# Catching Fraudsters with their Hands in the Till





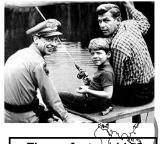
#### Presented by:

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#### 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 Opic

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# 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.



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## 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





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### **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.



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	\		Proper ome Stat				
	For year	r end	ing Dec	embe	er 31, 2020		
					Amount	%	
Gr	oss rents recei	ved		\$	1,415,694	100%	
Le	ss Expenses:						
	Advertising			\$	22,644	2%	
	Bank/finance	charg	es		8,244	1%	
Depreciation			148,905	11%			
	Insurance				32,955	2%	
	Interest				304,452	22%	
	Legal/accoun	ting fe	es		20,160	1%	
	Management	fees			136,560	10%	_
Miscellaneous expenses			45,276	3%	-		
	Repairs and r	nainte	enance		385,476	27%	500
Snow removal/Lawn care			32,511	2%	S.º		
	Taxes				124,812	9%	200
	Utilities				238,455	17%	Ms
	Total Exp	enses	3		1,500,450	106%	
Ne	t Profit/(Loss	)		\$	(84,756)	-6%	

**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

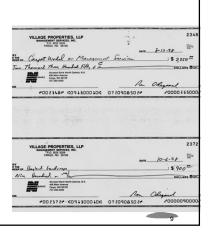




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#### **Evidence**

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



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**Evidence: Deposit tickets** 

1,000 00 CASH COINS 1,250 00 750 00 950 00 12, 750 00 16, 700 00 NET DEPOSIT 16, 700 00

:9124 6027 486586519 30937 3620000 108

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### **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



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#### Victim:

SpartanNash is involved in food distribution and retail grocery sales. Perpetrators:
Bill & Mike colluded to defraud their

employer of \$2.8



<u>13</u>

million.

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#### 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:

Flags	Vendor#	Taxpayer ID	Vendor Name	Address	City	St  Zip/Post	al Phone#
2	PCON	24-9546254	PC ONE	P.O. Box 1523	Fargo	ND 58103	
2	SBF	50-327377	S & B Foods, Inc.	1911 2nd St SE	Minot	ND 58701	
2	STAM	33-8674361	Stamen Floral Distributors	POBox 493	Solon	OH 44139	
2	TRES	31-187286	Treshen Beverages	P.O. Box 493	Minneapolis	MN 84343	836-652-9584
2	TST	65-12265	Tri-State Trucking	P.O. Box 10594	Fargo	ND 58106-05	94 701-844-4539
2	CONN		The Connection	1342 Summer St.	Denton	MN 56258	
						, <u> </u>	11

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· -	P. O. Box 10594 Fargo, ND 58106-0594	Phone: 701-844-453
Invoice		
	Invoice #: 1188 Invoice Date: June 16, 2006 Customer ID: 5031999	
Cardinal Wholesalers, Inc. 2036 45 <sup>th</sup> Ave. SW Fargo, ND 58103	Ship Te: Cardinal Wholesalers, Inc. 2036 45 <sup>th</sup> Ave. SW Fargo, ND 58103	
Quantity Description	Unit Price	Total
1 Trucking Services	\$12,000.00	\$12,000.00
	Subtotal	\$12,000.00
	Tax Balance Due	\$12,000.00
	SAME OF THE PARTY	Tricono.

	Nati	onal American	Bank	
	Fa			
		(701) 555 - 1234		
	COTA OTE	MENT OF AC	COLINIT	
	SIATE	MENT OF AC	COUNT	
Page	1 of 1		Tri-State Tri	icking Inc
		+		
Account Number			P. O. Box 10:	
Date	August 21, 2006		Fargo, ND 58106-0594	
DATE	DEPOSITS	CHECKS/CHGS	CHECK#	BALANCE
07/19/06				\$20,821.42
07/24/06	12,000.00			32,821,42
07/26/06		5,837.52	1432	26,983.90
07/26/06		298.95	1433	26,684.95
07/31/06		3,844.03	1434	22,840.92
08/01/06		1,980.00	1435	20,860.92
08/04/06	12,000.00			32,860.92
08/07/06		900.00	1436	31,960.92
08/07/06		576.95	1438*	31,383.97
08/09/06		9,000.00	1439	22,383.97
08/14/06		7,899.00	1440	14,484.97
08/14/06	12,000.00			26,484.97
08/16/06		2,379.00	1441	24,105.97
08/18/06		995.00	1442	23,110.97
08/18/06		1,868.23	1443	21,242.74
08/21/06	12,000.00	1/		33,242.74
08/21/06		3,095.00	1444	30,147.74
08/21/06		24,000.00	1446*	6,147.74

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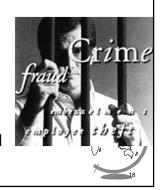
Bill & Mike's fraud scheme
SpartanNash Invoices sent Tri-State Trucking nothing is received
Fraud loss is total amount of payments made: \$2,758,000

# 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



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## **Written Admission Statements**

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



Who has the first question?



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### Forensic Solutions, LLC

Forensic accounting and litigation support services

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