Follow the Trail of Fraud:

The Curious Case at Poirot & Christie Consulting Services

20 YEAR ANNIVERSARY

FRAUD WEEK

NOVEMBER 15-21, 2020

ACFE®

Association of Certified Fraud Examiners

Follow the Trail of Fraud

Congratulations! You've just been hired as the head of a newly established organization's anti-fraud team. Your employer, Poirot & Christie Consulting Solutions (PCCS), employs 200 people and works with clients in different industries around the world. You take fraud prevention and detection seriously, and you are looking forward to working with your team of investigators and auditors to help PCCS decrease fraud.

What do you do first in your role?

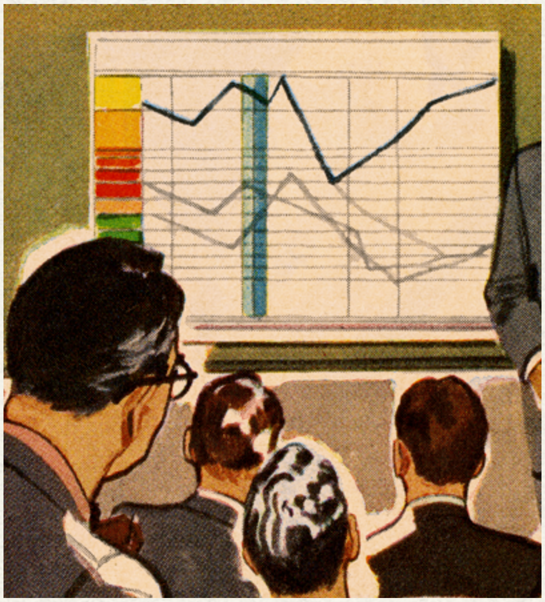
Meet with the executive team to discuss establishing an official anti-fraud policy.

Perform a fraud risk assessment.

Work with HR to set up an anonymous fraud-reporting hotline.

20 YEAR ANNIVERSARY FRAUD WEEK
NOVEMBER 15-21, 2020

Follow the Trail of Fraud



Great choice! Establishing a formal anti-fraud policy is a cost-effective way to show employees that fraud is not tolerated at PCCS and helps set an ethical tone at the top. You present findings from the ACFE's 2020 *Report to the Nations* to the executives that show the impact these policies can have on decreasing fraud.

Most of the executives seem on board, but one of them, Jenkins, argues that you don't need to have anything formally established since it should be common sense for employees to not commit fraud.

How do you respond?

Acknowledge Jenkins' viewpoint, but stress that having a written policy is important to show the organization's commitment to fighting fraud.

Agree with Jenkins and let the issue drop. You don't want to disagree with any executives this early in your tenure.

Follow the Trail of Fraud

Great choice! Performing a fraud risk assessment is a great way to identify where your organization is most at risk for fraud and evaluate the effectiveness of its current anti-fraud controls.

As you conduct your fraud risk assessment, you notice that PCCS's procurement policies could result in instances where managers are able to hire international vendors at their discretion and approve payment for those vendors without requiring additional oversight.

What do you do?

Make a note of this as being potentially problematic, and decide to keep an eye on it, but do nothing for now.

Identify this as a lack of internal controls and schedule a meeting with the executives to go over your concerns and brainstorm how this can be rectified.

20 YEAR ANNIVERSARY FRAUD WEEK
NOVEMBER 15-21, 2020

Follow the Trail of Fraud

Great choice! According to the ACFE's 2020 *Report to the Nations*, tips are the most common way frauds are detected, and having a formal reporting mechanism, such as a telephone or email hotline, fosters even more tips — 49% of frauds at companies that had such a mechanism were detected by tip. You set up a meeting with HR and present the benefits of creating an anonymous reporting mechanism for fraud.

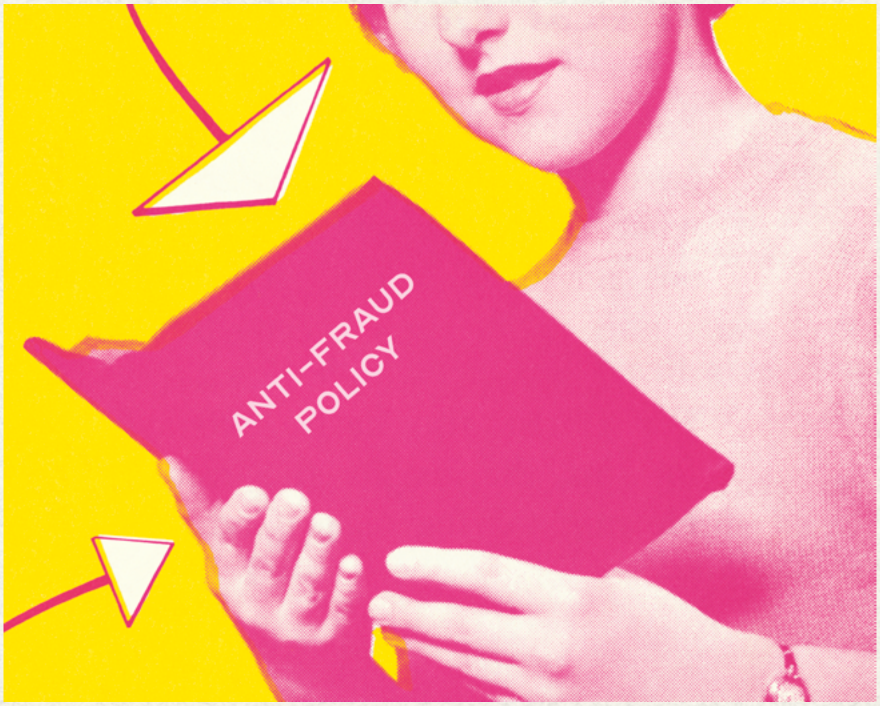
The head of HR, Rodriguez, likes the idea in theory, but balks at committing any budget or energy to implementing a hotline.

What do you do?

Convince Rodriguez that not only is an anonymous reporting mechanism important to prevent fraud, but that implementation can be as simple as working with your IT department to set up an email inbox or a webform with no additional cost to the organization.

You want to press the issue, but you also don't want to make waves.
You decide to table the issue right now but plan to bring it up again later.

Follow the Trail of Fraud



You respectfully stress the importance of a clear and official anti-fraud policy. The rest of the executives agree with you and give you permission to draft a policy and disseminate it to all employees through your HR department.

For your next order of business, what do you want to do?

Perform a fraud risk assessment.

Work with HR to set up an anonymous fraud-reporting hotline.

Follow the Trail of Fraud

You decide to back off for the time being, but plan on bringing up the idea later.

A few months into your role, you hear some grumbling at the water cooler from one of the accountants. The accountant expresses frustration that they've been instructed to automatically approve any expense reimbursement requests from executives without asking questions.

Jenkins in particular has been submitting bills from luxury resorts and business class flights for him and his wife that he has claimed are necessary for client relations. The accountant tells you they cross-referenced the hotel and flight locations to established client meetings and they're not adding up.

What do you do?

Tell the accountant to keep an eye on the issue, but you don't want to make any assumptions or accusations right now.

Ask the accountant to share these expense reimbursement requests and receipts with auditors on your team.

Follow the Trail of Fraud

After a year of working for PCCS, the head of accounting department, Okafor, comes to you and expresses dismay over how over budget the organization is for travel-related spending. She believes that many employees are requesting expense reimbursements for non-work expenses and thinks that it could be due to them hearing about the accounting department approving questionable executive reimbursement requests. Okafor says any time the accountants push back, their concerns are waved off and they are told to push through approvals.

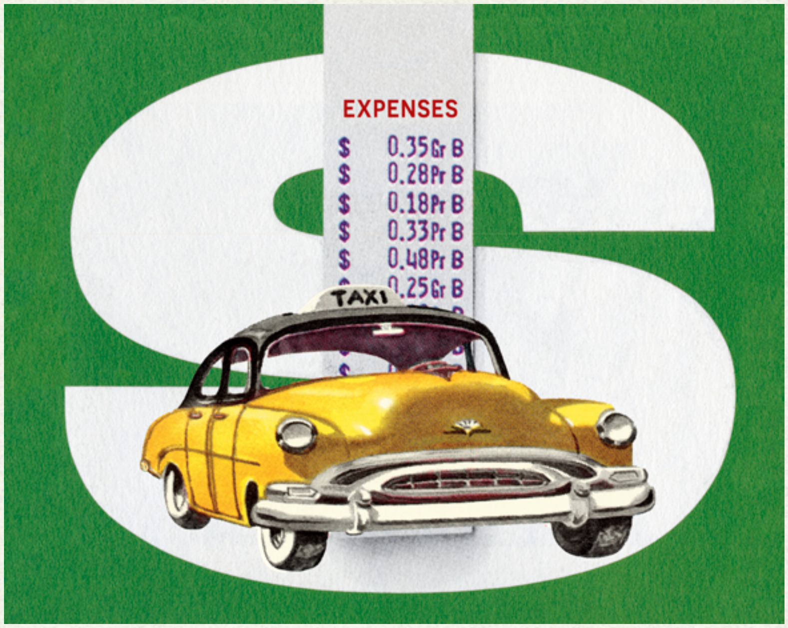
You and your team review the receipts and documents and come to the same conclusion as Okafor — employees and executives are submitting an increasing number of reimbursement requests for travel unrelated to work.

What do you do?

Gather evidence and schedule a meeting to go over your findings with the Board of Directors.

Decide to go straight to each employee and executive who submitted questionable reimbursement requests and deal with each on a one-on-one basis.

Follow the Trail of Fraud



You and your team review the receipts and documents and come to the same conclusion as the accountant — executives are submitting a number of reimbursement requests for travel unrelated to work.

What do you do?

Gather evidence and schedule a meeting to go over your findings with the Board of Directors.

Decide to go straight to each executive who submitted questionable reimbursement requests and deal with each on a one-on-one basis.

20 YEAR ANNIVERSARY
FRAUD WEEK
NOVEMBER 15-21, 2020

Follow the Trail of Fraud

You present your findings to the Board of Directors and use the incidents as evidence for how a poor ethical tone at the top can trickle down. The Board is disappointed at your findings but agrees that the organization needs to establish an official anti-fraud policy, as well as clear rules for expense reimbursements and other monetary approval processes. They tell you that they'll handle any disciplinary actions for those who've abused the system and ask you to focus on drafting and disseminating the anti-fraud policy.

Once you've done that, what's your next action?

Perform a fraud risk assessment.

Work with HR to set up an anonymous fraud-reporting hotline.

Return to the start.

Follow the Trail of Fraud

You first schedule a meeting to talk to Jenkins about some of his expense reimbursement requests. When you confront him with receipts, he responds that he isn't being fairly compensated for his executive job title and he deserves perks that normally come with his role. When you try and press the issue, he yells loud enough that employees outside of his office can hear.

When you return to your office, the CEO calls you and asks why you would provoke Jenkins. You try to explain how much money he was siphoning from the organization for personal reasons, but the CEO tells you that you've "caused enough trouble already" and you should consider going to another organization.

As an ethical person interested in preventing and detecting fraud, you agree and resign. You quickly find gainful employment in the anti-fraud department of an organization that takes fraud more seriously.

Return to the start.

Follow the Trail of Fraud

After working for PCCS for around a year, your team conducts a routine audit of one department that primarily operates in the Asia-Pacific region. They discover that the highest-paid vendor contracted by this department is a transportation company called Zhao Logistics. Zhao is the same last name as one of the managers of the department. While this is a common last name, further investigation reveals that the manager hired this vendor and has been paying them what appears to be an above-market rate with little oversight.

What is your next step?

You work with your team to use public records and social media research to find out more about the vendor.

You meet with the manager to ask further questions about the vendor.

Follow the Trail of Fraud

You present the internal control weaknesses you've found in your fraud risk assessment to the executives. They share some of your concerns but are worried that adding additional layers of oversight could slow down important business processes. They indicate they don't think this will be a large enough issue to address right now.

How do you respond?

Press the issue further, as you think this could be a costly mistake to ignore.

Acknowledge their concerns and let them know that you'll keep an eye on it.

Follow the Trail of Fraud

You and your team find Zhao Logistics' public registration online. It was registered in Qinghai — a province where PCCS does not have any clients. However, that in and of itself is not necessarily a red flag. Your team then examines social media profiles of the manager and finds that they are connected to a number of family members who live in Qinghai. The manager also has pictures posted from annual trips they make to visit family there.

What do you do next?

Meet with the manager to ask further questions about the vendor.

Examine receipts of payment for Zhao Logistics.

Follow the Trail of Fraud

As a trained anti-fraud professional, you prepare diligently for your interview with the manager and choose a neutral setting to question them. When the interview begins, you establish rapport and ask questions that help the manager feel comfortable. You ask them about the nature of services that Zhao Logistics provides. The manager is vague becomes visibly uncomfortable as you continue your questions. When you ask about the selection process they used for hiring the vendor, they break down and admit that the company is run by one of their uncles. They say their family had fallen on hard times and needed extra money.

You express empathy but tell the manager that they needed to disclose this conflict of interest prior to hiring the vendor so that other parties could vet the hiring and oversee payment. You tell the manager that you'll need to inform HR about this and that they will likely face repercussions.

You present your investigation process and findings in a meeting with PCCS executives. With this evidence, they agree that the organization needs to implement more oversight controls on hiring and paying international vendors and ask you to work with other departments to establish and implement those controls.

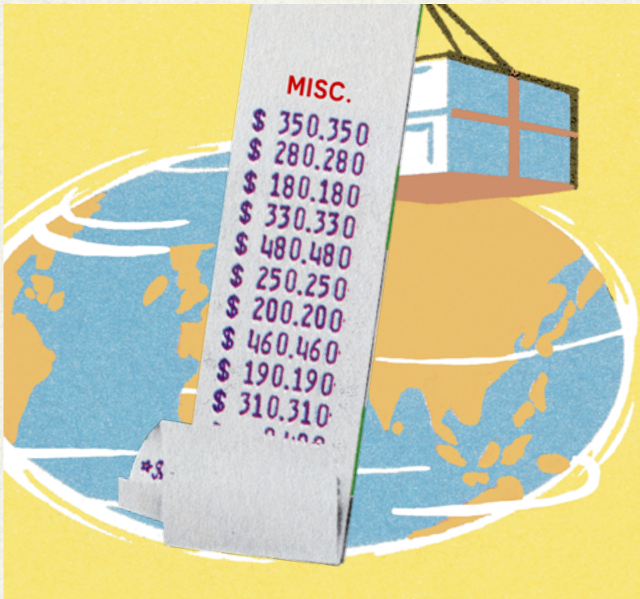
What do you want to do next?

Meet with the executive team to discuss establishing an official anti-fraud policy.

Work with HR to set up an anonymous fraud-reporting hotline.

Return to the start.

Follow the Trail of Fraud



As you examine amounts paid to Zhao Logistics, you find recurring large payments that have “miscellaneous” as a description of the work done. At this time, you and your team decide to schedule and conduct interviews with members of this department in relation to the audit. You start with lower-level employees and schedule a meeting with the manager last.

When you ask the lower-level employees what they know about the services Zhao Logistics provides, they indicate they’ve never worked directly with them and that the manager handles all relations with that vendor. This raises a red flag for you since the employees on this team work directly with other vendors contracted in that region. You document all of the findings from the interviews.

What do you do next?

Meet with the manager to ask further questions about the vendor.

Bring your findings to the head of the accounting department.

20 YEAR ANNIVERSARY FRAUD WEEK
NOVEMBER 15-21, 2020

Follow the Trail of Fraud

Luckily, you always prepare for questions and have created a financial model that shows how much money the organization can lose if they overpay or hire unqualified vendors. When the executives see how the bottom line can be affected, they agree with you and ask you to work with other departments to establish and implement more effective controls for hiring and paying international vendors.

What do you want to do next?

Meet with the executive team to discuss establishing an official anti-fraud policy.

Work with HR to set up an anonymous fraud-reporting hotline.

Follow the Trail of Fraud

After you show Rodriguez how a reporting mechanism can be set up with little to no cost, they acquiesce and give you the go ahead to work with IT and set up both an anonymous web form and a phone hotline. Rodriguez even agrees to include the details in the monthly employee newsletter and post information around the office.

You feel confident that you've made an important step in fighting fraud at PCCS. Your team has agreed to handle any tips that come in, and in the first month of the hotline, you receive an anonymous email that reads:

Dutton in the sales department seems really close to one of his clients – more so than the other sales staff. I've never seen him talk to anyone else, but he always gets big bonuses for bringing in lots of new clients. He also has been driving a new car and wearing designer clothes.

What do you do?

Although the email raises a couple of behavioral red flags, you decide there is not enough to merit an investigation at this time.

The email raises some behavioral red flags, so you decide to look into the issue further.

Follow the Trail of Fraud

About six months later, you are grabbing a drink of water in the employee break room and overhear two employees from the sales department complaining about their coworker. You hear the word “fraud” specifically and interrupt them. “I don’t mean to eavesdrop, but I heard you say the word *fraud*,” you say. “Is there anything I should know about potential fraud going on? Fraud ends up costing the entire organization, and I don’t want any individual employees to be negatively affected by someone else’s actions.”

One of the sales employees starts to say, “Oh, no. Sorry, we were just chatting,” but the other employee cuts in and says, “Well, actually, yes. I think our coworker Dutton is up to something. He leaves early a lot and says he’s getting dinner with the same client — someone named Abresch. He won’t let anyone else contact this client, and I’ve never seen or heard him talk to any other clients. Somehow, though, he always gets monthly sales bonuses. I have no clue how he can be making good numbers when he only deals with one client.”

You thank the employees for their honesty and let them know you’ll look into it.

What do you want to do?

Meet with the head of the sales department to ask some questions.

Gather your team and start looking into Dutton’s communications and paperwork.

Follow the Trail of Fraud

You meet with the head of the sales department, Tolentino, and say that you'd like to know more about their employee Dutton. "Why do you want to know anything about Dutton?" they ask. "There's nothing to know other than he consistently has great sales. He sometimes rubs people the wrong way, but nothing else remarkable."

You respond, "I was curious about those sales actually. Does he talk to a lot of different clients?"

Tolentino responds, "I assume so. The guy never takes a day off. He gets really defensive about anyone else talking to his clients, so that has to be good, right?"

You respond, "That certainly sounds like a dedicated worker, but he's truly never taken time off? I don't want to raise any alarms, but that can sometimes be a sign that he's covering something up."

You talk more with Tolentino and discover that they do not have a verification process for onboarding new clients. They say that they just assume the accounting department does all those checks. You also learn that employees in the sales department have their bonuses determined by the number of new clients they bring in, but they base that number entirely on the number of invoices the sales employees turn into the accounting department.

What do you want to do next?

Ask the accounting department for all the invoices turned in by Dutton.

Decide you have enough information to interview Dutton.

Follow the Trail of Fraud

Your team decides to look into Dutton's social media profiles, as well as all the paperwork he has turned into the accounting department for new clients. While investigating his social media, you see him in a lot of pictures with a college friend — whose name is Abresch. It appears that Dutton and Abresch were on their university's baseball team together.

You learn that bonuses for sales employees are based on the number of new client invoices they submit to the accounting department, so you ask accounting to send over Dutton's submitted invoices. Your auditors comb through them and find that almost all of the addresses of the clients are in the same city, and all use P.O. boxes. When your team looks up the names of the contacts for the clients, they discover that the names are minor league baseball players in the same city the P.O. boxes are registered in.

You feel you now have enough evidence to interview Dutton.

Follow the Trail of Fraud

The accounting department sends over all the invoices Dutton has submitted for new clients. Your auditors comb through them and find that almost all of the addresses of the clients are in the same city, and all use P.O. boxes. This is very strange since some of the clients are supposedly manufacturing companies that should have physical factories or plants. When your team looks up the names of the contacts for the clients, they discover that they're minor league baseball players in the same city the P.O. boxes are registered in.

What do you want to do next?

Based on these findings, you decide to set up an interview with Dutton.

Go back to the head of the sales department, Tolentino, with your findings.

Follow the Trail of Fraud

You meet Dutton in a neutral, private office for your interview. You feel prepared since you've composed a number of questions that you already know the answer to and want to see how he responds before being presented with evidence.

You first establish rapport and ask some assessment questions to establish his baseline demeanor. As you start to ask about his sales, he gets defensive. You ask more questions about how he finds his new clients and he gives elaborate answers that seem full of unnecessary details.

When you present him with the invoices for clients with the same names as baseball players, he yells, "Why are you even asking me about this? Did my coworkers say something? They're all just jealous that I beat their numbers each month!" He storms out of the office.

Your team then contacts the IT department to ask for access to Dutton's emails. While going through them, you discover that the only individual Dutton ever emailed was Abresch. In the emails, they allude to a scheme where Abresch would set up dummy corporations that would provide goods and services to PCCS at an inflated price. In return, Dutton would share part of his sales bonuses with Abresch, and Abresch would give Dutton a cut of the overhead he was charging PCCS.

You take your findings to HR and your executives, and they agree to terminate Dutton. **What do you want to do next?**

Meet with the executive team to discuss establishing an official anti-fraud policy.

Perform a fraud risk assessment.

Return to the start.

Follow the Trail of Fraud

You go back to Tolentino with your findings from the accounting department. You recommend that they consider interviewing and possibly terminating Dutton based on the evidence you found that he may be fabricating clients. Fraud is a difficult topic for many people to handle, as it can sometimes feel like personal betrayal, but you didn't expect the response that you get from Tolentino.

"Who cares?" he asks you. "If we go back and change all of Dutton's account information, it will seriously mess up our department's overall numbers. Maybe Dutton is a bad seed, but if you're asking me to change his data, you could be responsible for us laying off a lot of the other sales staff. Do you want that on your head?"

"I understand that this is difficult, but Dutton's been stealing from the company, and that's not fair to employees in any department," you respond.

"I'll just talk to Dutton and get him to pay back the bonuses he got," says Tolentino.

You continue to try and explain the importance of there being more consequences for Dutton's actions, but it becomes clear that Tolentino will not be swayed — and moreover that he will fight any accusations you make to anyone else.

You normally prefer to handle cases according to the company hierarchy, but you decide that in this case, you need to go over Tolentino's head. You write a letter to the to the CEO and the Board of Directors about the potentially fraudulent issues within the sales department. You also recommend they re-evaluate the use of invoice-based bonuses in order to remove a potential source of pressure from sales employees.

Return to the start.

Follow the Trail of Fraud

You send a detailed email to the head of the accounting department, Okafor, about your suspicions of vendor fraud. She immediately emails back admonishing you for sending an email instead of meeting in person, and suggests you meet that afternoon in her office.

When you meet, you're taken aback by how hostile Okafor is. She doesn't seem to want to hear any details about the conflict of interest and makes a couple flippant comments, stating that if the company cracks down on this, half of the staff would be fired. Her comments raise a number of red flags to you, and you decide to quietly start doing your own digging.

Over the next few weeks, you examine more vendor contracts, catering agreements, internship records and other records. You discover that Okafor's nephew secured a no-bid contract to provide weekly lunches at PCCS' headquarters. Also, the daughter of the director of the marketing department landed a nicely paid internship the previous summer according to records, but you don't remember having ever seen or heard of her. As you keep digging, you find that Okafor was correct — there were numerous conflicts of interest at PCCS.

Since the issue seems so rampant, you realize that you aren't likely to make any changes internally. You know that PCCS is currently courting a large international company for a merger, and discretely contact a friend who practices law about becoming a whistleblower.

You share your information with regulating bodies, who investigate and find a litany of other fraud at PCCS. You end up leaving the organization, but feel good knowing that you helped expose unethical behavior.

Return to the start.

20 YEAR ANNIVERSARY FRAUD WEEK
NOVEMBER 15-21, 2020