

Cardinals wholesaler case

Business



The fraud triangle is helpful in explaining motivation for employees to fraud the company: Motive, Opportunity, and rationalization are the trigger for employees to perpetrate any company. Motive-incentive or pressure that drives an individual to commit fraud. This is caused by life pressures, illicit activities or lifestyles needs that create personal financial problems.

Opportunity-a condition or situation that allows fraud to occur. Both the design and effectiveness of internal controls play a key role in this regard.

Rationalization-is the attitude or mindset that enables the individual to rationalize the fraudulent act. Bill Carter- an angry, ex-employee that felt unfairly fired. Bill felt pressure from financial obligation and the need to support his family after being fired. With debts totaling \$38,000 and educational expenses for his oldest son, Bill felt desperate about his financial situation and grew angrier giving him a motive to commit fraud. Bill was the purchasing department manager and was aware of the weak internal control that existed in the company.

He knew that there was no segregation of duties in the company because as a former manager he knew that the person who approved vendor list also approved the payment. With this in mind we can see how opportunity to commit fraud is present. His rationalization was that the company owed him for using him as an escape goat to prove their point and he also felt that a lucrative company as Cardinal would not miss a few thousand dollars. Mike Smith-had large debts, a gambling problem and a lifestyle hard to maintain.

He also felt he owed his friend Bill for accepting his position after he was fired. All this together gave him the motive required to commit fraud. Now being

the purchasing department supervisor he was in a position where he was capable of perpetrating the fraud because Bill had informed him that segregation of duty was not present in the company. He knew that he was the person in charge Of approving the vendor list as well as the payment. And lastly Mike rationalization was that this was the only way for him to pay-off his debts and make a fresh start.

He also felt that he could always back off the scheme after his debts were all gone. Four areas of Fraud Bill Carter had been employed for 22 years with a Fortune 500 corporation where he was the purchasing department manager. He had been married and had three children with his oldest attending an Ivy University. Unfortunately due to an indiscretion Bill was fired and was worried that his wife would find out what had happen. With only a two week severance pay he felt pressure to find a source of income to provide for his family.

Consequently Bill decided to pull a vendor scheme with the help of his friend Mike Smith. As I conducted a review of the vendor list I revealed that they were six vendors suspicious of fraud. I was able to identify the six vendors because they either had a post office box address, no phone number listed, and they either had an invalid taxpayer identification number or were missing the number altogether. Also the invoices were created using an excel broadsheet invoice template which is a common characteristic of fictitious vendors.

The search also revealed that Bill Carter created the vendor as well as opened the bank account. Unfortunately for Bill one drunken night at a bar

he revealed to a stranger what he had done. Vendor scheme was created by Bill Carter and Mike Smith In a fictitious vendor scheme the fraudster establishes a shell company in this case was Trig-State company. A shell company exists on paper only but provides no goods or services to the victim organization which the organization then pays for without having receive any goods in return.

This scheme is only possible when the fraudster can place the shell company in the victim's organization 's approved vendor list, either through poor internal controls or an inside accomplice and Bill had both. Bill had Mike Smith as an accomplice and was aware of the lack of internal control that exist in the company. Shell company is not a legitimate business so it has no employees, no physical location or address, no phone number and an invalid or missing tax identification number. I realized that Trig-State trucking met all of the above.

Lastly the scheme is easy to perpetrate when internal controls are cake. In this case figured out that Cardinals Wholesaler did not adequately segregated job responsibilities. Detection Bill Carter receives the check, endorses and deposits themoneyinto the bank account of Trig-State Trucking. Here Bill has unrestricted access to the fund and can spend the money any way he wants. Some red flags were found that help conclude Bill and Mike had created a fictitious vendor scheme. Trig-State Trucking had an invalid tax payer identification, a valid tax id has nine digits and Trig-State only had seven.

Trig-State had no physical address and was using a post office box. The invoices were created using an excel or word invoice template. All invoices for Trig-State had an even dollar amount with no tax included. Prevention Company needs to implement stronger internal controls by segregating duties to different people. One person should place vendors on the approved vendor list, the other should prepare the payment vouchers, and the other should approve the payment vouchers. The company should performed background checks on any new vendors prior to placing them on the approved vendor list.

A CAFE should be engage periodically to review the approved vendor list and look for any red flags. Identifying the fictitious vendors There are four groups of vendors. Those possessing three, two, one, or zero suspicious characteristics. The Company Cardinals Wholesaler has been a list for the company to identify any existent fraudulent vendors in the group. To take care of this task I decided to narrow down the vendor list by searching for red flags that would be evident to the data base. To do this I decided to query three data fields using the excel auto filter function.

These data fields are tax payer id, address, and phone number. Using this strategy I can rank the vendors and see how many suspicious characteristics they assess. The more characteristics found the easier it is to identify a fictitious vendor without having to inspect every single invoice in the company. As finished my query was able to identify six suspicious vendors. Here are the six vendors found and the characteristic that led me to believe they are suspicious. PC One missing phone number and using a post office box as address S&B Foods, Inc. Avian a wrong tax payer number and missing <https://assignbuster.com/cardinals-wholesaler-case/>

phone number Stamen Floral Distributors missing phone number and using post office box as address Thresher Beverages having a wrong tax payer number ND using a post office box as address Trig-State Trucking having a wrong tax payer id number and using a post office box as address The Connection having no tax payer id number and missing phone number As I reviewed the six suspicious vendors I found red flags that led me to believe that Trig-State trucking had the most suspicious characteristics.

Trig- State trucking listed a post office box as its address Invoice number suggested Cardinal Wholesaler was their only client Vague description of goods or services received Balance due was an even amount with out taxes or shipping address Invalid tax payer identification

No contact information provided on the invoice Invoice was created by an excel program Canceled checks showed no evidence of typical company expenses Personal items were paid using Trig-State Trucking bank account Checks made payable to Bill Carter and Mike Smith were signed by Bill Carter There are two types of schemes that are used to perpetrate a company Pass-through and fictitious. In a Pass-through scheme is a fictitious entity created with the sole purpose of committing fraud. With this scheme the company receives something in exchange for payment and the loss is the amount of the profit made by the fraudster.

With a fictitious scheme the company has a fabricated name with a post office box. In this scheme the company receives nothing in return from the fictitious vendor except the bogus invoice and the fraud loss is the total payment made to the vendor. As I review the files have determined that the

suspicious vendor is perpetrating fictitious vendor scheme. As I review the bank Statements and the return checks noticed that the fictitious company named Trig-State Trucking is a fictitious company. The checks show that they were used to purchase personal items as well as the fact that all the checks were sign by

Bill Carter the person who created the fictitious company. As I check the bank statements can also see that the vendor on this account is also Trig-State company which is using a post office box. And lastly, the checks that are made for Bill Carter and Mike Smith are signed by Bill Carter which give the indication that these are the payment they are getting for the bogus invoices they have created. To prevent a fictitious scheme from occurring Research shows 93% of all fraud schemes involves cash. The prevention of fraud in the future depends on the development of adequate controls and procedures.

Here are some recommendation to prevent this type of fraud in the future. Background checks should be performed on all new vendors Verify receipts of items/services before paying vendor invoices Segregate the duties of approving vendors and vendor payments A review of canceled checks and bank statements by a third person Periodic review of the approved vendor list for any red flags Company needs to implement a stronger system of internal controls Bill Carter, an angry, terminated employee and Mike Smith, Carter's replacement joint together to perpetrate a fictitious vendor scheme against Cardinals Wholesaler.

The scheme lasted five years where each perpetrator pocketed about \$900,000. Cardinals Wholesaler was perpetrated when Bill Carter was fired and his friend Mike Smith became his replacement. Feeling loss and with no income Ben decided that all he needed was to create a fictitious vendor to scheme the company. Bill knew that to pull this off he needed an accomplice. This is when he brought Mike Smith who accepted the proposal due to his large debts and gambling problems. They created a shell company where the company is tricked into paying vendor invoices for which it receives nothing in return.

I believe it happened because Ben Carter was humiliated after being fired after 22 years of service. He felt it was unfair and as a payback he decided to setup a fraud to get back what he thought was owed to him. Bill Carter and Mike Smith plan the fraud to last enough for Bill to get back on his feet and for Mike to pay off his debts but after a while they noticed how well they were doing and how they were getting away with it. If it wasn't for Carter's excessive drinking one night the scheme might have never been caught. I believe that what caused this to happen was how Bill was fired.