



FRAUD WITHIN TROUBLED COMPANIES

Bob Krawczyk

bkrawczyk@mackinacpartners.com

**CORPORATE INTELLIGENCE
& SECURITY SERVICES**

**COMPLIANCE, FRAUD,
& FORENSIC SERVICES**

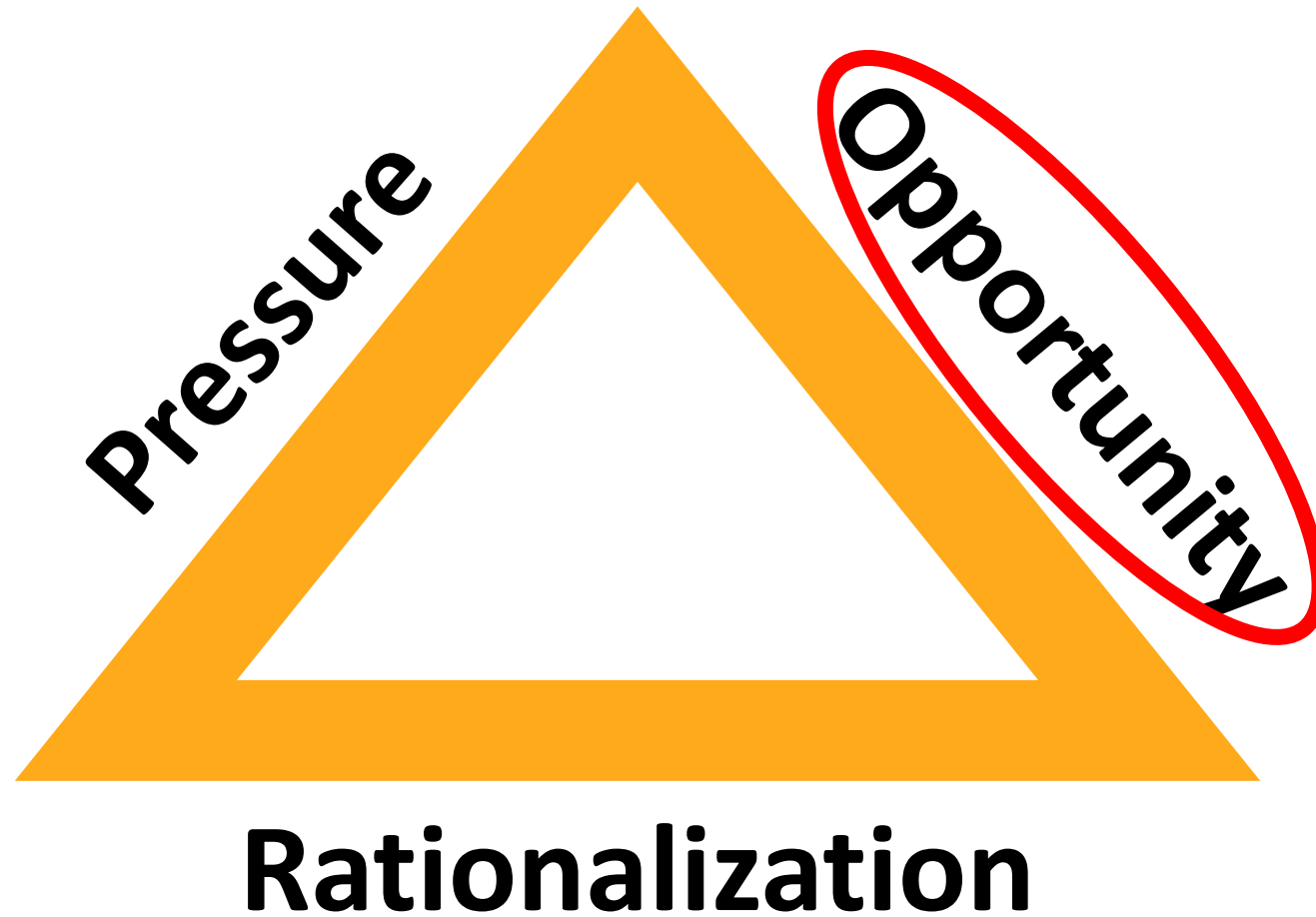
**CYBER SECURITY & DIGITAL
FORENSICS SERVICES**

TROUBLED COMPANY DEFINITION

Any company that does not have the resources or management support to establish an effective control environment.

- Companies with cash or liquidity issues
- Recently experienced a significant event:
 - Bankruptcy
 - Sale Transaction
- Anticipating downturns in the economy or industry

FRAUD TRIANGLE





Courtesy of BOP.gov

CREDIT CARD FRAUD

Top 10 Unreported Charges		\$
PAYPAL [REDACTED]	\$	257,807
DELTA		131,575
WAYFAIR*WAYFAIR		104,499
PAYPAL [REDACTED]		96,014
AMAZON MKTPLACE PMTS		39,101
WATERWORKS		36,274
DISNEY RESORT-WDTC		36,058
KRAVET/LEE JOFA		28,270
PAYPAL [REDACTED]		28,134
KRAVET FURNITURE		27,606
PAYPAL [REDACTED]		26,755
Top 10 Total	\$	<u>812,092</u>

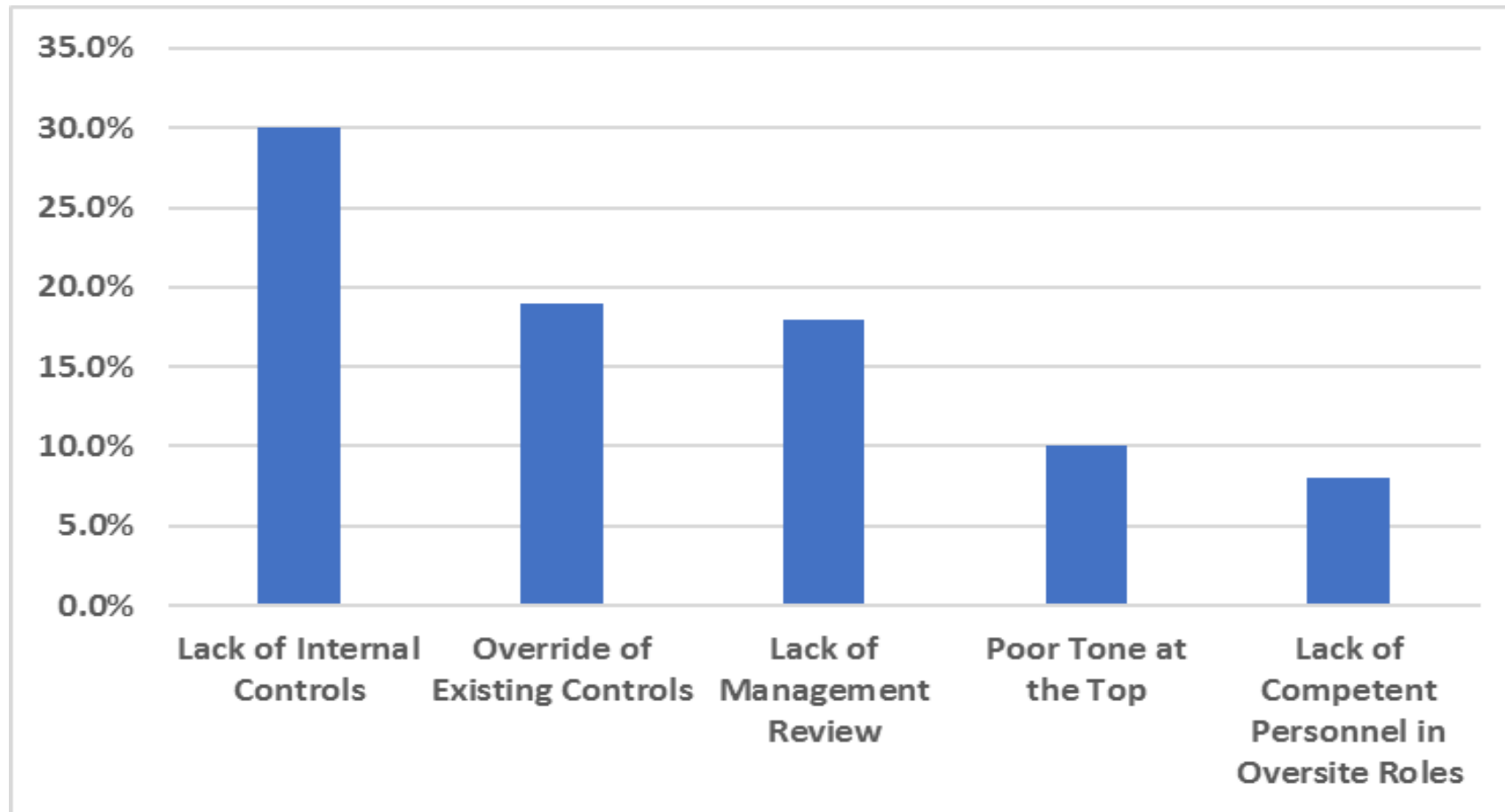
CREDIT CARD FRAUD

Month	Credit Card File	General Ledger	Difference
January 2015	\$ 28,230	\$ 10,154	\$ 18,076
February 2015	27,826	14,600	13,226
March 2015	77,151	24,278	52,873
April 2015	39,200	6,667	32,533
May 2015	73,818	54,033	19,785
June 2015	126,119	31,088	95,031
July 2015	142,236	11,127	131,108
August 2015	166,030	3,549	162,481
September 2015	139,716	4,429	135,287
October 2015	136,065	9,036	127,028
November 2015	123,580	4,592	118,988
December 2015	158,856	18,652	140,204
January 2016	92,370	3,594	88,776
February 2016	233,716	33,944	199,772
March 2016	178,394	79	178,314
Total	\$ 1,743,307	\$ 229,823	\$ 1,513,484

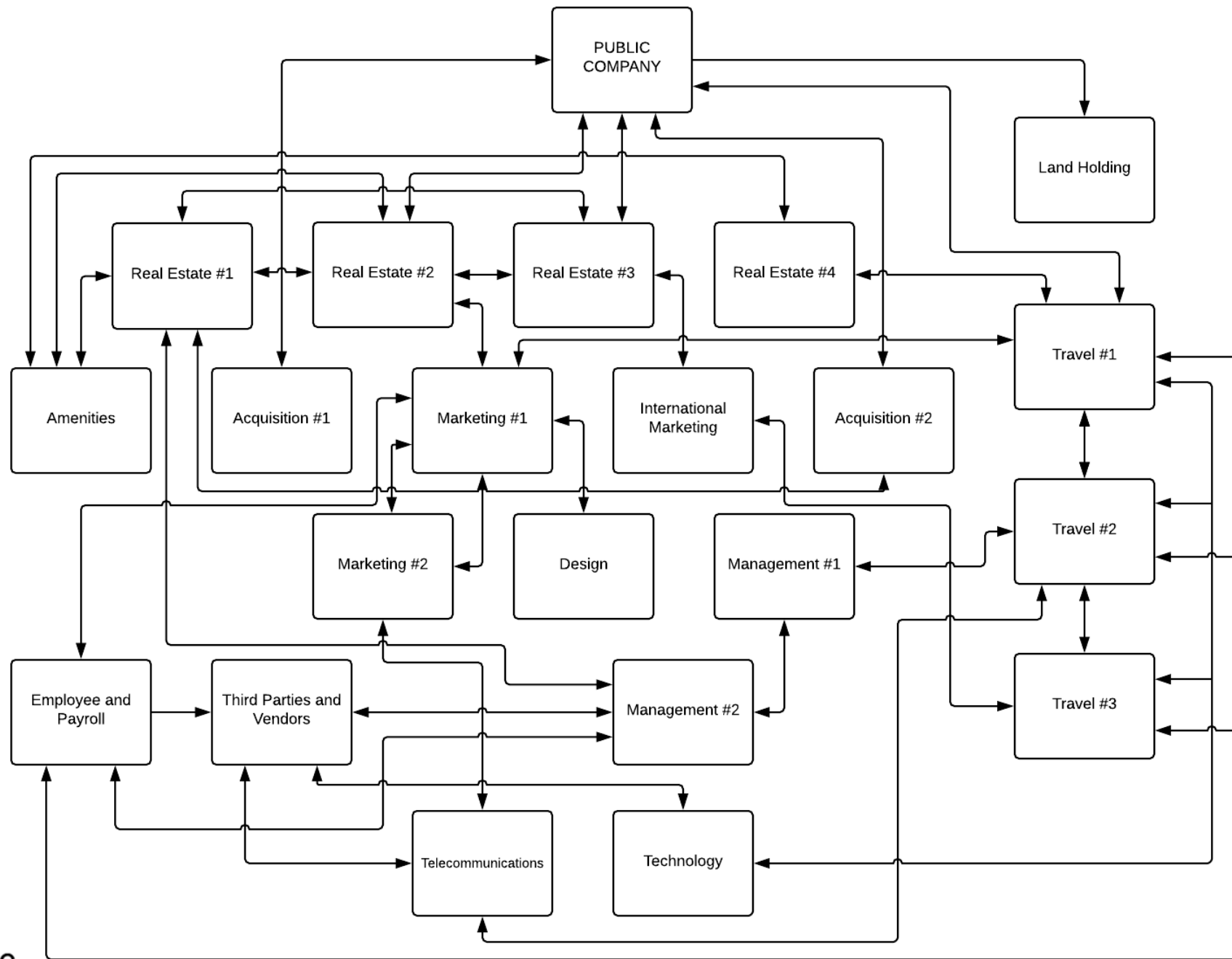
POSSIBLE CONSEQUENCES

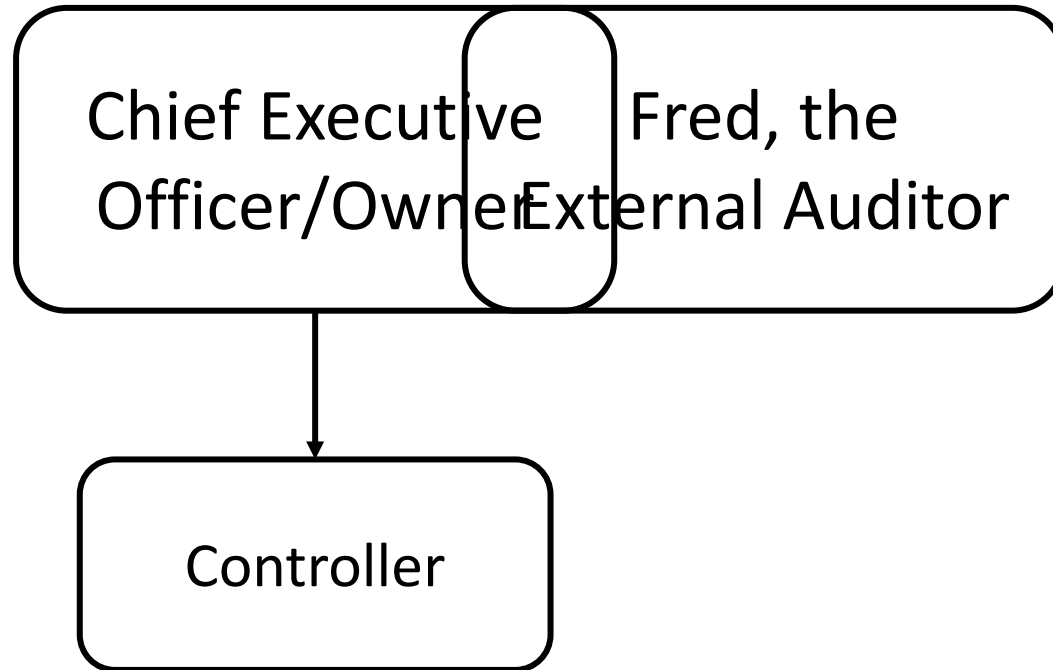
- Understaffed Accounting Department
- Outdated/unsupported Accounting System
- Missing or ineffective Accounting Controls
- No internal audit function
- No external audit
- Focus on cash projections and not GAAP reporting

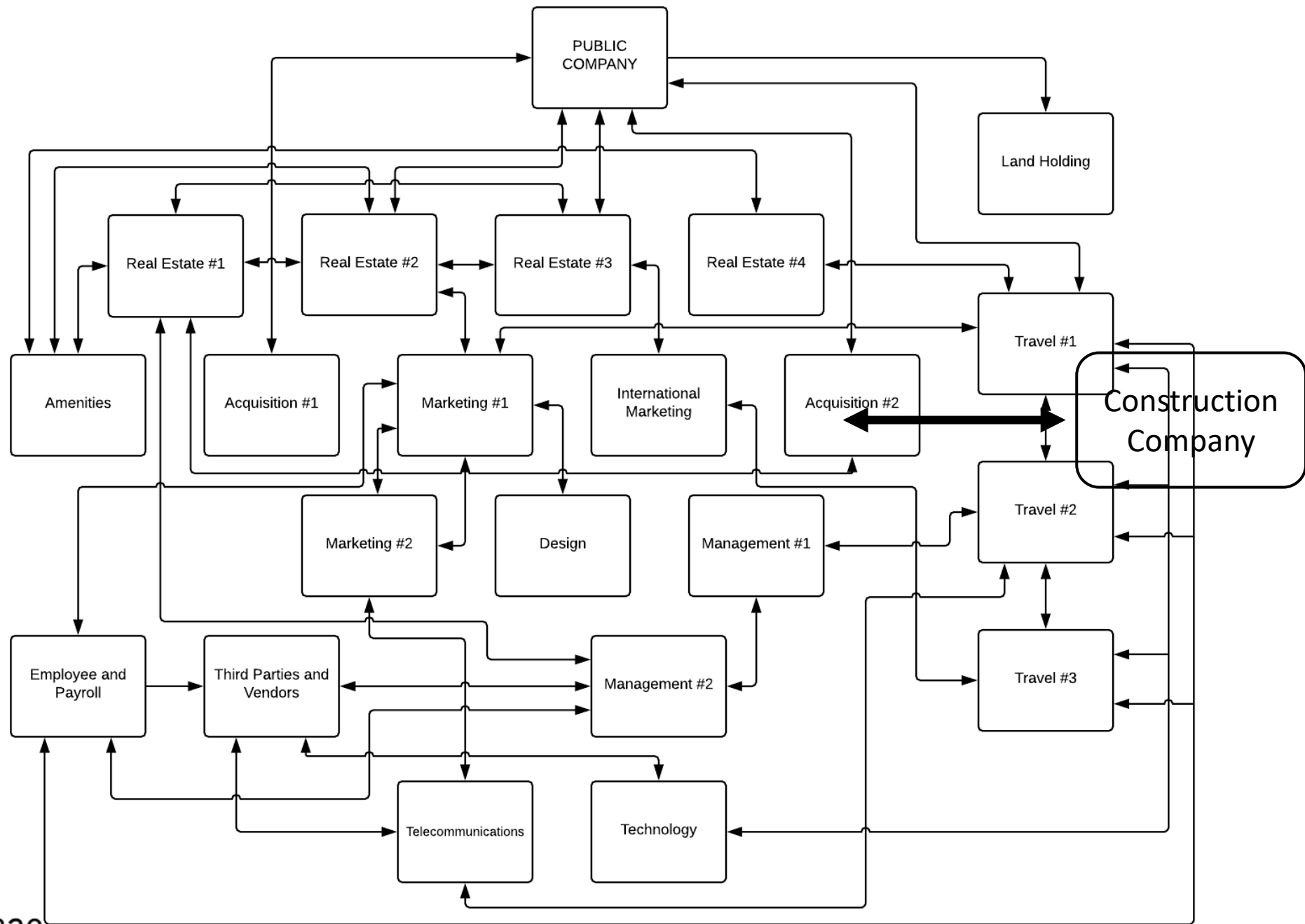
TOP 5 INTERNAL CONTROL WEAKNESSES



ACFE REPORT TO THE NATIONS - 2018 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE







FRAUDULENT BANK REPORTING

Transaction	Cash	Contributions
-------------	------	---------------

#1

1,000,000

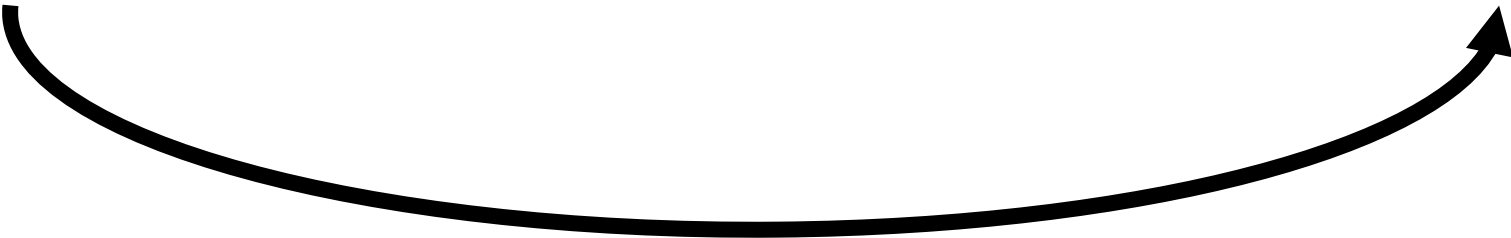
1,000,000

Invoice	Construction In Progress	Accounts Payable
---------	-----------------------------	---------------------

#1

1,000,000

1,000,000



FRAUDULENT BANK REPORTING

Transaction	Cash	Contributions
-------------	------	---------------

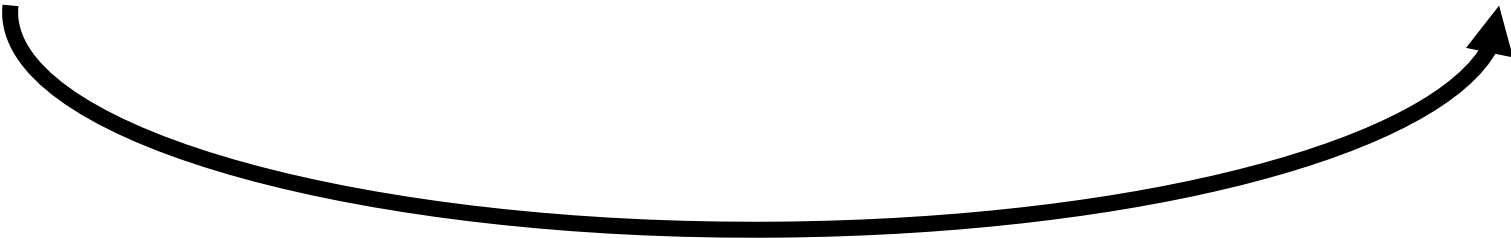
#1 1,000,000

#2 1,000,000 2,000,000

Invoice	Construction In Progress	Accounts Payable
---------	--------------------------	------------------

#1 1,000,000

#2 2,000,000 1,000,000



FRAUDULENT BANK REPORTING

Transaction	Cash	Contributions	Invoice	Construction In Progress	Accounts Payable
#1		1,000,000	#1	1,000,000	
#2		2,000,000	#2	2,000,000	
#3	1,000,000	3,000,000	#3	3,000,000	1,000,000



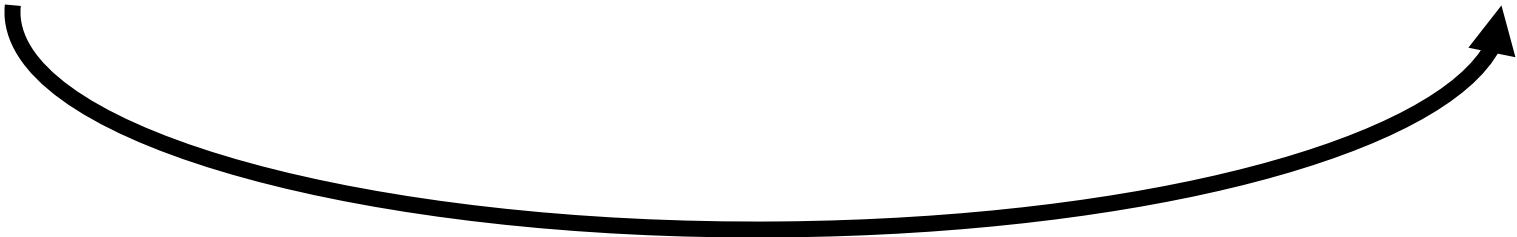
FRAUDULENT BANK REPORTING

Transaction	Cash	Contributions
-------------	------	---------------

#1		1,000,000
#2		2,000,000
#3		3,000,000
#4	1,000,000	4,000,000

Invoice	Construction In Progress	Accounts Payable
---------	--------------------------	------------------

#1	1,000,000	
#2	2,000,000	
#3	3,000,000	
#4	4,000,000	1,000,000



FRAUDULENT BANK REPORTING

Transaction	Cash	Contributions	Invoice	Construction In Progress	Accounts Payable
#1		1,000,000	#1	1,000,000	
#2		2,000,000	#2	2,000,000	
#3		3,000,000	#3	3,000,000	
#4		4,000,000	#4	4,000,000	
#5	1,000,000	5,000,000	#5	5,000,000	1,000,000

FRAUDULENT BANK REPORTING

Transaction	Cash	Contributions	Invoice	Construction In Progress	Accounts Payable
#1		1,000,000	#1	1,000,000	
#2		2,000,000	#2	2,000,000	
#3		3,000,000	#3	3,000,000	
#4		4,000,000	#4	4,000,000	
#5		5,000,000	#5	5,000,000	
#6	1,000,000	6,000,000	#6	6,000,000	1,000,000

FRAUDULENT BANK REPORTING

Transaction	Cash	Contributions	Invoice	Construction In Progress	Accounts Payable
#1		1,000,000	#1	1,000,000	
#2		2,000,000	#2	2,000,000	
#3		3,000,000	#3	3,000,000	
#4		4,000,000	#4	4,000,000	
#5		5,000,000	#5	5,000,000	
#6		6,000,000	#6	6,000,000	
#7	1,000,000	7,000,000	#7	7,000,000	1,000,000

FRAUDULENT BANK REPORTING

Transaction	Cash	Contributions	Invoice	Construction In Progress	Accounts Payable
#1		1,000,000	#1	1,000,000	
#2		2,000,000	#2	2,000,000	
#3		3,000,000	#3	3,000,000	
#4		4,000,000	#4	4,000,000	
#5		5,000,000	#5	5,000,000	
#6		6,000,000	#6	6,000,000	
#7		7,000,000	#7	7,000,000	
#8	1,000,000	8,000,000	#8	8,000,000	1,000,000

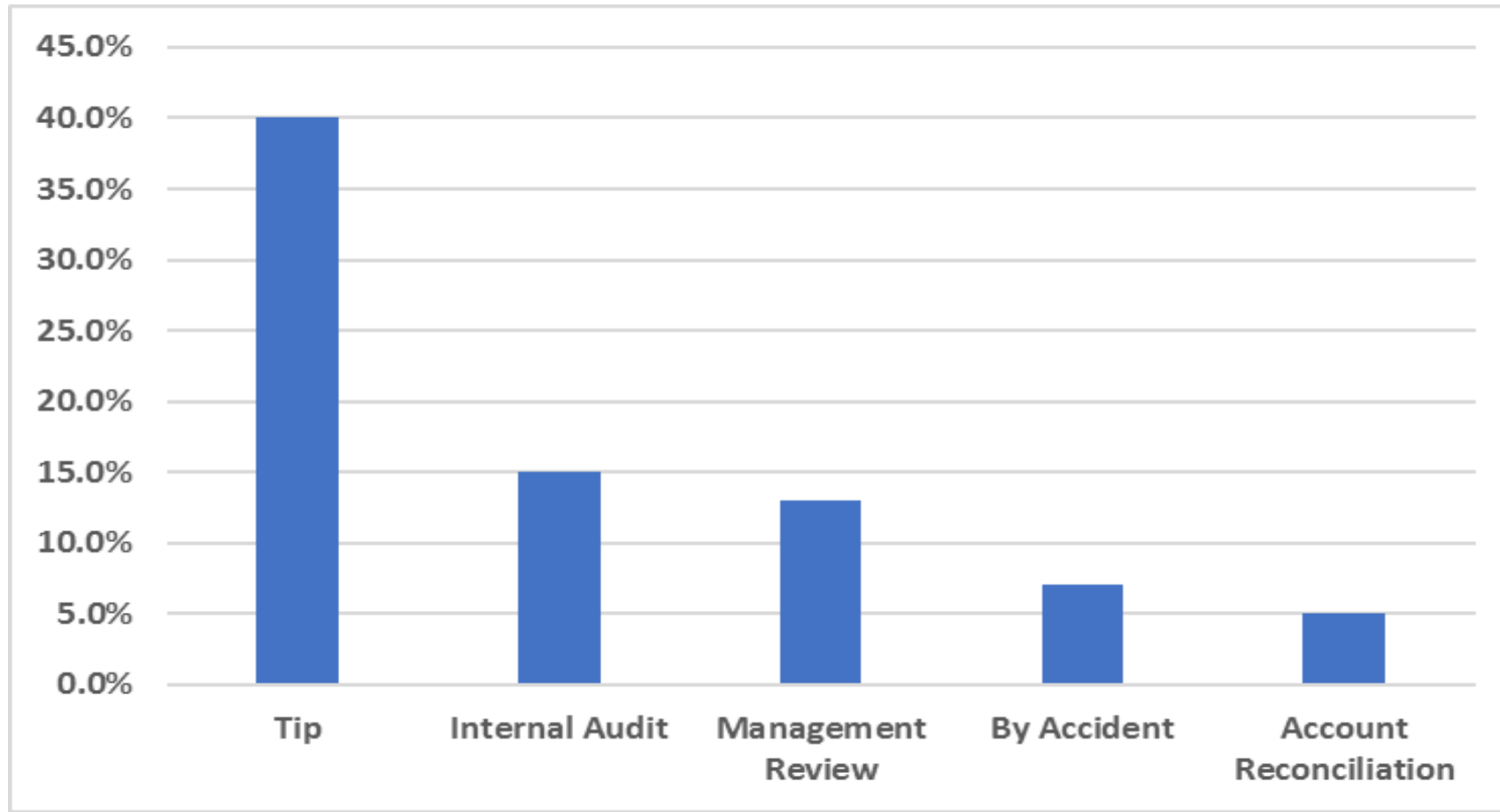
FRAUDULENT BANK REPORTING

Transaction	Cash	Contributions	Invoice	Construction In Progress	Accounts Payable
#1		1,000,000	#1	1,000,000	
#2		2,000,000	#2	2,000,000	
#3		3,000,000	#3	3,000,000	
#4		4,000,000	#4	4,000,000	
#5		5,000,000	#5	5,000,000	
#6		6,000,000	#6	6,000,000	
#7		7,000,000	#7	7,000,000	
#8		8,000,000	#8	8,000,000	
#9	1,000,000	9,000,000	#9	9,000,000	1,000,000

FRAUDULENT BANK REPORTING

Transaction			Invoice		
Cash			Construction In Progress		
Contributions			Accounts Payable		
#1		1,000,000	#1	1,000,000	
#2		2,000,000	#2	2,000,000	
#3		3,000,000	#3	3,000,000	
#4		4,000,000	#4	4,000,000	
#5		5,000,000	#5	5,000,000	
#6		6,000,000	#6	6,000,000	
#7		7,000,000	#7	7,000,000	
#8		8,000,000	#8	8,000,000	
#9		9,000,000	#9	9,000,000	
#10	1,000,000	10,000,000	#10	10,000,000	1,000,000

TOP 5 WAYS FRAUD IS DETECTED



ACFE REPORT TO THE NATIONS - 2018 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE

QUIZ

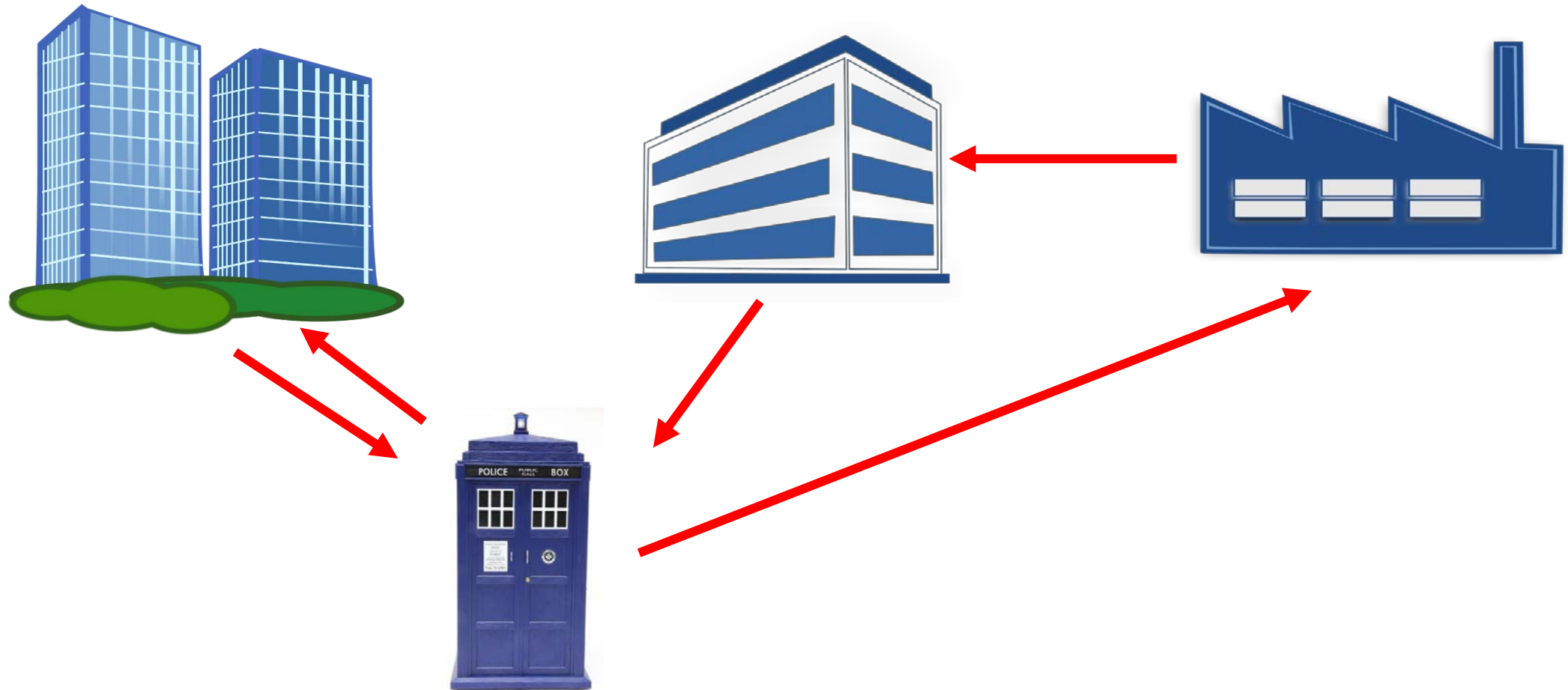
The management of a troubled company will most likely invest in:

- A. An experienced accounting staff
- B. Updated systems
- C. An internal audit department
- D. Uncle Charley's Dixie Jug Band

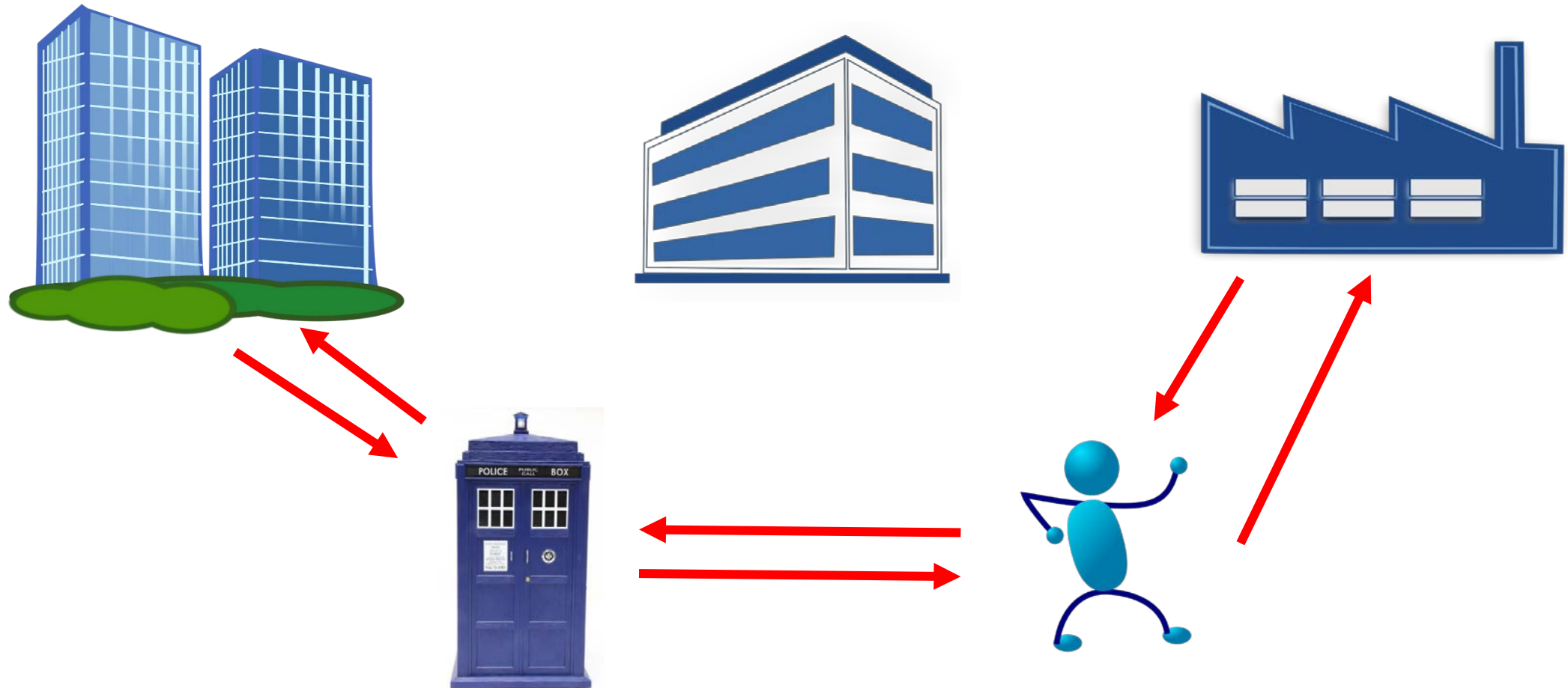
INTERNATIONAL FRAUD



INTERNATIONAL FRAUD



INTERNATIONAL FRAUD



Family Fraud

Name the red flags your fraud case

1	Living beyond their means	41%
2	Financial difficulties	29%
3	Unusually close relationship with vendor or customer	20%
4	No red flags exhibited	15%
5	Unwillingness to share duties	15%



WHISTLEBLOWER LETTER

- Bribing Canary Island government officials
- Operating a brothel
- Cocaine and other drug use at the Canary Island offices
- Running mafia-like protection rackets
- Paying employees in cash without reporting to the taxing authorities





FINDINGS

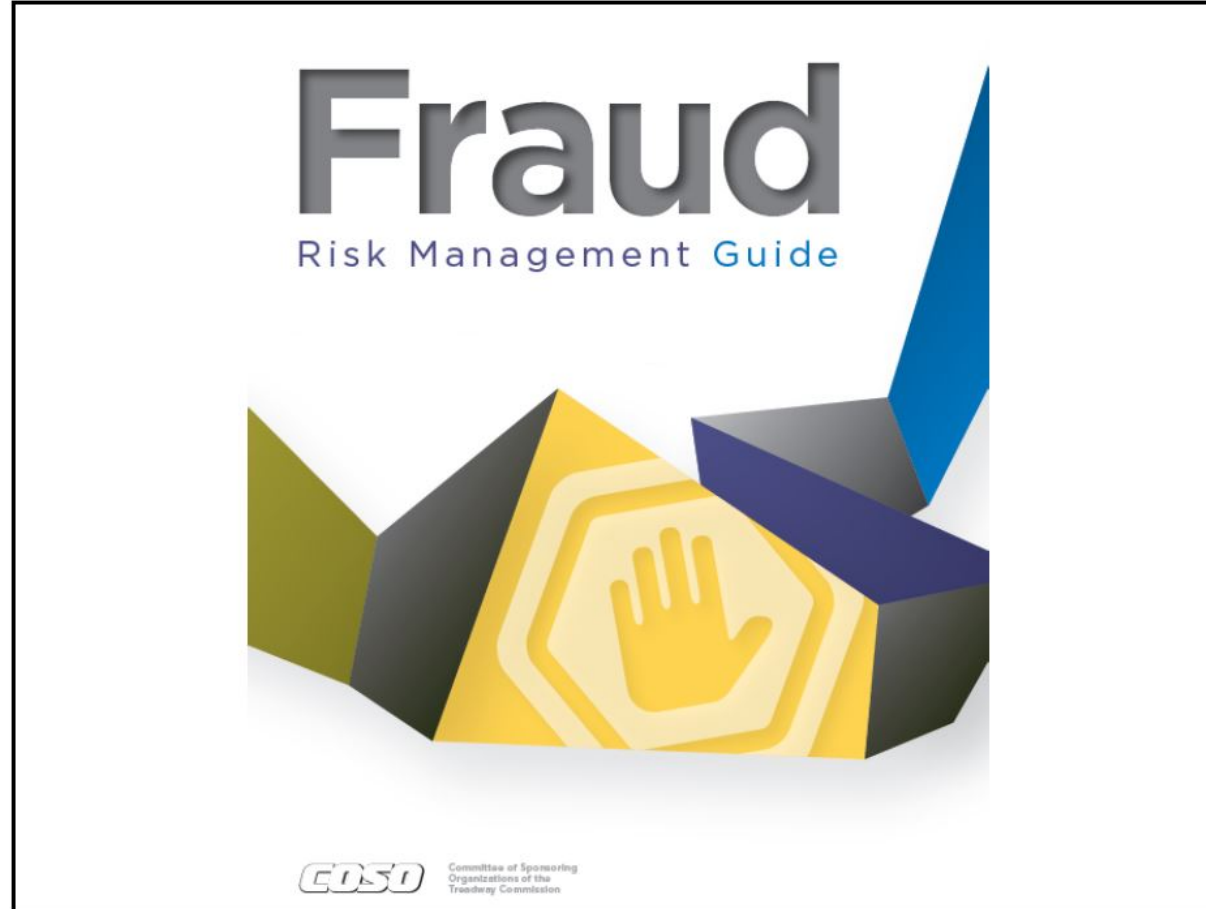
- Well known throughout the European Company
- Executives carried cash
- Hundreds of binders detailing each payment
- Policies and procedures written by the EU internal audit department:
 - The process of issuing cash to employees.
 - Counting cash when the suitcase transfer between individuals.
 - Telling the border guards that the cash is “gambling winnings” if you get stopped at the Portugal/Spanish boarder.

FRAUD RISK MANAGEMENT PLAN

Risk-based fraud plan

- A fraud risk assessment
- Implementing appropriate fraud control activities
- Establishing a fraud monitoring program

FRAUD RISK MANAGEMENT PLAN



FRAUD RISK MANAGEMENT PLAN

- A Formal Code of Conduct
- Fraud Hotline
- Detailed Management Reviews
- Formalized reconciliations
- Background checks

INTERNAL CONTROLS AND THE COST OF FRAUD

Control	Control in place	Control Not in place	Percent reduction
Code of Conduct	\$ 110,000	\$ 250,000	56%
Hotline	\$ 100,000	\$ 200,000	50%
Management Review	\$ 100,000	\$ 200,000	50%
Surprise Audits	\$ 75,000	\$ 152,000	51%
Anti Fraud Policy	\$ 100,000	\$ 190,000	47%
Fraud Training for Employees	\$ 100,000	\$ 169,000	41%
Fraud Training for Managers and Executives	\$ 100,000	\$ 153,000	35%

ACFE REPORT TO THE NATIONS - 2018 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE

FINAL THOUGHT

No matter how many times you save the world, it always manages to get back in jeopardy again. Sometimes I just want it to stay saved! You know, for a little bit? I feel like the maid; I just cleaned up this mess! Can we keep it clean for... for ten minutes!

Mr. Incredible



Bob Krawczyk
mackinacpartners.com
bkrawczyk@mackinacpartners.com