



Expert view

*Q&A with Rob Fox, CPA, Managing Director,
Forensic Accounting and Business Income Services,
Vericclaim, a Sedgwick company*

The "Expert view" column presents a wide range of topics offering valuable insights and information for customers.

edge:

Who can benefit from forensic accounting services and when is it appropriate to use these services?

Rob:

When a claim is made by a company alleging that they suffered economic losses, they would benefit from forensic accounting services. There are several types of third party claims like these, with lost profits being the most common. As a result of

something one party did or is alleged to be responsible for, another party was negatively impacted. It is common for the company asking for damages (the claimant) to submit a claim for lost revenue or lost sales, but what they are actually owed are the lost profits.

AT FIRST GLANCE



A restaurant may claim that it lost sales because a car destroyed its sign...

Here are two examples where forensic accounting services can help determine the precise amount of lost profits:

- A coffee mug manufacturer claimed that as a result of building damage, they were not able to produce 1,000 coffee mugs that sell for \$1 each and makes a claim for \$1,000. A forensic accountant would review the claim and see if they lost the sale of the 1,000 mugs. If they lost the sale, the accountant would determine the expenses that were saved by not making the sale. If it costs \$.25 in raw materials and another \$.15 in labor to make each mug, the claimant saved \$.40 for each sale lost or \$400. To determine the lost profits, the forensic accountant will subtract those expenses from the lost sales to arrive at the correct amount the manufacturer is owed, in this case \$600 (\$1,000 of lost sales less \$400 of saved expenses).
- It is also important to make sure the claimed sales were lost and not merely delayed. If sales were delayed, but made up at a later date, the claimant may not have lost any profit. If the sales were all made up, the claimant

may claim lost profit due to increased costs. In that case, we would determine if the claimant's expenses to make those sales increased compared to what the expenses would have been had the event not occurred. If we determined the claimant incurred overtime expenses and the labor expense to make those 1,000 mugs was \$.25 each rather than the normal \$.15, the claimant incurred increased operating costs of \$.10 per mug or \$100.

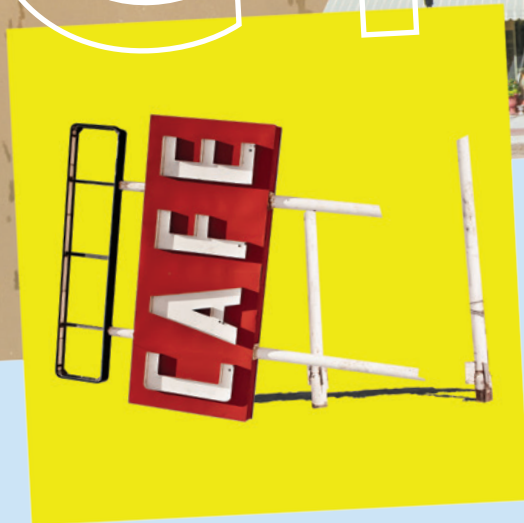
It is important to understand the impacted business' operations and what its current business state is when calculating lost profits. A restaurant may claim that it lost sales because a car destroyed its sign. However, an investigation may show that a competing restaurant opened up shortly after the sign was destroyed and the reduction in sales was not caused by the loss of the sign. It is also important to understand industry trends, how the time of year affects the business and other specific factors. Some of these variables are as obscure as the local weather during a period; restaurants with outdoor seating will see sales decline when it rains and increase when it is sunny.

Vericlam's forensic accounting team also assists with third party liability claims that involve inventory evaluations, the measurement of property damages, and delay claims where the customer alleges that certain events resulted in a construction delay or defect.

To ensure the claimant receives the appropriate amount and that clients aren't overpaying, it is important to take the time to review the documentation rather than settling immediately. One of the things I encourage clients to do if they have a lost profits claim made against them is to let us talk with the claimant, explain how the calculation works and the documentation we are going to request in support of their claim. At times, this conversation alone will deter claimants from making unsubstantiated or baseless claims. Too often, the client or adjuster will immediately start negotiating with the claimant and overpay the claim.

When we get involved, the standard return on investment is ten-fold for customers. Every \$1 spent on forensic accounting can help businesses save \$10.

THE BIG PICTURE



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edge:

What are you working on right now that will have an impact on customers in the near future?

Rob:

We are working on a system for low severity, high volume claims. These include relatively simple cases that could benefit from the expertise of a forensic accountant. This new system, called business income express, allows our team to quickly evaluate the claim and calculate the loss at a cost of less than \$1,500 in fees (these files are still billed on an hourly basis so the cost may be as low as \$150 with a maximum of \$1,500). The claim is triaged when it comes in and we look at the circumstances of the loss. If we do not think we can perform an accurate calculation for less than \$1,500, we will explore alternatives with the client.

Those alternatives typically include either reducing the scope of the procedures performed or investing more than \$1,500 to measure the claim.

edge:

What else is on the horizon for forensic accounting?

Rob:

The biggest change is the potential for cyber claims and the interruptions and losses that they create. While the fundamentals of cyber claims are the same as those for claims involving lost profits, the cause is very different. It is an area that is relatively new for forensic accounting. We didn't deal with these types of claims very often five years ago and they were essentially non-existent ten years ago.

edge:

How has technology impacted the process for your team?

Rob:

New technology allows us to receive and share information more easily. Screen share services like WebEx make it easier to explain complex calculations without being in the same room. This has significantly reduced the amount of travel necessary and we frequently handle claims all over the country without having to leave our offices. Technology has sped up the claims process as we are not waiting for documentation while it is in the mail or delaying meetings until all parties can be in the same location.

ROB FOX

Rob serves as Managing Director of Forensic Accounting and Business Income Services at Vericlaim. He has 12 years of experience in forensic accounting and his expertise includes large loss project management, complex property damage assessments, business income and extra expenses, catastrophe response services and builder's risk claims. Rob joined Vericlaim in 2015 and previously served in various leadership roles within the forensic accounting industry. He is a Certified Public Accountant and holds a bachelor's degree in business administration from Northeastern University.