

Recent Engagement: Million dollar, multiple year fraud scheme

Client Need

A successful wholesale business owner was the victim of a sophisticated fraud scam run by trusted employees, resulting in over \$1 million stolen over the course of several years. Due to a vendor reporting concerns that the company had prepared a bogus check for unperformed work, the owner became concerned about possible employee theft. He then hired a Licensed Private Investigator and Ernie Cooper, forensic accountant, CPA and Partner at Vicenti, Lloyd & Stutzman, LLP (VLS). Mr. Cooper and his firm led the investigation and forensic accounting analysis to determine the extent of the embezzlement and theft against the wholesale business and to collect a factual basis for a possible criminal complaint against those individuals responsible for the theft.

Shockingly, one of the thieves was the office manager and a second-generation employee who had been with the business over 15 years. Along with her cohort in crime, who was responsible for accounts payable and accounts receivable, they developed a complex, multi-layered scheme to embezzle funds. Another individual became involved, as well as vendors who allegedly helped in the scheme. The scheme essentially involved company issued "bogus" checks that the employee fraudulently caused to be prepared and unexpected refund checks for which no receivable was established. Once these checks were in the employee's possession, he used them to cover up cash taken from the sales account deposits. The employee also caused checks to be inappropriately issued to him outside of payroll.

VLS' Work

VLS performed forensic accounting and analysis of documents and records, including but not limited to, bank statements, deposit slips with cancelled checks, deposit cover sheets and other supporting documents and accounting records as needed during the course of the investigation. Based on work performed to date of available records, VLS identified over \$1 million of cash taken from this particular sales account and nearly \$100,000 in checks that were paid to one of the perpetrators directly outside of payroll for no apparent official business purpose. It is expected much more has been stolen (the total loss is expected to exceed \$2 million) but has not yet been verified by the investigation.

Results

The client wishes to pursue indictment of the former employees by the District Attorney. In addition to the money stolen from his business, there are other concerns. He believes that there are unaccounted substantial losses that warrant further investigation by the District Attorney, including kickbacks from vendors and vendors that produced fictitious work orders and invoices. In addition, the client believes that the reputation of his business has been tainted because of the negative publicity his company has suffered within his industry as a result of the former employees' actions.

VLS recommends that owners pay close attention to segregation of duties for financial and accounting personnel, as well as develop and monitor effective internal control systems. In this case, job responsibilities were developed and implemented without the required approval or knowledge of the owner. The trusted employees were given substantial authority and abused it. VLS is now working with the District Attorney's office to pursue criminal prosecution.