



Clandestine Forensic Accounting Adventure to Uncover Fraud

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by Chris Hamilton, CPA, CFE, CVA

The “field work” began with a meeting behind a restaurant at midnight with an informant. Preparation for the meeting involved several investigators covertly assuring that the informant was not being followed or otherwise observed. It was a fitting start to a most unusual “site visit.”

The most effective detection method for identifying occupational fraud in a business is the tip by an employee or others. Determining what to do with the tip is difficult. In this case, the informant was an entry-level accounting clerk who had first-hand observations and knowledge of a complex conspiracy among several members of division management to defraud the company of millions of dollars.

Strict Secrecy

Because of the level of potential collusion the Board concluded that extraordinary measures must be taken to conduct the investigation. They hired a retired Federal law enforcement executive to lead the investigation with instructions to maintain strict secrecy of the fact of the investigation as well as the details and progress of the work.

Not sure of how extensive the conspiracy scheme was, there was to be no communication with any member of management or the outside auditors. In fact, all reporting on the progress and conclusions of the investigation were to be reported to the Chairman of the Board via his personal secure phone line or in-person.

The secrecy of the investigation presented several unique dilemmas. The most significant hardship was how to develop evidence to prove embezzlement without obtaining any information from management or with the knowledge of management. The fraud examination team was assembled by the lead investigator to complete the work with two primary approaches.

1. A team was assembled to acquire evidence of the personal finances and spending habits of the members of management in question. The goal in this approach was to assemble evidence independent of the forensic accounting work that would corroborate the accounting records.
2. An accounting firm was retained to provide the fraud examination and forensic accounting work. The first assignment for the accountants: solve the primary dilemma – how to get the evidence?



Night-Time “Break-In”

In this case, after consideration of limitations and circumstances, the investigators approached the Board of the company to propose entering the company facilities after-hours and removing the needed accounting records. The accounting records would then be shipped to the offices of the accounting firm (500+ miles away) and the investigative work done there until conclusions could be reached. The plan was approved, written authorizations given, and a date set for this most unusual site visit.

Time Considerations

The date was important – it needed to be after the heavy workload of month-end closing when missing accounting records might not be needed. Once the date was set, arrangements were made to have a trucking company on hand, the informant was available, and the team of investigators was assembled to facilitate the “break-in.”

On the appointed date, the investigators and forensic accountant took a flight to the nearest airport, rented a car, and met the informant after midnight. An inside informant is typically invaluable because of their knowledge of the location of records, accounting policies, and other details that are critical to a successful data-grab. The informant in this case was limited in their ability to help as they had none of the passwords that would allow viewing or copying electronic accounting records. In other words, the investigators would only have access to hard copy accounting records.

The Mission

The location included a multi-story office facility attached to a manufacturing plant that operated 24 hours a day. The mission was to get into the offices, obtain the records, load the trucks, and leave without being discovered by anyone in the plant.

The role of the forensic accountant was to lead the group through the offices and point out all records that should be removed. The criteria were simple: take records that would be useful to the fraud examination but that would not be immediately missed by accounting personnel. As soon as someone in the accounting department could not find a notebook or binder, the whole operation would be blown.

The pressure was on the forensic accountant to get what was needed without getting anything that was too relevant to the day-to-day operations of the company. The truck was loaded with the documents and sent on its way to the offices of the forensic accountants.



The Race

It was now a race to complete the investigation before division management figured out there was an investigation – or that documents were missing. The Board and all the investigators knew it was just a matter of time.

A procedure was established where the inside informant would notify of any compromise to the investigation. Specifically, when someone in the accounting department requested information that had been removed, the informant would leave the premises immediately. Once off the premises (safety of the informant is always an important planning detail) the informant was to call the forensic accounting firm to notify them that the investigation was over.

The staff of the accounting firm worked around the clock until the moment the informant called. Since it was many days before any of the records were missed, the accounting firm was able to put a strong case together. While the accounting firm did its work, the investigators successfully established financial transactions and arrangements by the members of management that corroborated the evidence from the company's accounting records.

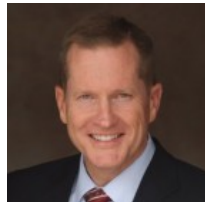
The Conclusion

In the end, every member of the senior management of the largest division in this international company was implicated in a vast and deep scheme to embezzle millions of dollars from the company. By the time the interviews of suspects began, enough evidence was accumulated to render those interviews almost unnecessary. The interviews resulted in several confessions adding to the weight of evidence against other participants in the crime.

While the company was devastated by the tangible and intangible implications of what had happened, the investigative team was invigorated by a highly complex engagement executed almost flawlessly and leading to conclusions and evidence that allowed the company to close down a criminal operation among its own management.

Of course, as every fraud examiner knows, there is always a healthy dose of good fortune. An insider not only recognized the activity but also had the courage to trigger an investigation that could have put them at great personal risk. Additionally, the right company personnel took the information seriously and pursued the matter to its conclusion

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