



The Power of Collusion: Fraud Made Easy

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We take a dynamic approach to serving our clients – combining deep technical knowledge with applied forward-thinking experience. Our wide range of services include:

Tax

Assurance

Consulting:

- Forensic, Valuation & Litigation Services
- Risk Advisory Services
- Transaction Advisory Services
- Management Consulting Services

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- | | |
|-----------------------|------------------------------|
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| Healthcare | Entertainment & Sports |
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We're a team of nearly 800 trusted advisors, many who are CPAs and have backgrounds as CFOs and controllers, that service the Southeast US. We use our diverse experience to solve rapidly evolving and complex business issues.

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Forensics, Valuation and Litigation Support Services

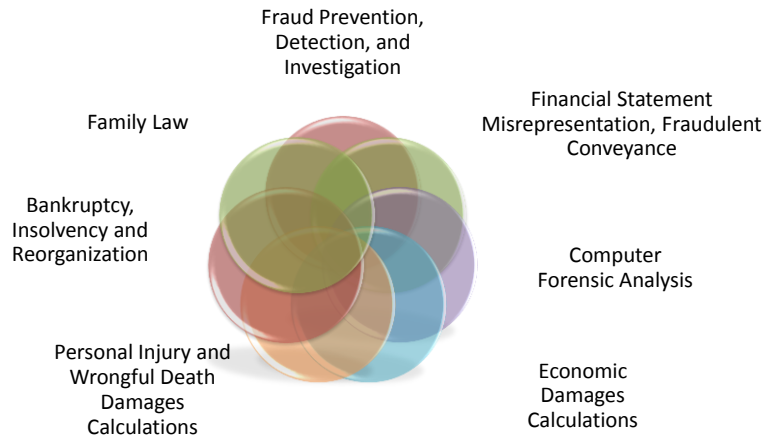
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Fraud Investigations	Fraud Risk Assessments	Business Valuations	Litigation Support
<ul style="list-style-type: none"> • Embezzlements • Contract and procurement fraud • Ponzi schemes • Conflicts of interest • Other 	<ul style="list-style-type: none"> • Proactive risk evaluation • Internal control reviews 	<ul style="list-style-type: none"> • Buy/Sell agreements • Purchase price allocations • Goodwill and intangible impairment • ESOP • Gift and estate valuation 	<ul style="list-style-type: none"> • Damage calculations • Lost profits • Discovery assistance • Other

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What is Forensic Accounting?

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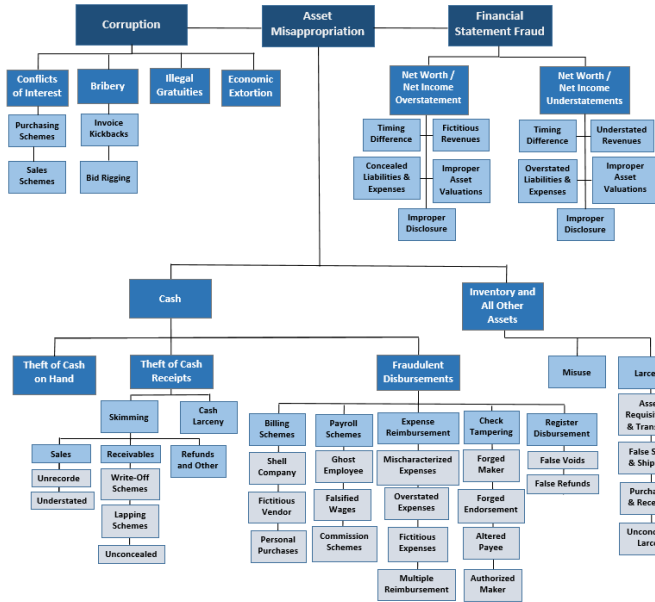
About the ACFE Fraud Study

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- The ACFE Report to the Nations is contributed by CFEs around the world.
- The 2016 study consists of 2,400 cases, with over 1,000 cases coming from the United States.
- Can only study fraud cases that are identified and reported.
 - Hard to accurately determine global impact of fraud.

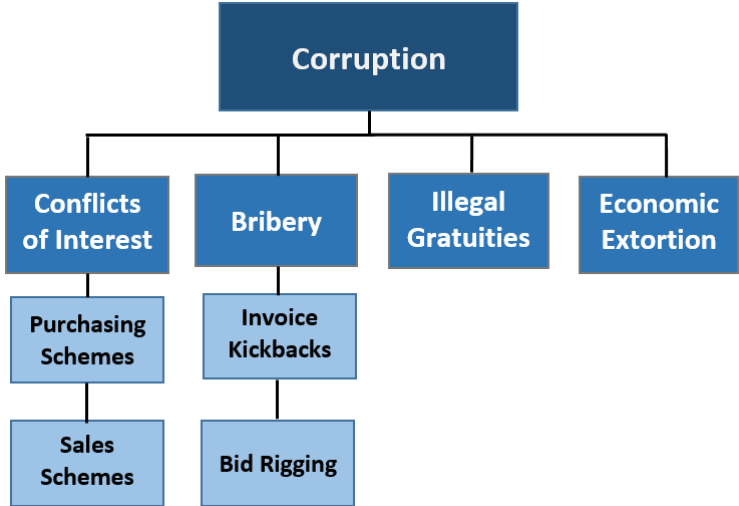
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Fraud Tree elliott davis



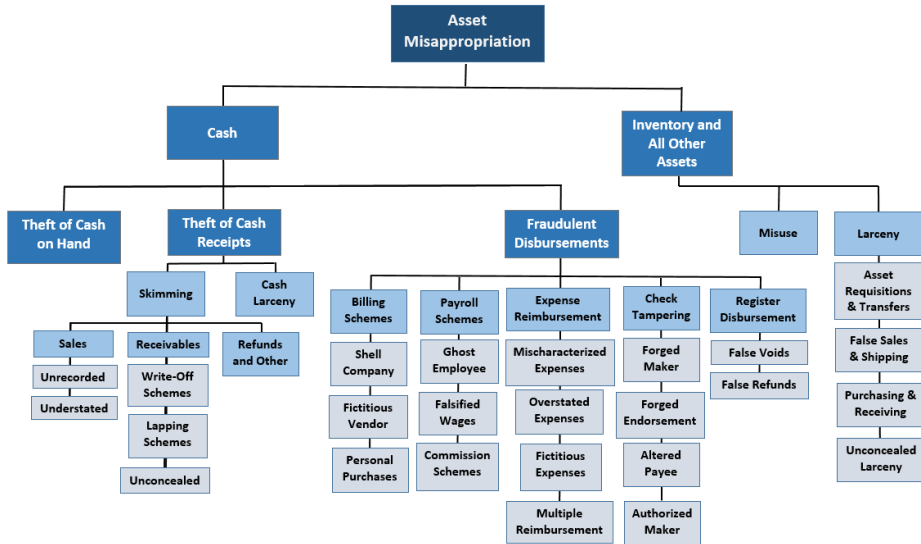
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Fraud Tree - Corruption elliott davis



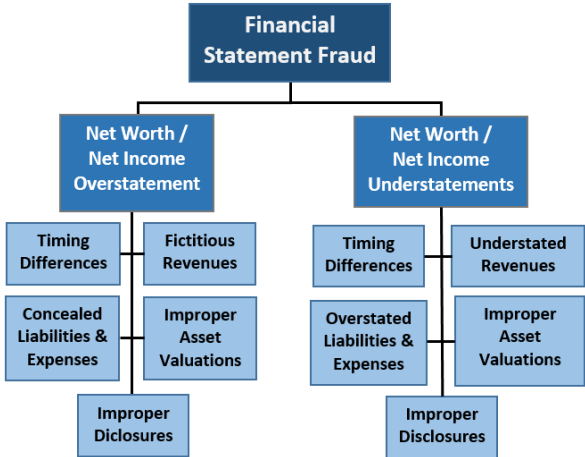
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Fraud Tree – Asset Misappropriation **elliott davis**



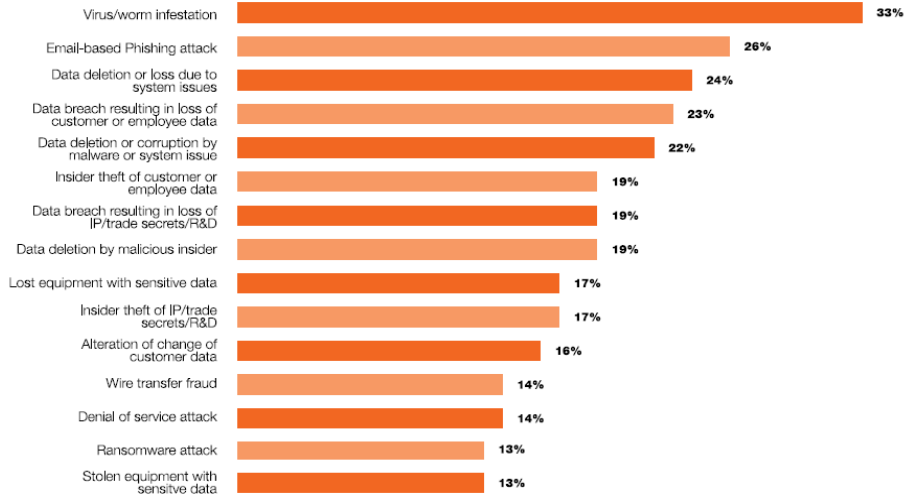
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Fraud Tree – Financial Statement Fraud **elliott davis**



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Other Fraud Types - Cyber



• From the Kroll Global Fraud & Risk Report (2016/17)

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Schemes by Industry



Industry/Scheme	Banking and Financial Services	Government and Public Administration	Manufacturing	Health Care	Education	Retail	Construction	Insurance	Oil and Gas	Technology	Services (Other)	Transportation and Warehousing	Telecommunications	Services (Professional)	Religious, Charitable, or Social Services
Cases	368	229	192	144	132	104	86	85	74	74	70	68	62	60	52
Billing	9.5%	25.3%	32.8%	31.3%	34.1%	15.4%	27.9%	17.6%	20.3%	29.7%	22.9%	22.1%	12.9%	26.7%	25.0%
Cash Larceny	11.1%	7.9%	5.2%	9.7%	13.6%	12.5%	8.1%	4.7%	4.1%	5.4%	15.7%	4.4%	1.6%	13.3%	9.6%
Cash on Hand	17.9%	10.5%	8.3%	11.1%	17.4%	11.5%	7.0%	4.7%	9.5%	8.1%	22.9%	5.9%	4.8%	20.0%	13.5%
Check Tampering	9.5%	9.2%	13.5%	14.6%	7.6%	9.6%	10.5%	17.6%	4.1%	5.4%	18.6%	10.3%	6.5%	31.7%	25.0%
Corruption	37.5%	38.4%	48.4%	30.6%	31.8%	32.7%	36.0%	28.2%	48.6%	44.6%	28.6%	51.5%	41.9%	16.7%	28.8%
Expense Reimbursements	5.4%	15.7%	22.9%	20.1%	15.9%	8.7%	20.9%	9.4%	10.8%	27.0%	12.9%	8.8%	19.4%	16.7%	25.0%
Financial Statement Fraud	12.0%	7.9%	10.9%	13.2%	5.3%	5.8%	17.4%	7.1%	6.8%	12.2%	17.1%	5.9%	9.7%	11.7%	3.8%
Non-Cash	10.6%	14.8%	30.2%	13.2%	17.4%	32.7%	22.1%	5.9%	17.6%	18.9%	22.9%	29.4%	38.7%	10.0%	13.5%
Payroll	3.8%	13.5%	11.5%	9.7%	7.6%	3.8%	16.3%	5.9%	8.1%	2.7%	11.4%	7.4%	3.2%	11.7%	13.5%
Register Disbursements	2.7%	1.7%	5.7%	2.1%	1.5%	8.7%	1.2%	0.0%	0.0%	1.4%	5.7%	2.9%	3.2%	1.7%	1.9%
Skimming	6.8%	14.0%	8.3%	12.5%	25.0%	17.3%	15.1%	10.6%	8.1%	5.4%	21.4%	11.8%	6.5%	18.3%	19.2%

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Schemes Based on Perpetrator's Department

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Department/Scheme	Accounting	Operations	Sales	Executive/Upper Management	Customer Service	Purchasing	Finance	Warehousing/Inventory
Cases	348	312	260	228	189	161	94	86
Billing	27.0%	21.5%	14.2%	36.8%	9.5%	25.5%	24.5%	9.3%
Cash Larceny	14.9%	7.7%	8.1%	10.1%	14.3%	3.7%	18.1%	0.0%
Cash on Hand	15.5%	13.8%	6.5%	12.3%	18.5%	13.0%	22.3%	5.8%
Check Tampering	30.5%	9.3%	2.7%	13.6%	7.4%	6.2%	24.5%	1.2%
Corruption	21.6%	34.9%	34.6%	50.9%	25.4%	68.9%	37.2%	32.6%
Expense Reimbursements	15.8%	12.2%	14.2%	23.7%	5.8%	14.9%	14.9%	3.5%
Financial Statement Fraud	12.9%	5.4%	7.3%	30.3%	3.7%	3.1%	23.4%	9.3%
Non-Cash	7.2%	19.6%	20.4%	24.6%	16.4%	18.6%	13.8%	57.0%
Payroll	21.6%	6.4%	1.5%	10.1%	3.7%	5.0%	7.4%	2.3%
Register Disbursements	3.2%	4.2%	5.0%	1.8%	3.2%	4.3%	3.2%	0.0%
Skimming	17.5%	12.8%	11.9%	11.8%	16.9%	7.5%	12.8%	5.8%

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Polling Question #1

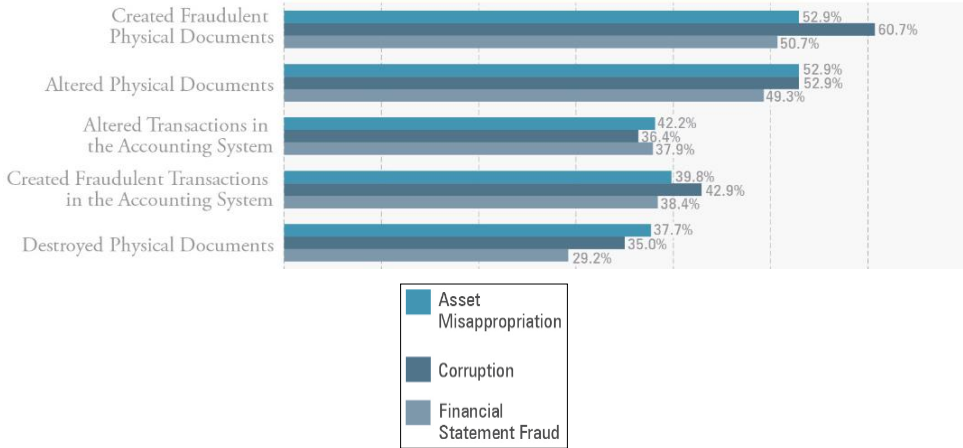
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- Which department is most likely to be impacted by corruption?
 - A) Accounting
 - B) Purchasing
 - C) Sales
 - D) Customer Service

Answer: B

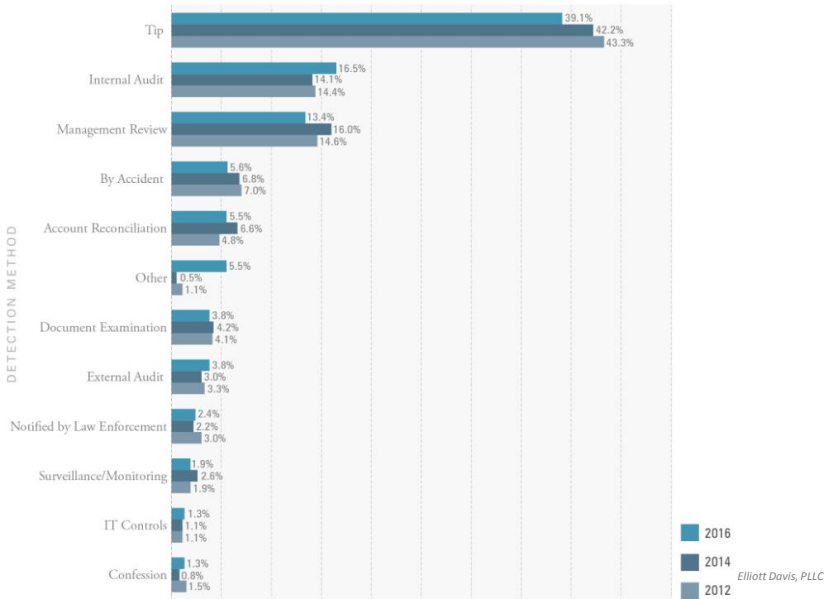
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Common Concealment Methods elliott davis



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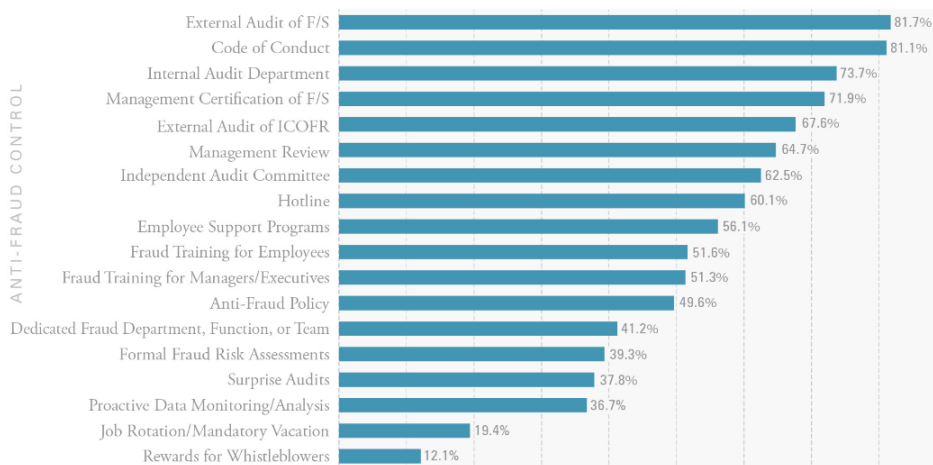
How Fraud is Detected elliott davis



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Anti-Fraud Controls at Victim Organizations

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Trends in Anti-Fraud Controls

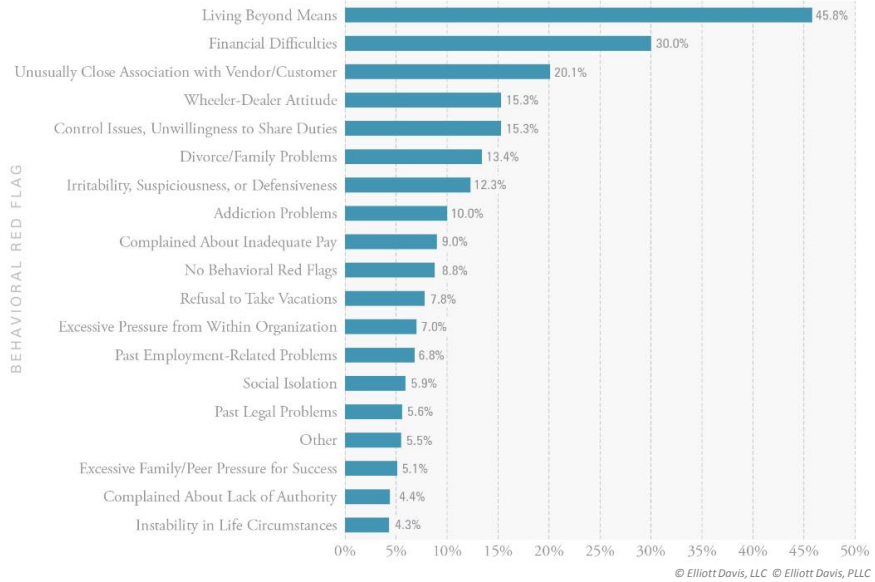
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Control	2010 Implementation Rate	2016 Implementation Rate	Change from 2010–2016
Hotline	51.2%	60.1%	8.9%
Fraud Training for Employees	44.0%	51.6%	7.6%
Anti-Fraud Policy	42.8%	49.6%	6.8%
Code of Conduct	74.8%	81.1%	6.3%
Management Review	58.8%	64.7%	5.9%
Surprise Audits	32.3%	37.8%	5.6%
Fraud Training for Managers/Executives	46.2%	51.3%	5.2%
Independent Audit Committee	58.4%	62.5%	4.1%
Management Certification of Financial Statements	67.9%	71.9%	4.0%
Rewards for Whistleblowers	8.6%	12.1%	3.5%
Job Rotation/Mandatory Vacation	16.6%	19.4%	2.8%
External Audit of Internal Controls over Financial Reporting	65.4%	67.6%	2.2%
Employee Support Programs	54.6%	56.1%	1.5%
External Audit of Financial Statements	80.9%	81.7%	0.8%

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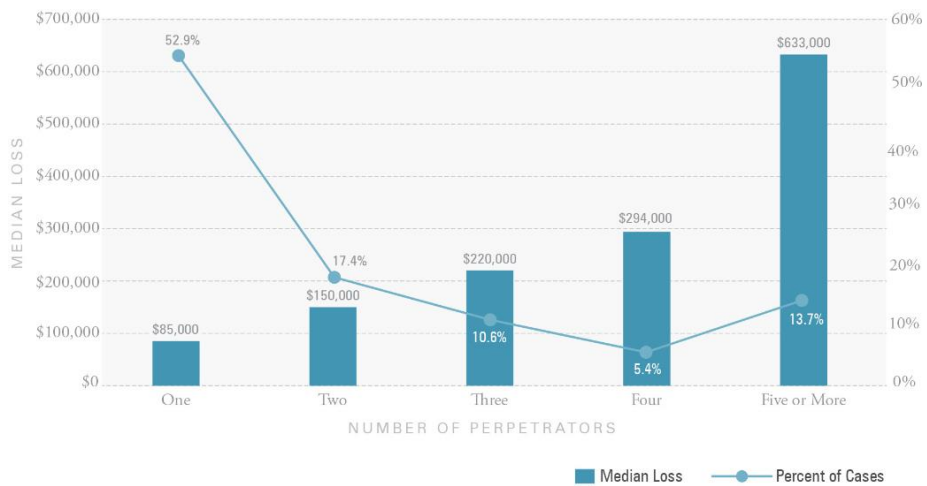
Behavioral Red Flags Displayed by Perpetrators

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Impact of Collusion

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How Collusion Impacts Fraud Detection

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- Colluding individuals can circumvent the strongest internal controls.
- Internal and external auditors may opine that appropriate controls are in place but hard to evaluate if and when employees are working together to commit fraud.
- The presence of collusion may make it appear that internal controls are functioning as they should.

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How Collusion HELPS an Investigation

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- Fraudsters need to coordinate their activities and are likely to communicate about their intent.
 - Provides opportunity for investigators to uncover evidence.
- Emails, phone and text communications are now logged and saved by companies.
- Analytics and audit trails can reveal patterns within accounting systems of colluding employees.
 - Example: Timing of approvals.

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Disclosure on the Case

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- The name of the firm and employees have been modified to protect the privacy of the company.
- The investigation is on-going and the suspects are awaiting trial.

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Case Introduction

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- Company with over 3,000 employees and revenues exceed \$300 Million.
- The Company has a robust accounting and finance department that is separated into several functional areas (Accounts Payable, Tax, Treasury, etc.)
- The Company is regularly audited.

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Initial Response

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- The Company was notified by one of its banks that there were suspicious round dollar wire transfers.
- Management identified two employees involved in creating the suspicious wire transfers.
 - One was the manager in charge of all treasury functions, the other was a accountant.

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The “Confession”

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- Both employees were interviewed regarding the bank identified wire transfers.
- The Manager confessed to transferring approximately \$600,000 to her and the Accountant’s bank accounts.
- The Manager confessed that she and the Accountant had experienced financial hardship.
- The Accountant provided no confession.

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Elliott Davis' Plan of Attack

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- Review evidence collected by company, develop list of subjects of interest/accomplices.
- Developed list of all known bank accounts linked to subjects of interest. Used public filings (bankruptcy documents), personnel files, emails, etc.
- Extensive electronic discovery – email reviews, deleted file review, cell phone examination, etc.
- Searched all bank accounts utilized by the Company identify wire transfers to known subject of interest bank accounts.
- Traced wire transfers to the general ledger.

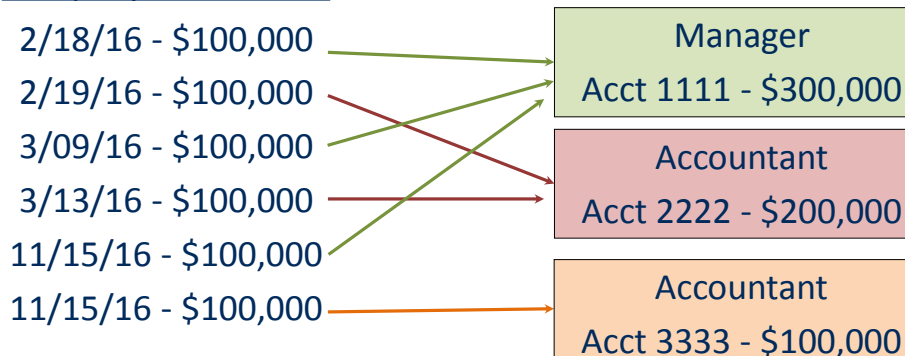
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2016 Wire Transfers

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- Based on notifications from the bank and the Manager's confession, the initial \$600,000 of unauthorized wire transfers were easily identified.

Company Bank Acct X



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2015 Wire Transfers

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Company Bank Acct X

8/20/15 – \$105,163

8/24/15 – \$122,000

10/20/15 - \$50,000

10/28/15 - \$50,000

Manager

Acct 1111 - \$172,000

Accountant

Acct 4444 - \$155,163

Observations:

- New bank account being used by the Accountant (3 Accounts Total)
- \$105,163 is a very specific wire transfer amount...

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Polling Question #2

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- Why do you think the Accountant picked \$105,163 to wire to himself in August 2015?
 - A) It is his favorite number.
 - B) Relates to a specific debt he needs to pay off.
 - C) It is an amount the company frequently wires.
 - D) It is identical to another payment made in August.

Answer: D

- The Company had sent a legitimate wire to a vendor on the same day in the same amount.

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New Findings – Additional Transfers

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- For 2015 - Identified 10 wire transfers to employee's personal bank accounts.
- For 2014 - Identified 8 wire transfers to the Manager's Bank Account 1111, but \$0 to Accountant's bank accounts.
- Wire transfers no longer from Company Account X, but were from Company Account Y – the main operating account.

Sample wire transfers from 2014 & 2015

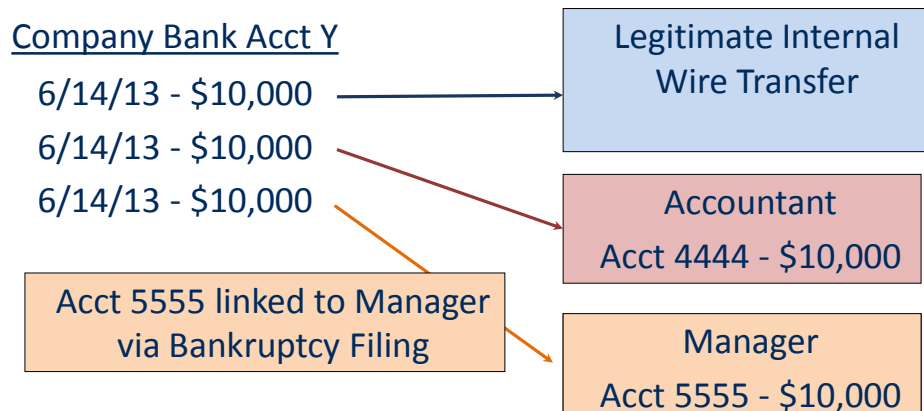
8/19/14 - \$62,937	1/12/15 - \$8,421
8/22/14 - \$77,746	3/28/15 - \$7,862
12/28/14 - \$3,311	5/16/15 - \$32,175
1/09/15 - \$8,323	5/16/15 - \$31,746

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Down the Rabbit Hole...

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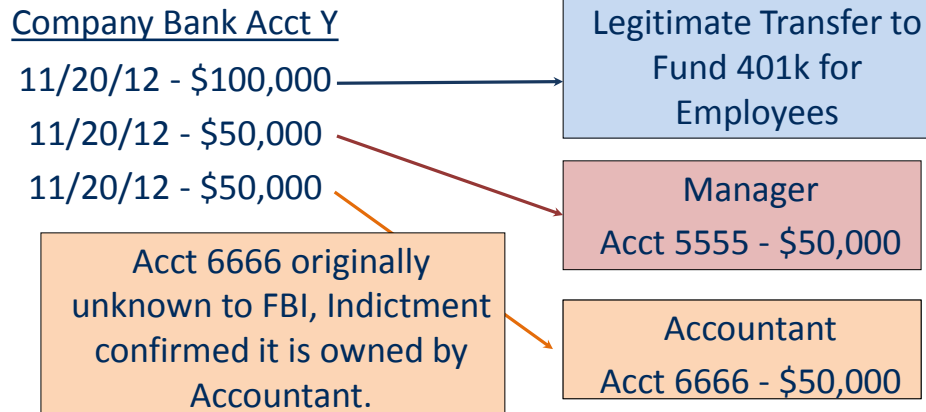
- Expanded scope to include an additional 3 years.
- Identified one transfer in 2013 to the Accountant's 4444 account... however....



Further Down the Rabbit Hole...

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- After identifying the Manager's Acct 5555 was used, it was searched in all available records.
- Discovered a single transfer in 2012.



HOW?!

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- In total, the Manager and Accountant initiated 38 unauthorized wire transfers. The Accountant received approximately \$630,000. The Manager received approximately \$850,000.
- The Accountant would intercept wire confirmations before being recorded to general ledger.
- ...But then the ledger and bank accounts wouldn't reconcile?!

HOW?! (Continued...)

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- The Accountant also had reconciliation responsibilities for the main operating account.
- A separate Analyst in the Treasury Department was in charge of reconciling Bank Account X.
 - The Accountant was the only one able to access the bank statements for Bank X. The Analyst would request the statements from the Accountant each month.
- You guessed it... the Accountant altered the statements to hide the unauthorized wire transfers in late 2015 and 2016.

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It Doesn't Stop with Wire Transfers...

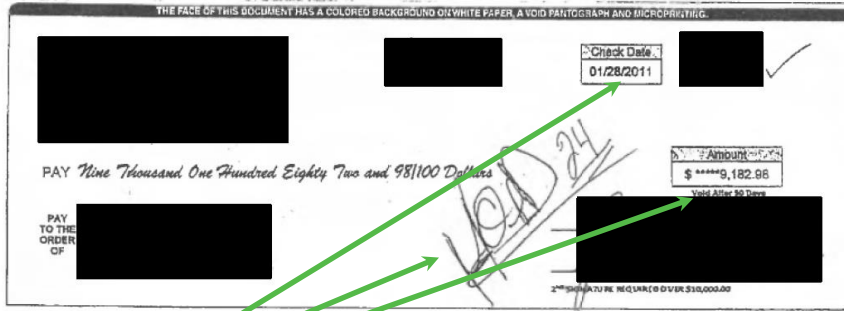
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- FBI agents revealed they identified checks issued to vendors that were deposited in the Manager's bank accounts.
- FBI identified 18 checks deposited in a 6 month window.
- This new issue was surprising as the Manager and Accountant did not have access to Accounts Payable and could not create checks to vendors (or fictitious vendors).
- Lets look at the evidence...

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Check Scheme, Too!?

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- Check is supposed to be dated 90 days before check date 01/28/2011, was deposited in in 2014.

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Check Scheme, Too!?

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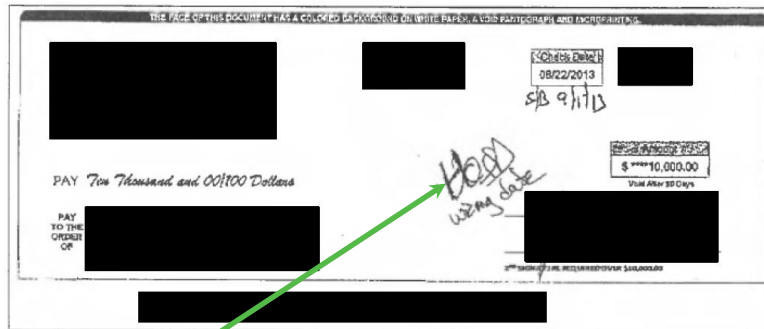


- Check indicates that “2nd Signature Required Over \$10,000.” Only one signature was present.

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Check Scheme, Too!?

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- Check clearly indicates “Wrong Date” and “Void.”

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Void Check Data Analysis

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- Based on the FBI’s findings, we completed an analytical process to identify any checks marked for void that cleared the account.
 - Analysis was limited by the amount of cleared check data available – company could only obtain two years of cleared check data.
- FBI confirmed that void checks were being stolen as far back as 2012.
 - Approximately \$500,000 and 150+ stolen checks.

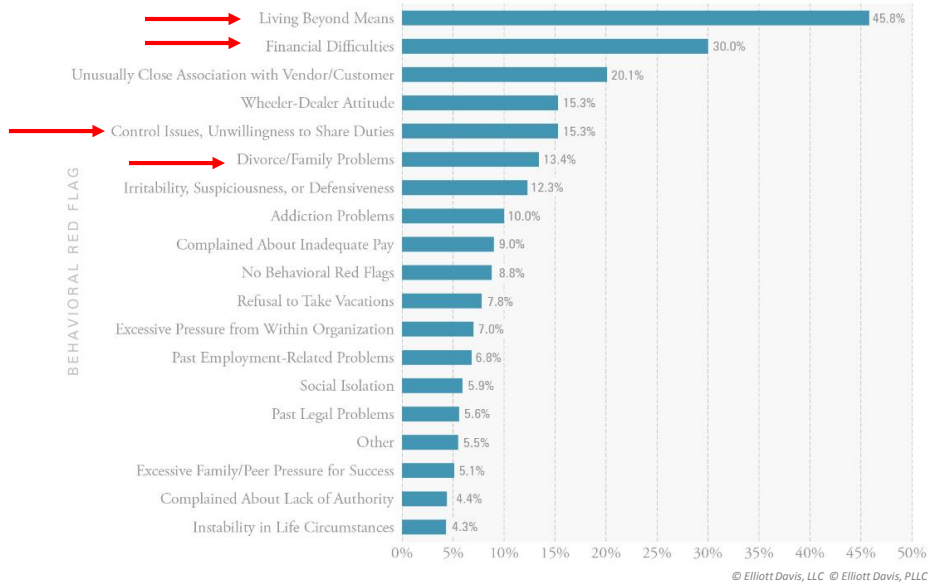
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How?!... Again... elliott davis

- Examination of the routing numbers for the deposit banks indicate the checks were deposited via electronic means (phone or ATM).
- When a Stop Payment or Void was needed on a transactions, the Accountant was involved in confirming checks had not cleared.
- Based on the check and deposit dates, the checks were likely held checks for a long period of time before they were deposited.
- FBI confirmed both the Manager and Employee stole void checks.

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Missed Red Flags... elliott davis



How Internal Controls Could Have Helped

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- The bank reconciliations should not have been completed by employees who can initiate or record cash transactions.
- The Company requires two signatures for amounts over \$10,000, however, the signoff process was completed on paper and the actual transfers were executed by the Manager and Accountant.
- Review of wire transfers by non-treasury personnel.
 - I.e. daily report review of all wire activity to make sure proper authorization was granted.

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How Internal Controls Could Have Helped

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- Company Account X was intended to be used for deposits only but a large balance was allowed to accumulate. The account was not properly swept.
- No rotation of positions.
 - Accountant had the same responsibilities for over 8 years reporting to the same Manager.
- Proper marking on void checks – VOID should pass over payee and amount information, remove signature, etc.
- System controls that would indicate to management if a check marked for void was cashed.

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Remember A.R.C. For Separation of Duties

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- **Authorization**
 - Verifying and reviewing collections and disbursement reports.
 - Approving purchase orders, invoice payments, wire transfers.
- **Record**
 - General ledger postings.
 - Reconciling bank statements and inventory counts.
- **Custody**
 - Access to bank accounts for collections and disbursements.

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Polling Question #3

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- What does the A stand for in A.R.C?
 - A) Assess.
 - B) Abbreviate.
 - C) Authorization.
 - D) Accrue.

Answer: C

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Lessons Learned on Investigating Fraud

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- Be flexible and open minded...
 - Do not get fixated on one scheme or fact.
 - While there may be pressure to finalize the investigation as quickly as possible, be prepared to expand your scope.
- Do not underestimate the power of publicly available information (bankruptcy filings, background investigative reports, etc.)

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