

CASE STUDY

INTERNATIONAL MANUFACTURER IDENTIFIES MILLION DOLLAR FRAUD

Discovery

In 2016, an employee who had recently assumed the duties of a former employee noticed irregularities in the company's credit card payments and expense reimbursements. The payments being made to the former employee's company credit card account were greater than the former employee's approved expense reimbursement requests. After further investigation raised suspicion of possible fraud, the company asked HORNE for assistance.

Assignment

HORNE investigated the possible fraud scheme to gather evidence and accurately quantify possible losses to the company. We also determined how the fraud occurred and advised the company on ways to improve its internal controls to prevent future losses.

Scheme

HORNE's fraud investigators began by gaining an understanding of the processes and procedures in place surrounding the former employee's responsibilities. We found a story that is all too familiar to fraud fighters—a trusted, long-time employee who singlehandedly oversaw certain procedures, was the company's sole contact with its credit card company, and who took his work with him on vacation (i.e., he guarded his work and no one else at the company knew how or what he did). All of these are red flags of possible fraud.

While we don't know why the employee began stealing after faithfully serving the company for over two decades, we do know that he started by making small, personal purchases using his company-issued credit card. He then reimbursed the company for these unapproved purchases two months later. We suspect these first purchases and the two-month lag between payment and reimbursement were the fraudster's attempt to test the system to see whether the company's corporate accounting personnel were going to question his unapproved expenditures. When no one did, he gained confidence in his scheme and within months significantly increased the unapproved expenditures charged to the company-issued credit card. HORNE eventually identified over \$1,100,000 in unapproved expenditures paid by the company. Here is a brief overview of the scheme:



ABOUT THE AUTHOR

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The former employee accumulated the approved employee expense reports each week. He then prepared a payment schedule containing all the employee credit card account numbers and the respective payment amounts for the week. However, when preparing this schedule, HORNE investigators discovered that the former employee inflated employees' approved expenditures on the detailed payment support. Then, he requested that the company's corporate accounting office wire funds to the credit card company for the inflated amount. The credit card company then contacted the former employee directly to request how the payment was to be divided and posted to each employee's credit card account. The former employee then directed that the correct, non-inflated amounts be credited to each employee's credit card account with the remainder credited to his account to cover his unapproved purchases.

HORNE identified another aspect of the scheme that involved the former employee negotiating and receiving the funds from corporate refund checks. Our fraud fighters discovered that the former employee intentionally overpaid certain credit card accounts by directing the credit card company to apply the payment wired by the corporate accounting office to an account that had little or no balance. The overpayment would trigger the automatic processing of a refund check which was sent directly to the former employee. HORNE identified approximately 120 checks totaling over \$140,000 that were endorsed by the former employee and either cashed or deposited in his personal account.

Results

When the company initially asked for HORNE's assistance, the scope and duration of the fraud was unknown. After an extensive investigation, our team identified company losses of over \$1.2 million dating back to 2011 and exposed weaknesses in the company's internal controls that were exploited by the former employee. HORNE provided the company with insights on how to improve its internal controls to mitigate its fraud risks and to prevent future losses. Our report helped the company support its insurance claim and thus remediate its losses. And, finally, the company provided our report and evidence packet to criminal investigators to assist them in prosecuting the former employee. On paper, the company had strong segregation of duties related to payment authorization but the employees involved in the process didn't effectively perform their review. Also, the employee calculating the payment amount should not have been involved with allocating the payment or receiving checks related to credit balances.



Clients turn to HORNE for the foresight, straight talk, and collaboration needed to navigate the challenges of growth, regulatory compliance and risk mitigation. HORNE is a decidedly different CPA and advisory firm who goes beyond traditional accounting services, steering clients through the uncertainties and opportunities ahead.