



DUE DILIGENCE PROCEDURES IN FORENSIC ANALYSES

This discussion is intended to prepare the construction company owner/operator, the legal counsel, and the analyst for the due diligence component of a forensic investigation.

ROBERT F. REILLY

Whether as plaintiffs or defendants, construction companies are sometimes involved in litigation and other controversy matters. These litigation matters sometimes involve valuation, damages, or other economic analyses related to the construction company, an ownership interest in the company, or a specified economic event. The construction company owner/operator (or the company's legal counsel) often must retain a specialized forensic analyst (hereinafter, analyst) to assist management and/or the legal counsel with the forensic investigation. During the due diligence stage of the analyst's forensic investigation, the analyst collects information from and about the construction company.

The analyst may be asked to prepare an opinion regarding business valuation, transaction fairness, transaction solvency or

insolvency, damages measurement, transfer price determination, or another special investigation for various forensic and dispute resolution purposes. For purposes of this discussion, the analyst could be an accountant, financial consultant, economist, damages analyst, or construction industry consultant — essentially any professional who can perform a special investigation for litigation or other controversy purposes. These various controversy-related purposes may include fraud and misrepresentation, merger and acquisition consummation, taxation, bankruptcy, lender liability, antitrust, shareholder dispute, generally accepted accounting principles (GAAP) compliance, intellectual property infringement, breach of contract, condemnation/eminent domain, and family law.

In such forensic engagements, the analyst may be retained by the construction company management, the company board

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OFTEN, THE ANALYST LEARNS MORE ABOUT THE COMPANY, THE OWNERSHIP INTEREST, OR THE EVENT FROM THE DUE DILIGENCE INTERVIEWS THAN FROM ANY OTHER SOURCE OF INFORMATION.

of directors, a special committee of independent directors, or by the legal counsel (hereinafter, counsel) for any one of the parties in a potential or actual litigation matter. On rare occasions, the analyst may be retained jointly by both parties to a potential or actual litigation claim.

In these types of forensic-related assignments, the analyst often conducts due diligence interviews (hereinafter referred to as management interviews) as part of the forensic or other special investigation assignment. The analyst is asked by one (or more) of the beforementioned parties to investigate the subject construction company, a specific ownership interest in the construction, or a specific event that caused the litigation.

For purposes of this discussion, the management interview involves inquiries (usually in person, sometimes in writing) to any level of employee of the construction company, and the term “management” encompasses all levels of the organization from staff accountants and estimators up to the owner/operator (for a private company) or the board of directors (for a public company). In addition, the analyst sometimes performs due diligence interviews of parties who are not employees of the construction company. These parties may include former employees, independent auditors, counsel, commercial bankers, contractors, clients, and suppliers.

Based on that investigation, the analyst is asked to reach a valuation, damages, transfer price, or other conclusion with regard to the company, the ownership interest, or the event. Often, the analyst learns more about the company, the ownership interest, or the event from the due diligence interviews than from any other source of information. The other sources of information may include the documents provided by the construction company or counsel.

Information obtained by the analyst during the management interview process often affects the development of, the conclusion of, and the reporting of the controversy-related analysis or special investigation. The work product of the analyst’s efforts is usually a special investigation report (to the construction company management or the company board of directors), an expert report

prepared for litigation, or expert testimony before a judicial finder of fact.

The due diligence or management interview process is a forensic procedure performed in virtually every valuation, damages, transfer price, or other economic analysis prepared within a litigation or other controversy-related context. This discussion provides guidance to the construction company owner/operator (including the board of directors’ members) as to what to expect during the due diligence interview process. Additionally, this discussion provides guidance to the counsel who may be working with the forensic analyst as to what to expect during the due diligence interview process. Furthermore, this discussion provides a checklist to the forensic analyst (including to the experienced analyst) regarding the topics to cover during the forensic due diligence investigation. In particular, this discussion considers the following topics:

1. best practices regarding the due diligence management interview process and
2. typical questions that the analyst may ask during the due diligence management interview process.

The due diligence interview process

There are many ways for the analyst to conduct the management interview. There is no absolutely “right” way — or no absolutely “wrong” way — for the analyst to conduct the management interview. However, there are some procedural issues that may help the analyst to conduct and document an effective management interview.

First, the analyst should be thoroughly prepared to conduct the interview. The motto “be prepared” is good advice for every aspect of the forensic analysis, and it is especially appropriate during the management interview process.

The analyst’s preparation typically includes the performance of the following procedures:

1. Thoroughly review the construction company’s website and any other publicly available data about the construction company (or the subject business interest, contract, economic event, and so forth).

2. Completely review all of the documents that have been provided by the construction company management and/or counsel.
3. Comprehensively review and analyze the construction company's historical and prospective financial statements. Pay particular attention to the year-to-year changes in the construction company's financial statement account balances.
4. Thoroughly research the construction company's industry segment and the local, regional, or national economy (as applicable).
5. Prepare a specific list of written questions to ask to each person who will be interviewed during the management interview process.

Second, it is important for the analyst to interview the appropriate individuals. Determining the most appropriate individuals to interview is a collaborative process, with participation of the analyst's client, the client's counsel, and the company's senior management. The selection of the most appropriate individuals to interview will vary with every forensic analysis.

Therefore, the analyst may discuss with the client the general topics that will be covered during the management interview process, and the analyst should request to interview the individuals (at whatever level within the company's organization) who are the most knowledgeable regarding the proposed interview topics.

In some forensic analyses, it may be useful for the analyst to interview individuals from outside of the construction company. Individuals who the analyst may wish to interview could include:

1. legal counsel;
2. independent accountants;
3. commercial bankers;
4. principal customers;
5. principal suppliers;
6. principal competitors; and/or
7. former management employees.

The analyst should balance the need for client confidentiality with the need for information when determining which individuals to interview during the forensic investigation.

Third, the analyst should understand the interviewee's bias, if any. In a typical forensic

investigation, the role of the analyst is to estimate the dispute-related value, damages, transfer price, transaction price, or some economic variable related to the construction company. In most litigation-related forensic investigations, there may be two (or more) sides to the dispute, with each side seeking a very different quantitative outcome.

For example, in a dissenting shareholder appraisal rights action or a shareholder oppression action, the company owners (and the company management) may want a transaction to close and the dissenting shareholders may want to stop the transaction from closing (or to receive their estimate of the company's fair value for their shares). In a situation in which the company management may have a personal bias in the results of an economic event, it is important that the analyst (1) be meticulous in asking all the relevant due diligence investigation questions and (2) be especially prepared to ask (and to document) follow-up due diligence questions.

In many forensic investigations, and especially when the management team has worked for the construction company for a long time, the management has much more information about the company than the analyst has. This access to (and familiarity with) information gives management an advantage in presenting a particular point of view to the analyst.

However, the analyst should endeavor to uncover the complete truth about the issues related to the construction company and/or the subject event by:

1. being sufficiently prepared to conduct the due diligence management interviews and
2. being sufficiently prepared to anticipate the potential bias of the company management or other interviewee.

Fourth, if the analyst can control the interview process, the due diligence interview should not be restricted to one interview session. Let us assume that the analyst follows the due diligence guidance discussed previously — that is, the analyst (1) is prepared, (2) interviews the appropriate individuals, and (3) filters out any potential interviewee bias. Nonetheless, the initial due diligence interview may uncover unexpected issues about the construction company or the subject event.



DETERMINING THE MOST APPROPRIATE INDIVIDUALS TO INTERVIEW IS A COLLABORATIVE PROCESS, WITH PARTICIPATION OF THE ANALYST'S CLIENT, THE CLIENT'S COUNSEL, AND THE COMPANY'S SENIOR MANAGEMENT.

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These issues may require the analyst to conduct additional research and, consequently, to conduct additional follow-up interviews with the company management.

These follow-up interviews are often needed to allow the analyst to pursue unexpected issues raised during an initial interview. These follow-up interviews may be necessary to help the analyst resolve conflicting stories from multiple interviewees. Additionally, these follow-up interviews may be helpful to determine whether the same interviewee changes his or her story after a period of time.

New and unexpected issues that are uncovered in the initial management interview often turn out to be the important issues in the forensic investigation. Analysts on different sides of a forensic investigation often conduct similar analyses and make similar assumptions regarding the subject analysis.

It is usually the treatment of just a few issues that materially impacts the value, price, damages, or other conclusions regarding the construction company or the event.

Understanding what these few issues are, while also knowing how these issues affect value, damages, transfer price, or other conclusions regarding the company or the event, and then presenting a persuasive argument for the appropriate treatment of these issues can allow the analyst to reach a favorable outcome for the client.

In addition, the management interview process often helps the analyst to identify which issues are important to the value, damages, transfer price, or analysis conclusion.

Caveats regarding the due diligence questions

It is important for the analyst to recognize several caveats regarding the use of any standardized list of due diligence management interview questions. First, the list of questions presented at the end of this article is not intended to be comprehensive or all inclusive. Second, not every listed question is appropriate for every forensic investigation.

The list provided at the end of this article is generally applicable to forensic investi-

gations involving valuation, damages, or transfer price analysis involving a going-concern construction company. The list provided at the end of this article should not substitute for the application of the analyst's independent judgment and professional experience.

Summary and conclusion

The management interview process is one part of the analyst's due diligence procedures performed during the forensic investigation of a construction company, a company ownership interest, or an economic event. An analysis of this kind could involve controversy-related investigations pertaining to a breach of contract, tort, taxation, fraud and misrepresentation, bankruptcy, eminent domain and condemnation, family law, antitrust, or other dispute. Such controversy-related investigations could involve quantitative analyses related to business valuation, transaction pricing and structuring, economic damages measurement, intercompany transfer pricing, or other economic events.

This discussion was intended to prepare the construction company owner/operator, the legal counsel, and the analyst for the due diligence component of the forensic investigation.

Related to any forensic investigation, it is important for the analyst to effectively conduct the management interview process. The management interview process is an important forensic investigation procedure. During the interview process, the analyst often learns important information that may influence the quantitative analyses related to the forensic investigation.

The primary purpose of the management interview is to enable the analyst to get questions answered. In addition, the interview may also be helpful in uncovering information that the analyst may not otherwise have access to.

A list of representative due diligence management interview questions is presented at the end of the article. This list is not intended to be comprehensive. Instead, this list is intended to provide general guidance to assist the analyst's ability to generate ideas when preparing for the interview process.



The experienced analyst should recognize that every construction company, company ownership interest, contract, and economic event has unique attributes. Additionally, neither the information provided previously nor the list provided hereafter should substitute for the analyst's application of independent judgment and professional experience.

Forensic analysis due diligence representative management interview questions

For purposes of this list, the management interview questions are categorized into three principal categories:

1. questions related to the operations of the construction company or the company business ownership interest;
2. questions related to the relevant construction industry segment and the subject economy; and
3. questions related to the financial statements of the construction company or of the business's ownership interest.

Even the most experienced analyst may fail to ask the perfect questions to uncover every material issue related to the subject dispute. Therefore, at the end of the due diligence interview session, the analyst may ask each interviewee a catch-all question. For example, the analyst may ask, "Do you know of any information that has not been covered and that could have a bearing on the issues we talked about?" This type of general question may provide an opportunity for management to volunteer any material information that was previously undisclosed during the interview.

Questions related to the construction company's operations

This category of questions helps the analyst understand how the construction company or the company ownership interest operates. By asking these questions, the analyst may gain an understanding of the business risks and opportunities that exist for the construction company or the company ownership interest.

Every forensic analysis has unique attributes. These questions may help the analyst

to uncover the factors that are unique to the particular forensic investigation.

Company's history and organization.

1. When was the company founded?
2. Describe the key events in the company's history.
3. Describe any historical mergers, acquisitions, or divestitures.
4. Describe any historical ownership changes.
5. Describe any historical changes in the company's lines of business.
6. Describe any historical changes in the geographic area served.
7. Provide a list of the company owners and the respective ownership interests.
8. Are any of the owners currently active in the business? If yes, explain.
9. Is any of the company stock subject to any stockholders' agreement, stock restriction agreement, buy-sell agreement, or the like?
10. List the names of any subsidiaries of the company or ownership interests in other companies, including the percentage owned by the parent company.
11. List all known related parties (including subsidiaries, affiliates, or relatives) that the company does business with.
12. List the states (or the countries) in which the company currently transacts business.
13. Describe the locations of the company's facilities and the primary activities that occur at each facility.
14. Describe all historical transactions in the company stock in the five years prior to the date of the forensic analysis. Describe the circumstances surrounding each of the transactions, including whether the transaction was at arm's length.
15. Describe all current litigation involving the construction company or the company ownership interest classified by (a) claims against the company and (b) claims on behalf of the company.

Services offered.

1. Describe the company's service lines and the approximate percentage of the most recent fiscal year's company rev-



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EVEN THE MOST EXPERIENCED ANALYST MAY FAIL TO ASK THE PERFECT QUESTIONS TO UNCOVER EVERY MATERIAL ISSUE RELATED TO THE SUBJECT DISPUTE.

1. Describe the process by which the company prices its services.
2. Describe the process by which the company prices its services.
3. What other services typically compete with the company?
4. What are the advantages and disadvantages of the company's services versus the services of the competitor companies?
5. Why do clients select this company to provide services instead of the competitor companies?
6. How long is the typical service sale cycle?
7. How frequently are client services changed/modified?
8. Which service lines have achieved the fastest revenue growth? Which services have reported the slowest revenue growth?
9. Which service lines are the most profitable? Which service lines are the least profitable?
10. Does the company own patents, proprietary technology, or trade secrets that prevent or hinder competitor companies from duplicating its services?
11. Describe any services that are unique or not easily duplicated by competitors.
12. Is the revenue from the company's services cyclical?
13. Is the revenue from the company's services seasonal? If so, what are typically the strongest and weakest months for the company's revenue?
14. What are the company's plans for future services?
15. Describe the research and development activities of the company.

Manufacturing.

1. What percentage of services is performed by the company and what percentage of services is subcontracted to a third party?
2. Where are the company's facilities?
3. Describe the company's construction process.
4. Is the company's process more labor intensive or more capital intensive?
5. What are the ages and the conditions of the company's facilities?

6. What is the capacity of each facility relative to the current operating levels?
7. Who is the plant manager of each facility and how long has he or she been employed by the company?
8. Does the company have any planned expansion of its facilities?
9. Does the company have any planned asset dispositions related to its facilities?
10. How do the facilities compare to similar companies in the same industry segment?
11. Do the facilities enable the company to earn superior or inferior profit margins compared to similar companies in the same industry segment? Why?
12. How technologically advanced are the company's processes?
13. Are the company's employees unionized?
14. Describe the company's relationship with its employees.
15. Does the company have any outstanding workers' compensation claims?

Clients.

1. Provide an overview of the company's client base.
2. How are the company's services used by clients?
3. List the 10 largest clients (as measured by revenue) for the most recent fiscal years, and then list the percentage of total revenue made to each of those clients.
4. For the company's largest recurring clients (as measured by revenue), how long has each party been a client of the company?
5. Does the company provide credit to any of its clients? If so, describe the conditions under which the company offers credit and the terms of the credit offered by the company.
6. Do clients tend to consistently purchase services from the same construction company, or do they periodically switch service providers?
7. Identify the most important markets for the company's services.
8. What are the key recent trends in each of these markets?



9. Are the company's key markets increasing, decreasing, or stable in terms of size?
10. Does the company have existing contracts with clients? If so, provide copies of representative contracts.
11. Approximately how many current clients does the company have?
12. Is the company typically the sole supplier of its clients? Or do clients typically buy services from multiple suppliers?
13. Are there any large contracts, significant new clients, or new markets that the company anticipates adding during the next 12 months?
14. Are there any large contracts, existing clients, or current markets that the company expects to lose, terminate, or abandon during the next 12 months?
15. Does the company provide services to federal, state, or local governments or governmental agencies? If so, what percentage of the company's total business is from federal, state, or local governments or governmental agencies?

Suppliers.

1. What raw materials or other supplies does the company rely on?
2. Who are the company's principal suppliers?
3. How many suppliers does the company have?
4. Are any of those suppliers the sole source of supply for the company?
5. For each key supplier, how long has the company had a business relationship with that supplier?
6. Are any of the suppliers the only (or primary) entity that supplies the industry segment with a product?
7. Describe how supplies were/are priced.
8. What has been the trend in the cost of supplies?
9. List and provide copies of any long-term supply contracts or other special purchasing arrangements in place with suppliers.
10. How much notice is required by either the company or the supplier to terminate the business relationship?
11. Could the company switch suppliers without a detrimental impact on the business? Why or why not?
12. If the company had to find a new supplier for a key material, (a) could it find a new supplier, and if so, (b) how long would it take?
13. Has the company considered becoming more vertically integrated by acquiring a supplier or by expanding its line of business?
14. To what extent does the company fabricate versus assemble products, and how much flexibility does the company have in this respect?
15. Does the company use derivatives or other hedging activities to protect against increasing prices?

Marketing.

1. What is the approximate total size of the market (in dollars) for the services offered by the company?
2. What is the company's estimated market share for each of the services offered?
3. How has the company's market share for each of the services offered changed in the last five years? Ten years?
4. What are the most important selling features of the company's services (e.g., price, quality, brand name, service, and so forth)?
5. What warranty does the company offer for its services? How frequently do clients submit warranty claims?
6. How intense is the competition in the relevant industry segment?
7. How are the company's services priced?
8. Describe how and by whom new business opportunities are identified, followed up on, prioritized, and pursued.
9. What distribution channels does the company use for its services?
10. How is technology used in the company's marketing?
11. Describe any changes in the marketing budget from year to year.
12. Describe the typical experience and typical tenure of the sales staff.
13. Does the company depend on one employee or a small number of employees to generate sales?



THE ANALYST MIGHT ASK THE INTERVIEWEE TO DESCRIBE HOW AND BY WHOM NEW BUSINESS OPPORTUNITIES ARE IDENTIFIED, FOLLOWED UP ON, PRIORITIZED, AND PURSUED.



**ANOTHER
EXAMPLE OF A
QUESTION THE
ANALYST MAY
ASK IS "DO YOU
EXPECT ANY
CHANGES IN THE
SERVICE LINES
OFFERED BY THE
COMPANY IN THE
NEXT FIVE YEARS
(DUE TO EITHER
EXPANSION OR
CONTRACTION)?"**

14. Describe the historical turnover in the company's sales staff.
15. On what basis are the company's salespeople compensated?

Management and employees.

1. Provide a copy of the most current company organization chart, along with résumés for senior members of the management team.
2. How long have the senior members of the management team been employed by the company?
3. Do any of the senior members of the management team have known health issues? Are any of the senior members of the management team close to retirement age?
4. Provide the total compensation, including perquisites, for each member of the company's management team.
5. How many hours per week do each of the senior members of the management team spend working for the company?
6. How many employees does the company have?
7. What unions represent the company's employees, and when do any union contracts expire?
8. How many employees are covered by collective bargaining agreements?
9. Has the company experienced any work stoppages due to a strike?
10. What is the total number of employees in each organizational area?
11. What are the critical skills and backgrounds needed in the development and distribution of the company's services?
12. Identify any management or technical positions that have been difficult for the company to fill due to shortages of labor with the appropriate skills.
13. Describe the current labor market for the company's industry segment. That is, is the supply of employee candidates robust or sparse?
14. How extensively are independent contractors used?
15. List the members of the company board of directors and provide a description of the background of each member.

Company's outlook.

1. Describe the company's strengths, weaknesses, opportunities, and threats.
2. What are the most important things the company must accomplish to be successful over the next five years?
3. What is the expected annual growth over the next five years in revenue, operating profit, and net profit?
4. What is the biggest risk to achieving the projected financial results of operations?
5. How could the actual financial results of operations greatly exceed the projected financial results of operations?
6. What is the level of capital spending required to support the company's projected revenue growth?
7. What are the known large and infrequent capital expenditures that will be made within the next five years (e.g., a plant expansion, an information technology upgrade, the replacement of major machinery)?
8. Do you expect any changes in the service lines offered by the company in the next five years (due to either expansion or contraction)?
9. Are there any internal factors that may constrain business growth, such as a lack of access to capital or insufficient cash?
10. Does the company plan to acquire other companies in the next five years?
11. Are the company's profit margins expected to change over the next five years? Why or why not?
12. Does the company prepare an annual budget, plan, projection, or forecast? Describe the process used to create the company's annual budget, plan, projection, or forecast.
13. Is the annual budget or forecast considered to be conservative, baseline, or aggressive?
14. How do the projected revenue growth and profit margins compare to historical revenue growth and profit margins?
15. Does the company plan any changes in ownership in the future (through share buybacks or the issuance of shares)?



Questions related to construction industry segment and economic factors

These questions may help to put the construction company in context relative to other similarly situated companies. These questions may also help the analyst to understand the long-term outlook for the company.

Industry and economy.

1. What national or regional economic factors impact the company's revenue (e.g., interest rates, inflation rate, disposable income, and so forth)?
2. How does this company differ from other competitor companies in the relevant segment industry?
3. How has the company performed during recent recessions? During recent strong economic periods?
4. Is government regulation a factor for the company? If so, how?
5. What stage of the industry life cycle is the relevant industry segment in (i.e., introduction, growth, maturity, or decline)?
6. What are the most important recent developments or trends in the industry segment?
7. How many companies of your approximate size (e.g., revenue within plus or minus 50 percent) operate in the industry segment?
8. Is the industry segment generally comprised of small local companies or large multinational companies?
9. Describe the barriers to entry in the relevant industry segment.
10. How has the size of the industry segment changed in the last five years?
11. How is the size of the industry segment expected to change in the next five years?
12. What level of innovation and/or change is required to stay competitive in the industry segment?
13. Does the company generally lead or lag behind the industry segment in new services, pricing, and other similar factors?
14. Is the technology employed at the company considered (a) outdated, (b) current, or (c) leading edge compared to the industry segment standard?
15. What trade associations does the company belong to?

Competition.

1. Who are the most significant competitors of the company? Describe any publicly traded competitors as well as any privately owned competitors.
2. Does the company management monitor the financial results and/or public filings of any publicly traded peer group companies? Describe which ones.
3. How large are the company's principal competitors in terms of revenue?
4. Where are the company's principal competitors located?
5. What is the estimated principal competitors' market shares for each of the services offered by the company?
6. What are the primary strengths and weaknesses of the principal competitors versus the subject construction company?
7. On what basis do companies in this industry segment compete (e.g., price, quality, service, technology, or some other basis)?
8. How often do the company's clients switch between the subject construction company and its competitors?
9. How easy is it for the company's clients to switch between the subject construction company and its competitors?
10. Do any pricing competitors have proprietary technology, trade secrets, or patents that give them a competitive advantage over the subject construction company?
11. Do the company's principal competitors have greater or weaker economies of scale compared to the subject construction company?
12. How has competition changed in the last five years (e.g., new competitors, regulatory changes that affected competition, erosion of pricing power, and so forth)?
13. How does branding help (or hurt) the company to compete? Or are the company's services unbranded and considered to be commodity services by the company's clients?



THESE QUESTIONS MAY HELP TO PUT THE CONSTRUCTION COMPANY IN CONTEXT RELATIVE TO OTHER SIMILARLY SITUATED COMPANIES.



14. For each service line, if the company bids on a business opportunity, (a) what competitor companies does it typically compete against and (b) why is the company typically successful/unsuccessful in winning the competitive bid?
15. How intense is the competition among the companies in the industry segment?

Questions related to the company's financial statements

Understanding the construction company's financial statements is an important procedure in just about any forensic analysis. This is because of the significant impact that the financial statements may have on the company's business value, transaction price, damages measurement, or transfer price.

A discussion of the construction company's historical financial statements may also inform the analyst as to any financial statement normalization adjustments — or financial statement errors or irregularities — that need to be considered in the forensic analysis.

The analyst should have a general understanding of each account on the company's financial statements and a more thorough understanding of the material accounts on the statements.

Consider, for example, the company's accounts receivable. The analyst may need to understand:

1. if the company management considers the stated accounts receivable balance to be collectable;
2. how long the accounts receivable typically remain outstanding;
3. what customer accounts are included in the accounts receivable account balance;
4. if the accounts receivable balance is related to the company's revenue or to some other business activities; and/or
5. other similar issues.

Questions that relate to each and every account balance on the financial statements are not included in the following list. This is because the number of questions that relate to the individual accounts in the financial statements would be beyond the scope of this discussion.

Historical financial results.

1. If applicable, provide a copy of the independent accountant's letters to the construction company management for the past five years.
2. Describe the accounting principles used by the company (e.g., revenue recognition methods, cash versus accrual basis, and property accounting methods).
3. Have there been any changes in accounting principles in the preparation of the financial statements over the past five years?
4. How do the current accounting principles compare to the accounting principles used by other competitor companies in the industry segment?
5. Explain all significant year-over-year changes in the financial statement accounts (e.g., the interviewee may explain changes such as (a) a 50 percent annual increase in accounts payable, (b) a 15 percent annual decrease in revenue, or (c) the gross margin improved from 30 percent of sales to 40 percent of sales).
6. Describe any nonrecurring or extraordinary income or expense items recorded during the past five years.
7. What plans does the company have for capital expenditures during the next 12 months?
8. Has the management or the board of directors received any offers to buy the company during the past five years? If so, describe the details of each offer or provide a copy of any written offers received.
9. Have any of the stockholders personally guaranteed the company loans? If yes, explain.
10. Describe any short-term and long-term sources of credit and how they were used over the past five years.
11. Is the current capital structure (a) sustainable and (b) expected to change over the next five years?
12. Has the company complied with all of its outstanding loan covenants? If not, explain why.
13. Discuss the company's dividend history and the outlook for future dividend payments.



UNDERSTANDING THE CONSTRUCTION COMPANY'S FINANCIAL STATEMENTS IS AN IMPORTANT PROCEDURE IN JUST ABOUT ANY FORENSIC ANALYSIS.





14. Summarize any assets owned by the company that may be classified as (a) nonoperating assets or (b) excess assets. That is, are there any assets that do not contribute to the primary operations of the company (e.g., cash and cash equivalent bal-

ances that may not be needed for future working capital or capital expenditures)?

15. Describe any of the company's intangible assets or contingent liabilities that are not recorded on the company's balance sheet. ■

