

# **NACVA**

*National Association of Certified Valuators and Analysts*



## **The Core Body of Knowledge for Master Analyst in Financial Forensics (MAFF)**

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# The Core Body of Knowledge for MAFF



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# The Core Body of Knowledge for MAFF



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## Part I: Foundations of Financial Forensics (Percentage Emphasis on MAFF Exam 20%)

### I. Professional Responsibilities

- A. Authoritative Professional Standards—NACVA and other
- B. Responsibilities of Independent Accountant
- C. Ethical Issues
- D. Liability Issues
- E. Roles

### II. Laws, Courts, and Dispute Resolution

- A. Federal and State Rules of Evidence and Procedure
- B. Court System—Federal and State
- C. Alternative Dispute Resolution

### III. Practice Management

### IV. Information Gathering and Preserving

- A. Document and Evidence Gathering
- B. Client Records
- C. Other Party Records
- D. Document and Evidence Preservation and Retention
- E. Paper Records
- F. Electronic Records
- G. Requesting and Examining Other Parties' Information
- H. Document Production
- I. Document Management and Control
- J. Work Papers
- K. Subpoena

### V. Role of a Financial Forensic Specialist

- A. Supervision and Control
- B. Fact Finding
- C. Reports and Exhibits
- D. Experts
  - 1. Consulting Expert
  - 2. Testifying Expert
  - 3. Other
- E. Motions in *Limine*
  - 1. *Daubert*
  - 2. *Kumho Tire*
  - 3. *Kelly-Frye*



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## Part II: Specialty Areas—Bankruptcy, Insolvency, and Restructuring

(Percentage Emphasis on MAFF Exam 10%)

### I. Environmental Issues

- A. Understanding the Causes of Business Failures
- B. Successful vs. Unsuccessful Business
- C. Causes of Financial Difficulty
- D. Stages of Financial Failure

### II. Turnaround Management

- A. Elements of Turnaround Management
- B. Stages of Turnaround Process
- C. Out-of-Court Settlements
- D. Assignment for the Benefit of Creditors

### III. Legal Issues

- A. Bankruptcy Law and Courts
- B. Alternatives Available to a Financial Troubled Business
- C. Nature of Insolvency
- D. Provisions Common to all Proceedings
- E. Classifications and Priorities of Claims and Interests

### IV. Parties Employing Financial Professionals

#### V. Debtor in Possession Under Chapter 11

- A. Operating Under Chapter 11
- B. Developing the Plan of Reorganization/Plan Feasibility
- C. Confirming the Plan of Reorganization
- D. Financial Elements of the Plan of Reorganization
- E. Post-confirmation Issues/Discharge of Debt

#### VI. Accounting and Reporting for the Distressed Company

- A. Financial Services for Debtor-in-Possession or Trustee
- B. Accounting Services/Operating Reports
- C. Additional or Other Accounting Services/Proofs of Claim
- D. Accounting and Financial Services for the Creditors' Committee
- E. Form and Substance of Financial Statements and Reports
- F. Fresh Start Accounting

#### VII. Auditing the Distressed Company

- A. Monitoring Debtor's Activities
- B. Going Concern Concept
- C. Unaudited Financial Statements
- D. Auditors Responsibility to Detect Fraud and Irregularities



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## Part II: Specialty Areas—Bankruptcy, Insolvency, and Restructuring (continued)

### VIII. Income Tax Issues

- A. Administrative Aspects of Taxes
- B. Notification of Proceedings and Filing of Returns
- C. Special Rules for Individuals
- D. Minimization of Tax and Related Payments
- E. Treatment of Income During Bankruptcy Period
- F. Corporate Reorganizations
- G. Availability of New Operating Losses
- H. Effects on Earnings and Profits

### IX. Financial Forensic Investigations

- A. Detection of Failure
- B. Special Investigations
- C. Special Areas of Inquiry and Investigation
  - 1. Solvency Analyses
  - 2. Preferences
  - 3. Fraudulent Transfers
  - 4. Other Voidable Transfers



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## Part II: Specialty Areas—Business Fraud and Deterrence

(Percentage Emphasis on MAFF Exam 12%)

### I. Background and History

- A. Definition of Fraud
- B. Standards and Ethics
- C. Federal Fraud Statutes (Title 18 of the U.S. Code)
- D. Foreign Corrupt Practices Act
- E. The Cohen Commission
- F. SEC Initiatives—Sarbanes-Oxley Act of 2002
- G. The Treadway Commission
- H. The COSO Report

### II. The Environment

- A. Perpetrators, Accessories, and Victims
- B. Fraud Triangle
- C. Ethical Foundations
- D. Monitoring—Internal Control Design

### III. Three Major Categories of Fraud

- A. Financial Reporting Fraud
  - 1. Definition
  - 2. Reasons for Financial Statement Fraud
  - 3. COSO Study May 2010
  - 4. Fraudster Profile—COSO
  - 5. Common Accounting Issues
  - 6. SEC and Other Enforcement Processes
  - 7. Common Violations
  - 8. SEC Investigations
  - 9. Types of Causes
  - 10. Role of the Expert
  - 11. Documents Considered
  - 12. Conflicts of Interest
  - 13. Internal Investigations—Red Flags
  - 14. Methodologies
  - 15. Internal Investigations—Investigative Techniques
  - 16. Foreign Corrupt Practices Act Investigations (FCPA)
- B. Misappropriation of Assets
- C. External Fraud

### IV. Fraud Prevention

- A. Role of Professionals in Fraud Prevention
- B. Organizational Level Controls
- C. Functional Level Controls
- D. Information Technology Controls



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## Part II: Specialty Areas—Business Fraud and Deterrence (continued)

### V. Internal Controls and Fraud Deterrence Basics

- A. Internal Controls and Fraud Prevention
- B. Forms of Occupational Fraud
- C. Focus on Fraudulent Financial Statements
- D. Financial Statement Effect of Defalcation
- E. Fraud Triangle and Financial Reporting (SAS 99)
- F. Knowledge of Relevant Cases
- G. Control Activities in the Prevention of Fraud

### VI. Fraud Deterrence Engagement

### VII. Understanding the Perpetrator

- A. Thinking Like a Crook
- B. Profile of a Fraudster

### VIII. Detection and Prevention of Fraud in the Workplace

### IX. Interview Techniques

### X. Behavioral Analysis



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## Part II: Specialty Areas—Business Valuation in Litigation

(Percentage Emphasis on MAFF Exam 12%)

- I. Business Valuation as a Measure of Damages**
  - A. Professional Standards
  - B. Rev Rul. 59-60 and Related
    - 1. Eight Factors
    - 2. Fair Market Value Criteria
  - C. Rev Rul. 77-287 and Related
    - 1. Discounts for Lack of Marketability (DLOM)
    - 2. Valuation of Securities
- II. Business Valuation Reports in Litigation**
  - A. Rules of Civil Procedure
  - B. FRCP 26(a)(2)(B):
- III. Dissenting/Oppressed Shareholder Litigation**
  - A. Dissenters Rights
  - B. Shareholder Oppression
  - C. Judicial Approaches to Oppression
    - 1. Bad Faith
    - 2. Fiduciary Duty
    - 3. Reasonable Expectations
  - D. Business Judgment Rule
- IV. Bankruptcy Litigation and Valuations**
  - A. Legal Declaration of the Inability or Impairment
  - B. Constituencies:
    - 1. Trustee
    - 2. Debtor
    - 3. Security (Equity) Holders
    - 4. Secured Creditors
  - C. Typical Premise of Value
    - 1. Orderly Liquidation Value
    - 2. Forced Liquidation Value
    - 3. Going Concern Value
    - 4. Reorganization Value
  - D. Tangible and Intangible Assets
- V. Marital Litigation and Valuation**
  - A. Standards of Value
  - B. Approaches and Methodology
  - C. Goodwill Issues
- VI. Buy Out Litigation**



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## Part II: Specialty Areas—Commercial and Personal Damages

(Percentage Emphasis on MAFF Exam 12%)

### I. Calculating Lost Profits

- A. Components
  - 1. Measures of Loss
    - a. Lost profits
    - b. Lost business value
  - 2. Elements of Lost Profits
    - a. Proximate cause
    - b. Foreseeability
    - c. Reasonable certainty
    - d. Mitigation
  - 3. Methods to Calculate Lost Profits
    - a. Before and After Method
    - b. Yardstick Method
    - c. Sales Projection Method
    - d. Market Model Method
- B. Liability and Causation
- C. The Damage Period
- D. Discounting Future Damages
- E. Interest Rates/Discount Rates
- F. Ex-ante vs. Ex-post
- G. Tax Treatment of Damages
- H. Comparison of Business Valuation and Lost Profits Approaches
- I. New Business Rule/Start-ups
- J. Damages for Non-profitable Businesses

### II. Personal Damages

- A. Personal Injury
- B. Wrongful Death
- C. Lost Earnings
- D. Medical Expenses
- E. Work/Life Expectancy
- F. Personal Consumption
- G. Household Services
- H. Punitive Damages



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## Part II: Specialty Areas—Commercial and Personal Damages (continued)

### III. Presenting Damage Calculations—Report Writing

- A. Communications with Counsel
- B. Vocabulary/Grammar
- C. Formats
  - 1. 26(a)2B
  - 2. Valuations in a Litigation Context
- D. Standards Applicable for Report Writing
  - 1. Federal
  - 2. State

### IV. Economic Theory and Modeling

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## Part II: Specialty Areas—Business and Intellectual Property Damages

(Percentage Emphasis on MAFF Exam 12%)

### I. Intellectual Property Damages—Overview

- A. Types of Intellectual Property
  - 1. Patents
  - 2. Trademarks
  - 3. Copyrights
  - 4. Trade Secrets
- B. Proper Methodology Rests in Conventional Valuation Theory
- C. How Does IP Drive Value

### II. Patent Damages

- A. Lost Profits or Reasonable Royalty
  - 1. Panduit Factors
  - 2. Costs of Designing Around the Patent
  - 3. Cost to Develop or Reproduce
  - 4. Determination of Lost Revenues
- B. Reasonable Royalty Revenues
- C. Hypothetical Negotiation
- D. Georgia-Pacific Factors
- E. The Value of the Technology
- F. Approaches Used are the Same as Any Valuation
- G. 25% Rule
- H. Sources of Information—Industry

### III. Trademark Damages—The Lanham Act

- A. Primary Difference in Trademark Cases vs. Patent Cases
- B. Primary Categories of Trademark Damages
  - 1. Defendant's profits
  - 2. Damages sustained by plaintiff
- C. Lanham Act Damages

### IV. Copyright Damages

- A. Definition
- B. Federal Law
- C. Registration Requirement
- D. Fair Use
- E. Differences from Patents
- F. Differences from Trademarks
- G. Federal Law Relating to Copyright Damages: Title 17, Section 504 of U.S. Code

### V. Trade Secret Damages

- A. Definition
- B. Uniform Trade Secrets Act
- C. Measuring Damages
- D. Differences from Patents, Trademarks, and Copyrights



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## Part II: Specialty Areas—Matrimonial

(Percentage Emphasis on MAFF Exam 12%)

### I. Asset Distribution

- A. Property Division
- B. Post-marital Appreciation of Property
- C. Community Property States
- D. Equitable Distribution States
- E. Separate Property
- F. Community Property

### II. Alimony and Child Support

- A. Factors Considered by Courts
- B. Pendente Lite
- C. Rehabilitative Alimony
- D. Term Alimony
- E. Reimbursement Alimony
- F. Temporary vs. Permanent Alimony
- G. Family Support Act of 1988

### III. Taxation

- A. Married Joint
- B. Married Separate
- C. Head of Household
- D. Exemptions for Children
- E. Credits
- F. Alimony
- G. Child Support
- H. Effect of Bankruptcy
- I. Entity vs. Professional Goodwill
- J. Innocent Spouse
- K. QDRO
- L. IRA Transfers
- M. Non-qualified Plans
- N. Alimony Recapture

### IV. Forensic Analysis

- A. Lifestyle
- B. Hidden Income
- C. Hidden Assets
- D. Allocation Analysis and Equalization Payments
- E. Income Measurement and Reconstruction
- F. Business Valuation
- G. Pensions
- H. FLPs—No Answers—Only Questions
- I. Employee Stock Options, Restricted Stock, and Equity Awards
- J. Other Asset Valuations



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## Part II: Specialty Areas—Matrimonial (continued)

### V. Alternative Dispute Resolution (ADR)

- A. Arbitration
- B. Mediation
- C. Collaborative Divorce
- D. Complimentary Dispute Resolution

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## Part II: Specialty Areas—Computer Forensics (Percentage Emphasis on MAFF Exam 10%)

### I. Computer/Data Architecture

- A. Disc Anatomy
- B. Bits, Bytes, Ones, Zeros, ASCII, and Unicode
- C. Computer Language
- D. File System

### II. Types of Data

- A. Active Data
- B. Latent/Ambient Data
- C. Backup Data
- D. Archival Data
- E. Hidden Data
- F. Metadata

### III. Data Integrity Fem 3.722

### IV. Forensic Investigation Process—Objectives

- A. Authority
- B. Identify the Evidence
- C. Preserve the Evidence
- D. Data Validation GTCFAI
- E. Analyze the Evidence

### V. What Computer Forensics Can Reveal

- A. E-Mail and Other Electronic Communications
- B. Dates and Times of Activities
- C. Deleted Files—File Deletion Typically Does Not Eliminate the File
- D. Intentional Destruction
- E. Data Recovery
- F. Data Restoration

### VI. Structured Methodology for Investigation

### VII. Cost—Benefit Analysis

### VIII. Cyber Crime—AKA Ecrime

- A. Spam
- B. Fraud
- C. Phishing
- D. Harassment
- E. Cyberbullying
- F. Drug Trafficking
- G. Cyberterrorism
- H. Piracy
- I. Tampering
- J. Vandalism
- K. Theft