

# Deploying Genogram and Timeline Analysis —Powerful Forensic Accounting Tools

By Mark S. Warshavsky, CPA/ABV/CFE, MBA, CVA, CBA, CFE, DABFA, CFFA

**F**orensic accountants can gain an advantage at the negotiating table or in the courtroom when their findings are prepared and assembled in clear, cohesive terms. Cases substantiated by indisputable documentation will often be received favorably. Two important steps to follow when gathering data are to employ genogram and timeline techniques to aid in your analysis.

As accountants, we are sometimes inclined to jump right into an analysis of the company’s general ledgers or cancelled checks as our initial procedure. As forensic accountants, we must understand that this impulse may lead us to overlook important findings or, at a minimum, cause us to work in a less than efficient manner.

The utilization of genogram and timeline analysis techniques, at the inception of an assignment, can be a great benefit to the forensic accountant. There are software programs available to perform both of these tasks. In many situations, these types of analyses make their way onto an expert report and even as exhibits at trial or settlement discussions.

## GENOGRAM

We all have heard the adage, “A picture is worth a thousand words,” which refers to the premise that complex matters can best be described with just the use of a single image, or the fact that an image may be more influential than reading a large amount of text. With that thought in mind, deploying a genogram can provide a powerful resource as a forensic accounting tool.

The genogram was first developed and popularized in family clinical settings by Monica McGoldrick and Randy Gerson. Now, genograms are used by various groups of people in a variety of fields such as medicine, psychology, social work, genealogy, genetic research, education, and . . . forensic accounting. A genogram depicts prior and existing personal associations of the target individual that encompasses all relevant parties, both related and unrelated. The genogram maps out relationships and traits that may otherwise be missed on a pedigree chart.

For a forensic accountant, a genogram provides a visual description of the facts obtained throughout the various aspects of the investigation, covering such facets as the research, interview, document inspection and financial analysis phases. It allows the investigator to identify patterns of behavior, as well

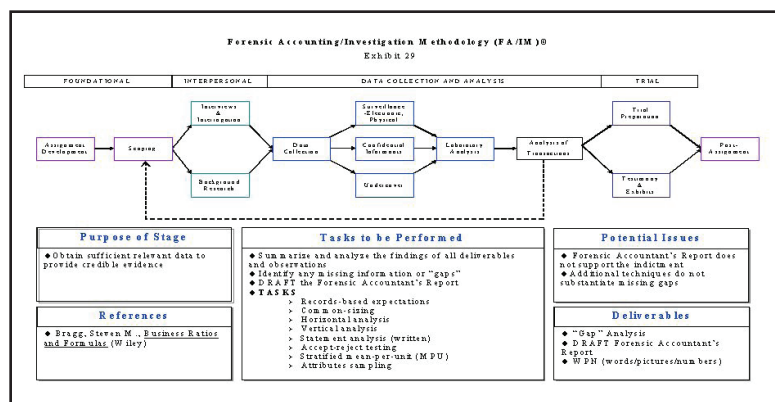
as to uncover additional companies and/or individuals, which may warrant further examination. It is typically prepared early in the assignment, and continually refined in conjunction with additional analysis as the engagement progresses. As one builds the model, pertinent facts can be displayed in a format that assists the investigator in determining the areas that need further probing by identifying the appropriate universe of data to be included in the investigation. As you uncover and incorporate new data into the model, it can be organized by color coding, numbers and arrows. The data in the model may include information such as family relationships, business ownership percentages and flow of money.


## TIMELINE ANALYSIS

Timelines are often used in education to assist students and researchers as a means of comprehending events in their logical order for a particular subject. A timeline is a powerful graphic representation of the entire sequence of events presented in an organized, chronological fashion for a particular topic. A well thought-out timeline provides a simple way to attach an image to each event in the case. There are many software tools that create graphic timelines and are designed to be flexible enough to capture new events as they are identified.

One should not commence the fieldwork of a forensic accounting assignment before a timeline of events is understood. Once key indicators are diagnosed, an investigation can then be tailored around these significant dates. The forensic accountant should not hesitate to include as many important dates and events as possible onto the timeline analysis. Using a timeline permits the readers, such as attorneys, judges and juries, to quickly understand the flow of events and their significance. The inclusion of all the relevant events, both financial and non-financial, can help the reader to identify patterns that may have developed over several months or years.

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## SHORT CASE STUDY

Let's use a simple example to demonstrate the benefits of using these two forensic accounting tools. We are engaged by a manufacturing company, Widgets Makers Inc. (“Widgets”), whose owners have witnessed its profit margin deteriorate over the past couple of years. The owners of the company have no rational explanation for this decline. However, they have noticed certain irregular behaviors being exhibited by the company's controller, Jonathan Smith. Two examples of this are that Mr. Smith appears to be living a lifestyle well above what his controller's salary should warrant. Second, there has been a series of new vendors introduced to Widgets. The owners of the company admit that they do not have a proper vetting of new vendor procedures in place at Widget. Mr. Smith, a trusted employee with five years tenure at Widgets, has wide latitude when it comes to selecting vendors.

You can probably guess where this story is headed. The owners suspect that Mr. Smith is somehow illegally siphoning funds from Widgets. As forensic accountants, we must plan our engagement to give ourselves the best opportunity to support, or refute, the owners' accusations.

We could have our staff person immediately start reviewing the general ledgers, either the old fashion way (eyeballing) or using data mining software. If we choose the latter, we must ask ourselves what information we are mining for. We could hit pay dirt if our staff person were to quickly identify large disbursements payable to Mr. Smith in the general ledger purchase account. The chances of Mr. Smith being so bold as to think that this rudimentary attempt at stealing funds would never be detected is unlikely. In many of these types of theft, the culprit employs a sophisticated scheme of creating false vendors, sometimes recruiting family members to assist in this nefarious activity.

Preparing a genogram at the onset of the investigation and performing the requisite due diligence would have allowed us to discover that Mr. Smith's wife's maiden name was Willoughby. Armed with this information, a review of the accounting records now uncovers that there was a vendor created soon after Smith was hired named Willoughby Consulting Inc. This name would have been meaningless if not for the work performed in preparing and understanding the genealogy of Jonathan Smith. In addition, we discovered

while preparing our genogram that Mr. Smith is a native of Toledo, Ohio, with many his relatives still residing in this city. Our investigation uncovered several new vendors located in Toledo. A coincidence? Maybe.

Finally, understanding the timeline of events would allow us perform procedures around these significant dates. For example, we may want to start our investigation at the time Mr. Smith was hired five years ago. Or we may decide to start our investigation of Widgets at the time the profits started to decline, two years ago. Another alternative is to start the investigation at the time Willoughby Consulting Inc. came into the picture. Requesting books and records from ten years ago, if even available, may be considered a waste of time since it pre-dates Mr. Smith's hiring. Each case should be analyzed on its own merit, and a timeline established should be base upon pertinent dates for that specific assignment.

## CONCLUSION

As forensic accountants, we must properly plan our assignments to allow us the best possible opportunity to achieve our goals. In many of our cases, we are engaged by the attorney for the aggrieved party. Two important elements that we should ask of our attorneys is that they bring us in to the mix as early as possible, and that they encourage their client to impart to us all of the requisite knowledge they have concerning the matter. These two steps will allow the forensic accountant to have the available information needed to analyze the case in an efficient manner and are useful tools during settlement discussions, testimony preparation, along with the report writing process. Immediately jumping into the dollars and cents is almost never the most efficient way to get started.



*Mark S. Warshavsky is partner-in-charge of the Business Valuation and Litigation Support Group at the New York firm of Gettry, Marcus, Stern & Lehrer, CPA, P.C. He has been a consultant to businesses, law firms, financial institutions and insurance companies providing services in varied areas of litigation support, forensic accounting and business valuations. Mr. Warshavsky is a national instructor for the National Association of Certified Valuation Analysts (NACVA) and has lectured to its Consultants' Training Institute and various state CPA societies, covering business valuation and forensic accounting topics. He is currently the chairman of the New York State Society of CPAs statewide Business Valuation Committee, and is a member of the NACVA's Forensic Accounting Academy's instructor team. Mr. Warshavsky can be reached at mwarshavsky@gmsltny.com or 516-364-3390, ext. 121.*