis can help identify a couple's true income and earnings, determine a couple's ordinary and necessary living expenses, and provide a detailed snapshot of a couple's marital estate.

A typical spending and lifestyle analysis includes examination of personal and business income tax returns, bank statements, canceled checks, brokerage accounts, credit card statements, and ATM activity. Such an expense analysis may uncover previously unknown spending habits, including drugs, gambling, or extramarital affairs. The analysis may reveal the existence of unreported assets through the acquisition of expensive art, jewelry, or other fine collectibles. Evidence of underreported income may also be uncovered by such an analysis, as it can illustrate that the lifestyle costs of the couple exceed their reported earnings.

A thorough and well-prepared spending and lifestyle analysis provides the court with an accurate picture of a couple's prior and current financial situation, and is an invaluable tool for determining alimony and support.

Search For Hidden Assets

In a divorce, assets are divided equitably.

However, the court's opinion of an equitable division may not be viewed as equitable by one or both of the parties in the divorce. As such, it is no surprise that assets are often hidden in marital dissolutions. A conspicuous lifestyle and abundance of material goods may indicate hidden assets or income. The techniques used in the spending and lifestyle analysis may also reveal whether an individual is hiding certain marital assets. Here are some of the ways that one spouse can try to conceal assets in an attempt to cheat the other spouse out of an equitable settlement.

1. Keeping cash or traveler's checks in safe deposit boxes.
2. Furnishing a business with expensive antiques and paintings.
3. Setting up a custodial account in the name of a child, using the child's Social Security number.
4. Conspiring with an employer to delay bonuses, stock options, or raises until the divorce becomes final.
5. Repaying a phony debt to a friend or family member.
6. Investing in tax-free securities which may not appear on a couple's individual income tax return.
7. Transferring assets to friends or family.

To ensure an equitable distribution in a marital dissolution, it is critical to have a complete inventory of marital assets. If there is an indication that one party may be concealing assets, a forensic accountant will follow the paper trail to find the assets.

Electronic Discovery

Electronic discovery can play a critical role in today's marital dissolutions. With the increased use of computers, evidence relating to business and personal relationships can make a dramatic difference in a divorce. Examples of such evidence can come in the form of hidden or deleted bank records, spreadsheets, personal letters, emails, and all internet activity.

Such electronic evidence can often be discovered in various locations on a computer. Files can remain on a computer's hard drive even after they have been deleted. Similarly, when a file is saved, the previous version of the file is not permanently overwritten. A new version of the file is created, while the old version could remain on the hard drive for an indefinite amount of time. Gathering electronic evidence can be an extremely effective method of discovering a spouse's financial deceit or non-disclosure.

Conclusion

Forensic analysis can play a critical role in a marital dissolution. High stakes battles over marriage settlements make each attorney's strategy the key to an optimum outcome. By determining the true value of a business, discovering income manipulation, or uncovering unreported income and assets, a careful forensic analysis can result in a more equitable distribution of marital assets in a divorce. ■

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Wall Street Crisis Highlights Benefits Of Forensic Accountants

More litigators leaning on specialists to uncover fraud and mismanagement

By **ARI J. HOFFMAN**

Any downturn in the financial markets generally leads to an increase in business fraud and securities litigation.

The current crisis on Wall Street is proving no different. Now more than ever, securities and commercial litigators are relying on forensic accountants to uncover possible fraud or other alleged money mismanagement. In the post-Madoff world, lawyers more fully appreciate that financial schemes are frequently neither straightforward nor at all transparent. In many of our securities and commercial litigation matters, we use forensic accountants at every stage of the case, from preliminary case evaluation through the trial or arbitration hearing.

In nearly all customer-broker securities cases, we begin our evaluation process by having a forensic accountant review all relevant financial documents, including brokerage account statements. In many cases, a forensic accountant performs a profit and loss analysis, which examines the money transfers and withdrawals in the account and the customer's return on investment. In other situations, a commission and turnover analysis is also performed. We rely on the forensic accountant to calculate and quantify alleged losses. Having a forensic accountant analysis generally eliminates disputes concerning damages issues, allowing us to concentrate more fully on proving or disproving liability.

In many of our commercial litigation cases, we also use a forensic accountant to determine whether there was in fact fraud, by reviewing complicated and often voluminous financial documents probing for financial discrepancies and other "red-flags."

A forensic accountant assists us with proving and disproving securities' claims, which are often rooted in alleged over-concentration of certain securities, or alleged excessive trading for commissions, otherwise known as "churning." In a recent example, a client believed he had paid unreasonable amounts of commissions based upon the relatively short account life-span. The forensic accountant identified the damages and reinforced our theory of fraud liability based on churning. As a result, the conversation changed from proving the extent of the damages to a discussion about liability. We were able to focus on the elements of churning (control, misrepresentation, and excessive trading), and proceeded to confront the broker-dealer's counsel with a thorough and accurate analysis, which immediately settled the case.

A forensic accountant also assists us in those cases where there are certain discrepancies in a brokerage or other financial account, where there is alleged embezzlement, Ponzi schemes, or other improprieties. By

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reviewing a forensic accountant's analysis, which frequently pares down thousands of pages of complicated financial data to pointed and succinct summary documents, the alleged fraud or mismanagement is either uncovered or debunked. The analysis enables us to more proficiently and more cost-effectively develop and prove our case.

At the trial or arbitration hearing, we also rely upon forensic accountants to testify as expert witnesses to explain clearly and succinctly the mechanics of the financial fraud.

They often employ computer technology to illustrate their analysis and conclusions. Since they may be the ones a judge, jury or arbitrator most relies upon in arriving at a decision, their command of the facts, and their expertise and presentation, are vital to the case. At times, we also use forensic accountants and their analyses in mediations to help us achieve a favorable pre-trial resolution.

The current economic slump creates fertile ground for financial scheming and embezzlement. Many more frauds will likely be discovered as the downturn continues. In complicated financial cases, it is essential for any lawyer to partner with a qualified forensic accountant, who has the skills and technology to mine voluminous data to locate financial improprieties or discredit alleged fraud. Without the forensic analysis, our fraud theories are only theories. The forensic accountant's work is to fill in the blanks so that we can persuasively present the complete case. We have used this partnership, in representing both plaintiffs and defendants, to great success. ■

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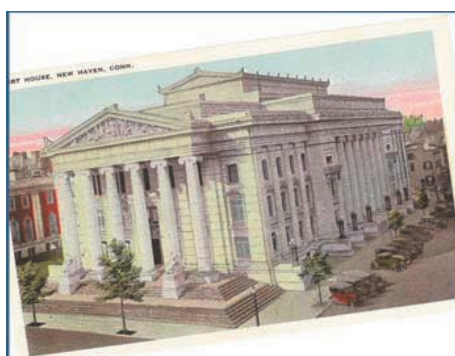
By **STEPHEN PEDNEAULT**

The number of embezzlements within Connecticut law firms in just the last two years has been staggering, as has been the amount of funds involved. Taking into account the current declining state of the economy, it is safe to say there are employees stealing as you read this article. The questions are how do you identify who is stealing, how long they have been stealing, how much they have taken, and whether client related funds or the firm's IOLTA accounts are involved in the scheme.

ORCHESTRATING A TURNAROUND

By **CARLTON E. HELMING**

In traditional turnaround or corporate renewal assignments, our firm's role is to present experienced predictable answers to management's fear of the unknown, focus attention on their intellectual challenges and provide time-tested experienced solutions to identify and solve external or internal business difficulties. Our extensive experiences in turnaround assignments suggest I revisit the principles common to every turnaround and share those tenets common to achieving successful business turnarounds and applied to avoid business failures.



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Taming The Parrot

Third-party opinions in lost future profit cases present challenges for defense

By JAMES E. NEALON,
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When a new business or venture fails due to the actions of another party, the injured plaintiff often seeks damages in the form of lost future profits. In *Beverly Hills Concepts Inc. v. Schatz and Schatz, Ribicoff and Kotkin*, 247 Conn. 48, 69-70 (1998), the Connecticut Supreme Court considered but expressly declined to endorse a heightened standard of proof for lost future profit claims brought by new businesses. The court approved a more flexible test permitting unestablished businesses to recover lost future profits, so long as plaintiff presents sufficient evidence to estimate the amount of such damages with “reasonable certainty.” *Beverly Hills* and subsequent Connecticut appellate cases allow such awards to be based on “assumptions” so long as they are reasonable in light of the record evidence. *Message Center Mgmt, Inc. v. Shell Oil Prod. Co.*, 85 Conn. App. 401, 421 (Conn. App. 2004).

To demonstrate reasonable certainty, plaintiff’s counsel will often call upon a business valuation or damages expert (normally an economist or accountant) to project the unestablished business’s lost future profits. In creating this projection, the damages expert will typically tie together business assumptions from a myriad of sources, some more reliable than others. The validity and persuasiveness of the expert’s opinion on lost future profits depends on the quality of the business

assumptions applied and the expert’s ability to accurately synthesize data into a cohesive and reasonable damages calculation.

Under *Beverly Hills*, a trial court has broad discretion to admit a business valuation expert’s testimony concerning lost future profits, even if the expert lacks specific knowledge as to the particular type of business or industry at issue. Any objections to the expert’s knowledge of the business or industry generally go to the weight of the testimony, not its admissibility. 247 Conn. at 62-63. In addition, Rule 7-4(b) of the *Connecticut Code of Evidence* expressly permits an expert witness to rely upon facts made known to him/her before trial, of which the expert has no first hand knowledge, so long as such facts

are of a type commonly relied upon by similarly situated experts. While such outside facts are not admissible as substantive evidence unless admitted at trial as such, the expert may rely on such facts as part of the basis of his opinion.

No State Authority

The liberality suggested in *Beverly Hills* should be of concern to defense counsel in a lost future profits case because plaintiff’s counsel, relying upon Rule 7-4-4(b), may seek to use the damages expert’s testimony to incorporate facts or business assumptions into his opinion which are outside the scope of the expert’s area of expertise or to launder in speculative assumptions about the potential viability of the

failed business that might otherwise constitute inadmissible hearsay. If such an attempt is successful, defense counsel may find it difficult to cross-examine the damages expert and effectively critique the business assumptions underlying the expert’s opinion. Moreover, if such tactics are not discovered or appreciated until the eve of trial, it may be too late for defense counsel to take any additional fact discovery or to compel the trial testimony of any third-party sources outside subpoena range.

There are no reported cases in Connecticut state courts specifically addressing the application of Rule 7-4 in the context of a lost future profits claim.

There is persuasive authority outside the Connecticut state courts that hearsay exceptions for experts in lost future profits cases should be construed narrowly and that damages experts should not be permitted to testify outside the scope of their expertise. For example, in *Britestarr Homes, Inc. v. Piper Rudnick LLP*, 453 F.Supp.2d 521 (D. Conn. 2006) (applying New York law), the district court refused to admit the report of the plaintiff’s damages expert, a financial economist, finding that it encompassed “testimony regarding subjects beyond her areas of claimed expertise” and that her speculative assumptions “undermine[d] her ultimate conclusions and would not permit a reasonable jury to find that her conclusions [were] reasonably certain.” *Id.* at 534. Among other things, the expert’s report in *Britestarr* included opinions regarding the various permits and construction contracts required to develop a power plant, which the court found were subjects clearly beyond her expertise in “damages, valuation, electricity price forecasting, and knowledge of the electric industry.” *Id.*

Other federal courts have refused to permit damages experts to third-party opinions in the guise of merely presenting financial or statistical analysis. For example, in *T.K.-7 v. Estate of Barbouti*, 993 F.2d 722 (10th Cir. 1993), the court held that under Federal Rule of Evidence 703, a plaintiff’s damages expert could not base his opinion of the failed venture’s sales projections on a market study prepared by others, where the damages expert was not a marketing expert and had simply assumed the validity and reliability of the assumptions underlying the study.

Reducing The Risk

In order to reduce the risk of being ambushed by hearsay evidence incorporated into a damage expert’s opinion pursuant to Rule 7-4-4(b), defense counsel should carefully vet the assumptions contained in plaintiff’s economic damages analysis during the discovery process, and then make a motion *in limine* to preclude any parts of the opinion based on assumptions outside the scope of the expert’s knowledge and/or inadmissible hearsay. Conversely, plaintiff’s counsel should not place undue reliance on Rule 7-4, since it is uncertain how the trial court will apply it to the facts of a lost future profits case. Plaintiff’s counsel should plan to separately admit into evidence any information or documents derived from third-party sources that is of central importance to the lost future profits analysis. Plaintiff’s counsel should also decide in a timely manner whether additional experts should be designated to cover topics outside the damages expert’s area of specialty. ■

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Guarding Against Employee Theft And Embezzlement

Three-step approach to protecting your firm and client funds

By **STEPHEN PEDNEAULT**

Employee fraud and embezzlement have the greatest impact on the partners of law practices, especially smaller firms. Beyond the loss of funds often requiring partners to contribute personally to make client accounts whole, thefts involving client funds often result in the firm answering to the Statewide Grievance Committee.

The number of embezzlements within Connecticut law firms in just the last two years has been staggering, as has been the amount of funds involved. Taking into account the current declining state of the economy, it is safe to say there are employees stealing (or should I say “borrowing”) as I write this article. The questions are how do you identify who is stealing, how long they have been stealing, how much they have taken, and whether client related funds or the firm’s IOLTA accounts are involved in the scheme.

Risk Assessment

A good place to start is to identify all the financial areas within the firm where employees have access to funds, any funds, also known as “opportunity.” Beyond the firm’s operating cycles, which include billing and collections, cash disbursements and payroll, many practices administer client estates and trusts, manage client funds, facilitate real estate closings through cli-

ent fund accounts and act as escrow agents for client matters. Firm employees often perform the bookkeeping and accounting functions, creating opportunities for employee theft in these areas.

No financial areas are free from risk for employee theft. For example, embezzling employees have long determined that client checks made payable to the firm can be diverted and converted for personal use by simply depositing the stolen checks into their personal bank accounts via an ATM machine.

Another scheme that has been surfacing involves funding instructions for real estate closings. With a simple change to funding instructions, the closing proceeds can be forwarded to an employee’s personal bank account. As long as the perpetrator is the same person who reconciles the closing account and a sufficient volume of closings continue, the “float” in the account should cover the theft (for a while).

Employee theft involving client trust accounts is amongst my top three schemes investigated in recent years. Employees responsible for trust activity and maintaining the bookkeeping use client trust funds for personal use. Often there is no segregation of duties and the same individuals conceal their thefts within the accountings and reconciliations they provide.

Similar thefts have surfaced at an increasing rate involving client fund and IOLTA

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accounts. Firms often rely on the same employees to facilitate transactions, record activity and reconcile these accounts. Funds are diverted and concealed by the employee. All too frequently the theft goes undetected and is only identified after a check is returned by the bank for insufficient funds in an account that should never have insufficient funds, triggering an automatic referral to a grievance committee.

What Can You Do?

A three-step approach is recommended for any organization with employees. The three steps form the corners of the fraud risk triangle.

Preventive Controls

Safeguarding measures, also known as

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internal controls, need to be implemented by every firm, regardless of size, within each identified financial area to prevent thefts from occurring. Limiting check-signing to partners, requiring supporting invoices and documentation to accompany every check to be signed, and hand-signing (versus signature stamps) all checks are great controls to implement.

Bank lock box services can ensure all firm payments received are properly deposited every day, providing same-day availability to funds and removing access to client payments from employees. Employees receive and record payments from copies provided by the bank. Bank desktop depositing could also allow partners to receive the mail, complete the daily deposits without leaving their desk, and then provide the payments to employees for posting, ensuring all payments received are properly deposited.

Most payroll systems allow for pre-payroll reports prior to actually processing payroll. An independent review of the pre-payroll report could identify a potential issue prior to processing. The same report could also be compared to the actual payroll reports once received from the payroll provider to ensure no changes were made.

Detection Measures

Proactive preventive controls will not provide adequate protection against many employee fraud schemes. The second line of defense to minimize the firm's loss and exposure involves the firm implementing detection measures for each identified financial risk area. The goal is to detect employee thefts as early as possible.

First and foremost, every bank statement should be mailed directly to a partner, ideally the partner who is the primary check signer on the account. The bank statement

should be received unopened. The partner should review the statement and check images (if received) for reasonableness. This applies to every type of account. Many employee frauds should be identified in the first month using this measure.

The firm's payroll should be handled in a similar fashion – received by a partner from the payroll vendor, reviewed for reasonableness and then forwarded for processing and distribution.

If the firm accepts credit card payments from clients, use the same process again for the monthly merchant statement. Look for credits processed to employee cards, reducing their outstanding balance on their account.

Account reconciliations need to be performed monthly in a complete, accurate and timely fashion for every bank account. Ideally, reconciliations should be performed by someone other than the employee whose primary responsibilities involve the account activity. Completed bank reconciliations need to be reviewed by a partner.

This is especially important for all client funds and IOLTA accounts in light of the random audits being performed by the auditors for the grievance committee.

Daily reconciliations should be implemented over client payments to ensure all payments received are reconciled to the deposit and also to the payments posted to the firm's accounts receivable system.

The best way to approach what measures to implement is to look at each financial area in the firm and identify how employee thefts could occur within each area. Next, identify practical measures that can be implemented to detect potential issues. Random reviews of activity and account reconciliations provide both a deterrent effect, as well as, a measure for detection.

Employee Dishonesty Insurance

Insurance coverage typically allows a firm to recover a loss resulting from an employee theft. Even with expertly designed preventive controls and detection measures in place, employee theft and embezzlement remains a risk. Dishonest people seem to have an unlimited capacity for creativity when it comes to "beating the system." Often, when a substantial amount of money is stolen and identified late in the scheme, the funds are unrecoverable except through an insurance policy.

Firms should estimate the minimum amount of insurance coverage needed to ensure the financial health of the practice, keeping in mind that \$100,000 is usually the recommended minimum for any size firm. Coverage typically covers losses only after the date of insurance.

Talk To Your Clients

There is no industry or any size or type of organization immune from this threat. When combined with outsider fraud, such as counterfeit checks and vendor kickbacks, losses attributable to fraud and abuse can exceed 8 percent of annual revenues.

Virtually every business collects payments, processes credit cards, writes checks and pays employees. Those four areas compose a vast source of opportunity for employees to divert funds from their employers. While it may not be feasible to eliminate risk in any one of these areas, employers can institute several critical controls to minimize their risk.

The lesson for every employer when it comes to employee fraud and embezzlement is to avoid complacency. Maintain constant vigilance and never simply trust that employees are trustworthy and ethical. To quote the late Ronald Reagan, "trust with verification" is the best policy. ■



Orchestrating A Corporate Renewal

Finding profit in a failing business requires dedication to change

By **CARLTON E. HELMING**

Routinely, I have the privilege of meeting and working with executive management to solve contemporary and serious business problems. In traditional turnaround or corporate renewal assignments, our firm's role is to present experienced predictable answers to management's fear of the unknown, focus attention on their intellectual challenges and provide time-tested experienced solutions to identify and solve external or internal business difficulties.

Our extensive experiences in turnaround assignments suggest I revisit the principles common to every turnaround and share those tenets common to achieving successful business turnarounds and applied to avoid business failures.

Frequently in our early visits with company executives who represent prospective turnaround candidates, I am told the business is broken, has suffered a history of marginal performance and the executive/owner is concerned for the future. Causes or symptoms include but are not limited to major customers have changed their relationship with the company, vendors have cut off credit lines and/or banks have asked the company to find another lending institution.

Upon retention, we request key information. If I am lucky enough to be provided a business model or forecast (more than 75 percent of the companies do not have one or it is not at all realistic) I point out that

while the business model is questionable, everyone has lost something much more valuable – time. Money can be won or lost but you can never replace time! Until you recognize this, you are not emotionally or intellectually ready to face the difficult decisions ahead to create and master your turnaround.

If you are dissatisfied with your combined personal and business efforts, then I challenge you to direct your flailing efforts into a robust, self-satisfying and rewarding business opportunity and work for a “Turnaround”.

Some fundamental concepts distinguish a profitable on-going business from one near virtual collapse. The following guidelines may be expanded or contracted depending on a company's unique circumstances. Regardless, they serve as trustworthy navigational aids to help you steer your ship to calmer seas in a financial whirlwind of issues.

- Ensure you have a reliable financial reporting system
- Establish goals
- Increase revenues
- Improve costs efficiency and/or decreases
- Manage for cash
- Sell or abandon idle non performing assets
- Restructure your debt obligations

Reliable Reporting System

Underlying a consolidated approach, you must develop a plan to document and

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remind yourself of required effects and resources necessary to implement the turnaround.

It is important to establish benchmark reporting of financial results. Good businesses without sound recordkeeping hasten their demise while failing businesses can delay their predisposed outcome by using reliable numbers. Know where you are today – know where you were last month – know where you expect to be next month.

Establish Goals

“Failing to plan is a plan to fail” is a business axiom that offers dramatic and succinct insight.

Develop a business plan with rewards. Examples of rewards offered can be a company bonus plan; a paid vacation or extra time off; a company car, etc.

Face all problems directly and prioritize efforts to create solutions.

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Share your issues with your employees. Employees often know more than management suspects about troubling issues facing the company.

Communicate to key customers or vendors. Know that most of your customers and vendors have faced similar problems themselves and will understand.

Share your knowledge of the problems and solutions with all affected parties to reassure them you are in control, recognize the problems and you are working on solutions going forward.

Increase Revenues

Your first effort must emphasize increasing revenues or sales. Presuming costs are necessary for your business and remain relatively constant, you need to focus on improved sales and gross margin.

You need to understand the cost of your product, strengths and vulnerabilities of your competition and means to increase your sales volume and margins. Your plan must revisit every available marketing tool and resource to get that next sale.

Improve Costs Efficiency/Decreases

In terms of sales, your plan must allow someone to investigate and justify every cost. Underlying this, it means you require accurate, timely financial records that can tell you “where you’ve been” or “where you are going.” Every expenditure should be made for the express purpose of generating or supporting business revenues.

Start with the “largest dollars” accounts first to keep from being overwhelmed. Your biggest savings can occur with the smallest changes in large dollar volumes of expenditures. It is also a sound practice to utilize purchase orders for every company purchase. This practice restricts commitments before they become financial liabilities and expenditures. An executive

level officer or owner must approve every purchase order or expenditure to monitor the pipeline of liabilities rushing at your Company.

Manage For Cash

Cash operations and positive cash flow are more important than profits at this stage. When profits are low or nonexistent, cash flow becomes anemic and disruptive to your business cycle. In this situation, vendor calls for payment interrupt employees frequently, inventory for a customer order is out of stock or you are unable to meet an important commitment such as payroll or the utility bills.

To eliminate those problems or their potential, use the following ideas to inspect your business:

Maintain an efficient inventory

- No excess items
- Buy only what you need, not extra for the discount
- Sell it within 45-75 days or don't stock it
- Do not build and hold for future releases unless a customer asks for that
- Know what you have! Maintain a current, accurate listing of your items
- Sell the dust-covered inventory at any cost to eliminate the cost of carrying idle or unusable items

Have your customers pay you within the terms they purchased from you

- Know your legal rights and remedies
- Do not compete with the banks to give your customers credit
- Maintain constant communication with your delinquent accounts
- Have your delinquent customers pay you 110 percent of everything they purchase to help amortize the past due balance yet continue to provide you business
- Consider offering a one time discount to

convert your account receivable to cash

Only purchase fixed assets that offer the company a very short payback. The severity of the company's troubles guides the length of time you want to be able to earn back your investment. Typically, this author suggests you establish a payback of three years or less.

That approximates a 30-45 percent return on investment.

Sell Or Abandon Idle Assets

There exist numerous additional items to attend to but categorically you see the picture. Any asset on the company books that is not utilized to support revenues in the business and is not being used should be monetized into cash: sell it or rent it but make it do something to help the business.

Restructure Debt

Reorganize and restructure your debt to minimize cash outflows in the early critical time of damage control.

Review all fixed commitments with a mind to renegotiate where possible. These include bank loans, leases, Dad's retirement, or pension obligations. Review them all with your professional advisors to ascertain what is possible

Your plan must have goals and a purpose; otherwise, you are practicing or performing a hobby with an unhappy ending.

The aforementioned steps represent the major considerations you need to face immediately upon deciding to create a turnaround. Numerous additional time-tested and experienced steps exist to consider within these major areas. You are encouraged to seek competent professional advice to review these without the “emotional baggage” your friends, relatives, and/or employees unintentionally carry. ■