

# Chesapeake petroleum

Business



The company was founded in 1961 and is based in Gaithersburg, Maryland. On April 26, 2010, Ernest Theodore Solo, the Chief Financial Officer of Chesapeake Petroleum & Supply Inc. , pleaded guilty for embezzling over \$2.7 million from the company.

Solo had been employed with Chesapeake Petroleum Supply Inc. Since 1969, and became the Chief Financial Officer in 1990 (More News). According to Solo's plea, from at least 2000 through 2008, Solo, " embezzled money from the company by authorizing and signing company checks made payable to himself or to a bank to which Solo owed money.

Solo embezzled a total of \$2, 447, 000 in this manner" (Chief Financial Officer Plead Guilty). In addition, during the same time period Solo also stole and additional approximate of \$333, 000 from the petty cash fund of the company.

" Solo had exclusive control over the company's petty cash fund and although the actual petty cash fund never exceeded \$1, 000, Solo had multiple checks prepared that were \$3, 000 or more. After cashing the checks, purportedly for the petty cash fund, Solo replenished the petty cash fund, but kept the excess funds for himself" (Chief Financial Officer Plead Guilty).

Additionally, Solo attempted to hide the embezzlement by, falsifying the financial records of the many; destroying records of the checks; and hiding the fraud from outside auditors hired by the company to review its finances. Because of his actions, " Solo faces a maximum sentence of 20 years in prison and a fine of \$250, 000 or twice the gain or loss associated with the

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offense, whichever is greater" (Chief Financial Officer Plead Guilty). There are some key lessons that can be learned from this situation to prevent further fraud with the company.

The biggest mistake Chesapeake Petroleum Supply Inc. Made while Solo was SCOFF, is that the company did not have separated duties among employees, and management did not play a more extensive role when handling money and checks. Adequate controls were not in place to prevent a resourceful employee, such as Solo, from stealing company funds. Solo had both authorizing and signing control over company checks, as well as exclusive control over the petty cash fund, both of which demonstrate the organization's failure to segregate duties adequately.

Solo also had the power to create and authorize checks, which made it easier for him to fraud the company of millions of dollars.

The creation and authorization should require a minimum of two people: one to create the checks and one to authorize them. " Also, an effective " signing control" practice would require two authorizing signatures on a check" (05-10 Siphoning). By enforcing the signing control practice, a total of three to four people have reviewed and authorized the check, one who prepares the check, another who authorized the check to be prepared, and a third who signed the check.

Another way fraud could have been prevented is by having management play a bigger role, in which they should be required to review the check register and also review canceled checks. By reviewing the check register,

management can compare payees against employees, and make sure that no duplicate checks are being cut.

By reviewing the canceled checks, management can be sure that there was a specific reason for canceling the check, and to prevent money for one payee to be applied toward another.

Management can also prevent fraud from occurring by becoming more aware of all payees and the amount paid to them, in order to ensure that all payees are people and companies with whom the company does business with, and no ghost employees or companies exist (05-10 Siphoning). Lastly, although Chesapeake Petroleum & Supply Inc. had hired outside auditors to review its finances, Solo was able to hide information from auditors, and for this reason, internal auditing should also be performed.

The benefit of internal auditing and the purpose is to perform “random spot checks on petty cash to verify that appropriate documentation exists to support all payments and that the petty cash balances” (05-10 Siphoning).

Random spot-checking of checks can benefit the company because it ensures that employees are being responsible and perform their tasks honestly and correctly. Solo did a lot of damage to Chesapeake Petroleum & Supply Inc. From 2000 through 2008, embezzling millions of dollars, which could have been prevented had certain check and balance tasks had been performed by other leadership of the company.

Separation of duties, check authorization, internal and outside audits all play a key role in preventing fraud from occurring. Had any one of these practices

been set in place between those eight years that Solo was creating fraud, Solo's actions would have been brought to light a lot sooner, and important measures would have been set in place to prevent it, saving the company millions of dollars, and court time and fees.

It may have seemed that Solo, being the SCOFF of the many, and a loyal employee for 30 years, would be seen as a responsible and respectable employee, but at times of desperation, even the best employee fail.