



## Embezzlement: The Role of CPAs in Forensic Investigation

by Ryan Nguyen, CPA, Senior Forensic Manager, Smith Dickson CPAs

Embezzlement can be defined as the act of theft or misappropriation of funds belonging to an employer which have been placed in the trust of an employee (typically someone in a company's financial department). Embezzlement is a type of financial fraud and is usually a premeditated crime, performed methodically and cautiously to conceal the theft. When successful, embezzlements may continue for many years without detection.

### How can your business detect fraud?

It is important to identify potential financial fraud as quickly as possible in order to limit damages. Understanding how it happened to others can help. The following is a recent engagement in which Smith Dickson provided forensic accounting services.

In this matter, the family-owned business employed a controller who over the years became a trusted member of the management team. She reported to the owner, but supervision was minimal and, as is the case in many smaller companies, there were minimal checks and balances or segregation of duties in place. She had the complete confidence of the owner and decided to take advantage of the close relationship and total access to company funds.

It took years but the scheme finally came under suspicion when the owner uncovered anomalies in the accounting records that caused them to suspect foul play by their controller. Smith Dickson was then hired to provide forensic analysis of expenditures, disbursements, and supporting invoices.

Our forensic investigators reviewed several years of accounting records and found indications of fraud, resulting in the identification of over \$2 million that was misappropriated between 2011-2017. It was ultimately learned that the controller created false invoices from legitimate vendors in order to mask her embezzlement. Instead of issuing payments to vendors, she wired money from the company's

accounts into her personal bank accounts and credit cards. In the beginning she started with small transactions but became bolder in the course of time.

At the company's request and their legal counsel, Smith Dickson turned over the results of our investigation to the Los Angeles County District Attorney, White Collar Crime Division and the case was subsequently investigated by the Los Angeles Police Department. Eventually, the controller pleaded no contest to two felony counts each of grand theft by embezzlement and filing a false income tax return. She also admitted a special allegation that she engaged in a pattern of related felony conduct that resulted in the loss of more than \$500,000. She was sentenced in Los Angeles County Superior Court to 10 years in state prison.

### Forensic Accounting Support

At Smith Dickson, our forensic accounting specialists have logged thousands of hours of forensic accounting, deposition and trial experience, both as expert witnesses and consultants in matters ranging from economic damages to fraud and embezzlement.

#### Ryan Nguyen

Ryan Nguyen, CPA, is a Senior Forensic Manager at Smith Dickson, CPAs. The firm's Litigation Support Services include forensic accounting, expert testimony, intellectual property, fraud and embezzlement, real estate, and trust and estate disputes.

[www.smithdickson.com](http://www.smithdickson.com), (949) 553-1020.

