

# FAMILY LAWYER

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From the Top**

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An Ethical Minefield?**

**Financial Pitfalls in  
Divorce Settlements**

**QDROs  
Gone Wrong**

**Managing Your  
Stress & Health**



# Digging Deeper Into Lifestyle Analysis

By Tracy L. Coenen, Forensic Accountant

A thorough lifestyle analysis can help discover undisclosed income and assets.

In an ordinary lifestyle analysis, the divorce financial analyst extracts all transactions from bank, brokerage and credit card statements, categorizes them and calculates totals for each category for the analysis period. This is an important exercise to assess what the parties divorcing have historically spent and determining an appropriate level of support. It's also used to determine whether a spouse wasted or dissipated marital assets.

More importantly, the lifestyle analysis can be used to uncover hidden income and assets, or help prove that one spouse's lifestyle exceeds their reported sources of income. The typical lifestyle analysis may only scratch the surface of the financial facts of the case, leaving behind important clues about the parties' finances. Diving deeper can uncover hidden finances that were overlooked.

## Uncovering Hidden Assets

A thorough lifestyle analysis can help discover assets that were undisclosed in the divorce. Each transaction from the bank, brokerage and credit card accounts must be traced to determine where the funds went. It's important to ensure all statements have been received and analyzed, as one missing

statement could hold the key to a hidden asset.

The key to discovering hidden income and assets is finding transactions with unidentified or unusual origins or destinations. Large checks made out to cash, significant cash withdrawals, substantial payments to unknown entities, and transfers to previously undisclosed accounts are warning signs of hidden assets. Large cash transactions must be explained, and absent proof of an asset purchase, it's possible cash was hidden or used for non-marital purposes.

The purpose behind substantial payments to unknown entities must be verified. It's possible the payment may have been for a house, a vehicle, jewelry, or other valuable assets. Even small payments can yield important clues to hidden income or assets. In one case, a relatively small check was issued to a utility company. On its face, this did not appear unusual, and its small value could have caused it to be overlooked. However, after investigation it was determined the husband secretly purchased a home several years before and didn't disclose this asset during the divorce.

Payments to unknown entities must also be verified to determine if they're

related to investments in income-producing opportunities, or the transfer of assets intended to deprive the spouse of a share. Even payments to legitimate entities, such as a credit card company should be verified to determine whether a balance was actually due, or whether they were intentional overpayments the spouse hoped wouldn't be refunded until after the divorce settlement.

The most common kind of discovery in this portion of the lifestyle analysis is an undisclosed bank or brokerage account often opened during marriage. Transfers were occasionally made, and one or both spouses forgot about the existence of the account. Once one account is discovered, it can create a domino effect in which several others are found. The hidden account may have been used to fund other hidden accounts, and carefully tracing all movements of funds will lead to their discovery.

## Finding Sources of Income

A properly performed lifestyle analysis can also uncover undisclosed income through direct or circumstantial evidence. The forensic accountant's bank and brokerage statements analysis may find deposits clearly from an undisclosed source of income.



It's more likely, however, that the discovery of income will require an indirect approach. The lifestyle analysis, also called the "expenditures method" of income analysis, focuses on a spouse's spending patterns relative to the known sources of income and funds. Is the spouse's spending in line with known and reported sources of income? Is reported income sufficient to fund this lifestyle? If spending exceeds the disclosed income and assets, and isn't explained through other cash sources like loan proceeds or inheritance, it's likely funded through undisclosed sources.

## Examination of Expenditures

The lifestyle analysis must go beyond a simple summation of expenses. Expenses must be evaluated to determine if anything is missing. Is the monthly mortgage payment accounted for? Have all car payments been included? If some items are missing, it may be due to an error in classification during data entry, or missing account statements.

It's often necessary to divide expenses between family members to determine which spouse or child benefited from the expenditure. This analysis can get complicated, so an experienced analyst is necessary to ensure completeness and uniformity of the calculations. Expenditures must also be analyzed to determine if any are unusual or non-recurring, or if any need adjustments to normalize expenses.

Assumptions may need to be made when information is missing from the analysis. For example, the spouse may know that \$50,000 of improvements were made to the residence during the period being analyzed. If that expenditure isn't shown in the records, it may signify missing documents. Certain cash expenditures that aren't reflected in the bank statements must also be considered.

All told, a thorough lifestyle analysis must include an accurate tabulation of transactions in the records, reasonable

estimates for items that may be missing, and an overall evaluation of the quality and completeness of the records.

## Using the Lifestyle Analysis

An often unintended consequence of a lifestyle analysis is damaged credibility of the spouse. As the financial lies begin to unravel and generate momentum, the spouse may quickly lose credibility in the eyes of the court. Even if their income and assets cannot be determined to the penny, there's often plenty of circumstantial evidence allowing the forensic accountant to draw reasonable conclusions of the truth behind the finances. ■



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