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# *Fraud Auditing*

*Presented by:*

*Craig L. Greene*

*CPA/CFF, CFE, MAFF, CCEP, MCJ*

*Of*

*McGovern & Greene LLP*

**CRAIG L. GREENE**  
**CPA/CFF, CFE, MAFF, CCEP, MCJ**  
**McGovern & Greene LLP**  
**Chicago, IL**

Craig L. Greene, CPA/CFF, CFE, MAFF, CCEP, MCJ is partner in charge of Financial Investigation and Forensic Accounting Services for McGovern & Greene LLP, a forensic accounting and litigation services consulting firm with offices in Chicago, Illinois and Las Vegas, Nevada. He has a Bachelor of Arts degree in accounting from Aurora University and a Master's Degree in Criminal Justice from Boston University. Mr. Greene works as a consultant and expert witness for corporations, law firms, governmental and law enforcement agencies on cases involving allegations of fraud and misrepresentation. Many of his corporate internal investigations have focused on corruption payment schemes to senior corporate executives. Other engagements have involved high profile fraud investigations both nationally and internationally, many of which have involved fraudulent financial reporting.

Prior to founding McGovern & Greene LLP, Mr. Greene was a Partner in a mid size accounting practice, Principal of his own firm, and was a senior auditor at a Big Four accounting firm, where he supervised and performed audits primarily of large publicly held corporations. He has over 35 years of experience as a CPA.

Active in professional organizations, Mr. Greene is past U.S. Central Regional Governor of the Association of Certified Fraud Examiners (ACFE) and past president and past Chapter Training Officer of the Greater Chicago Chapter of the ACFE. He was a founding committee member of the Illinois CPA Society's Litigation Services Committee, and a former Peer Review Team Captain of CPA Firms for the American Institute of Certified Public Accountants. He is a member of the Society of Corporate Compliance and Ethics, Institute of Internal Auditors, American Institute of CPA's, National Association of Certified Valuators and Analysts as well as, other professional and trade associations.

An internationally recognized public speaker, Mr. Greene has addressed numerous organizations on topics involving fraud and its detection, as well as, compliance issues. He is a faculty member of the Association of Certified Fraud Examiners, Institute of Internal Auditors, University of Nevada, Reno Gaming Management Program and has been a guest instructor in fraud examination and forensic accounting at the IIT Kent College of Law, University of Illinois at Chicago, Northwestern University and numerous other universities and colleges. Craig has also served as a corporate fraud instructor for the U.S. Postal Inspection Service and is a procurement and contract fraud trainer for the U.S. Naval Criminal Investigative Services ("NCIS").

Mr. Greene has been a contributor to the ACFE's *Fraud Magazine*. His article on inventory fraud entitled "*When Employees Count Too Much*" won the ACFE's annual Hubbard Award in 2003 for best article of the year as voted by the membership. He is often quoted in the press on matters involving corporate fraud.

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## Steps in Performing a Fraud Audit

1. Initial Allegation
2. Legal Considerations
3. Obtaining Intelligence
4. Document Examination/Analysis
5. Vendor Audit
6. Interrogation of Suspect
7. Preparation of Report
8. Court Proceedings

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## Initial Allegation



- Hotline Tip
- Whistleblower
- Anonymous Email/Letter
- Audit Finding
- Law Enforcement Investigation
- Other

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## Obtaining Pertinent Information

- *What Happened?*
- *Who was Involved?*
- *When did it Happen?*
- *Where did it Happen?*
- *Who can Corroborate it?*
- *Do you have Evidence?*
- *How can we Contact You?*

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## Corroborating the Allegation

- **Analyze the tip – does it make sense?**
- **Look at Accounting Documents**
- **Look at Suspect's backgrounds**
- **Look at outside information**
- **Other**

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## Legal Considerations

- Attorney/Client (Work Product) Privilege
- Chain of Custody
- Background Investigations
- Search of Computer/Workspace
- Constitutional Rights



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## Attorney/Client Privilege

1. Memorialize Understanding
2. Add: “Confidential – Attorney/Client Work Product – Prepared at the Direction of Counsel” to all documents you prepare.
3. Communications should always include Legal Counsel.



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## Document Control/Chain of Custody

- Receipts should be issued for documents taken.
- Log should record description of documents, who obtained them, from whom and date obtained.
- Documents need to be well organized and secured.
- Consider use of Scanners

## Background Investigations

- You can perform a background investigation of your subjects using publicly available records and the Internet.
- Credit Reports, on the other hand can not be obtained without the Subject's consent.

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## Search of Computer/Work Space

- **Need to have policy stating that the IT systems belong to the Organization and are to be used for Organization business only.**
- **Need to have a policy stating the Organization may inspect its assets at any time.**

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## Obtaining Intelligence

- **Obtain Personnel File(s)**
  - Applications
  - Resumes
  - Performance Reviews
  - Payroll Information
  - Insurance Applications
  - Other Pertinent Documents
- **Perform background investigations of**
  - Subject
  - Potential Colluders
  - Vendor
  - Vendor Principals


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## Researching Individuals

- **Public Records**
  - Secretary of State For Business and UCC Filings
  - County Recorder of Deeds
  - County Tax Assessor's Office
  - Courts



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## Researching Individuals

- **Internet Searches**
  - Google
  - Networking Websites
    - Facebook
    - Linked-In
    - Classmates
    - Google+
  - Mapping Technology



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## Researching the Company

- Secretary of State
  - Articles of Incorporation
  - Annual Reports
- Dun & Bradstreet Reports
- Website
- Internet Searches
  - Google
  - Mapping



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## Using Dun & Bradstreet Reports

<ul style="list-style-type: none"> <li>• Legal Business and CEO Name</li> <li>• Address and Description of Location</li> <li>• Annual Sales or Estimate Thereof</li> <li>• Credit Ratings</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Statements and Accountants' Name</li> <li>• Principals Background</li> <li>• Lien &amp; Judgments</li> <li>• Financing Statements</li> <li>• Description of Market</li> <li>• Name of Parent Co.</li> </ul>
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## Obtaining Intelligence

- **Computer Forensics**
  - Desk Computer
  - Laptops
  - Blackberry's/PDA's
  - User Network Drive
  - Email - Data Mining
  - Cell Phone Records
- **Examination of Workspace**
  - Desk
  - File Cabinets
  - Assistant's Work Area
- **Obtain FMV of items Purchased**

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## Obtaining Intelligence

- **Accounting Records**
  - Purchase Requisitions
  - Invoices
  - Contracts
  - Receiving Reports/Proof of Delivery
  - Canceled Checks
  - Other Documents as May be Needed
- **Interviews**
  - Subject Matters Experts
  - Process Experts
  - Corroborators
- **Subject's Records**
  - Expense Account
  - Corporate Credit Card
  - Paychecks/Expense Checks

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## Forensic Examination of Internal Documents

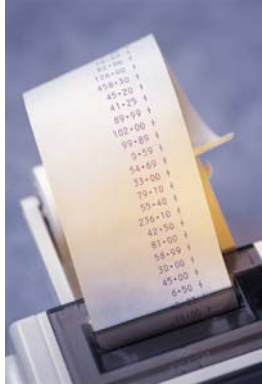
- **Payment History**
- **Purchase Orders**
- **Contracts**
- **Purchase Order Requisitions**
- **Receiving Documents**
- **Canceled Checks**
- **Other Internal Files:**
  - Bid Files
  - Procurement Correspondence Files
  - Operations Correspondence Files

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## Analyses to Be Performed

- **Determine Total Payments to Vendor Over Past 5 Years**
- **Sort Invoice Amounts to Find Duplicates and Unusual Amounts**
- **Sort Invoices by Invoice Number to Find Consecutive Numbering**
- **Change Date to Long Date**
- **Compare Total Payments to D&B**




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## Analyses to Be Performed


- **Examine travel & entertainment reports**
  - Perform analysis by type of expenditure
  - Note who Subject is Meeting/Greeting
  - Watch for Overlapping Expenses and/or Other Anomalies



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## Audit Procedures




- Compare Quantities from Vendor Invoice to P.O.
- Compare to Proof of Receipt
- Recalculate Billing Amounts and Math on Invoices
- Determine who Requisitioned the Items and Completed the P.O.
- Examine Other Files for Relevant Information.

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## Vendor Audit

- Making the Call
- Setting up the Meeting
- Initial Meeting
- Document Examination
- Exit Meeting



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## Perform a Detailed Investigative Interview

- History and Background of the Suspected Vendor, Focus on:
  - Who Introduced the Vendor to the Victim
- Accounting Systems and Methods of Preparing Invoicing to Victim
- Previous Experience and Knowledge of the Suspected Vendor's Principals in the Industry

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## Perform a Detailed Investigative Interview

- **List of Employees That the Suspected Vendor's Principals Deal With**
- **Any Inappropriate Requests Made by the Victim Organization's Employees**
- **Explanations for Charges to the Employer Above FMV**
- **Admissions to Any Inappropriate Conduct.**

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## Performing the On-Site Audit

- **Review the Cash Disbursements of the Vendor, Identifying:**
  - **Payments to the Victim Organization's Employees and/or their Controlled Entities**
  - **Excessive Owner Distributions**
- **Review Payroll, Inventory and Shipping Records To Ensure Proof of Delivery**

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## Performing the On-Site Audit

- **Ascertain the Amount of Gross Profit Made on Sales to Victim, Compare to Other Customers**
- **Examine Form 1099's For Any Payments to Employees, Straw Men or Employee Controlled Entities**
- **Examine Expense Reports of Salesman, etc.**

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## Performing the On-Site Audit

- **Determine the “True” Ownership of the Vendor by Examining:**
  - Tax Returns
  - Corporate Minute Books
  - Equity Accounts
  - Loan Documents
  - Or Other Documents

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## Wrapping it Up

- Settling of Matter with The Vendor
- If Wrong Doing is Found then Consider Performing an Admission Seeking Interview of Employee
- Ask for Voluntary Production of Financial Documents
- Civil and Criminal Charges
- Finalize Examination Report

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## Questions or Comments?

*Craig L. Greene, CPA/CFF, CFE, MAFF, CCEP, MCJ*  
McGovern & Greene LLP  
200 W. Jackson Boulevard, Suite 2325  
Chicago, Illinois 60606  
(312) 692-1000  
Office in Las Vegas  
[Craig.Greene@McGovernGreene.com](mailto:Craig.Greene@McGovernGreene.com)

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