Catching Fraudsters with their Hands in the Till

Presented by:
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2023 ANNUAL GAINS CONFERENCE

All frauds cannot be prevented

➤ In a perfect world, all frauds would be prevented.
➤ We don’t live in a perfect world.
➤ We must learn how to investigate fraud.

The perfect world of Andy, Barney, and Opie

General Principles of Fraud Investigation

➤ Fraud is hidden
  - Do not express opinions re: the existence of fraud.
➤ Reverse proof
  - Examine both sides of issue.
➤ Guilt or innocence
  - Report facts, courts determine guilt or innocence.

Phases of a fraud investigation

1. Understand controls over cash flows
2. Identify weaknesses
3. Generate fraud theories
4. Collect and evaluate evidence
5. Estimate losses
6. Report findings
7. Assist in filing charges and/or claims

Fraud Theory Approach

➤ Analyze available data
  • e.g. documents, statements, etc.
➤ Create a hypothesis
  • Assume “worst case” scenario
➤ Test the hypothesis
  • Compare collected evidence to hypothesis
➤ Refine the hypothesis

Case #1: The Village

➤ Ron, Karen, and Jerry collectively invest over $2 million in an apartment complex.
➤ Ron, the general partner, manages the apartments.
➤ After three years, the complex is losing money, despite 95% occupancy.

Ron, Karen, and Jerry invest in an apartment complex. After three years, the complex is losing money, despite high occupancy. Ron, the general partner, manages the apartments. Ron, Karen, and Jerry collectively invest over $2 million in an apartment complex.
Fraud Theories

 Fraudster: 
 Manager of apartment complex 

 Fraud theories: 
 1. Charged stolen funds to repairs and maintenance expense 
 2. Pocketed coins from laundromat 

 Fraud facilitator: 
 Lack of controls 

 Fraud loss: >$200,000 

 Evidence 
 Apartment manager financed part of the construction costs of his new home with employer’s funds. 

 Evidence: Deposit tickets 

 Engagement Resolution 

 - Manager paid $60,000 cash to owners plus forfeited his 30% ownership in the properties. 
 - Owners did not press charges. 
 - The next year profits increased by more than $160,000. 

 Computer-Assisted Investigation Techniques 

 - Match employee and vendor addresses 
 - List checks above a certain amount 
 - Search for duplicate payments 
 - Search for unusual patterns 
 - Search for fictitious vendors 

 Village Properties, LLP 
 Income Statement 
 For year ending December 31, 2020 

<table>
<thead>
<tr>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross rents received</td>
<td>$1,415,694</td>
</tr>
<tr>
<td>Less Expenses:</td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td>$22,644</td>
</tr>
<tr>
<td>Bank/finance charges</td>
<td>8,244</td>
</tr>
<tr>
<td>Depreciation</td>
<td>148,905</td>
</tr>
<tr>
<td>Insurance</td>
<td>32,955</td>
</tr>
<tr>
<td>Interest</td>
<td>304,452</td>
</tr>
<tr>
<td>Legal/accounting fees</td>
<td>20,160</td>
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<tr>
<td>Management fees</td>
<td>136,960</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>45,276</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>385,476</td>
</tr>
<tr>
<td>Snow removal/Lawn care</td>
<td>32,511</td>
</tr>
<tr>
<td>Taxes</td>
<td>124,812</td>
</tr>
<tr>
<td>Utilities</td>
<td>238,455</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>1,500,450</td>
</tr>
<tr>
<td>Net Profit/(Loss)</td>
<td>$ (84,756)</td>
</tr>
</tbody>
</table>

 Evidence: Deposit tickets 

 CASH | CURRENCY | 1,000 | 00 |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>COINS</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>LIST CHECKS</td>
<td>1,250</td>
<td>00</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>750</td>
<td>00</td>
<td></td>
</tr>
<tr>
<td>950</td>
<td>00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>12,750</td>
<td>00</td>
<td></td>
</tr>
<tr>
<td>NET DEPOSIT</td>
<td>16,700</td>
<td>00</td>
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[8x19]Catching Fraudsters with their Hands in the Till

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Case #2: SpartanNash

Victim:
SpartanNash is involved in food distribution and retail grocery sales.

Perpetrators:
Bill & Mike colluded to defraud their employer of $2.8 million.

Using data mining to detect fraud

To ferret out suspicious vendors, three data fields were queried:
1. Taxpayer ID (for invalid numbers)
2. Address (for P.O. box addresses)
3. Phone # (for vendors without phone #)

Results were as follows:

<table>
<thead>
<tr>
<th>Vendor Name</th>
<th>Phone #</th>
<th>Address</th>
<th>City</th>
<th>State</th>
<th>ZIP</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tri-State Trucking, Inc.</td>
<td>703-444-4530</td>
<td>8208, 8302</td>
<td>1452</td>
<td>1435</td>
<td>82084-4530</td>
<td></td>
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Bill & Mike’s fraud scheme

SpartanNash → Invoices sent → Tri-State Trucking
Invoices paid through nothing is received

Fraud loss is total amount of payments made: $2,758,000

Case Epilogue

- Total loss: $2.8 M
- Mike and Bill were both convicted and imprisoned for mail fraud.
- Recovered $2.0 M
Completing the Investigation

- Preparing written reports
- Obtaining restitution and/or filing charges
- Admission statements

Assist in obtaining restitution

- Reach out-of-court settlement
- File insurance claim
- Provide litigation support in filing:
  - Civil lawsuit
  - Criminal charges

Written Admission Statements

- Expedite insurance claims
- Facilitate prosecution, civil litigation, and out-of-court settlements
- Prevent wrongful termination and defamation lawsuits

Who has the first question?

Oh, Oh! Pick me!

Forensic Solutions, LLC
Forensic accounting and litigation support services

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