An Interview with Ralph Q. Summerford, CFE, CPA, ABV, CIRA

HANGING YOUR SHINGLE? HEED THESE CAVEATS

Ralph Summerford knows all the joys and pitfalls of beginning a business. Learn from this master as he shares lessons from the early days of his firm to the challenges he now faces.

It was 1970, and Ralph Summerford saw nothing but grim faces in his office. And then some of those faces disappeared. They were in the midst of an economic downturn – accountants were losing their jobs at the CPA firm, and Summerford decided he wasn’t going to lose his.

“Job insecurity convinced me that I wanted to be in control of my destiny,” he said in a recent interview with Fraud Magazine. So he quit and started his first firm, Pearce & Summerford, P.C., Certified Public Accountants. That break began a professional journey that led to his CFE credentials and the eventual founding of the highly specialized Forensic/Strategic Solutions with offices in Birmingham, Ala.; Dallas, Texas; and Los Angeles, Calif. Summerford, who is president and shareholder of the firm, started it in 1992 with just one employee – himself.

“I worked from my home for the first six months and then bit the bullet and leased an office in the downtown [Birmingham] area right in the middle of the attorney firms I wanted to work with,” he said. “I set up a daily routine of calling and visiting with potential clients.”

He began speaking at professional meetings and wrote for area publications. Eventually, he built a solid client base and began expanding. The firm now has 14 employees in its three offices. It specializes in providing experts for fraud examinations, forensic investigations, business valuations, computer forensics, litigation support services, data analysis, economic damages calculations, statistical analysis, fraud prevention and risk assessment, and financial distress.

By Dick Carozza • Photos by Billy Brown
They work with both plaintiff and defense attorneys, corporate boards and audit committees, bankruptcy and creditors’ committees, insurance company special investigation units, government inspectors general, and governmental agencies.

Until 2006, the business operated as Summerford Accountancy, PC. But in May 2006, the name was changed to Forensic/Strategic Solutions, PC, when the Dallas office opened with Kelly Todd, CPA/ABV, and Margie Reinhart, CFE, CA, CPA, as shareholders.

At press time, Don Mullinax, CFE, CGFM, CIA, CGAP, CIG, CBM, had been named the head of the Los Angeles office and the newest shareholder. Mullinax is a former chairman of the ACFE Board of Regents, a former partner with a Big Four accounting firm, and former inspector general of the Los Angeles Unified School District.

Employees include: Kevin Andrews, CFE, CPA, ABV, forensic/valuation specialist; Lindsay H. Gill, CFE, forensic analyst; Wade Morgan, CEECS, CHE, ACE, computer forensic examiner; Alton Sizemore Jr., CFE, CPA, director of investigations; Dana S. Steely, administrator/analyst; Melissa Haun, administrator/analyst; Jeff N. Windham, J.D., MAC, fraud examiner, litigation support specialist, and economic damage analyst; Richard Pullin, document specialist and analyst; Sarah Malcolm, forensic analyst; and Lindsay Ezell, marketing specialist.

Despite the recession, Summerford doesn’t necessarily recommend against CFEs starting businesses. Demand for fraud examination services is still at an all-time high. Lawyers, consulting firms, government agencies, and companies of all sizes require the expertise of fraud examiners, he said.

“There is no best time to hang the shingle regardless of the economic environment,” Summerford said. But he warns it’s important to heed the caveats. “Unless you have the depth of knowledge, experience, a solid plan, and an abundance of caution to start the business, you might not be able to sustain it even in the best of times.”

Summerford spoke to Fraud Magazine from his office in Birmingham.

What prompted you to enter the anti-fraud field?
First, I had – and have – a passion for this work. Then after I prepared my business plan, I realized this field afforded outstanding opportunities. I became a CFE in 1993; I believe the opportunities for CFEs are even greater today. Most courts now recognize CFEs as experts who are qualified to testify about fraud. That wasn’t
true in 1993; to be an expert witness I had to rely on qualifying as a CPA who had knowledge about fraud. We’ve come a long way since then. But the anti-fraud movement, which the ACFE began in earnest in 1988, is still young.

What were the circumstances when you started your first business?

I had prepared very little when a partner and I started a traditional CPA firm in 1972; we just had lots of desire, dreams, and ambition. Luckily, I landed a client who was a professional sales training consultant who counseled us on how to sell our services.

I sold my interest in the accounting practice in 1985; then I actually prepared a quasi-business plan when I bought a motorcycle and ATV business later that year. Unfortunately, I didn’t complete the plan before starting the business, and I omitted two critical due-diligence items. I didn’t consider the Japanese Yen’s effect on the dollar. And, secondly, the U.S. Consumer Product Safety Commission had banned the sale of three-wheel ATVs in 1987 – that was more than 70 percent of my business. That regulation destroyed the industry for many years.

I learned from missteps. When I began the forensic accounting business in 1992, I prepared a detailed business plan and the plan worked; I still have it today and use it as a model in current business planning and developing strategy.

What are some of the best reasons to begin a fraud examination/forensic accounting business?

There will always be a demand for these services. The work is absolutely fascinating and you get to work with true forensic and legal professionals. The work is mentally stimulating. Each day is different and the challenges are unique. And it’s fun to get out of bed each day and go to work!

What kind of character traits, practices, and skills should a CFE possess to begin a business?

The needed character traits depend on your niche. If you want to testify as an expert witness, you’ll have to have mental toughness, a thick skin, and a type-A personality to spar with attorneys. You’ll have to accept the fact that an attorney might discredit you as a professional if he or she can’t find a way to successfully discredit your testimony.

If you work in a support or consulting role, you’ll need to be...
I INTERVIEW WITH RALPH SUMMERFORD

Let’s go back to basics. Our firm didn’t start with 10 practice areas; we grew into those areas as we added staff and specialization. We’ve had many planning sessions at which we decided on a strategic focus of what we wanted to do and then headed in that direction. Perhaps the biggest mistake you can make is to attempt to be all things to all people. You should begin with your greatest strength – the area in which your passion lies. And then as the business grows and you want to expand, you can get really involved in strategic planning. Just like in your business plan – of which strategic planning is a part – you assess the core competencies, develop those, and then add or even take away from them.

What are the most popular services you offer?
Computer-related forensic services, whether in fraud examination, fraud assessment, data mining, data analysis, or a combination of these. Our expertise is in data mining; getting the source data and following the trail regardless of the electronic media – one computer or dozens, one or many network servers, cell phones, or other peripheral devices. Litigation support is also a big part of our practice. We assist attorneys in explaining complex financial transactions and/or determining economic damages from fraud, contract, and tort claims.

What kinds of services are your clients and prospective clients predominately asking for?
Most individuals or businesses that have a dispute, or suffer a fraud, will first go to their attorneys, so attorneys are the No. 1 source for our services. Occasionally, we work for corporate clients, government agencies, or individuals. In a potential fraud examination, our client will ask us to determine if fraud was committed. If we find it, the client will then ask us to assist in proving it. We calculate the losses and testify to our findings or assist in the litigation of the case.

How were you able to open offices in two additional offices?
First, the design of our business model allowed us to expand. Kelly Todd, who has been with the firm for more than 10 years, was the real driving force who designed and put the processes in place that go us to thinking that we could expand. Kelly and I had known Margie Reinhart for more than five years, and when we learned that she wanted to start her own firm in Dallas, it was a natural fit to expand into that city.

The Dallas expansion proved that we could duplicate our business model and we began thinking about other people, places, and services that fit our strategic plan. Our focus on school systems and governmental agencies led us to Don Mullinax. Don was a client in the late 1990s when he headed the Inspector General’s Office of the Los Angeles Unified School District. When I called Don he said he was leaving the national accounting firm where he worked, so that led us to L.A. The real key for us has been the design of a real strategic focus of knowing what we are and where we want to go. We think we’ve just begun; these are really exciting times.

What are the initial steps a CFE should take when starting a business?
As I’ve emphasized, write a detailed business plan. (See article on page 51.) Most people spend more time planning a vacation than they do their lives. Some make feeble attempts to construct business plans, but most aren’t thorough. The business-plan process will take you from your idea to implementation. You can buy business-planning software that will take you down the “yellow brick road.” You must be committed and passionate for this type of work; you can’t treat your business as a sideline. And, most of all, find mentors who can help you avoid pitfalls. I found seasoned professionals who were able to guide and save me grief.

What kind of outside counsel should a CFE have in establishing a business?
The CFE needs a corporate lawyer – as opposed to litigation, divorce, security, or other types – who understands corporate structure and can advise the CFE about practicing across state lines. Our business is really national, if not international. You won’t want to redo everything, so it’s very important to start off with the right structure. And again, find mentors as counselors.

When you first started your firm, how did you go about building your client base and your anti-fraud practice? What business development strategies worked best? What didn’t work?
When I began my forensic accounting business in 1992, I made the commitment to only perform forensic services – no tax, no audit, and no traditional services. Back then, some folks thought that forensic accounting involved providing accounting services to dead people, so I had to educate my target!

Marketing consists of advertising, public relations, and networking. I couldn’t afford advertising so I depended on PR and networking, which are the strategies that still work best for the firm.

I began speaking at local professional meetings and wrote articles for local professional publications. The combination of these activities in my marketing plan worked. Later I tried advertising but found it was very expensive, hard to do effectively, and didn’t work. I tried publishing company newsletters extolling our services for potential clients, but that strategy didn’t work either.

I’ve noticed that your firm specializes in 10 areas in both forensic and strategic services. How should a prospective business owner discern those areas he or she should begin with and others that the firm can grow into?
Let’s go back to basics. Our firm didn’t start with 10 practice areas; we grew into those areas as we added staff and specialization. We’ve had many planning sessions at which we decided on a strategic focus of what we wanted to do and then headed in that direction. Perhaps the biggest mistake you can make is to attempt to be all things to all people. You should begin with your greatest strength – the area in which your passion lies. And then as the business grows and you want to expand, you can get really involved in strategic planning. Just like in your business plan – of which strategic planning is a part – you assess the core competencies, develop those, and then add or even take away from them.

Dress like a professional, which most of the time is conservative business attire. We actually provide classes for new staff members on looking and acting like a professional. If you only get one chance to make a good first impression, why start off at a deficit?

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Considering the recession, is this a good or bad time to “hang your shingle”? There is no best time to hang the shingle regardless of the economic environment. Unless you have the depth of knowledge, experience, solid plan, and an abundance of caution to start the business, you might not be able to sustain it even in the best of times. A good example is the internal control work generated by the Sarbanes-Oxley Act. Lots of folks jumped into that arena and proclaimed themselves to be “forensic accountants.” Now that the SOX work has all but dried up, those people are scrambling for new areas – areas for which they’re neither prepared nor possess the depth of knowledge typically associated with a forensic expertise.

Speaking of SOX, how has it changed your approach with clients? It’s easy to point out the legal requirements of SOX to a publicly traded company and what it must do. In the non-public environment, we can point to SOX as best practices. SOX also caused the American Institute of Certified Public Accountants to change the ethics rules for services CPAs offer to non-public companies. Those rules now basically say the “fox can’t guard the henhouse,” meaning CPAs who perform attest services for their clients can’t also perform forensic services. SOX and the AICPA really put a spotlight on conflicts of interest. As fraud examiners, we definitely applaud these efforts and point out to clients the dramatic need to be free of conflicts.

What kind of general characteristics are you seeking in new employees? For a staff-level person we’re looking for someone who has a passion to work as a forensic accountant and the personal drive to have taken courses to learn. We’re especially impressed with people who have gone through a university forensic program.

What have you done during lean times? Cash flow in this business can always produce some lean periods. I had anticipated those lean times in my business plan and have adequate financing in place to smooth out the rough spots.

Available late January 2009!

Due to the overwhelming popularity of his first casebook, Fraud Casebook: Lessons from the Bad Side of Business, Joseph T. Wells, CFE, CPA has compiled another collection of fraud cases focusing this computer fraud.

This compilation of cases consists of actual cases written by experienced fraud examiners. These cases were hand selected from hundreds of submissions and together form a comprehensive picture of the many types of computer fraud how they are investigated, across industries and throughout the world.

Topics included are:

- E-mail fraud
- Online auction fraud
- Security breaches
- Counterfeiting
- And many others

Visit www.ACFE.com/Shop to order your copy today!
The ACFE, under the early direction of founder and Chairman Joseph T. Wells, CFE, CPA, has always stressed prevention and deterrence. What are some ways you stress those steps to your clients? Is it difficult to counsel businesses to be proactive rather than pay the consequences of poor management?

Most businesses don’t want to spend money for prevention and detection. Our counseling comes as a follow-up to our work; it’s a natural progression. It’s unfortunate, but once a firm has suffered a loss due to fraud or abuse, only then is it willing to spend some money on prevention and detection. One CFE I know has a great deal of success selling anti-fraud services because he knows a lot of people on the inside – internal auditors and people in the C suite.

How has the global emphasis in fraud examinations changed your tactics?

A big part of fraud examination is networking, which is one of the huge benefits of being an ACFE member. When it comes to global or expanded engagements, we associate with CFEs and other fraud examiners we know in those locales who are familiar with the laws and procedures. In this global market, you can’t assume you know all the regulations and cultural customs.

What do you see as your biggest challenge as a small business owner?

Staying on top of all the issues plus new regulations and standards affecting the practice areas in our strategic focus. Additionally, some states have archaic restrictions about practices that are extremely difficult to navigate.

In the early days, we viewed perpetuation of our firm as our No. 1 challenge. However, we now have the people, processes, and procedures in place to make that happen.

What are some fraud issues looming on the horizon that you need to study and monitor?

The training of anti-fraud professionals remains critical. ACFE has done a fabulous job in this arena; I’m delighted that four people from our staff are on the ACFE faculty. Training is key, but not just any training. We’re working closely with the ACFE to develop specialized training for specific frauds and to help the ACFE develop programs for governmental organizations so that more people can be trained to prevent, detect, and investigate fraud. Another issue, although not part of our strategic focus, is affinity crimes against baby boomers who are now inheriting lots of money. New scams and Internet-based frauds deserve careful scrutiny.

How has your ACFE training helped you in your business?

ACFE training has been invaluable; it’s truly the foundation for our business. This is where we learned about data mining, computer-assisted crimes, investigations, you name it – almost everything. Furthermore, fraud examination is a networking business. There’s no way that a CFE can be all things to all people. ACFE training has allowed us to network with nearly 50,000 other anti-fraud professionals in this country and around the world with whom we have something in common, can share information, and can solicit help and refer work.

What’s your advice on some practical matters of constructing a small business – such as the legal structure and protection; legal counsel; malpractice insurance; fees, billing, and collection; hiring; employee benefits, etc?

A Limited Liability Company (LLC) or Professional Corporation (PC) status will provide protection; get the best legal counsel you can find and follow their advice.

Malpractice insurance is a bargain for the protection offered, unless, of course you’re just starting out and have very few assets to protect.

When you’re setting fees, survey the market in your area to make sure you establish reasonable rates. Charge by the
hour, and establish budgets for the client’s approval with early revisions and updates. Obtain a retainer of at least a month’s estimated billing, and apply this retainer to the final bill. Bill every two weeks or at least once a month.

You must have a contract, fee agreement, or engagement letter that includes a provision that stipulates that you are to be paid before you issue a report or testify. Stop working if you aren’t paid timely.

Treat employees with respect and offer the benefits – as part of total compensation – that you’d expect for yourself. I believe in paying employees more than competitors and providing incentives for outstanding performance. Review employees annually for compensation and regularly after each completed engagement.

I believe that compensation is a “dis-satisfier.” In other words, employees must be satisfied with compensation so that all the other aspects of the work – including the environment – are the only issues with which the employee and employer must deal.

We believe in investing in employees and providing the tools – including computers, software, and training – so they can do outstanding jobs. Inexperienced employees require close supervision with diligent oversight.

Would you be willing to share something that no one tells you when you start a business, something you had to learn the hard way?

There will be many people who will tell you they will help you – they will not. However, others will help you whom you never expected. Also, if you don’t have selling skills, acquire them.

If you were advising a CFE who was about to start her own firm, what recommendations would you give her? What are the most important factors to developing a successful anti-fraud practice?

In 2003, the ACFE asked me to help develop a course on this very topic and together we developed the one-day course “How to Build Your Fraud Examination Practice.” I believe I’ve taught every one of these sessions – except one – since then. If you don’t attend the course, in addition to the items I’ve included here, I’d advise the CFE to take the sage advice of motivational business speaker Jim Rohn and spend more time on developing yourself than you do on your job.

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A business plan is a document that contains a profile of your company and a vision of its future. It’s presented to potential lenders, investors, and partners. As an enterprising CFE, you should view the business plan as a map that can lead you from a concept to a thriving business.

**Why Create a Business Plan?**

A business must recognize and comprehend as many details as possible about its industry and its position in the marketplace to achieve success and profitability. A business’ mission, objectives, cash resources, and personnel resources are only some of the vital components that will determine the success of a business.

The purpose of your business plan is to create a route from your start to your end point and then devise ways to remain there. Though many government agencies and corporations staff CFEs as auditors, investigators, and analysts, among other positions, you’re still going to have to write a bold and comprehensive plan that will persuade others that your services are needed.

Potential clients, lenders, and investors need to know that most occupational fraud and abuse occurs at small businesses, not conglomerates, and that you have the skills and training to prevent, detect, and deter it.

**YOUR FIRM WILL FLOUNDER WITHOUT A SOLID BUSINESS PLAN**

Banks might require a business plan before granting you a loan. Investors or venture capitalist need one to decide if they’ll finance your firm. Don’t view the drafting of a business plan as an obligation but as an important opportunity to reach your long-term goals.

Creating a business plan will give you the chance to:

• Learn about your industry and market
• Gain control over your business
• Obtain a competitive edge
• Make crucial business decisions that will focus your activities and results
• Understand the financial aspects of your business including cash flow and break-even requirements
• Gather crucial marketing and industry information
• Anticipate and avoid obstacles your business is likely to encounter
• Set specific goals and measurements to assess progress over time
• Be more persuasive to funding sources

**Major components of a Typical Business Plan**

1. **Table of Contents**
2. **Executive Summary**

This short section reviews the main points of the plan. Some only will need to read the summary to get what they need, so make sure it’s comprehensive.
3. **Company Overview**  
Include the company’s vision, mission, value statements, services, and a short treatise on your uniqueness. Be specific and brief.

4. **Business Environment**  
Include an analysis of the industry, market, competitors, and clients.

5. **Company Description**  
Detailed information on your management team, operations, and marketing potential. Highlight your advantages over your competition such as your CFE credential and ACFE training.

6. **Company Strategy**  
This is a short map showing how you plan to get from A to B and an explanation why this is the best route. Show that you’ve thought through other alternatives and have asked the tough questions about unanticipated difficulties and opportunities.

7. **Financial Review**  
Create a detailed review of your financial statements clearly depicting your current and future positions. Use simple charts and graphs.

8. **Action Plan**  
Describe your strategy for implementing the plan. List crucial first steps. Be brutally realistic.

9. **Appendices**  
Include supportive documents such as reports, articles, spreadsheets, legal documents, and surveys.

Business plans can include mini-plans, working plans, and presentation plans. All of them can be delivered electronically as PDFs or PowerPoints.

**The Mini-plan**  
A mini-plan, which can be from one to 10 pages in length, should touch on the business’ mission, objectives, financing needs, marketing plan, and financial statements. This is a great way to quickly test a business concept or measure the interest of a potential partner or minor investor. It can be a prelude to a full-length presentation plan, but it never can be a substitute for one.

**The Working Plan**  
You’ll use this tool to run your business. Regularly update facts and figures because it’s your ongoing guiding blueprint. This is a fluid document that constantly changes as your plans and industry conditions change.

This internal plan can be frank and casual and can omit elements that would be essential for a plan intended for external use. You won’t need photos, company history, executive bios, etc., and you can include industry-specific jargon and shorthand language that office personnel can understand.

**The Presentation Plan**  
This is your working plan without the intra-office familiarities but with an aesthetical and professional style suitable for bankers or investors, possible partners, and others outside the company. The presentation plan often is a professionally printed, bound booklet.

Use a clear, professional writing style. Your goal is to impress and engage the reader. Avoid slang, acronyms, industry jargon, and generalizations.

Keep each section short. Regardless of the length of the plan, keep non-essential details and information as attachments or add to the appendix.

Include investors’ requirements for due diligence, information on competitive threats and risks, and a plan for mitigating the inevitable risks associated with a new business setup. It should also include charts, graphs, tables, illustrations, and executive bios and photos.

Use irrefutable specific information. Support each claim with reliable facts. Quote competitor or industry figures to add authenticity. Refer to the ACFE’s current “Report to the Nation on Occupational Fraud and Abuse.”

The plan should be free of typos and misstatements; a potential investor could interpret a mistake as a misrepresentation. As a CFE going into practice, errors at this level could keep you from reaching your goal of uncovering the mistakes of potential client businesses.

**Service Providers**  
Several companies, for a fee, will write or assist you in writing business plans. Here are three:

- The Business Planning Institute  
  [www.bpiplans.com](http://www.bpiplans.com)
- HJ Ventures [www.hjventures.com/bpc.html](http://www.hjventures.com/bpc.html)
- BusinessPlans.com [www.businessplans.com](http://www.businessplans.com)

**Business Plan Software**  
Scores of applications will guide you through writing your business plan. Here are four:


Adapted from the course, “Building Your Fraud Examination Practice” ©2008 Association of Certified Fraud Examiners